
BULLETIN LUXEMBOURGEOIS DES QUESTIONS SOCIALES

VOLUME 4

**MODERNISING AND IMPROVING
SOCIAL PROTECTION IN EUROPE**



November 10th 1997 until November 12th 1997

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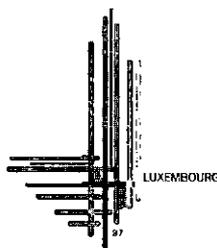
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Speech of welcome

Mrs. Mady DELVAUX-STEHRÉS

*Minister of social security
Luxembourg*

I have pleasure in bidding you welcome to Mondorf, and I can assure you that Mondorf is a charming town when the weather is fine; but the Gods are not with us this evening.

It is not my intention to make an opening address, since we have some extremely competent speakers to do that this evening. I would simply like to wish you welcome, to thank you for having come, above all to thank the speakers, who have, I think, prepared the most remarkable contributions, which we will go on to discuss over the next days, and to tell you of my desire and my hope that this two-day seminar will bring us some answers to the questions which we are asking daily.

Social Europe is on the agenda as the subject of modernising social protection in Europe.

The Dutch Presidency advanced the thought in the sense that, today, we can say that social protection is seen as a complement to employment policy and social policy in Europe. We no longer simply consider social security as a burden which we bear and which costs us dearly, but we want, with good reason, to consider it as a contribution, which guarantees social peace in Europe and the protection of workers. I hope that we are able to advance the discussion in this direction. The subjects dealt with during the course of the seminar are ambitious, so we pose these questions :

- what will social protection be tomorrow?
- for what strategic choice must we opt, in order to modernise it?
- what will be the role of member states?
- what will be the role of the Union, to guarantee this protection?

So many difficult subjects!

This evening, I would like to tell you of my concern, and my worry, which is that of coordination.

As Minister of a small country, which receives many foreign workers, we are confronted daily by this question. Regulation 1408 is a good instrument, but it seems to me that, with the creation and the development of new social security benefits, we are arriving at certain limits to this regulation. It is good that we should reflect upon the simplification of the regulation, but I ask myself whether we should not go further, and develop new thoughts on coordination in matters of social security in Europe.

At this time, we are debating an important question here in Luxembourg. We are introducing an insurance dependence, in order to provide benefits to elderly people who have need of long-term care. We do not know how to manage this problem at a European level, how to protect non-residents against this risk, when they are insured in Luxembourg. We must search for, and find solutions. If there are no European solutions, we must conclude bilateral agreements with those countries with which we have most contact. This will be difficult and complicated. I would hope that, there also, thoughts might advance so that we can find European solutions to the problems which, after all, are the same in all member states, since we are all confronted by an aging of the population, by questions of health, by the problem of how to protect our residents more efficiently and at a reasonable cost. I therefore express my desire to you, of seeing discussions make progress on this subject.

I would particularly like to thank Commissioner FLYNN for being with us this evening, and during the conference itself.

I would like to thank the organisers who have made this seminar possible, and last but not least, the Prime Minister, for having agreed to be with us this afternoon, despite his numerous obligations, both national and above all European, in a week of the employment summit. We especially appreciate your presence here, and I straight away hand over to you.

Opening address

Mr. Jean-Claude JUNCKER

*Prime minister
Luxembourg*

Madame Minister,
Commissioner,
Ladies and Gentlemen,

One day in December '82, I was appointed, for a brief moment in my life, to the position of Secretary of State for Social Security. I must say that my term did not much mark the development of thought on the part of specialists in social security. I was even a little bothered one day later when someone, who is in this very room, wanted to sing the merits of their Minister, telling me, "There was never a Minister, in this Ministry, who understood the problems of social security as rapidly as Madame Delvaux," no doubt denying that I too was one of her predecessors.

Already being Prime Minister at that time, I was happy to learn, to have at my disposal, and that is to say at the disposal of my country, Ministers who excel in the art of rapid comprehension, and the no less rapid implementation of ideas received and conceived by themselves and by those around them.

This was a challenge at the time, not only of appointing me Secretary of State for Social Security, but already at the time of commencing consideration of the future of social security in this country. But the challenge, as great as it was, was far from having the magnitude of that which we face today, when we are less than ten days from the European Employment Summit in Luxembourg, the first of its kind, of which I have the pleasure - but is it really a pleasure? - of being Chairman. So much so it seems difficult to place on the same lines of analysis, action, reflection, and implementation, fifteen national governments which evolve from the innermost of national depths, which are formed of the most diversified and contradictory of elements, and thus of controversies; to place on the same lines fifteen governments, the political composition of which differs in the manner you all know so well.

But the subject, which will be yours today, and for the days to come, is not foreign to the preoccupation of those who are busy preparing for this summit, a summit which may yet prove to have been a climb. Since it seems unthinkable to mention employment, its many facets, its multiple challenges, the many questions to which the mention of the subject gives rise, without placing it in the context which must surround it, in reflection, which I would hope will be profound, on the future of the European social model, and in particular social protection. A social model of which it is often said that it has its future behind it. That it must rather take its example from

other non-European models, which are put into practice by other segments of the economic triangle formed by the United States, Asia, and Europe.

Now the more one moves away from Europe, the more one rediscovers the merits of the European social model, and the manner in which Europeans organise their social protection. Having been able to spend, together with others, several weeks of my life in Asia, having been able to verify, on the spot, in Asia and in the United States, the reality of the consequences resulting from the other policy, thus the European counter-model, I was able to observe that in spite of all its weaknesses, in spite of the many breakdowns which characterise the European social model, it does retain some virtues. That others would like to see their social models irrigated. So heavily is the absence felt of organised solidarity in other models which are placed in competition with ours. But that ours should fare well, all of them ailing somehow, seems clear to me. It would be necessary to concentrate on the remedies which we can apply to protect the health and relative prosperity of this European social model. And it would be necessary for us to concentrate on these ills to prevent them from invading the social body and its organisation in Europe, in a way that these maladies suddenly gain the upper hand over the resistance faculties of the European social model.

I have told you that, on 21st November, The European Employment Summit will take place, and that it will most certainly be necessary to tackle a certain number of subjects which heave the bosom of social security, and I would like, in the presence especially of Commissioner Flynn - whom I thank for his presence here in Luxembourg - to mention three or four subjects which are particularly close to our heart, and to be tackled by the European Employment Summit.

I believe that it is correct to consider unemployment insurance as in a broad sense being a matter for social security and protection. In fact we have a debate among ourselves, between the Ministry of Labour and the Ministry of Social Security, as to whether unemployment insurance is a matter for the one or the other. As those who do not work in the Ministry of Labour, as a general rule receive the second prize, when it comes to great causes, we decided that from a point of view of international relations, unemployment insurance should come under the Ministry of Social Security, and for all Luxembourg specifics, thus for all that is Luxembourgish, the Ministry of Labour would keep a competence, which it has as its duty to defend.

If unemployment insurance may be considered as a department of social security, it is necessary, although we consider it from the point of view of the necessity which there is in Europe, to move from essentially passive policies, when it is a matter of employment policy, towards more active policies. In Europe - I should say the Europe of the fifteen - we spend two hundred billion Ecus each year on unemployment benefits, in measures which are very often passive, before assisting those who are without work. Only 30% of these two hundred billion Ecus, in fact, is dedicated to active measures. Now we know that the necessity is great, to develop our employment policies towards levels otherwise more active than those we have at present.

- We would like, therefore, on the occasion of the European Summit dedicated to employment, to insist strongly on the necessity for all to move from passive

measures to active measures, and we would like to be able to develop this obvious fact, and this element of good sense, on several axes, and in several sectors of employment policy.

- We would like to commit ourselves, from Luxembourg, to stronger action in the fight against long-term unemployment.
- We would like to put back in work, in one form or another, all those adult unemployed who have gone from an active stage to a passive stage, to which they have been condemned by economic reality, and who are long-term unemployed, thus having exceeded a period of unemployment of more than twelve months.

It will not be possible to do this within a few months, even a few years, so much do national situations vary so among themselves. There is no possible comparison between long-term unemployment, in percentage terms, in Luxembourg, in Ireland, and in Spain, or in Greece. These countries, the last that I will mention, have problems which are otherwise more important than those which may be ours. But it would be necessary to try to see to it that long-term unemployment is checked; to put an end to this inexorable march of Europe towards a society where more and more children will reach, or have already reached, the adult age without having seen their father or mother leave home to go to work. The fact that dozens of millions of young Europeans grow up in an atmosphere of non-work, which will have long term consequences that are more pernicious and more costly than the few economies which we might make in the short-term in wishing to confine our employment policies to an essentially passive approach.

- On this point, therefore, as on that of unemployment among young people, we would like our policies to become more active.

I add, in a similar heading to the first, that the need is great for Europeans to look closely at our mediocre performances in matters of occupation rates. One very often speaks of the rate of unemployment, and it is important, and we know the importance of this manner of viewing reality, but with regard to rates of occupation, we observe that we are caught in a trap which will mean that our social security systems are lost in the medium term to all except those insured. We have in Europe, the Europe of the fifteen, a rate of occupation of 60.4%, while we had rates far more significant 10 or 15 years ago. Now our principal competitors, the Americans, the Japanese, and others, have achieved occupation rates of 70%. The Americans and the Japanese have seen a development completely opposite to that in Europe: we were at 70%, but have fallen back to 60.4%. They had 60%, but have climbed back up the slope to achieve performances which must today make us envious. If we do not see our rates recover in Europe, we will experience the gravest difficulties in financing our social security systems.

It is to be added that we are on the way to destroying, without knowing it and without wanting to, the socio-economic balances, which moulded the strength of European societies. Because there are fewer and fewer employees in work, there are fewer and fewer self-employed, and therefore the great socio-structural balances, the broad strata of our societies, are permanently unsettled, if we do not make a change of direction so that we may correct the rate of occupation upwards.

On the occasion of the European Council on Employment, we would like the member states to undertake, within national plans of action, to implement guidelines in matters of employment, on which we will be in agreement at the European Council. That member states undertake to present a plan indicating the measures, the means, which they, the member states, wish to implement to correct the rates of occupation upwards, that is to say in bringing rates of occupation from 60.4% to 65% in a period of five years, it being understood that this must be the direction of all of us; the choice of means, the choice of instruments being left to the individual member states.

Mentioning the social security aspects of this special summit on employment, I cannot fail to speak of the necessity which there is in Europe, and which is great, and in all of our countries, of taking a larger number of Europeans from the status of salaried employee to the status of self-employed worker. We have an enormous need, as regards the creation of companies, and thus in the creation of jobs. In all, or nearly all of our countries, we observe a dangerous narrowing of the self-employed area of occupation. We observe that the number of those who take the risk, because they have the taste or the means, within the context of self-employed occupation which will be personal to them, to create employment, because the large economic ensembles do not do so. We observe that the number of those who are ready for this type of fruitful experience, for themselves and for others, is always narrowing further. It is therefore necessary that we undertake the creation of companies, by facilitating access for all to self-employed occupation. Now, as regards social security and its organisation, there are, in all countries, many obstacles, which mean that it is enormously difficult to change status, to say this is rather unfortunate, to encourage those who are salaried to become self-employed. Now it seems to me on this point, as on others, that member states must, at a European level, present national plans of action, in which they demonstrate what instruments they plan to use to facilitate the passage from salaried occupation to self-employed occupation, making an inventory of all the obstacles of a protection and social security nature, and indicating the ways and means with which they might circumvent these obstacles, or even eliminate them. Social security, social protection, and some specific aspects of the European social model, will therefore be much present in our texts and in our minds at the time of the European Council in Luxembourg in the future of our social security systems.

I would like to tell you of some, which appear to me of particular topicality, at the time when we are busy placing all the elements, which we have been able to collect over past weeks and months, on the lines of a presentation which we hope will release a force to help us from the European Summit in Luxembourg to a real change of atmosphere in Europe; because I consider that the European Summit on Employment is in fact the last opportunity in this decade which Europeans may have to demonstrate to those who observe us, and they are numerous, that the European project is a complete project.

We have invested much effort, much imagination, much reflection, and much financial means, in the articulation of economic, financial, budgetary, and monetary policies in Europe, very often giving the impression without it really being the case, that we have forgotten to take into account the major pre-occupation which is that of its citizens and that concerning work.

I hope that in rediscovering employment, and rediscovering the necessity which there is for all to find access to work, we place, in Luxembourg, together with our partners, the corner stone, not of a new world, but of a new reality, which is characterised more by a return to the old virtues which held that it is work first of all which gives man his dignity.

Thank you.

Opening address

Mr. Padraig FLYNN

*Commissioner for employment and social affairs
European commission*

Mister Prime Minister,
Minister Mady DELVAUX,
Distinguished guests,

It seemed to me that when we started perhaps Mady Delvaux was a little disappointed that she had to greet me with rain. I want to disappoint her by saying that she couldn't pick a better way to greet an Irishman. And I'm going to tell you why, because rain is something special in certain parts of the Union and a sign of growth, and it brings with it growth and nature. So, I see the rain that we have in Luxembourg this evening has a very good omen, a very good omen for something that we all have a share in and that is in the success of the jobs summit. And I believe that just now there is a growth in the understanding of our shared objectives for this summit.

It's critical, it's critical to the development of the peoples in Europe. This summit will be critical to the development of our European social model. It was always people-centred, recognizing the challenge is now, as are the opportunities of a changing world for economically and socially, this summit has to be a success. And I don't see the summit as a mission impossible, I see it rather as a mission of need and a necessity for the economic and social development of the European Union. And I want to thank the Prime Minister, the President in office of council. I want to offer him our good wishes for that summit, but more than that, our support. And the energy and determination that he is putting into this exercise is quite outstanding and it really is the kind of example of European solidarity that is so necessary at this time of change. In fact your presence here, Prime Minister, is the most profound and visible way of showing your interest in all that is necessary to make this time a success, and it will be a success, because there is no alternative if we are going to maintain and develop and have a future that will be acceptable to the citizens of Europe and I am delighted to be with you here, for a short time today, because this particular conference is another important step in the European debate on the future of social protection, and the basic elements of this debate, of course are quite familiar to you.

Each Member State organises and finances its own social protection system, but they are all finding those different systems challenged, and the interesting thing is, they are challenged in similar ways.

The first of course is the question of unemployment. I am not talking here about the familiar figure of 18 and a half million people, the realistic figure is probably much closer to 25 million.

The second, which Minister DELVAUX referred to, is demographic change. We have to recognize that by 2025, the number of people over 60 will have increased by about half, compared to the number today.

The third is equal opportunities. The role of women and men in society has changed greatly over the past 50 years and this too entails changes in our social protection systems.

The impact of all these questions on the EU economy as a whole is already being felt. It leaves us with no choice. We must work together for one simple thing, the reform of our systems.

There is no miracle cure. There are no simple answers. But we all now acknowledge that there are common challenges, and that meeting these challenges means moving in the same direction. So in a word, modernisation is the only option open to us.

The EU's role is to offer a platform where Member States can discuss, how to reshape our systems, how to learn from each other.

The Commission has two communications on this subject, and they are part of this process of joint reflection.

This process has revealed a constructive attitude and much goodwill on the part of all concerned, Commission, Member States, the European Parliament and others.

At this conference I would like to acknowledge two particular contributions. One is the support provided by discussions within the group of Directors-General for social security. The other is the help of the European Parliament, and we had good example of that just recently, in the form of Mrs. Weiler's report, which was adopted only last Thursday.

I'm grateful to them and to everyone who has made this debate so worthwhile.

Now is the time to go beyond general reflection, to look at concrete issues. If the Commission is to fulfill its role successfully, we will need the help of people like you, we want your help, the help of policy-makers who know what is happening on the ground.

I have a proposal to put to you. It is a proposal for new energy, new dynamism and new openness. I want to see these applied to the policy partnership which guides our reflections.

Let me sketch out why I think this is absolutely necessary.

Since the publication of my Communication last March, quite a lot has been achieved.

As promised, the Commission has submitted a Green Paper on supplementary pensions in the single market.

We have adopted a proposal for a Directive on supplementary pensions and free movement.

And, most significantly of all, the Treaty of Amsterdam now contains that new Employment Title, Unemployment. At last, it's now formally, formally a matter of common EU concern.

In the last month or so, the Commission has been working to turn the political commitment of Amsterdam into action.

In two weeks time, as we have heard, the special Council on employment - the Jobs Summit - will take place here in Luxembourg, and the ambitions are there. And I'm ambitious, I'm ambitious for this Summit.

I want to see it throwing new light on the future direction of national employment policies.

I want to see it agreeing a new direction for those policies. And for it to lead to recommendations which Member States will act on.

In the last ten years we have learned a painful lesson. It is that economic growth - on its own - cannot solve our unemployment problem.

We have learned how and where we have failed. Our inability to create enough new jobs. Our failure to equip our people with the skills that they need. Our slowness in adapting to new patterns of work.

The European employment strategy was designed to address this failure and to give the Union the employable and the adaptable work-force that it needs for the next century.

The Guidelines which are going to the Jobs Summit on November 20 are the Commission's view of the way forward.

They draw out the complex and sophisticated links between employment and how we organize social protection. And they underline in a very clear way why we need to modernize our social protection systems.

I do not propose to recite the text of the Guidelines to you, you'll be familiar with them. Just let me draw out where I believe that the Guidelines have an important message for social protection.

Social protection in a world is a **productive factor**. It's not a burden, it's not an unwelcome expense, as Minister DELVAUX stated at the very start. Social protection brings an enormous benefit to our societies and to our economies.

Social protection has these days to be about something extra, it has to be about **employability**. We face a skill's gap on the labour market. The hectic development of new technology is in danger of leaving Europe behind. We have businesses looking for people with new skills, the right skills. And we have most unemployed people stuck with old skills, worst still, no skills at all.

Of course, today nobody expects to stay in one job forever. In a sense, the permanent one job for life society and security is over.

Today security has to come from being employable. And social protection has a role to play in this.

We've tried in the Guidelines to say what this means. We're asking Member States something, we're asking them to adopt strategies which enhance people's employability. And you may ask what does all that mean? It means some pretty simple things:

- First, we're saying that every unemployed adult should be offered a new start - a job, training, work experience - before that person has been unemployed for an entire year.
- Second, for young people, we're saying something more. We need to move even faster to offer them a fresh start. We don't want them to develop an attitude which is divorced from work and the ethic of work. And that's why we say that every unemployed young person should get that offer within six-months.

More generally, it is essential that we make our benefit and taxation systems more "employment-friendly". This is a message that comes out very clearly from our Communication of last March. All social transfers should be examined to see whether they could do more to get people trained, rehabilitated and re-integrated. We need active measures that get people into jobs and encourage them to acquire new skills and to update old skills. If we don't make that critical move, we cannot maintain our competitiveness in a globalized market.

The last point that I'll highlight from our Guidelines is the question of **equal opportunities**.

Our social protection systems needs special attention when it comes to adapting them to reflect the fact that many more women are now at work. This will mean building in more care provision and more individualisation of rights.

Perhaps the most fundamental need is for systems which enable people to reconcile the demands of work and family life. Opportunities for career breaks, for parental leave, for part-time work - they are all important. I want to see activity and agreements from the social partners on these issues stepped up radically. And progress should be monitored.

Now let me return to the general picture. Four months ago, the Commission presented Agenda 2000, its blueprint for the future development of the Union.

One of the messages in Agenda 2000 was that our societies and economies are changing fundamentally as a result of demographic trends. Our social protection systems must react to this.

This gives rise to a number of questions. How do we guarantee the sustainability of our pension systems? How will we deal with the rising demand for health care and social services? How will we reconcile the satisfaction of these rising care needs with the imperative of containing costs?

These are some of the difficult questions facing us as we move into the 21st century.

Let's look at the question of pensions. Today each pensioner in the EU depends on the output of four people of working age. By 2040, there will only be two people of working age for every pensioner.

In the next three decades, the population of people over 60 will grow by 50%. There will be a drop of 6% in the number of people aged between 20 and 60. The number of people under 20 will drop more dramatically, by 11%.

Of course, you know these statistics. They are the reality of the situation. Their impact is the subject of headlines in Italy, Germany and everywhere across the Union.

But having identified the challenges to which our societies must respond, we have to move forward. The Commission's two Communications on social protection sought to do this. They called for change - for modernization and for flexibility.

So far, so good.

But let's not forget that flexibility is an uncomfortable and unpleasant state of mind unless it is accompanied by a sense of security and trust. It is vital that our social protection systems continue to offer that security, albeit in different forms.

These systems must help people to be employable. They must also help people to find their place in society. In the past, they tended to make people feel unemployable and excluded. That's why the security they offer now needs to be different.

The Commission wants to see the fight against social exclusion re-launched in a new dialogue at European Union level. We will be trying to explore with Member States, social partners and civil society how our social protection systems can be not just affordable and effective but socially inclusive as well.

Social protection is not a luxury for the few. It is something which we must offer to every single citizen of this Union. It must be a guarantee for everyone to have a place in our society.

To achieve this, we must work in close partnership. We must operate efficiently. We must talk. We must analyse our problems.

Let's face it, these are very difficult, sensitive issues we are dealing with. Pensions, health care, social security - the only certainty is that there are lots of difficult questions and no easy answers.

So let me end on a plea. I have one plea for you all here today, the audience at this conference, policy-makers and decision-makers from the national arenas.

We are all in this together. We know the broad picture. Now we need to move forward. Last June I met the German policy-makers. In February, I'm going to meet them in Vienna. These contacts are vital and I want to see more of them.

I want to see this dialogue thrive.

The partnership between the Commission and Member States on this question of social protection is potentially one of the most important we will have. It needs to be strengthened. I hope that we can achieve this. One way would be to give greater scope to the network of Directors-General of social security and I hope to hear your thoughts on this particular aspect of our agenda.

And we must develop the civil dialogue. The authentic voice of the ordinary citizens is not only heard in the political chamber. It's heard when the representatives of civil society come together to discuss their unique and growing contribution to the social picture of our times. It will be heard at next year's European Social Policy Forum to be organized, once again, by the Commission.

This is the political partnership that I am asking for. It is at events such as the Social Policy Forum that it will be evident. Just as it is evident here at this conference.

I am grateful for the opportunity to share my thoughts with you.

I know that you will have fascinating discussions here in Mondorf-les-Bains.

You will produce some important ideas for us. We need those ideas, we need that partnership to create a time in the development of the European Union, a time when change can take place, without conflict. That's what we want to do in the jobs summit. We want an agreement willingly entered into by all of the Member States, to use all of the forces, all of the instruments, European, national and local, to make this work, because this time will not come again. Other major items are on the agenda, it will be much easier if we can get an understanding with the people of Europe, that their primary concern is also the shared objective and in accordance with the Treaty that we will honour their demand. That is what we seek.

Hotter, wordy objective, and it was ever anything, that should bring the Prime Ministers and the leaders of our society together that at this time, that they would recognize that what the Prime Minister of Luxembourg is looking for, is a total response on a unique occasion that would set in motion a pattern of events that would guarantee a peoples' Europe in our time.

Thank you ladies and gentlemen.

First session

Can European union maintain a high level of social protection?

Chair: M. Stephen HUGHES

Chairman of the employment and social affairs committee

European Parliament

Discussants:

Prof. Anthony B. ATKINSON (UK)

Prof. Dr. Johann EEKHOFF (D)

M. Kari VÄLIMÄKI (FIN)

Does social protection jeopardize European competitiveness?¹

Prof. Anthony B. ATKINSON

*Nuffield college
Oxford*

Introduction

- Budgetary cost or intrinsic damage?
- How can social protection jeopardize competitiveness?
- What can we learn from cross-country evidence?
 - Social protection and growth
 - Social protection and unemployment
- Are dynamics the key?
- Can social protection speed structural adjustment?
- Concluding comment

Introduction

Many economists have answered "yes" to the question contained in my title, arguing that advanced economies with sizable welfare states cannot compete in a global economy. Maintenance of a high level of social protection, it is claimed, lowers European living standards through unemployment and adversely affects the rate of growth. The welfare state has to be rolled back. This argument has been taken up with enthusiasm by the popular press, with such headlines as that in the *Economist* of "Farewell, welfare" or in *Newsweek* of "Dismantling Europe's Welfare State". International organizations have expressed similar views. The IMF has argued that European governments

"should not allow fears about distributional consequences to prevent them from taking bold steps to implement fundamental labor market reforms" (*IMF Survey*, 16 May 1994, page 156).

At the September 1997 G7 meeting, IMF Managing Director Michel Camdessus is reported as saying that:

1) Paper prepared for Presidency Conference in Mondorf, Luxembourg, 11 November 1997.

"We see it as extremely important for the future of European economic and monetary union that member countries be flexible enough, that they alleviate the burden on their budgets of regimes of unemployment benefits or social security which are no longer suited to the present world, and which are of a very high cost" (reported in *The Observer*, 21 September 1997).

The Issues Paper prepared by the OECD for a High Level Conference in 1996 opened with the statement that

"The slowdown in the growth of OECD economies over the past twenty-five years has been accompanied by fears about the sustainability of current systems of social protection" (OECD, 1996, page 2).

The rolling back of the European Welfare State would have major consequences for its citizens. It would mean scaling down, or abandoning, the basic objectives of social protection: the alleviation of poverty, the redistribution of income, and the guarantee of individual security. It is therefore imperative that such proposals be fully debated. In this paper, I make five main points:

- + there are two distinct ways in which social protection might jeopardize competitiveness - budgetary cost and intrinsic damage - and it is important to separate the arguments, which have different implications;
- + one has to spell out the mechanisms by which social transfers can affect competitiveness - the economy cannot be treated simply as a black box - and when this is done, the relationship appears less clear-cut and depends on the form of social protection;
- + comparing the unemployment and growth experience of OECD countries does not provide convincing evidence that social transfers have a negative impact on economic performance;
- + the Welfare State has to be seen as a system, and one cannot look at particular elements (like the duration of unemployment benefit) in isolation;
- + it is important to consider the dynamics of economic performance and its interaction with social protection, which may have a positive role in the adjustment of European economies to changing circumstances.

1. Budgetary cost or intrinsic damage?

In much discussion of the Welfare State, a contrast is being drawn between the United States, on the one hand, and Continental Europe, on the other. European welfare states typically provide sizable state retirement pensions, disability benefits, unemployment insurance, and child benefits, among other programmes. They differ in the structure of provision, but the scale of overall provision, and the associated financing cost, is nonetheless higher in most EU countries than in the United States. According to the OECD (1995), in the early 1990s, the US spent about 13% of GDP on social transfers, whereas the average for the European Union was about half as much again (19%).

The budgetary cost is not, however, the only issue at stake. If it were, then all forms of government expenditure would be open to scrutiny. We would have to

compare the merits of cuts in social protection against those in other budget headings. We might find the Managing Director of the IMF saying that

"European countries should alleviate the burden on their budgets of levels of military spending which are no longer suited to the present world, and which have a very high cost".

He did not say that, and one reason is that he believes that the Welfare State is in itself inimical to good economic performance, preventing the necessary economic adjustments. The influential paper on "Growth and Employment: The Scope for a European Initiative", prepared by Drèze and Malinvaud, lists three major objections to welfare spending:

- "(i) measures of income protection or social insurance introduce undesired rigidities in the functioning of labour markets;
- (ii) welfare programmes increase the size of government at a risk of inefficiency; their funding enhances the amount of revenue to be raised, and so the magnitude of tax distortions;
- (iii) welfare programmes may lead to cumulative deficits and mounting public debts" (1994, p 95).

The second and third criticisms refer to the budgetary impact; the first refers to the specific features of social transfers. They clearly have different implications. The budgetary criticism can be countered by proposing alternative expenditure cuts, but the specific criticism requires us to look at how the transfers actually work.

We have therefore to distinguish between the argument that social protection is unaffordable and the argument that social protection has intrinsic negative economic consequences. The attack is two-pronged. The prongs are separate arguments and their policy implications are different. This is illustrated by the fact that there are reforms of social protection, such as replacing state benefits by mandated employer benefits, which reduce the budgetary cost but may leave employer costs unaffected.

2. How can social protection jeopardize competitiveness?

The prices charged abroad by European exporters depend on:

- the exchange rate,
- the domestic labour cost,
- labour productivity in terms of quantity and quality,
- the mark-up on labour costs.

The argument that social protection jeopardizes competitiveness, when spelled out, usually asserts *either* that it causes a rise in (prevents the downward adjustment of) labour costs and hence causes unemployment *or* that it causes labour productivity to rise less rapidly (see Atkinson, 1997). It is on these two mechanisms that I concentrate here, although the role of the other two elements (exchange rate and mark-ups) should not be overlooked.

The first argument may be illustrated in terms of a framework which is common to a number of recent macro-economic theories of the labour market (for example, Lindbeck, 1992 and 1993). There is assumed to be a wage-setting relationship

such that the real wage rises with the ratio of total employment to total available labour supply, whereas aggregate labour demand is a declining function of the real wage, and their intersection determines the level of employment, and hence unemployment. Where the payment of unemployment benefit causes the wage-setting relationship to shift upward, a country which has more generous transfers can expect, other things equal, to have higher unemployment.

Spelling the argument out in this way means that we can examine how damage to competitiveness is related to the institutional structure of social protection. The standard labour market analysis of unemployment insurance (UI) ignores the many conditions which surround the payment of these benefits. The wage-setting story assumes in effect that UI is available in all circumstances as a fall-back position, whereas in reality UI is typically conditional on past contribution records, on not having quit voluntarily, on being open to job offers, and on making active job search efforts (see Atkinson, 1992). In this regard, there are important differences between UI and social assistance, and their economic impact may be quite dissimilar. The implications of social protection for unemployment depend on the form in which it is provided.

According to the second mechanism, social protection reduces the growth of labour productivity. This may work through an effect on investment: for example, if state pensions reduce private savings. This lowers the amount of capital per worker, and, in new growth theories, may lower the long-term rate of growth, as where technical progress interacts with capital formation through learning by doing. On this basis, a country which has more generous state pensions can expect, other things equal, to have lower labour productivity, and hence be less competitive. Again, the institutional structure is important. Standard state pensions are contributory, with benefits related to years worked. They are typically not subject to an assets test, whereas social assistance - often proposed as an alternative safety net - is means-tested. The high rate of withdrawal in the typical social assistance scheme penalizes savings and may have a much greater disincentive effect than a contributory state pension.

There is not space here to develop these theoretical accounts, or to consider other mechanisms, but these two examples show the importance of an explicit formulation, since they direct attention to different elements of the Welfare State. We cannot consider social protection simply as an aggregate. We need to look at individual programmes: for example, distinguishing between insurance and assistance. Conversely, it may be dangerous to generalize from individual programmes to statements about social protection as a whole.

3. What can we learn from cross-country evidence?

Social protection and growth

Do countries with large social transfers in fact grow more slowly? Clearly, to answer this question, we have to control for the other factors which affect growth rates. Elsewhere (Atkinson, 1995 and forthcoming), I have reviewed a series of studies which incorporate the Welfare State, measured by the ratio of social transfers to GDP, into models of the determination of per capita GDP growth. Two

main conclusions emerge. The first is that the results are divided: of the nine studies, four find a negative association between social transfers and the rate of growth, but two find no significant effect and three find a positive impact. The second conclusion is that the estimated effects, where significant, are large. To understand their meaning, suppose that Netherlands were to reduce the size of its Welfare State to the OECD average. One study (Weede, 1986) predicts that GDP per head in the Netherlands would, other things equal, overtake that in the United States in 16 years; at the other extreme, Korpi (1985) predicts that the Netherlands would fall behind and be at the level of Spain after 15 years.

This cross-country evidence is interesting, but it faces several difficulties. The first is that of causality. Rather than there being a causal link from social protection to growth rates, both may be related to a third variable. Countries which began to industrialize earlier may have more mature Welfare States, and hence higher spending, and also a smaller catch-up element in their rate of growth. Or there may be reverse causation, with the rate of growth affecting the level of social protection spending.

A second problem with this evidence is that it is difficult to reduce social protection to a single variable - for the reasons just spelled out. Anyone with experience of social security knows that it is highly complex and that aggregate spending may not be an appropriate indicator as to how it affects behaviour.

Social protection and unemployment

The same problems apply to studies of the relation between social protection spending and unemployment. The OECD in 1991 examined the link between unemployment and the benefit replacement rate, finding that

"there is no correlation between this general replacement rate indicator and the overall unemployment rate" (1991, p 204-208).

They noted the problems with regard to confounding relationships, referring to the example that Southern European countries with high levels of agricultural employment, self-employment and concealed employment may have also high reported unemployment, but the same factors have retarded the development of benefit programmes. Or there may be reverse causation: countries with low unemployment can "afford" more generous unemployment benefit programmes.

A negative relation between social protection is found in the widely cited study by Layard, Nickell and Jackman (1991) based on a statistical regression equation seeking to explain the average unemployment rate in 1983-1988 in 20 OECD countries in terms of labour market institutions, such as the benefit variables, spending on active labour market policies, and wage bargaining institutions. As summarized by Elmeskov (1993), the findings of Layard, Nickell and Jackman show that raising the replacement ratio by 10 percentage points could raise the average (over time) unemployment rate by 1.7 percentage points. Increasing the maximum duration of unemployment benefit by one year could increase the unemployment rate by 0.9 percentage points. These are large effects: they mean that Germany with long benefit duration and a replacement rate of 63% would be

predicted to have, on average, an unemployment rate more than 5 percentage points higher than the United States.

Layard, Nickell and Jackman attach particular weight to the duration of benefits. Examination of this aspect of their data is instructive. First, there is a concentration of durations at 4 years. This is because they treat cases with an indefinite period as 4 years, so that what we have in effect is a distinction between those with time-limited and those with indefinite benefits. It is more a 0/1 difference. Then there is the curious position of the Scandinavian countries. Curious in that we would expect them to be among the generous, whereas they are shown as having short benefit durations. In fact, according to a comparative study organized by the Dutch Government,

"In Sweden it is possible to renew the benefit period by claiming a 'job-offer' before the initial period expires(...). This can be repeated over and over again" (Ministry of Social Affairs and Employment, 1995, p 44).

The OECD Jobs Study similarly states that

"In Denmark, Norway and Sweden, the guarantee for the long-term unemployed of a place on an active labour market programme, which lasts just long enough to generate a new period of benefit entitlement, has made it possible to receive insurance benefits almost indefinitely: Sweden becomes a country with high rather than low benefit entitlements when this is taken into account" (1994, p 176).

If we shift Scandinavia to the indefinite category, then we get a rather different picture. Most of Europe belongs to the indefinite category. This leads me to ask how far we are identifying the contribution of the particular policy variable. Can we separate out the impact of benefit duration?

This leads to the more general observation that it is important to see social protection as part of a wider set of social arrangements. Drawing on the NBER-SNS study of Sweden (Freeman and Topol, 1995), Freeman concludes that it is

"a highly interrelated welfare state and economy in which many parts fit together (...) in ways that maintained high employment and wage compression, that offset work disincentives from welfare benefits and high taxes" (1995, p 18).

The inter-relations of the system are one reason that I am not myself convinced that can learn a lot from this kind of cross-country evidence. Countries differ in a variety of ways, and I am not sure that one can pull out one variable as responsible for the observed differences in performance.

4. Are dynamics the key?

The idea that the Welfare State is part of a system provides valuable insight, and gives pause to simplistic policy recommendations. It may nonetheless be the case that *changes* in particular policies have predictable effects. It may be that other features of European Welfare States offset the impact of post-war social

protection, but that subsequent *increases* in social protection may have been responsible for the increase in European unemployment (Siebert, 1997). The fuller econometric analysis of Layard, Nickell and Jackman (1991) was indeed based on studying a combination of cross-section and time-series variation.

For some countries, the time-series association does appear to hold. As noted in the OECD Jobs Study (1994), there have been benefit increases in Norway, Sweden and Switzerland, which started from relatively low entitlements in the early 1970s, and in France and Ireland. On the other hand, there are other European countries which have not increased benefits since the early 1970s or have reduced them. There is a diversity of European benefit experience which - if there were a powerful relationship - could have been expected to lead, other things equal, to marked divergences in European unemployment rates.

A second dynamic is that of behaviour. It is possible that behaviour adjusts only with considerable lags. Lindbeck (1995) has argued that behavioural responses are influenced by social norms which adapt over time. Initially the Welfare State did not influence labour market behaviour, but over time people became more willing to live off unemployment benefits and the negative impact began to be important. If this were the case, then one would expect the relation between unemployment and benefits to become stronger over time. However, estimating the same relationship as before, but over the later period 1989-94, with benefit and other labour market variables, such as the rate of union coverage and the degree of employer and union co-ordination, and spending on active labour market programmes, does not indicate that the relation between unemployment and benefit duration has become stronger over time.

An alternative argument, made by Layard, Nickell and Jackman, is that the Welfare State affects the *speed of response* to exogenous shocks. Unemployment in Europe may have risen initially for reasons unconnected with the welfare state, and these shocks may have affected all countries in much the same way, but those countries with smaller Welfare States responded more quickly. The econometric estimates of Layard, Nickell and Jackman (1991) based on both cross-country and time-series variation bear this out to the extent that the degree of persistence of unemployment depends significantly and positively on the benefit duration variable (but not on the replacement rate). At the same time, I am cautious about accepting this in an unqualified way, in view of the concerns expressed earlier about the treatment of Scandinavia (Sweden is treated as having a low duration) and how far it is possible to separate benefit duration as distinct from other dimensions of the European welfare state.

5. Can social protection speed structural adjustment?

Analysis of the persistence of unemployment underlines the need to investigate the underlying dynamics. This applies as much to theoretical models as to the empirical evidence. Much economic theory of the labour market is concerned with equilibrium or steady state situations, but what is more relevant is the differential response, depending on the size of the Welfare State, to *changes in the economic environment*. It is the dynamic, rather than static, picture which was highlighted by

the White Paper on *Growth, Competitiveness, and Employment*. Concerned with Europe's capacity to compete, the Commission noted that

"although we have changed, the rest of the world has changed even faster" (1993, page 10).

More appropriate therefore is a theory of economic change, rather than of steady state. Suppose that we take one such theory (Johnson and Stafford, 1993) of a stylized world divided into OECD economies on the one hand and Newly Industrializing Countries (NIC) on the other. To use the terminology of Krugman (1994), there are three types of goods:

- i) high-tech in which OECD countries have a continuing productivity advantage,
- ii) medium-tech goods produced by both OECD and NIC, where the OECD has an initial productivity advantage, and
- iii) low-tech goods produced exclusively in NIC economies. (For further details, see Atkinson, 1997.)

Suppose that globalisation leads to a steady rise in labour productivity in medium-tech goods produced by the NICs. In other words, they catch up with the OECD technology for, say, automobile production or the manufacture of jeans.

The question we have now to ask is how the Welfare State affects this structural transformation. In seeking to answer this question, we have to be careful that one does not build in the answer by the assumptions made. It cannot simply be assumed that we are starting from a first-best fully-flexible world in which any government intervention is necessarily a step in the wrong direction. For instance, the labour market may not adjust immediately to the changing conditions of international trade. If employment does not change, we will see a wage differential emerging as those in the import-competing sector of OECD economies face increased competition, whereas those in the export sector benefit from improved terms of trade. The wage differential widens until workers begin to move to the high-tech sector. The more that the differential widens, the longer is the total transition period.

Suppose now we look at the individual worker contemplating 'migration' to the high-tech sector. I use the word "migration" advisedly because there is a definite parallel with the migration of people from the agricultural to the industrial sector. In theories of migration in developing countries, the incentive to make the transition depends on the wage differential and the probability of employment. In a European context, there is a further consideration: the degree of social protection. The existence of unemployment insurance, or equivalent transfer programmes, increases the total expected remuneration in the new sector, and hence reduces the wage differential required. Indeed, social protection programmes have in the past been designed explicitly to aid structural adjustment.

The idea that the welfare state may have positive as well as negative consequences for economic performance will not come as a totally alien idea to most non-economists. Historically, social insurance grew up as a complement to the modern employment relationship, guaranteeing workers against catastrophic loss of income through accident, sickness or unemployment, and hence providing an incentive for people to enter industrial employment (Atkinson, 1996, Chapter

11). In current times, as mature economies transform, it is recognized that people may be more willing to take risks, to retrain, and to change jobs, in a society in which there is adequate social protection. As argued by Abramovitz,

"The enlargement of the government's economic role, including its support of income minima, health care, social insurance, and other elements of the welfare state, was (...) not just a question of compassionate regard (...). It was, and is, - up to a point - a part of the productivity growth process itself" (1981, 2-3).

The Welfare State can work with, rather than against, the grain of economic policy.

Lest there be any misunderstanding, I am not asserting that *all* aspects of social protection have positive effects on structural adjustment. There may also be negative effects. The different elements may be mutually offsetting. As I have stressed earlier, we need to look at the whole package, and to propose reforms which strengthen the positive contribution.

Concluding comment

Before threatening the living standards and security of millions of people, European governments need to be firmly convinced that social protection can be blamed for jeopardizing Europe's competitiveness. In my view, the case is at present far from being proved beyond reasonable doubt. At a theoretical level, the impact depends on the institutional structure; the empirical evidence is mixed and can be interpreted in different ways.

Equally, it is important to ask what Europe would look like if social protection were to be drastically curtailed. New social arrangements would have to be put in place - by individuals or collective bodies - and these too would affect economic performance.

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Employment and social security: is there a trade-off?

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1. The greatest social problem in most countries belonging to the European Union is unemployment. The officially revealed unemployment rate of approximately 10.6 per cent, or the unemployment figure of almost 18 million in the European Union, conceals the fact that there are considerably more people who are looking for a job, but who are not, however, recorded. Also concealed is the fact that the unemployment rate in some regions, and for some individual groups, is considerably higher. The depressing aspect for the individual unemployed consists of their having hardly any opportunity to improve upon their situation through their own effort. Welfare networks actually alleviate economic need; but they cannot, however, dispel the feeling of not being needed, of not being able to fend for oneself, and of being isolated in society.

2. Social security systems should not only assist in cases of unemployment, but help all those people who find themselves in need. Even better, they should as much as possible avoid people getting into difficulty. For that, the social system also includes such measures as those where income is redistributed to people who, through their own efforts, cannot achieve any sufficient income for themselves.

Social policy fundamentally includes only those measures which provide for a redistribution of means in favour of people who are of low income or in a particularly poor plight. That presupposes that in each case - namely for each social measure and at short intervals - the needs of the recipient are examined. Most welfare systems do not correspond to this definition for social measures. Legal old-age pension schemes, sickness insurance, care insurance, and unemployment insurance, actually contain some social elements, but these redistribution measures in themselves demand no systematic examination of need, thus having a socio-political effect which is coincidental and ill-directed. By far the greater proportion of these welfare systems has the character of all insurance schemes, fulfilling no immediate social purpose.

On the other hand, in Germany, income support, housing benefit, and training grants, are to be regarded as genuine welfare systems. These schemes only bring benefit to such people as have demonstrably low incomes.

3. The difference between genuine welfare systems and other redistribution measures or insurances is a great help, if it is to be proved to what extent state social policy is required. The other way round: if all the social security payments are

too high, it must be asked, what part of social policy is indispensable, and what measures and programmes fulfill no social function, and can be left to the citizens.

Here we come to the first conflict between social policy and employment. In Germany, the total of contributions to social insurance systems has reached 42 per cent of that income which is liable to insurance payment. It is to be feared that it is extremely difficult with this high tax burden, if not indeed impossible, to reduce unemployment again, and to achieve full employment. Alongside social security contributions, the pressures of taxation must also always be viewed. It thus makes no major difference whether a greater portion of social security payments is financed by contributions or by taxes. All the charges together, namely contributions and taxes, prevent a sensible division of labour and sufficient employment.

4. These macro-economic connections are to be explained more closely. The so-called tax wedge between the costs of a working hour and the amount which the employee is paid, is approximately 75 per cent. This means that an employee must work four hours, in order to be able to buy one working hour of another employee. This is a great incentive to carry out the work personally, even if an expert would be essentially more efficient. Alternatively an attempt can be made to have the work carried out by way of neighbourly help or on the black market. Some of the work is omitted, since time is not sufficient, and since black labour is also linked with other costs (no liability claims, possible penalties).

In a certain sense, one can speak of a negative spiral: unemployment increases because social security contributions rise; and social security contributions must be raised because unemployment is climbing. Since high contributions reduce net available income, employees and unions try to win higher wages to compensate. If, as a result, labour costs rise, then fewer people are employed. The other way around, it might be rational to increase wages only slightly, in order to permit more employment through lower unit wage costs. Putative wage relinquishment would presumably be compensated, because more workers would pay taxes and contributions, and fewer unemployed would burden the social security system. Thus the contribution and tax rates could be lowered, and real income increase. From a macro-economic point of view, in each case a more favourable situation arises, because additional people come into employment, and because those already in employment have to suffer practically no disadvantage. These effects can, indeed, be realised without a change of social policy.

5. From the macro-economic links referred to, a decisive starting point ensues for social policy, as it can contribute to the solving of the employment problem. The positive effect of sinking contribution rates on employment can be utilised systematically. The prerequisite is a review of all social security systems on their necessary scope. Thus, for example, consideration is to be given with pensions insurance simply to prescribing a safeguard, which lies just above income support, and to leaving it to the individual to provide for himself over and above that. With unemployment insurance, one could restrict the obligation to insure to that which would cover a minimum income in the event of unemployment. Additional benefits, like rehabilitation and further training measures, as well as participation in job-creation schemes, could be agreed voluntarily against a premium to be paid privately. With sickness insurance, the patients' own share could be extended for a

part of the benefit. The construction of social housing could be dropped almost completely, and replaced by the payment of housing benefits, as well as the purchase of occupancy rights.

The limitation of benefits in the social security system, and the transfer of responsibility to the citizen, must be allowed to take place only with great care, in order that proper social security benefits are still received. And concentration on the core of social policy in individual areas will require adjustments which vary considerably. Social policy, however, does not emerge from joint responsibility for employment. It cannot alone solve the unemployment problem, but it can make a significant contribution, in that it decreases the tax burden. To finance social security benefits through contributions instead of through taxes, brings no relief for the labour market.

6. A further reason for restricting social security systems to a minimum, and thus to proper social measures, rests in the fact that all social security and insurance systems trigger negative stimuli. If contributions are to be paid, citizens attempt to keep these payments as low as possible, or to avoid them altogether. If there is a benefit entitlement, those same citizens try to grasp as much as possible from the insurance. With private provision, on the other hand, citizens attempt to build up assets as quickly as possible, to pay in as much as possible, until an adequate risk capital has been achieved. When they have to claim against such means, they do all they are able, to spare those private funds.

7. Expert opinion holds that there exists a trade-off between a minimum wage set on socio-political grounds and employment. It is correct to say that a minimum wage, which lies above the market wages achievable by unskilled workers, reduces employment. An advantage of a legally fixed minimum wage is enjoyed by workers who have a job and who until now earned less than that minimum wage. But the advantage only exists, if this employee cannot be dismissed. In the medium term, a legal minimum wage has no positive social effects. On the contrary, all employees who receive the minimum wage or higher, would also have received this wage without any state measure. But low productivity workers, who were previously employed for less than the minimum wage, no longer get employment. The wages which are actually paid, are in fact somewhat higher after the introduction of the minimum wage, but the price for that is lower employment, that is to say an intensification of social problems, since the losers are unskilled workers and those with health limitations. Thus in the end there is no trade-off, but both a loss of jobs and a deterioration in the position of the socially deprived.

A particular form of the minimum wage was introduced with the sender guideline. With this guideline there is meant to be a guarantee that workers sent from another country receive the same wage as workers in the receiving country. Although at the beginning it was also claimed that workers who are sent should be protected from any exploitation, it soon became clear that it was not at all a matter of the social protection of the worker sent.

It is the aim of the guideline to protect the indigenous worker from external competition. But this objective was never achieved. In Germany, minimum wages had to be reduced, because they were also too high for the indigenous workers. Furthermore, it transpired that East German workers could no longer work with their more favourable wages on the building sites of West Germany. From the

intended social protection came a discrimination of building workers in structurally weak regions - not only within Europe, but even within Germany.

9. Is there a trade-off between a legal protection against dismissal and employment? Through a legally prescribed protection against dismissal, there is an intensification of the risk of employers having to pay and even continue to employ workers, even when there is no more work for them by reason of the state of the order book. An advantage is held by workers who have a job at the time of the introduction of stronger protection against dismissal. It is a disadvantage for those who are without work or who have recently commenced their careers, since employers become more guarded in their manner of taking on labour, or because they want compensation for the enhanced risk, by paying less for work than previously.

Over the course of time, ever more workers belong to the group which is burdened with the full costs of increased protection against dismissal. Either they remain out of work for longer, or they have to do without part of the otherwise achievable wage. As a consequence there arises the following trade-off: for a better protection against dismissal, either a portion of the wage must be sacrificed, or employment opportunities are worsened. The most unfavourable instance is the deterioration of employment opportunities, because those additional unemployed people do not enjoy the benefits of protection against dismissal. If protection were improved for specific groups, for example the handicapped, more elderly workers, or women, then employment possibilities would decline immediately for these groups.

10. Businesses and complete industrial sectors will be subsidised with the argument that workers must be protected from the loss of their job. Subsidies as a rule are not justified economically, but at best socio-politically. However, only narrowly restricted transitional measures are thus justified. Long-term subsidies, as are paid in some sectors, are no longer justifiable from a socio-political point of view. It becomes clear that the needs of the beneficiary are not being examined. It is perfectly possible for individual beneficiaries to receive additional income from gainful employment, or assets, and to be better positioned than many people who, as tax payers, must raise the means for such subsidies. There is also the fact that neither the labour nor the capital is used in an economically sensible fashion, so that competitiveness is impaired and there is macro-economic damage to production and growth.

11. A conflict between social intentions or redistribution measures on the one hand, and employment on the other hand, exists with the different programmes whereby older people are given early retirement, and places are freed for young people. Since older people want to maintain their level of income so far as is possible, they must be subsidised when work is reduced or on early retirement, with money from the social security system or with public money. Thus the tax burden climbs, and it becomes more difficult to maintain jobs, or to create them.

12. A general trade-off between social security and employment appears to lie at the interface between the social security system and the normal labour market. The better are social provisions, the more difficult it is to keep workers in employment, or to bring them from a social security system into employment.

In Germany there is a law which provides that there must be a measured difference between the wages of the lowest earnings groups and income support. This difference has not always been maintained in recent years, since wages for the lower groups have only risen slightly and at the same time income support has increased. There are particular problems for large families with a single earner, which, on account of the high number of people, receive a high level of income support. Practical experience shows that workers do not intentionally fall into income support, even when they earn no more by working. But when someone is made unemployed and registers for income support, for unskilled people there is hardly any economic incentive to accept work. The problem is made more severe, when the recipient of income support has the opportunity to work in his own house or garden, to help out in the neighbourhood, or to work on the black market. The pressure to search for employment or likewise to obtain better skills, is also low, therefore, because income support is neither limited as to time, nor staggered digressively.

If one compares this situation in Germany with that in other countries, in which social provisions are essentially harder to obtain, or for employable people do not even exist at all in some cases, one can establish that the gainful employment of less skilled people is considerably higher in those places. The problem of balancing good social provisions with a high level of employment for employable people, has not until now been satisfactorily solved in Germany.

13. A conflict between good social provisions and employment exists for the following reasons. First of all the economic incentive - that is the raising of income - is very low for recipients of income support who accept a job. Secondly, there is a plethora of regulations, which make it more difficult for the recipients of income support to take on a normal activity. For instance, those who are employed by the local authority are only taken on for additional work, that is to say that they may only perform such tasks as would not customarily be taken on by other labour forces on the normal market. A further obstacle is the advantage rule. The fundamental idea is that each individual worker may only deviate from the provisions of the collective bargaining agreement, if he agrees more favourable conditions. For recipients of income support, and all unemployed people, this means that they may not work in more unfavourable conditions than those already employed, even if under normal circumstances there is no job at all. Put another way, it is not permitted to waive the thirteenth month's salary or holiday money, in order to keep a job. The advantage rule has the same effect as a minimum wage. It does not only affect the wage, however, but also all other contractual agreements. In East Germany, where in the meantime unemployment has grown to more than 18 per cent, many businesses and employers no longer abide by the contractual provisions, to ensure existing jobs. But the unemployed, and recipients of income support, cannot themselves take this route, because they have no job to ensure.

14. If one assumes that the level of social security should not be reduced, then basically there are the following possibilities to increase employment, and to reduce the conflict between social security and employment:

- ° Employable recipients of income support should be obliged to work for the community. Whoever obtains his livelihood from a community, must make his services available to that community. The local authority should take the

benefits and the capacities of these people into consideration, without fundamentally paying more than income support. In this way the local budget can be relieved, and for recipients of income support there exists the opportunity to contribute to their own livelihood, thus preparing themselves for normal gainful employment.

- Recipients of income support must have the opportunity to undertake such activities as other workers are able to perform. They might not only be referred to the so-called additional tasks. A displacement of other workers is not to be expected in the end, since for local authorities the means will be freed which they can then set aside for other tasks, where there is a demand for labour.
- The unemployed must have the right to negotiate working conditions, which deviate from collective bargaining agreements, if they think it advantageous for taking on another job.

15. A dependable welfare network is not in general terms contrary to higher employment. Each worker desires an appropriate social provision. And many people are proud of the fact that they live in a society where there is consideration for people who are socially deprived.

However, in many countries, the generally accepted measure of redistribution and state welfare has been exceeded. The state has not only taken on tasks which individual citizens can themselves look after; it distributes the means in many cases according to non-accepted criteria which are difficult to fathom. The burden - especially for the young generation - is often not viewed as fair. Only when these shortcomings of the social security system are overcome, can the conflict with employment be defused.

Can European union maintain a high level of social protection?

Mr. Kari VÄLIMÄKI

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It seems to be difficult to draw clear conclusions as to whether a developed social protection system is a burden or a precondition for sustainable economic growth. The only thing that looks to be easy is the use of economic indicators. We should, however, keep in mind that the indicators describing the level and the increase of production do not tell the whole truth about the well-being of the people. For example, the GDP is a very simplified indicator, but it seems to have got a kind of superior role in the minds of people.

It is interesting that we have to ask ourselves questions like "Can the EU maintain a high level of social protection?" Social protection is for helping the people in need. Through social protection all the people should benefit from economic growth. Without developed social protection we would have more poor and socially excluded people in the future Europe. The statement, that we cannot afford to have the existing level of our social protection is even more interesting now when the GDP per capita in the EU countries is higher than ever.

We seem to treat social policy as a policy subordinate to economic policy. Why do we not challenge the goals of economic policy? Does economic policy have different goals than social policy? Economic and social policies should have in principle the same goal - to increase the welfare of the people. And they should be regarded as equal factors in achieving the goals of our societies. Like professor Atkinson said, social policy - and I would add - economic policy are parts of larger social arrangements.

We have believed that economic growth is essential in order to decrease unemployment. Recent years have shown that this is not the case. Jobless growth is a well-known phenomenon in most countries. The increased production and productivity are based more on new technologies than on new or existing labour force. When there are less job opportunities, we are forced to distribute wealth through social protection.

We should always be very careful when we want to improve our competitive edge by reducing social expenditure. If all the countries start to improve their economic competitiveness by scaling down the level of their social protection, it would not only increase the number of socially excluded people but it would also keep the competitive edge of the single countries unchanged.

Professor Johann Eekhoff spoke very warmly for the kind of social policy model that guarantees only minimum protection. He seems to be ready to leave for the individuals themselves the organising and financing of higher social protection on

a voluntary basis. This model represents different kind of thinking than we are used to in the Nordic Countries. We have been supporting the creation of universal schemes which cover the whole population and which do not depend on their incomes. This has been possible by guaranteeing the earnings-related benefits through legislation. Because the general schemes provide an adequate compensation level for the higher income groups, there has been no need for them to opt-out from these general schemes. We do not have ceilings for social insurance benefits and that is why there is little room in Finland for the private insurance aimed to the well-off people.

In Finland we have not been so worried about the social insurance schemes and their possible negative incentives to work like Professor Eekhoff seems to be. On the contrary, we are very wary that there are more people living on last-resort schemes like on the social assistance. Insurance schemes as such include incentive to work, because benefits usually depend on contributions. That is not the case with schemes which are means- or income-tested. On the contrary, if you do not earn anything you are entitled to these means- or income-tested benefits.

I am not very sure that private insurance schemes are better than social insurance schemes. This was claimed by professor Eekhoff. In principle insurance schemes can provide more secure protection in individual cases if the number of insured is higher. Social insurance schemes have usually broader coverage of people than private schemes. Moreover, the incentives to pay less contributions and receive higher benefits are similar for both public and private schemes. In Finland we have a very interesting system, which make the comparison between private and social insurances even more complicated. Obligatory labour pension schemes are organised through private insurance companies, which means, that in principle saving and investments in these obligatory systems take place in the private sector.

What the people want from insurance schemes is security. It means that the collected funds have to be protected against inflation and other risks. Funding is reasoned if it through the investments guarantees the future paying of benefits. What we should do is to find a right balance between savings, investments and consumption. This balance can be reached through the public insurance schemes, too.

When we think about a balanced economy, we should not only be worried about the production but also the consumption opportunities. Social protection equalises consumption opportunities not only between the people but also over the time. Supply is nothing without corresponding demand. Without social protection economic fluctuation would have obviously higher ups and lower downs. Naturally we cannot keep the level of basic consumption high with the help of social protection, if economic recession continues longer. This would mean, that the public sector would get into huge debt. In the prolonged recession we are forced to make cuts in social protection. However, we have some evidence in Finland that through social protection we can share the negative impacts of economic shocks more evenly.

If we claim that minimum salary, protection against dismissal and other protection for the safety of workers have negative impacts on employment, should we abandon the whole social protection? I think it is clear that if there were no kind of

social protection at all, employment rates would be higher. But what would be the results then? A good guess would be - more rich and more poor people at the same time. And not necessarily with less costs. If we, for example, compare health care expenditure in the USA and in the EU countries, we can note, that they are about 14 per cent in the former and about 8 - 10 per cent in the latter. And from the point of view of a typical household, the private schemes seem to become as expensive in the USA as the public schemes in Sweden. This has been shown in the comparisons made by professor Esping -Andersen.

I still believe that employment is the best social protection. Work is a sustainable way to increase prosperity and the best way to share it is through work. That is why I very much welcome the idea proposed by professor Eekhoff, that we should take all the efforts to get the unemployed people back to work. If we just continue the paying of unemployment benefits month after month, that will make these people as passive recipients and the threshold back to work will become too high. For the long-term unemployed any kind of work can be a rescue.

I would not, however, like to go so far that all the unemployed people should be forced to take any kind of work with the salary which is as low as subsistence level. This would have a very negative impact on the general wage level. I very much agree, what was said by professor Atkinson, that we should not only look at the level of benefits but also at the duration of receiving benefits.

I believe that in most cases, the replacement rate of unemployment benefit does play only a minor role from the point of view of unemployment rate. This can be seen for example from the figure which shows the development of unemployment benefits in Finland in the 1980's.

I must admit that we should be very careful with all the conclusions which have been drawn up from studies where only a single benefit has been looked at. Even more careful we should be with comparisons by country. We should not look at a single benefit but we should take into account all the other benefits, which for example the unemployed people are entitled to. For example, if we lowered the unemployment benefits in Finland, it would not lessen in all the cases the level of benefits, because the unemployed would get other benefits like housing allowance or social assistance instead of unemployment benefit. In Finland, many different benefits together with progressive taxation have created real income or poverty traps. It is not possible to remove these traps by looking at just one benefit.

Professor Atkinson shows also very clearly that we have to distinguish between the argument that social protection is unaffordable and the argument that social protection has intrinsic negative economic consequences. Firstly I would like to refer again to the comparison between the USA and Sweden by Esping-Andersen. Secondly I just would like to mention that Countries, where the level of social protection and also the social protection expenditure are high, seem to meet the EMU criteria better than the other Countries.

To conclude, it seems to be very difficult to find evidence from the cross-country studies for the statement, that developed social protection would have a negative impact on employment. We should also keep in mind that unemployment statistics do not tell the whole truth. Official unemployment figures are higher in Finland than the UK, but if we look at the employment rate and especially at the employment

rate which takes into account that part-time work is more usual in the UK than in Finland, the employment rates in these two countries roughly the same. We should also ask, how much does it really help that you have work but you are still poor.

Naturally it is also difficult to show causality between the level of social protection and unemployment. I refer again to the figure I showed earlier. The replacement rate of unemployment insurance did not seem to have had any impact on the number of unemployed in Finland in the 1980's. Naturally somebody could now claim, that the high unemployment benefits together with the other good benefits did cause the economic recession in Finland in the 1990's. There are, however, really very few in Finland who would believe this.

A developed social protection system has not caused the deep economic recession and high unemployment in Finland in the early 1990's. However, at the same time I would like to state, that the problems caused by prolonged unemployment, cannot not be solved with the measures, which were developed in the times of rapid economic growth. Continuous paying of unemployment benefits without any kind of requirement to participate in training or work will increase unemployment. There is some lag in the behaviour changes of the unemployed people. Long-term unemployed are not behaving in the same way as those who have been unemployed for only some days or weeks. Furthermore, a wide-spread unemployment changes also the behaviour of the single unemployed. Unemployment and the claiming of benefits become more acceptable, if there are many others in the same situation. Also the readiness to change the sector of industry becomes less obvious during high unemployment.

We have all faced the fact that production structures have changed dramatically during the last few decades. The traditional industrial sector has been automated to a great extent, and new information technology has in addition started to change the service sector. It is more than obvious that workers need not only new skills but also a new kind of participation in working life. Workers have to be better prepared for changes and more flexible.

It is clear that more flexibility is needed in the labour market. This cannot be achieved at the expense of workers' security only. Regulation is usually applied for the safety and benefit of the weakest and of the poor. Deregulation can lead to a situation where there is no protection for those who are losers in free markets.

At the European level I still think that the strengthening of the social dimension is the right way to proceed. I would like to see, that the European model could be characterised by following aspects:

- increased flexibility and at the same time a feeling of security in working life
- guaranteed minimum norms both at the national and the EU level
- high level of education
- lower direct income taxes and higher capital, excise and environmental taxation
- insurance-based social protection supplemented by benefits based on residence
- "training insurance" instead of unemployment insurance
- fewer daily working hours but longer working lifetime
- more non-material incentives to work through improved conditions at work

- flexible opportunities to combine family and working life
- life-long learning opportunities and
- guaranteed participation of employees in decision-making at the enterprise level.

Social protection is an investment for the future and it also creates a basis for economic growth. Talented and healthy workers can produce more. Work is the best social security in many ways.

Second session

Social protection in European societies tomorrow: what for?

Chair: Mrs. Eleonore HOSTASCH

Minister for social affairs, Austria

Discussants:

Prof. Robert SALAIS (F)

Dr. Paulo PEDROSO (P)

M. Karl-Gustav SCHERMAN

M. Juan Antonio APARICIO PEREZ (E)

To provide security in a flexible economy

Prof. Robert SALAIS

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Historic institutions and dynamics of the economy*

To search for an harmonious "marriage" between social security and economic flexibility necessitates the development of our ways of viewing relationships between the social and the economic. I would defend the following thesis. To the functions of security by guarantees of a minimum standard of life classically allocated to social security systems, and which endures, the need for economic flexibility adds an objective, that of shaping, of maintaining, and of developing the capacities of people during the life cycle. In a flexible economy desirous of maximising its economic growth, and its level of employment, concerns with regard to human capital become primary: its financing, its varied and developing characteristics (what I call capacities), its methods of training and upkeep, the nature of decision-making processes in its regard, and its efficiency. This leads me to underline the need to place flexibility in its economic context (part I) and to explain what are flexible capacities to work and the methods of their control (part II). I would therefore dismiss the temptation to identify flexibility with a dulling of the legal framework of work and codes of conduct. I would look for the nature of the positive relationship between economic efficiency and flexibility. It is in this direction that it is possible not to place flexibility and security in opposition, but, on the contrary, to find a beneficial dynamic between the two, even if its construction proves a priori to be scattered with obstacles.

Flexibility consists of looking for an efficient collective response to economic events. There is a circle there. If this response is found, a flexible economy is in a position to create employment and wealth, to obtain the means for a better security than a rigid economy. But to find that response, it is necessary to provide people with greater security in the crucial problem of developing their human capital. It is a matter, therefore, of breaking the circle, of setting in motion a "virtuous" process. Now one knows from the history of our productive organisations and markets, that there exist, roughly speaking, three possible responses to the event¹. Either the event is shifted towards those who offer their labour on the market, for them to prevent it by an adapted offer, or precautionary savings. Or it is shifted towards the state (otherwise called the community), which takes on responsibility for the social and financial cost of errors of adjustment to the event on the part of private actors -

1) *One finds the illustration of it in the history of dealing with unemployment. See R. Salais, N. Baverez, B. Reynaud, The Invention of Unemployment. Paris PUF 1986, and M. Mansfield, R. Salais, and N. Whiteside, To the Sources of Unemployment. An Interdisciplinary Comparison, France-Great Britain 1880-1914, Paris Belin 1994*

an example is public compensation for unemployment. Or it is divided between partners in the work relationship (companies, employees, communities), for them to agree on a redistribution of responsibilities which is equitable and efficient - these two requirements, moreover, being connected.

Part III dismisses the first two responses on account of their failure to adapt to the real needs of the European economy. The topicality of this third response -an equitable and efficient redistribution of responsibilities in the face of the event - within the context of the European structure, is explored in part IV. It leads on the one hand to setting the management of social security systems against a policy of work centered on the paths of life and of work. On the other hand, in the definition of this policy, it necessitates absolute priority being given to those who to begin with have the least human capital and enhanceable resources on the labour market. These are two conditions which are naturally inferred from the principle of subsidiarity. This said, I hear the echo of increasing fears over the risks attached to the social disaffiliation¹ of a growing proportion of the population in Europe, and over the dangers of a fracture which would separate those who were in a position to benefit from a positive dynamic between flexibility and security from those swept along in a spiral of precariousness and loss of human capital².

Allow me to make a personal remark. My interest in Social Europe is, I admit, a recent one, and still insufficiently documented. The more astonishing for me is the discovery that it has entered, without perhaps saying so, upon the path of such a policy. Its heart is in fact in ensuring the keeping open of opportunities offered to individuals. The initiatives which Social Europe takes, however, mobilise the principles of freedom and equality in a manner, at least in law, which guarantees latitude of action to the individual³. Free circulation of workers, equality of treatment (especially between men and women as regards access to employment, training, professional promotion, and conditions of work), obligations of information on the conditions applicable to the contract or the relationship of employment, those relating to information-consultation in the event of mass redundancies, may be interpreted as going towards the right to free control over the course of one's life and work. For me, at the end of this, the 20th century, it is the key to a reconciliation of the economic and the social.

1) *As eloquently witnessed by Robert Castel in his book The Metamorphoses of the Social Question. A Chronicle of Wage Earners, Paris, Fayard 1995. See also B. Appay, A. Thébaud-Mony, Social Right Precariousness. Work and Health, Paris, IRESKO Collection 1997. Aiming at preparing an international summit on the employment of young people, the OECD recently considered the trap posed for these by low salaries and "casual work", and observed that to offer jobs at low wages (to the unemployed) is only a partial and temporary answer to the disadvantages faced by these workers.*

2) A. Supiot, "The Future of an Old Couple: Work and Social Security", *Droit Social* 9/10, September-October 1995, pp 823-831.

3) See S. Laulom, *Harmonisation in Community Social Law: the Teaching of the Integration in France and the United Kingdom of the Directives 75/129 and 77/187*, Florence, Thesis for Doctorate in Law of the European University Institute and the University of Paris X 1995, and A. Supiot, "Principles of Equality and the Limits of Employment Law (Footnote to the Stoeckel Decree)", *Droit Social* 4 April 1992, pp 382-390.

Are there or are there not, in this first step by a Social Europe, the beginnings of a policy with greater substance? It seems to me that, to strengthen this step, it would be prudent not to join in a search for the optimum institutional structures. One knows, by the work of lawyers in particular, that the practice of the rule, or the sense which will be given to it by the use made of it by the actors, contributors, and beneficiaries, is only identified rarely in the normative terms which its initiator wishes to give it¹. The naive or over-interested social inventor is sure to go from surprise to surprise, which is counter-productive moreover. The forecast must be upstream of conventions² - that is to say the systems of mutual expectation and the principles of reciprocal conduct which guided the economic and social actors. What are those which allow the setting in motion of a positive dynamic between social security and economic flexibility?

I. To put flexibility in its economic context

The stream of discourse on flexibility carries with it ideas that it is first of all necessary to move aside (paragraph 1), before examining how and in what form the requirement of flexibility is born of the characteristics taken by the economic development of Europe (paragraph 2).

1. To combat the ideology of flexibility

Among the false conceptions of flexibility, there is first the scarcely-hidden hope of those who identify flexibility with the fact of harvesting all the fruits of social and economic co-ordination without having to pay anything in exchange. The gratuitousness of work and social security exclusively financed by its beneficiaries are on the horizon of these hopes. They are not so fanciful as one may think, when one observes, in the most vulnerable sectors of the population and the labour market in Europe, the development of under-paid and precarious jobs, the absence of social security through the non-satisfaction of criteria of attribution, the gradual disaffiliation of territories and of entire social groups outside standards of life considered elsewhere as normal; and when one observes, in certain countries, the degree achieved by the partial taking on of wage and social contributions by the State budget or social funds, in the name of employment progress. Such a concept of flexibility permits no development of the social dialogue in Europe. It only has as a perspective the continued fall in remuneration and social guarantees. And as regards employment, it generates illusions.

It reappears, nevertheless, across certain conceptions of globalisation and of the position occupied by the European economy. One can distinguish three concepts of globalisation, the economic war of all against all; de-localisation without cost; the

1) A. Jeammaud, "The Rule of Law as a Model", *Recueil Dalloz* 28. cahier, chronique XXXIV, 1990 pp 199-210.

2) Many works develop this idea of convention. See for example the special edition of *Revue économique*, "The Economy of Conventions" 40, 2, March 1989, and A. Orléan *The Economic Analysis of Conventions*, Paris University Press of France 1994. For a presentation in English, P. Wagner, "Dispute, Uncertainty and Institution in Recent French Debates", *The Journal of Political Philosophy*, Vol 2, 3, 1994 pp 270-289, and M. Storper and R. Salais *Worlds of Production. The Action Frameworks of the Economy*, Cambridge, Harvard University Press, 1997.

enlargement, to cover the entire world, of the area of activity of each company. Only the latter corresponds with what have become, basically, European enterprises: enterprises which rest their individual and global competitiveness on comparative advantages in terms of quality, know-how, continuous innovation, diversity, and capacity to serve demand more closely¹. With those which succeed and create jobs, the mastery of costs takes place within a path of growth and investment which aims for absolute advantages beyond price on the world markets. Thus they may perform efficiently on the world stage.

The first two meanings of globalisation are only bad literature. To believe in the war of all against all is the best way to make it happen and to suck European industry towards a spiral of decline and of loss of competence. Outside the standard and bottom-of-the-range products on a pure price argument, to de-localise is only sensible if the enterprise finds, wherever it goes, the competent workforce and the institutional environment which it needs to do that which it has to do. As the DGII communication underlines, the rate of exterior opening in the European economy, taken as a whole, is only 8%², the same as with the United States. The response to the challenges of flexibility does not therefore reside in common ideological places, except to think that those who activate them aim in fact at setting in competition against themselves those national and regional economies which comprise Europe, for a short term individual profit differential. To generalise on such behaviour would lead Europe towards an economic model of low salary costs and low competence. It is not globalisation which threatens the economic development of Europe, but the refusal to comprehend the nature of its opportunities and the inability to grasp them. To understand it and to grasp on what basis a weak economy may guarantee security which is better than simple protection, it is necessary to change the economic referent.

2. To change the economic referent

In a dominant manner - it is the fruit of almost 25 years of continuous technological and organisational innovation which responded to the shock of 1973 - the work accomplished by the European workforce no longer has the status of a simple production factor, and its products no longer come down to being simply a price-support. Contemporary developed economies are transformed into vast collections of ever-changing products and services³. We face different and even mixed products and services which, in a complex and variable manner situated in space and in time, overlap exchange value and use value (that is to say price and

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- 1) *The detailed analysis of these transformations is made in the report of the General Commission for the French Plan, What Policies for French Industry. Dynamics of the Production System: Analysis, Debates, Proposals. Report co-ordinated by G. Colletis and J-L. Levet, March 1997.*
 - 2) *Cf. the report presented by the European Commission to the Council of Europe in Dublin in December 1996: "The Mutually Beneficial Effects of Strengthened Co-ordination of Economic and Structural Policies (Europe as an Economic Ensemble)" CSE (96) 8.*
 - 3) *It is necessary to note (without developing it as a theory, since it is not the object of this contribution) that the extent of these transformations poses problems of seizure by economic theory. This usually reasons with the help of the concept of goods (or of merchandise) which allows the summary of economic co-ordination to general categories of market and of exchange value, without being interested in the variety of uses and conventions of co-ordination between producers and users.*

utility). The strategies of companies try to follow more closely the characteristics of the dynamic of exchange and production which surrounds them. The definition of the products and of the necessary competences, norms, standards, and know-how, becomes an essential challenge to competitiveness, instead of being a common and prior-known basis of the actors. To the difference of "goods", the product thus intended presents, to varying degrees, the dimensions of creativity, commitment, and uncertainty in the final result. We leave a universe of predictability to enter into a universe which is uncertain to the extent that we must make tomorrow something different from that which we are now making, without being able to define it precisely today.

This statement forces the definition to be made, of what must be the economic referent of flexibility, from which to assess, positively and negatively, the transformations of the economy and of work in progress, and to draw up efficient social conventions. The Welfare States are built from a "Fordist" vision of the economy, where standardisation is dominant, of products and of work, price competition and adaptation to events thanks to their predictability by a logic of risk. We must draw up a framework for observation and judgement which is suited to economies which are becoming structured by a requirement of flexibility in the uncertain. Certainly it is a challenge of European social dialogue to find an agreement on this framework of observation and judgement of flexibility. Since only from that may there follow an adapted evolution of social security systems. I would limit myself to suggesting that a number of researches converge towards the conclusion that this agreement may include the following four terms: possibility, proximity, human capital, territorial development¹. Let us present them briefly:

a) Europe will be a Europe of economic possibilities. The enlargement of the size of markets, and security guaranteed by the strength of the Euro, will make the production of a number of new products and services profitable, and exercise a strong incentive to innovate. These products will find their demand. Since the present proliferation of products and services shows the increasing diversity of use values which everyone, company or simple consumer, expects to find on the market and in the face of which he is more and more expectant and selective. This phenomenon is required to accelerate.

b) Europe will be a Europe of proximities. The creation of proximities permits the definition of adapted products, a necessary condition for taking advantage of the enlargement of potential markets. The intensification, which is in progress, of economic exchanges within the European area is already accompanied by a strengthening of links between producers and users, of lasting co-operations in many forms, creators of various proximities between economic actors. A territorial restructuring of the European economy against a background of the creation of proximities between producers and users is in progress. It will accelerate at the beginning of the next decade. All these factors are economically efficient, since they ensure the necessary suitability of products and services for their given uses.

1) See M. Storper and R. Salais *Worlds of Production. The Action Framework of the Economy*, op cit, for an analysis of the case of France, Italy, and the United States.

c) Europe will be a Europe of human capital. To grasp the potentialities which we are going to mention, requires the mobilisation of "true" capacities to work, that is to say those which imply apprenticeship, professionalism, know-how, capabilities incorporated in persons and communities of persons. The economic strength of Europe in a world context resides not in simple, moreover necessary, development of its technologies, not in a simple return to expansive macro-economic policies, but in the capacity to favour the development and the reproduction of specific human capital, effectively to take advantage of technologies, the enlargement of the market, and monetary stability.

d) Europe will be a Europe of territorial developments. Its different industrial, regional, and sectoral (sometimes trans-national¹) fabrics, must be able, in an endogenous manner, to create own resources (in jobs, competences, and financing), thanks to an accrued specialisation in specific products. This will be benefited by the stabilisation of the forecasts of change, demand, and revenue, in an area enlarged and unified by the Euro. The weakening of national frameworks of economic growth is not inevitable, being a matter of efficiency and of the reproduction of work capacities. What is inevitable, is the disappearance of a "nationalist" vision of these national frameworks².

II. Social convention of confidence and flexible work capacities

In the referent of flexibility which will be presented, what becomes pertinent within economic co-ordinations, is no longer predictable risk, but uncertainty. One can control risk by settling within a series of defined behaviours in advance. The risk may be externalised in the form of protection founded upon actuarial calculation without it injuring economic efficiency. One must, on the other hand, control uncertainty by an open, that is to say not predetermined, combination of freedom of action and a range of possibilities. Uncertainty must therefore be internalised. The paradox then is that to be efficient, flexibility must be founded upon the security of people.

The governance of work within the context of uncertainty rests on a convention of confidence between employer and employees (paragraph 1). Thus, under certain conditions, flexible work capacities may develop (paragraph 2)³.

- 1) *One observes, for example, that economic areas of co-operation and integration between France and Germany growing up around certain complex products (aircraft, cars, and their multiple components, or certain specific chemicals, and so on) are dominated by the type of product, economy of variety and technological apprenticeship, and not by standard products. Cf. R. Salais "National Economic Identity and Cross Exchanges between France and Germany", C. Didry, P. Wagner, B. Zimmermann, Work and the Nation. France and Germany on the European Horizon, Paris, Editions de la MSH, to appear in 1998.*
- 2) *Investors contributing to the financing of specific assets of which the yield, if it can be increased, initially remains uncertain, have special need of an institutional framework which stabilises forecasts in the medium term and gives confidence in their realisation. Hence the importance of a stable Euro in the long term.*
- 3) *As the reader will see, this part is restricted to drawing the conclusion of a recent green paper of the Commission "Partnership for a New organisation of Work" [COM (97) 128 final] dated 16th April 1997.*

1. Governance of work and the convention of confidence

Economic theory has now well established that work does not come under a market in the usual sense. Once the agreement is reached and the contract of employment signed between the employer and an employee, the reality of the undertakings entered into between employer and employee (salary and conditions of work on the one hand, effort and quality of work carried out on the other) remain uncertain. The contract does not close an exchange at that moment, nor does it ensure an optimum adjustment of individual preferences. On the contrary it opens a process of putting to reciprocal test which, alone, will settle, and again, the realisation of the product, its sale, and the distribution of its results. This is the theme, well known to economists as it is, of uncertainty as to quality and effort of work.

To overcome this uncertainty demands an institutional framework surrounding the work relationship and its partners. To use a fashionable term, the accomplishment of work necessitates governance. Social security systems constitute an essential part of this governance. But there are roughly two concepts of the nature of that governance.

The standard analysis considers that the rational actor has an opportunist behaviour by nature. In this hypothesis, a worker will have the tendency not to work according to quality of expected effort when he has a margin of action not observable by his employer. Similarly, the latter, if he is alone to observe the demand which the market makes of him, will cheat on his exact value so as to have a margin of manoeuvre as regards the demands of his employees. And the standard analysis conceives social security as having to be a blend of constraints and incentives likely to keep opportunist actors on the straight and narrow. It is, for example, the idea that an unemployed person is only likely to search for work if the compensation-salary differential is sufficiently high, an idea which neglects the value in itself of work in terms of identity, integration, and the demonstration of his own capacity to realise things (although moreover - I cannot resist this polemic note - researchers who develop such a theory have a high idea of the value, not exclusively monetary, of their own work).

This view is insufficient. Within a context of flexibility, the governance of work is more complex than a question of opportunism, since it is in the obligation to spare some latitude of action to the partners, in other words a space for freedom. This responds to a concern for efficiency. On the one hand, events in work or on the market of the product are interlinked: it is the feature itself of situations demanding flexibility. On the other hand, possibilities of effectively surmounting the problem will arise if the decision to act will be entirely a matter for those in a position to act. It serves nothing to have defined in advance what must be done, since the nature of these possibilities cannot be foreseen. The process commenced will only be efficient to the extent that mutual expectations are established between the actors to leave the other without interfering, and, in co-ordination, to take as support for one's own action the results of those by others. The governance of work therefore rests on a convention of confidence.

The existence of this convention rests on the surrounding social security system. If it is considered as fair, if it is the object of an agreement, if it defines in advance

the division of the event, the costs, and the responsibilities, then the co-ordination between actors may proceed efficiently.

2. Flexible work capacities

The theme of flexibility, when it is placed in its economic context, thus indicates nothing but this need of the economic actors to adapt and to take advantage of new configurations which we will describe. At the heart of the necessary work capacities appears the capacity to master the uncertainty of markets and production situations. It is a matter of a triple uncertainty: in time (situations encountered are never identical, nor entirely repeatable); in space (places of exchange and of production vary according to those who demand them); between persons (the identity and the singularities of persons with whom their must be efficient co-ordination, vary from one situation to another).

Mastering uncertainty rests on the practical resolution of a tension between two extremes. On the one side, the pertinent response to events which present themselves must be made there and then (*hic et nunc*) by the person who agrees. This responsibility is full and complete, and it is entirely consistent with the situation of the market or the work concerned. The organisation of production, the hierarchical relationship, is only a support, not an answer to the problem. On the other side, on account of the variability and the heterogeneity of situations, competences are acquired for a good part of the life cycle. Indeed this may only be in the given context of knowledge, or in the defined professional state. But it is experience, the accumulation of ceaseless renewed confrontations with situations, which provides the worker with "know-how", enabling him to discover the pertinent action in the uncertain. More even, it is the incorporation of this long-term requirement in the behaviour of the moment which alone enables the individual to draw the lesson from that which occurs in the circumstances of the action.

It follows that flexible work capacities are not necessarily identified with a high level of qualification, and that they only develop with self help (hence the extreme importance of integration in work and maintenance at its heart). Efficient deployment assumes that work situations guarantee a genuine freedom of choice, which may only exist if the definition of jobs and tasks within the company permanently opens to the people who occupy them the possibilities of apprenticeship and mobility. Thus the hours of work throughout life become porous, combining years of work in all manners of status (salaried, self-employed, etc.), professional training, and varied experience: on the one hand because attachment to a given employer is brought into question by the unforeseeability of events, and on the other hand because only such paths of life generate an increase in the capacities and the efficiency of human capital invested in people.

One has a better understanding of the natural difference between protection and security, faced with the event, in which the second encompasses the first. To improve one's flexible capacities to work, it is necessary to be in a situation to be able to learn from exposure to the event. A framework of protection against prevents one learning from the event, because it is essentially negative. To learn, the flexible worker needs a framework of security before the event. It is a framework which gives the individual the opportunity at any time to make long-term

forecasts. There is a convention of confidence in the work situation only if the individual is guaranteed that his life's ambitions remain realisable.

III. Two false roads, the shift of the event towards the individual or towards the state

How does one form, maintain, and utilise in an efficient manner, those flexible work capacities, knowing that they rest on an effective freedom on the part of their possessor, that they assume a path of life and work, at each moment sparing real opportunities of choice, that to be such they must not be protected from events, but put in a position to confront them successfully, and to draw from them both profit and experience?

We allude in introduction to three different paths according to the social handling of the economic event. The first two, the total individual as opposed to the total State, opposing each other term to term, rest upon the same intellectual foundations. These are false roads (paragraph 1) of which analysis leads to the proposal of abolishing any general form of financial aid to the job to the benefit of aid to the person (paragraph 2).

1. Two false roads

A first path is that employers and principals use as a pretext organisational changes which flexibility entails to deny any acceptance of responsibility, be it financial or related to the organisation, other than direct remuneration for the task, made to them or for them for the time that it lasts. Funding which rests on the revenue of the beneficiaries, the quality and the amount of social security, will very quickly be deteriorated. It is the "I'm all right Jack" version of flexibility which we mention previously, a unilateral shift of risks and responsibility. It is a negation of the entrepreneur, whose characteristic is to take risks in a reasoned manner, and to assume the benefits anticipated accordingly. His liberal aroma in reality contravenes what is the essence of liberalism, which conceives society as co-ordinated by the effective and reciprocally recognised exercise of personal responsibility. One will therefore set aside the first path as a legitimate route for European reflection, not without remembering the necessary vigilance in the face of local and national drifts.

The limits of the following path appear rapidly. Taking a direction opposite to the first - the total State as opposed to the total market - only reproduces the intellectual foundations.

The second path is that the public authority (national State and/or the Commission of the European Union) strengthens the constraints weighing upon employers, through increasingly detailed regulations as changes occur. The almost immediate corollaries are: on the one hand that this authority compensates the constraints which it places upon employers with financial aid (like exemption from social charges) assumed to re-establish the bases of the economic scheme of the enterprise, and on the other hand that it takes over the social costs of professional training, adaptation, mobility, and unemployment. I would call this line of response, in the absence of anything better, the social employment policy "à la Française". The public authority pays twice, as it were, for results in truth uncertain.

The costs of employability are enormous, and their returns low. Whatever this is as regards measures for the young, early retirement, and the development of "aided" contracts of employment¹, the basis of funding social security (salaried employment to social status) narrows, social financial deficits swell to the extent that takes measures to reduce them, the balance sheet in terms of employment and growth is doubtful over a long period. None of these micro or macro-economic analyses has demonstrated the existence of results in favour of employment which might reach the level of political aspirations. More seriously, this policy facilitates a consensus between employers' and union organisations too happy to straighten their members from the responsibilities incumbent upon them to control events best in real life (in a manner to avoid it being globalised), and, in the face of the citizens, to refer the fault to the State. The balance sheet of French experience, which has lasted for at least 25 years, indeed remains to be made with precision, but seems to lead, for European reflection, to the conclusion that it would be preferable to cut direct financial aid to employment. Would not this withdrawal be a necessary condition that the third path, to lead a work policy at a European level, be practicable, in particular for social partners to commit themselves?

2. Collectively efficient flexibility demands the withdrawal of financial aid allocated according to general employment criteria

Moreover, various affairs (such as the Houston affair, de-localisation from Burgundy to Ireland) show that the existence of employment subsidys, direct or disguised, involve European regions in an exaggeration towards the bottom. It reinforces the role of the low cost of work as a unique argument in the scheme of the enterprise, leading to a view of economic development which is static, short-term, and de-skilling. This concept, we have said, turns its back on the real economic opportunities of Europe. Generalised, it would destroy its chances, which may only be maintained by having their potential exploited. To avoid social dumping, is at the same time to fight the distortions of competition. It is nothing more than to apply the principles of equality of treatment, and non-distortion of competition, in the Treaty of Rome².

A policy of non-qualified employment subsidy (like exemption from social contributions) would not, in the same spirit, be a strategic error? Here the macro-economic reasoning, correct in itself, rests on an erroneous view of the real operation of the labour market and companies. On the one hand, observation shows that the general shortage of jobs increases the choice in hiring staff: these subsidised jobs are taken, not by the unskilled unemployed, but by other better qualified candidates. This is a double waste: people without skills remain excluded,

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- 1) See A-L. Aucouturier "Contribution to the Scope of Efficiency of Employment Policy", *Travail et emploi* 56 1993 pp 20-29, and C. Didry and L. Tessier "The Cause of Employment. Uses of the Law in Contesting Social Plans", *Travail et emploi* 69, January 1997 pp 23-38.
 - 2) The European Court of Justice, one knows, questions the legitimacy, as regards community principles, of public aid consistent with French social plans (decision of 27th June 1994 and decree dated 26th September 1996). A. Lyon-Caen in "Public Funding of a Social Plan, is it Condemned in Community Law?", *Droit social*, February 1997 pp 185-191, asks if community competition law does not announce the end of employment policies which tend to orient companies' choice of organisation. To this question, it is necessary to add that which we pose here: have these policies demonstrated their effectiveness over the long term?

and the potential capacities of the qualified lie fallow. It is the entirety of the European labour market which it is in truth advisable to re-balance, and the skilled jobs, of which it is necessary to increase the number in order to revive the labour market¹. On the other hand, only the creation of skilled jobs bears the creation of capacities and external economies around it, which are the support of a positive dynamic which would combine growth of productivity and creation of activities. Furthermore, the skilled job, in order to be efficient, demands a logistic environment within which are various non or partly skilled tasks.

Without doubt, there was an excessive weighting of obligatory deductions on partly skilled work. But in my mind to rectify it demands specific measures, for example a solidarity of funding between large capitalist companies and small and medium-sized companies creating jobs. The priority remains that the unskilled or de-skilled unemployed, and even more so, persons on the way to being disaffiliated, be the target of a policy of integration in work, centered on aid to the person (see below).

In these two routes, finally, the policies which are followed undermine the entry into play of the bases of funding social security systems, without clearly seeing how they may then re-establish them and reduce the overall financial burden. The re-establishment of financial balance fundamentally requires that one create socially profitable work opportunities, that is to say jobs where the added value which is created is more (at least in the end) than the cost of putting to work. It is, on the contrary, endlessly rejected by artificially making occupations profitable by way of public subsidies.

IV. Work and security policy

The preceding paths lead to an impasse for two reasons which divide them one from the other. The first is that they reason in terms of the allocation of resources, the volume of it being assumed given, and not in terms of the creation of resources. The second is that they only see a cost in the funding of social security, without considering its other side, the investment in human capital, generator of additional economic efficiency and demands for new activities. Paragraphs 1 and 2 explore the other branch of these two alternatives, which, remember, hinge on four key concepts: possibility, proximity, human capital, and territorial development. Paragraph 3 takes up the proposal of aid to the person founded on the rights of social drawings². In general, this part IV should be essentially illustrative of the interest which there would be in progressing further along this path.

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- 1) *This does not remove the problem of adapting competences to needs, nor that beginning a career (acquisition of experience and increasing productivity)*
 - 2) *This proposal, very suggestive as it is, was made by A. Supiot "Good Use of the Laws in Matters of Employment" Droit social March 1997 pp 229-242. I attempt to free the implications to manage a good process between flexibility and security. In general terms, the writing of this paper was largely stimulated by the work being done by a group of experts on the transformations of work and employment law in Europe, of which A. Supiot is recorder.*

1. To develop structural policies of territorialised efficiency

The more jobs there are, the more opportunities exist for labour and for gain, the more security of life is assured and the less it costs financially. The best security is therefore that which is supported by the creation of jobs. And this depends in its turn on the creation of activities, capacities, and new wealth. It is not a matter of differently allocating existing resources by financial aid, but of encouraging the creation of resources as and when the opportunities arise. Structural policies in matters of innovation and research, professional and further training, collective infrastructures, creation of networks of companies and actors, and provisions for professional mobility, thus appear fundamental.

Employment will result much more surely from structural policies dedicated to collective efficiency than if it is taken as a direct and explicit target of economic policies¹. This follows directly from the new characteristics of economic development in Europe, which we recall above: diversity, human capital, proximity, territoriality. It is by close and lasting horizontal co-ordination between actors, creating networks and intermediary collective entities, which will form and maintain the creation of employment, and not by vertical and general policies. Furthermore, these structural policies, in working on the environment of companies, improve collective efficiency and reduce inequalities of productivity of work between territories. They thus diminish the incentive to prefer the blackmail of de-localisation to a true medium-term strategic reflection.

Territorial consistency of these policies is essential. We return to the globalisation understood as the opportunity for European businesses to have the world as its individual space for activity. We have underlined that this opportunity rests on the perspective of a progression of advantages beyond price. To obtain them involves the lasting consistency of the activity of the business in its environment: a territory, the search for co-operation within an upstream-downstream network of companies, partnerships with populations which surround them (local communities, professional associations, agencies and public research laboratories, universities, and training schemes, both general and professional). There are the economic, social, and political territories within which the question of flexibility, if it has a meaning and a scope, must be formulated. There and there alone may be engendered the collective dynamics which positively link the growth of productivity, the creation of resources, and the creation of activities.

2. To reduce individual and collective vulnerability to economic events

Social security expenditure has a double nature: at one and the same time a cost which it is necessary to finance by deduction from wealth produced and investment in human capital which as any other investment, if it is well conceived, engenders an increase in wealth. This is revealed by the graph published in the first Commis-

1) Agreed, a strategy in terms of structural policies dedicated to collective efficiency assumes a certain type of macro-economic environment to maximise their effect on employment. To clarify this is beyond the scope of this paper, and, even more so, my competences.

sion document¹ (in 1995) dedicated to the future of social security, a graph which, for the year 1993, compares, country on country, the GDP per inhabitant (global productivity index of a country) and the percentage of GDP dedicated to funding social security (index of the rate of investment in human capital). There exists a good positive correlation between the two, no country deviating from the path of correlation in an exaggerated manner. In other words, rich countries may be paid good social security, but it is also because the raised degree of their investment in human capital allows a much stronger productivity on the part of the active population.

This remains, and is even reinforced in a flexible economy. To create, preserve, and develop work capacities becomes fundamental there. Independence and the capacity for flexibility are not innate. They are learned and maintained by practice and experience. It is a fragile process, of which it is necessary to watch over its maintenance, by the existence of a favourable environment.

So a third path for combining flexibility and security is justified: to lead an employment policy centered upon people's paths of life and work. For the financial aid paid to the employer in the name of a general employment criterion, is substituted aid to the person, centered on the development of his flexible work capacities. The associated economic calculation is simple in its principle: when the value added by the labour of the person exceeds the cost of his being put into work. There is a surplus produced, of wealth and utility for the community. Its implementation is indeed complex, and must incur elements of actualisation, a temporal dynamic of critical moments of assessment; but it is decisive. One sees in particular that its implementation may not be confused with a hastening of social expenses which would consist simply of lowering the monetary cost of putting into work, either by paying the employer the cost differential between salary paid and productivity (assuming it is measurable), or by lowering the minimum wage. The procedural element is first, and provides a concrete content to active expenses: it is a matter of creating a path which improves the human capital of the person, and increases his capacity to profit: training by nature diverse; creation of institutional devices or improvement of the effectiveness of existing devices; availability of community equipment favourable to putting people into work²; and so on.

Such an employment policy aims at creating continuities, and not, like other employment policies, managing after breaks, queues, and files. Instead of being activated after the event, and managing its consequences (with the well-known risks of perpetuating the situation by stigmatising the individual and placing him in a

1) "The future of Social Security: Framework for European Debate" COM (95) 486 dated 31st October 1995. Statistical observations of the same sort in Y. Chassard "The Future of Social Security in Europe" *Droit social* June 1997 pp 634-639.

2) I do not show any originality here. This has been said for a long time, and better, by Alfred Marshall, when the latter, an economist wishing to contribute to the end of poverty, reflected at the end of the last century on the connections between economic development, putting into work, and efficiency salary. This part IV agrees the preoccupations expressed in theme III. To create a new culture capable of professional integration of "Proposals of Guidelines for Employment Policies of member states in 1998" Communication of the Commission, 1st October 1997. Even more the Communication put forward, in its theme IV, the utility which it would have to re-align State aid policies toward the promotion of investment in human resources and the capacity of adaption.

state of dependence), social expense then takes as its foundation, integration and maintenance in the sphere of work.

The institutions which are responsible act within a procedural and define framework. They have the task of watching over the paths of people. The premise of their action is that each individual is free and responsible for his life and his plans. But instead of leaving the individual to himself (if necessary by being exempted in advance of any follow-up by the payment of a minimum subsistence allowance), social institutions act according to a principle of subsidiarity. A central point in their action is to assess the moment when risks taken in employment may make the individual tumble in the non-masterable event, that is to say not so much the unemployment in itself as the precariousness, poverty, and dependence. The challenge of their action is to give the individual the necessary conditions for effective deployment of his responsibility towards himself, and not to exercise it in his place. This principle of subsidiarity, if essential to European construction, has three consequences.

a) Social institutions should intervene as a matter of priority with those whose patrimonial and relational resources do not or no longer permit them to exercise full responsibility for their own path of life. This is why the guarantee of a standard of life remains imperative, as at the origins of social security schemes, but also that new problems are posed. It is not normal, for example, that a small employer who goes bankrupt may not have a fibre of security then, so much so that, in order to begin, he took personal risks with his own heritage. Conversely, one may find it debatable that senior managers accumulate the advantages of being paid on capital returns - by way of share options or good redundancy cover - with an appropriate salary and social security status without being forced to make great contributions, for example, by systems of capitalisation. Social solidarity may be considered around this requirement to guarantee to each an effective capacity to exercise this own responsibility to build his life, a capacity of which one has seen that it was one of the foundations of a flexible economy.

b) Their action must be structured, not around employability, but vulnerability to events. It is not a matter of opposing the two concepts, but of understanding that "good" employability rests upon a reduction of individual and collective vulnerability to events. The criticism which one must make of employability as a foundation of active policies is that it takes as its basis of action the acceleration of the rotation of the workforce on the labour market. Now it is not in the least demonstrated, even if it may be individually profitable in the short term to the employer, that rotation is collectively efficient, taking into account the losses in human capital which are engendered by it. It is as if, faced with the dangers of avalanche in the mountains, one is preoccupied above all with the most cost-effective and the speediest ways of rebuilding the houses destroyed rather than searching for a means of protection by a plan for the occupation of the ground which defines areas where building can take place. This is what separates passive protection from active security, the endeavour to reduce one's financial cost by a policy of prevention.

A concept in terms of social security no longer takes the occurrence of economic risk as a phenomenon by nature, a natural catastrophe. At its center is posed the problem of its capacity to prevent it. Coming first are integration in employment,

and, that done, the vulnerability to unemployment of those who are working, be it by improving their future employability in a preventative manner, that it is to say in work, its conception and its organisation. In fact many initiatives are already going in this direction. What this is, in matters of hygiene and safety, medicine at work, further education, or even apprenticeship, is, if one wishes to stop there for a moment, that it is in this perspective that active policies develop. The economic foundation of information and consultation of the employees of a business resides in the idea that receipt of their opinion is likely to improve protection against events. The accrued requirement of employers of having an adequate workforce at any time, also responds to a logic of preventing the event. One may multiply the examples.

c) Social institutions must act in a second-rate logic, likely to be restricted to supporting decisions taken by collective agreement at the pertinent level (business, sector, territory, Europe) and ensuring a standard realisation. This results from the "political" spirit of the concept of subsidiarity and calls for little comment. Except to underline that collective negotiation is no longer of a strategic nature (to take as little as possible from ones own interest and, for that, to attempt to manipulate the other without oneself taking on any true commitment). This negotiation comes to the charge of common European assets (the level of employment, social justice, the development of the capacities of individuals). It is constructive and comprehensive, transcending private interests. It comprises a social dialogue linked with drawing up joint conventions which will include a mixture of rights, duties, and fundings. Without these conventions in fact, distrust would win in a social context of uncertainty. It would be impossible to satisfy the requisites of effective freedom and personal responsibility necessary to an efficient flexible economy.

3. For aid which does not stigmatise the person: the rights of social drawing

Efficient flexibility requires that people be kept, at various points of time in their lives, in a "professional state"¹, which guarantees the full efficiency of their work. It must combine the exercise of effective freedom and changes of work. It is in this direction that the still formal development of individual rights guaranteed at a European level may take place. How? To illustrate the question, I would explain the proposal of rights to social drawings².

Such individual rights would be gradually acquired by the performance of a job. The job generating the rights may stretch, beyond salaried work, to self-employed, voluntary, or public utility work, at the time of further training, ... according to forms to be defined. Thus the individual would build up a credit, the provisions of which he would be free to use (hence the notion of social drawings) at various moments in his life. This accumulated capital may at one and the same time be in monetary

1) *This concept is put forward in A. Supiot 1997 op cit. It is historically striking to find in the capacities demanded by economic flexibility, qualities, including moral qualities, developed within trade communities in the second part of the 19th century. Codes of ethics and good behaviour, the development of professional associations, their activities of advice, training, placement in new jobs, of self-employed and professionals shows today the topicality of intermediary communities.*

2) *A. Supiot 1997 op cit.*

form or in the form of rights (for example to carry out a voluntary activity, to follow a course of training, providing at such times the necessary resources to live).

These rights effect a liberation of time. Thus a better individual and collective management will be allowed of the needs of flexibility of work. The provision (in money or in rights) may be fed in a mixed way: by the State or the territorial community; by businesses within the context of their contribution to the social security of their employees; by the individual himself in his savings endeavours (of free time and money); by social security institutions within the context of their provisions.

Numerous questions are of course posed. I can imagine some at this point in our thoughts. How to ensure temporal continuity, essential to the life of the individual, the accumulation of these rights and their opportunities for drawing against in the face of changes of work, social regime, type of security, and of European country? How to define initial grants and later subscriptions which guarantee, in an absolute manner, a sufficient base of rights and opportunities to those who have, by themselves or their social origins, little patrimonial capital, either monetary or human? How to draw up provisions for collective deliberation which enable the handling, in a socially just and economically efficient manner, at various levels, of the necessary reconciliation between the needs of the community of membership (business, territory, etc.) and the individual freedom to use these rights?

The scale of the challenges posed by growth, employment, and flexibility merit an effort of imagination and forecast, freed also from routines of action and of thought, since economic efficiency does not exist, nor possible creations of wealth, without genuine freedom of action being devolved to the greatest number, in respect of the legal, political, and social frameworks which a society is freely given. Now this begins with the satisfaction of prime social needs according to commonly accepted standards, at the first level of which is security of life and the opportunity properly to carry out one's plans.

Achieving integration of all within society

Dr. Paulo PEDROSO

*Portugal
Summary*

1. Integration for all as an European problem at the end of the 20th century

Integration for all is a recent ambition of societies based on equal status and political citizenship. In past years, societies had their mechanisms of inclusion/exclusion with different social status, with their pariahs and their excluded.

During the last hundred years the ambition of an integration for all has grown supported by a strategy of extending the period of education, giving equal opportunities, ensuring work and social welfare.

In the central European countries the "thirty glorious years" after World War II seemed to achieve at least part of this ambition. Those were decades of economic growth, of reduction of social imbalances, but also of dismantled solidarities and social structures. This dismantling and the partial failure highlighted by the crisis of the model gave rise to the problems connected with the new kind of poverty that we face nowadays.

In some countries, as in most southern European countries and particularly in Portugal, significant differences were met in relation to the central countries. At political level, the importance of the authoritarian regimes was, until the seventies, linked to a long resistance to promoting education and to the delay in the expansion of the modern concepts of citizenship. At employment level, work was very often ensured by the process of emigration. At social level, the imbalance based on status and the underdeveloped social protection systems implied the maintenance of the mechanisms of the so called "welfare society".

Simultaneously, these increasingly poor societies maintained some of their "pre-modern" features and their democratic deficit led to a delay of the emergence of poverty and exclusion as a social and political problem. Only the democratic transition legitimates new key environments and new aspirations and questions the traditional standards of social stratification. Furthermore, urbanization and industrialization give rise to a new situation in which old and new exclusion co-exist.

At the end of this century, the "modern" pattern of integration seems to be threatened. The State has difficulties in financing social policies. Part of the population being out of work is also excluded from the employment-linked social protection. The risks of a social dualism, which seemed to be fading out in Europe, seems likely to be back.

In this context, it is important to reflect on three dimensions of the problem: the employment crisis and the presumption of an employment-linked social protection, the importance of the safety nets in the European social model, the escape from poverty trap, the return to social opportunities of the excluded and of those vulnerable to exclusion.

The first issue shall be addressed at the first session of this meeting. We will try to give a contribution to reflection on the other two.

2. Safety net, a pillar of citizenship?

The social protection for the less favoured and the excluded may be provided on the basis of different principles: We may focus on four of them: charity, mutual help, discretionary support from the State and the safeguard of rights by the State.

In the central countries the first two forms tended to be replaced by the other two. In the southern European societies the action mechanisms of the State were until recently very limited. The fight against poverty and exclusion was performed within the sphere of the welfare-society, in which different kinds of "binding" relations interact: solidarities within primary groups, "private redistribution" among unequals by means of charity, "semi-public redistribution" by the intervention of private institutions of social solidarity.

The binding relations underlying the welfare-society have the handicap of creating their own excluded: those who are not relatives, those who are not neighbours, those who do not belong to the same race or to the same culture, those who do not deserve on account of their behaviour, and so on. The difference is penalized by a weakened solidarity net.

On the other hand, without an effective support from the State, exclusion tends to develop from generation to generation bringing about the contradiction of the principle of equal opportunities which underpins our model of democratic society.

In this framework, the main handicap of the welfare-society results from the fact that it is not built on a democratic and universal basis, but on a particularist and discretionary basis. This may, however, be corrected by a safety net guaranteed by the State on a non-discretionary and universalistic basis.

3. To live in the net or to leave the net?

The historical experience of a decades long safety net grounded on the mentioned basis also revealed the limitations of an intervention of the State that is a mere replacement of other income sources.

For that reason, many voices have criticized benefits not linked to active measures for the promotion of social inclusion, arguing that they create dependency and underestimate the value of work, alienate people, increase unemployment and hinder the financing of work redistribution.

Very few benefits of the safety net provided for in the legislation do not demand any kind of compensation from their recipients. In fact, it seems that for decades those provisions have not been taken into account.

4. Which ways for the integration for all?

The beneficiaries of the measures of guaranteed income, of the safety net, are mostly citizens who need active measures to promote inclusion, within the activation measures currently under discussion, to get back to the social opportunities. However, such activation measures should respect to some fundamental principles.

Firstly, the revaluation of social work against the administrative imposition of sanction by activating a logic of incentives.

Secondly, it is necessary to consider inclusion as the result of the fact several obstacles have been overcome, and not only as a problem of employment.

The creation of inclusion opportunities may still give rise to an appropriate environment for reconciling State and welfare-society because this is not a question of working only with the recipients. Very often the work with the involving communities may also create inclusion opportunities.

Inclusion is not a question between technical experts and beneficiaries or between these and the State. It implies the social participation in the design and management of the integration measures. It implies cooperation of public agents, technical experts, volunteers and citizens. It implies the cooperation between central and local power and private institutions of social solidarity.

Reconciling State and welfare-society, after the attempt to replace de latter by the former, can be achieved with proactive measures of inclusion, within an experience of participated management of a measure of public policy. These partnerships are not designed to carry out functions assigned by the State, but to help it to perform them more efficiently by the local integration of what is multisectorial but needing to be integrated in order to give an acceptable answer.

On the other hand, an attempt is being made to bring the excluded closer to their inclusion environment by means of a relationship that needs consolidation at local level.

Social security in European societies tomorrow, what for?

Mr. Karl-Gustav SCHERMAN

*President of the international
social security association*

The reports

To my mind, the question "Social protection in European societies tomorrow, what for?", calls for a careful analysis of a broad range of questions. Some of them are excellently dealt with in the reports by Professor Salais and Doctor Pedroso and we can synthesise a couple of vital challenges and opportunities for social security from these reports.

Professor SALAIS states that *social protection is needed* for the classical purpose to guarantee a minimum standard of life, but he adds yet another purpose, and that is to maintain and develop peoples capabilities over the life cycle.

In the analysis, Professor Salais elaborates upon a couple of vital areas of decisive influence on the future of social security. Among those areas are:

- A description of what a flexible economy is and what it is not
- A description of the need for competence, "human capital"
- The fact that in the contemporary society people face uncertainty not conventional risks.

He also proposes a set of means, among those:

- A convention for trust
- Structural policies for territorial efficiency
- Means to reduce vulnerability
- Individual accounts with drawing rights for training and other activities that enhances the individual's competence.

Doctor PEDROSO states, that *social protection is needed* in order to make it possible to integrate all citizens into society. In this context he states the objectives to provide all individuals with relevant education, equal opportunities and a reasonable level of well being.

In the analysis, Doctor Pedroso, too, elaborates upon a couple of important areas of great importance for the future of social security. Among those areas are:

- Cultural and other differences between South Europe and Central Europe
- A discussion about whether or not protection based on employment is a sustainable idea
- The need for a safety net
- The need especially to create social opportunities for the weak.

He also proposes a set of means, among those:

- A universal safety net
- Partnership and local integration.

Although there are many differences in the approach to the analyses one can, perhaps on a fairly abstract level, see a clear resemblance between Professor Salais' and Doctor Pedroso's answer to the question "Social Security: what for?".

Both of them want

- A basic safety net
- A more active social protection based on local partnership with the individual in focus and
- Both of them care for those especially disadvantaged.

A broad context

Now to the broad context in which social protection and social protection reform needs to be viewed. We need to consider:

Changes in the environment that influence social protection, and there is a wide range of other

Important considerations when reforming social protection schemes.

Among those are

The urgent need to reconcile economic and social policy.

Based on such an analysis we are prepared to deal with the questions for this session:

Social protection in European societies tomorrow, what for?

1) Changes in the environment that influence social protection

There are many far-reaching changes that have taken place during the last decades, many of them call for changes in the social protection systems. We have heard Professor Salais and Doctor Pedroso elaborate on some of them. Let me shortly enumerate these and add a few more.

- The development of *information and communication technology* has a great impact on all areas in the society. It has changed the conditions for family life as well as for the labour market. It has created an opportunity for flexibility and diversification, but also a demand that they really should be obtained. This development might very well be a vital factor behind the weakened role for the concept of solidarity that we can observe today.
- The *globalisation of the economy* changes the freedom of action in the national economy and the competition grows more intense. The changes in the way in which the economy functions cause also a need for harmonising the conditions prevailing in other areas. Furthermore, a changed economic environment has influenced the distribution of income in the society. This is yet another phenomenon that has created a new environment for social protection. Both reporters have discussed this in their papers.

- We have also to take into account *New knowledge and new ideologies that have a great impact on the environment in which social protection operates*. In this context, let me mention two areas.
 - * The discussion about *private vs. public provisions* against social risks is intense. Doubts about what the state can and should provide is a major factor contributing to the current criticism of social security arrangements.
 - * *The impact on individual behaviour* of social protection arrangements is another feature of the current debate. We all know about the discussion about how economic incentives influence individual behaviour and how this phenomenon has come to dominate the concerns about how to reform social protection.

Whatever the opinion on these issues, they cannot be avoided in an analysis of current condition for the social protection system in a country.

The factors that I have mentioned so far are all of a general nature. Now to some changes and needs with a more direct relation to social protection.

- *The labour market has changed substantially*. Both the reporters have elaborated upon this. Let me only add a few observations.
 - * A basic condition for social protection systems, as they have been designed, is that the employment rate in the society is high. The burden of unemployment benefits then is small. Today the unemployment rate is high and its costs and other consequences thereof put a strain to the economy.
 - * Early retirement is a phenomenon of great concern. A growing number of persons leave the labour force before the retirement age fixed by old-age pension systems. It is an issue which is likely to plague social security systems for years to come. Awareness of the challenges associated with early retirement over the coming years is poor. The changes now taking place in firms, with younger persons replacing older ones, are unsustainable over time. If serious dislocations are to be avoided and if employment is to be developed in Europe, greater efforts must be made to keep these older workers in the labour market.
 - * The impact of social security financing on job markets is a third concern of importance in a situation when contributions are high and competition is tough.
- *The conditions for the family* has undergone huge changes, as Doctor Pedrosa has so rightly pointed out. Let me only add one concern about the care for the elderly. Who will take care of the growing numbers of frail elderly who wish to remain in their homes and communities? Will the active population accept as they did in the past to drop out of the labour market and consequently, in many instances, out of the social security system to care for older family members? What about the more equitable sharing of family responsibilities between men and women for both child care and family care?

Lastly in this short enumeration of factors to take into consideration, when reforming social protection I want to mention the situation for young people.

- *The situation for young people is especially important to consider*. Many of the changes mentioned above have contributed to a dramatic change in the conditions for young people at school and when they have completed their education. High competence requirements, high unemployment rates, higher

risks for losing their job once they got it, new attitudes, all this contributes to a completely new situation for today's younger generations compared with the situation for their parents' generation. In this situation there is a sometimes well founded tendency among young people to feel that they are abandoned by society. This is probably one of the most urgent challenges for social protection to meet. It is necessary to restore the inter-generational contract.

The changes in the environment constitutes one vital set of factors to take into account in the search for an answer to the question "Social Protection in European societies tomorrow, What for?" It is these changes that we have to meet and to adopt our social protection systems so that they can work in a new environment and contribute, as they have done before, to a positive development of the society and its economy.

2) Important considerations when reforming social protection schemes

To find the answers to the question about how to reform social protection schemes, there are many more factors to take into account than the changes in the environment, dealt with above. Let me only mention some of them.

- The positive contributions from social protection to the development of society
- The various options for social protection
- The importance of culture, values and traditions in each particular country for how social security arrangements function
- The obvious lack of public understanding of the basic ideas behind public welfare arrangements
- The question whether democracy will succeed in restructuring welfare
- The need for trust as a cornerstone of every reform.

3) The need to reconcile economic and social policy

When you have the opportunity to follow the world-wide debate on social protection issues you can easily observe, that the debate on welfare issues throughout the world contains the same basic questions:

- * Can we afford welfare and social security?
- * What is happening in the national economy?
- * What is the relationship between the economy and the welfare order?

The questions are the same in different parts of the world, in spite of the fact that countries have such widely differing social and economic systems. This observation leads to the conclusion that a vital part of the debate is a world-wide discussion between economists and persons concerned with social policy, since economic theories, new needs and welfare ambitions are no longer in harmony with each other. A reconciliation of economic and social policy issues is of great importance in order to find out how best to design the reform process!

Social protection in European societies tomorrow, what for?

It is of great importance to realise that social protection has an impact on all phases of an individual's life. The various parts of social security must form a

balanced arrangement in harmony with the population's needs, values and traditions. Vital for social security is also to cope with new emerging needs alongside with those traditionally recognised "risks" that are still relevant. There is a close, often neglected, interconnection between on one hand the possibilities to make sound social security reforms in the existing systems and on the other what is done to meet new emerging needs. This interconnection follows from the fact that the sense for equity and justice is a decisive factor behind the reaction among the general public, and hence for the political support that can be obtained. A recognisable concern from the political parties towards addressing new needs can help in finding support for reforms in the existing schemes, even if those reforms must be quite restrictive!

A good starting point for the search for new solutions might still be this well-known definition of social security.

Social security should:

- compensate for loss of income
- promote health and prevent sickness
- create living conditions that meet with common needs in the population and the special needs that
 - elderly
 - handicapped
 - and children have.

To obtain popular support for the social protection arrangements in a country it is vital to meet all these needs. Lack of protection in one area is not compensated by good arrangements in another! All the changes in the environment and in the knowledge must be taken into account in order to create a solution that could meet the future! It is dangerous to concentrate too much on one problem at a time, there is a big risk that such an approach can contribute to the emergence of problems in other areas!

To summarise: Stick to the classical objectives that follows from the definition just mentioned, they are still relevant. Adjust the systems to a new environment and take new knowledge and new attitudes into account. Take as a starting point in the reform process the positive contribution to the development of the economy and of the society as a whole that can be obtained from a well designed social protection system!

The role of the international social security association (ISSA) and the Stockholm initiative

Before concluding, allow me briefly to mention a vital initiative that the ISSA has launched in the area of social security reform, that is *The Stockholm initiative: The Social Security reform debate; In search of a new consensus*. The over all objective of the Initiative is to facilitate a dialogue on the most important social protection issues, among those the issues touched upon under the heading "A broad context" above, and to promote a dialogue and subsequently a new consensus about acceptable approaches to social security. This project will assist policy makers and social security organisations throughout the world to

Speech by Mr. Juan Antonio APARICIO PEREZ

Spanish secretary of State for social security

When we talk about the financing of Social Security in a European forum, we could disregard the traditional debate which opposes the systems of distribution and capitalisation. This is a debate which could be relevant in countries which are less developed or under-developed in terms of Social Security, in which we could set up a new system of social protection.

However, the development achieved by our systems of social security means that an in-depth debate would be useless and pure rhetoric. The distribution system which predominates in the financing of our systems for social security appears irreversible.

The systems for social protection in Europe have been and will become decisive and positive factors for the distribution of revenue, social cohesion, political stability and economic progress. Our social protection systems are a basic component and a distinctive trait of the European social model. This is why it is necessary to maintain them at their current level, and this must be one of the basic aims of the Community.

In view of the above, our debate must be centered on other aspects of financing, as indicated in the Commission's communication "Modernisation and Improvement of Social Protection in Europe" and which is based on the role of social protection in relation to production and employment.

The main problem in the financing of social security is the large percentage of unemployment, and not the opposite. This question is frequently put in reverse: giving social protection as the cause of unemployment, given the indirect costs of labour.

To come back to this tendency, it is sufficient to take an overall view of social protection and unemployment in the EU: the European countries with the highest level of social protection have a lower percentage of unemployment and a greater productivity than those which have not yet achieved the average level of spending on social protection for the EU.

In this context, and in the quest for financing alternatives, with the undeniable interest of such ideas as ecological taxes, or taxes on consumption which is harmful to health, or even social tax on products coming from countries with a very low level of social protection, we can highlight three ideas which, in our opinion, are key ideas, at present.

Firstly, looking at reforms of social protection systems in the context of the European strategy for employment (guidelines from the Council of Florence), we consider the possibilities of improving the economic situation of the systems (concretely the Spanish system) with the potential for additional capacity for

financing which must lead to an increase in percentages for activity and employment, especially with the incorporation of women into professional life, to be of the utmost interest. The difference in the rate of female activity in Spain compared with the European average (on 10 points) is a challenge, through which the new problems of protection, which could appear, would be largely compensated for by the improvement in the capacity for financing, and the relationship between the people contributing / retired.

At the same time, it is necessary to refer to the report of the Commission on the Development of Tax Systems in the European Community (Brussels 22-10-96), which shows us the tendency towards an increase in taxes on employment and a reduction in taxes on capital, fuel, and natural resources.

Between 1980 and 1994, the tax on the work factor has increased constantly, going from 34.7% to 40.5%. The percentage of tax on other production factors has fallen from 44.1% to 32.5%. Taxes on consumption have remained practically stable (going from 13.1% to 13.8%).

This is obviously not good for employment. The replacement of work with capital has been both the effect and the cause of the so-called development. But this has not been followed by an adequate tax policy, which would have avoided this imbalance.

This is why we believe that our analysis and reflection must be centered on the aim fixed in the White Paper "Growth, Competitiveness and Employment", i.e. on the reduction of employment taxes (1-2% on Gross National Product).

Thirdly, I would like to turn our attention, as a point for consideration, to the opinion expressed by the European Parliament Commission for Social Affairs and Employment on the need to "review the budget in the perspective of coherence between the criteria for convergence of the EMU and the financing of social security".

During budgetary negotiations, we must take account, on the one hand, of the difficulties of Member States in fulfilling the Maastricht criteria, and on the other, of ensuring that social security systems remain accessible.

In addition to the tax and budgetary approach, we must also consider the approach of policies for cohesion and structural policies. This must contribute to increasing income for social security systems, and a reduction in expenditure, without this bringing the passage to a single market into question. A sensible use of the Fund for the cohesion of Structural Funds can reduce the strained relations between the EMU and social security.

Third session

Modernising social protection systems: the key strategic choices

Chair: M. Frank FIELD

Minister for social security

Discussants:

Dr. Joakim PALME (S)

Prof. Franz RULAND (D)

Prof. Maurizio FERRERA (I)

Mrs. Nicole KERSCHEN (L)

To find the right balance between contributive and non-contributive schemes

Dr. Joakim PALME

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What is the right balance? How do we find it?

Is it possible to find a right balance between contributory and non-contributory benefit programs? What criteria should we use to evaluate which - of different alternative balances - is the right one? I would argue that any qualified judgement concerning these issues has to be based on a clear identification of the *goals* of the systems of social protection and on a careful assessment of how different policy mixes meet these goals. In this context, the comparative method can serve as a useful tool for examining the effects of different existing balances of contributory and non-contributory schemes. Not in the sense that the ideal balance actually exist, and could easily be identified by empirical research, but to avoid that our policy recommendations would have to rely on pure thought-experiments. However, within in the framework of the present paper it will not be possible to make any really qualified judgements, at this stage I can only raise a number of questions for further investigation and give a few references to policy relevant analyses.

Two different goals can be identified behind the systems of social protection, basic security and income security, or, to put it differently, the alleviation of poverty and the provision of social insurance. The balance between non-contributory and contributory benefits is ultimately about accommodating the basic and income security goals, about fighting poverty and supplying insurance. An interrelated issue concerns the problem of creating the right incentives. Here the actual policy design becomes of crucial importance for how successful various systems are in pursuing the common goals. Let me give two examples. Since earnings will reduce means-tested benefits, and usually on the 'ECU by ECU' principle, means-tested non-contributory programs have the problem of discouraging work of persons who have become entitled to such benefits. Earnings-related benefits give better incentives to work in the sense that more work and higher earnings will give entitlements to better benefits. There is, hence, a link between social policy design and the employment question.

On the European level, the goals of income security and basic security could perhaps be translated into political goals of creating a 'Worker's Europe' and a 'Citizen's Europe'. A basic goal of the European Union, and its predecessors, has been to enhance the free movement of labour, which is also related to the income security goal. The instrument to reach this goal is co-ordination of social rights for migrant workers and hence improving social insurance. The contributory schemes

have always been part of 'Euro-policy'. However, a crucial question is if the European Union should be something more than 'market making'. Should the goals be widened? In this context, the notion of a Citizen's Europe has been formulated as an alternative to the more restricted Businessman's, or possibly Worker's, Europe. The question is if, and how, non-contributory benefits should be part of 'Euro-policy'. Another important consideration for the future is that social rights of workers and citizens of Europe are not only about insurance benefits and other cash-transfers but also, and increasingly so, about social services. Each of these different aspects are also clearly related to employment and gender issues raised in the communication document from the commission on these issues.

Let me end these introductory remarks by expressing skepticism towards a notion that might be read into the heading of this session, that there is a *trade-off* between contributory and non-contributory programs. This is not to claim that such a trade-off might not occur, it is rather to deny that it is a necessary element of every system of social protection that include both kinds of benefits. On the contrary, I would argue that there is evidence to suggest that the opposite dynamic is at work. If both kinds of benefits are included in the statutory system of social protection, each of them might actually work better, at least in terms of providing for the social policy goals (Korpi and Palme 1997). The underlying assumption here is that the social protection budget is not fixed but dependent on the content of the entire system, the better the social protection offered by the system the stronger the willingness to pay, and the larger the proportion of the population that gets protection the broader the support for the system. To cite Amartya Sen; "Benefits meant exclusively for the poor often end up being poor benefits". This is crucial, since we in a 'Rawlsian spirit' could argue that the final test case for evaluating different social policy regimes is to find out where the poor people are doing best (Rawls 1971).

Post-war path-dependency

During the post-war period, a common feature of all countries of the European Union is the *massive* expansion of social security programs. It is important though, to look beyond the similarities and recognise that this development has been pursued along rather different *paths*. The different social security traditions in Europe are by now century-long and the origins have to a large extent patterned the subsequent developments. Countries that started in the corporatist tradition have stuck to its principle of organising social insurance around different corporations with tripartite administration and earnings-related benefits. The Beveridge tradition with its universal flat-rate benefits is often contrasted with the corporatist model and its earnings-related benefits and segmented organisational structure. Yet both traditions have been based on the contributory principle, traditionally with means-tested social assistance benefits for those who have not fulfilled the contribution conditions. The Scandinavian countries started more closely to the Beveridge tradition than to the corporatist one but diverged from both these models since they did not rely on the contributory principle. Benefits were typically flat-rate and came to be provided to all permanent residents without means-testing. During the post-war period, countries in both the Beveridge and the Scandinavian traditions have introduced benefits based on the principle of

earnings-relatedness, albeit in various forms and degrees. On the same time, countries in the corporatist tradition have introduced benefit programs that are intended to provide the basic security that earnings-related benefits cannot do. These programs have relied on means-testing although they have been directed to separate categories of recipients such as the elderly and the unemployed.

Over the post-war period there is a persisting divergence in the basic design of the social security systems of the European countries. Yet there is an interesting commonality emerging from the fact that the nation-states irrespective of tradition are trying to meet both the basic and income security goals. The Scandinavian countries, as well as the United Kingdom and Ireland, introduced earnings-related elements in the various branches of the social security system. The universal character of the systems has been retained, i.e. everybody is insured within the same system. The corporatist countries have on the other hand introduced complementary, second-tier, programs to give protection to those who do not qualify for a contributory benefit, partly as a way of dealing with the high and persistent levels of unemployment. Another strategy has been to introduce or strengthen the credits going to low-income earners within the insurance system. Moreover, several countries have in terms of financing introduced mechanisms that pool the costs between the different corporations.

There is hence both diverging and converging processes in the organisation of social protection. While the basic features of the systems have remained largely intact, it is obvious that the goals and needs of both basic and income security have been recognised, and dealt with to some extent, irrespective of tradition. This indicates that all countries in the European Union are trying to find the right balance between the protection of workers and citizens, between contributory and non-contributory benefits. This also creates a momentum for the Commission to pursue its objective to exchange experience of different policy regimes, while leaving it for the Member States to decide themselves about the design of the national legislation. However, this is not to argue that anything goes. It appears that the co-ordination on the benefit side and the lack of co-ordination on the tax side creates an imbalance which leads to gaps in the protection, inequities and moral hazards (Palme 1997). This situation is aggravated by new legislation, fiscal crisis and attempts by different actors to externalise costs. To deal with these problems, it appears to vital to make a clearer distinction between citizen's and worker's rights but also a clearer definition of the responsibilities of Member States versus their own citizens, and what kind of worker's right that need to be co-ordinated on a European level. For example, to co-ordinate derived rights on a European level would appear to come into conflict with responsibility of each nation state to protect its citizens, or rather; permanent residents.

In discussing the roles of contributory and non-contributory benefits in different policy areas, it seems fruitful to take a life-cycle perspective and start with family support and thereafter deal with unemployment, disability and old-age.

Family support

Very early in the 20th Century, the stage in life-cycle when families had small children was identified as a particularly poverty stricken period (Rowntree 1901).

Despite this fact, the cash benefit programs for families with children are late-comers in the 'family' of programs of social protection (Wennemo 1994). In many countries, such support systems have always been of a non-contributory character. Yet in countries with the corporatist model, child benefits traditionally have been contributory in the sense that child benefits were only given to contributors. However, there is a tendency for such programs to be reformed in a universalistic direction. Benefit entitlements have simply been extended also to non-contributors like in France. Recent reform proposals have also included means-testing as a way of dealing with growing needs under severe fiscal constraints (Palier 1997).

The problems of means-testing were mentioned above. In this context, it deserves to be emphasised that women's supply of labour appears to be more elastic than that of men and hence more sensitive to the incentive structure. This should be remembered when it comes to the proposal of introducing taxation of family benefits. Since the mothers usually receive the benefits, they are most likely to be affected by such changes. In practise, taxation of benefits means that if they work they will get a smaller benefit than if they do not work. Such effects may be magnified by additional income-tested benefits such as housing allowances. The conclusion is of course that if we want to be serious about making the system of social protection more employment friendly, child benefits should be non-taxable and paid without means-testing.

Even if the primary reliance hence is on non-contributory benefits, the element of contributory programs does not lack relevance for the goals raised by the European Commission relating to the individualisation of rights, changing the gender balance in working life, creating a sound incentive structure and putting the pension systems on a sustainable ground (read increased fertility and improved workers to retirees ratio). What I am thinking of is the growing importance of parental leave benefits among the European countries. If such benefits are contributory and earnings-related this creates incentives for women and men to educate themselves and enter into the labour market before they get children. This will increase their future employability status, which is good - not only if and when they choose to return to paid employment as married spouses but also if they divorce and have to be self-supportive. In addition, the earnings-related design promotes the participation of fathers in caring responsibilities since they in fact 'can afford' to utilise the parental leave benefits.

The most important impact on employment and gender equality is likely to come from the social services, and particularly those given to families with children. The absence of such services is in fact a severe barrier to paid employment in many countries and especially for low income persons. Public subsidies to child care can be seen as an investment, not only in the skills of children but also in the skills of the parents.

There is a universal tendency of increased female employment and an outspoken political ambition to equalise the participation of men and women. If Member States fail to respond to the needs of social services, this is likely to reinforce old and create new divisions of welfare. Low income parents are especially dependent on subsidised social services for being able to seek and uphold employment, not to speak about lone-parents. I would argue that social services in

this context is the most efficient way for lone parents of simultaneously breaking benefit dependency and improving the economic standards of their families.

Unemployment

The systems of social protection have always been intrinsically connected with the employment question. When Beveridge in 1940s designed the reform of the British system of social protection, he did this on the precondition that - what he called the social services - could be organised under full-employment. The countries in the European Union have now experienced two decades of mass-unemployment. The systems of social protections have been severely challenged under this period but they have not fallen apart. In some countries it has even proved possible to run a budget surplus despite persistently high levels of unemployment. However, this is not to argue that the system works in terms of protecting all categories but rather to indicate they have survived under conditions that they were not designed for nor expected to cope with.

In a life-cycle perspective, two universal trends on the European labour markets stand out as particularly concerning. One is the increased youth unemployment, the other is the drastically falling employment rates among men in 'pre-retirement age'. It is likely that these two groups would have to be protected by different kinds of benefits.

The fact that young persons and other new comers to the labour market are not insured have put high pressure on the non-contributory provisions. Should non-contributory benefits be means-tested? Should there be an earnings-disregard in the non-contributory program? What conditions should be attributed to the provision of non-contributory benefits? Should they be different from the contributory ones? I think it is important to recognise the option to use other qualifying conditions than means-testing to tackle the moral hazards immanent in these kinds of provisions.

The problems of employment are also evident for those who have reached the pre-retirement ages. This is a common problem to all European countries but of different magnitude. The early exit from the labour market is of course related to health problems of older workers and in terms of social protection there are a number of grey-zones connected to this phenomenon. Again, it appears as a more fruitful way clarify the qualifying conditions to the receipt of benefits rather than reducing benefit levels if the ambition is deal with the moral hazard problems.

The role of unemployment insurance for the level unemployment is a much debated issue, also in Sweden. One view is that unemployment does not go down since the unemployment benefit is a decent alternative for making a living. People are better off by waiting as long as they can before they go back to a regular job. In the Swedish case, this view is claiming support from the fact that there is an increased likelihood for individuals to go back to regular employment when they approach the end of the benefit period. It is also argued that the re-qualification option locks people away from the regular labour market and creates some kind of benefit dependency and marginalises segments of the labour force. Another, and divergent, view is that the high benefits makes it possible for the recipient to live like other citizens and that they despite long duration of unemployment define

themselves as belonging to the labour force. Not only do they continue to search for a job, they also find jobs to an extent not seen with long-term unemployed in other countries. Hence, generous benefits work against marginalisation. In support for the view that the pull effect of the unemployment insurance system is rather weak. It has also been observed that the existing vacancies are filled suggesting that the problem is primarily on the demand side. There are simply no jobs, just people looking for employment. This indicates that the contributory principle might be of relevance for employment in unexpected ways (Åberg 1996).

Life-cycle perspective is essential, the problems differ in each phase and this should be reflected in the policies aimed to deal with the various problems. Yet the underlying problem is the same: overall high unemployment due problems primarily on the demand side of the European economies.

Disability

The issue of contributory vs. non-contributory programs is of relevance also when it comes to the protection of disabled persons. Disabilities are of a temporary character for most of us, and so is the reliance on sickness-cash benefits. Yet we are all running the risk of becoming not only permanently disabled but also unable to earn our living. There is another kind of risk which 'does beyond' permanent and can be labelled 'lifelong disability'. This is a risk most of us adults can disregard for our own part. Yet with respect to our children this is a risk we also share.

If we take the issue of creating a Europe for both Citizens and Workers, we should hence create programs that provide for both basic and income security. To put it in a different way; the system of social protection has to include benefit for short and long term sickness as well as for life-long incapacity. Benefits that cover workers should be financed by contributions and benefits for non-workers should be tax-financed. This is to ensure that the poor do not have to stand alone. We should hence try to solve these issues within the same framework. This could perhaps be seen as the essence of the European strategy. The fact that insurance and support is given also to the better-off and not exclusively to the poor will in fact be a better precondition for support also for the worst-off (cf. Korpi and Palme 1997).

Pensions

There is no other area of social protection where the co-existence of both contributory and non-contributory programs is more evident than in the pension system. Yet the forms of co-ordination between these two types of benefits are subject to considerable variation. Among the countries where the original reliance is on the basic universal benefits, various attempts, with varying degree of success, have been made to ensure earnings-related provisions. The co-ordination with the basic benefits has also here been given different solutions.

In the reform work over the past decades, it is apparent that the European governments have struggled to achieve both goals of income and basic security, while trying to control the costs in the longer run. I think that it is possible within the basic frameworks elaborated in the different countries to improve the balance

between the two types of benefits. For employment and gender reasons, it is important to do include both kinds of provisions within the framework of a statutory system.

The Finnish solution is worth considering since it tries to deal with the incentive problem of basic benefits (Kangas and Palme 1996). The Finnish strategy of co-ordination of basic and earnings-related benefits has also been followed in the Swedish 1994 pension reform. It is important to clarify that social insurance is about redistribution of consumption capacities from those who have work to those who have not, and that both the ordinary and the social wage has to be paid for from the total wage cost - else we will get inflation and eroded competitiveness. This also has the advantage of clarifying that social insurance benefits are somehow earned rights. In terms of workers Europe and the free mobility of labour the issue of financing is also of relevance. It is furthermore important to underline that this is not only about market making but also about individual freedom. This suggests that there should be a strict linkage between contributions and benefits in the earnings-related part of the programs.

Among countries which have applied the corporatist model it has been attempted to find complementary basic benefits, to improve the credits to low income persons. The fact that these countries have relied on means-testing for the supplementary benefits is problematic in several respect. It has created poverty traps and incomplete take-up. Many women do not have an individual right to a pension. It is simply not as efficient in terms of poverty alleviation and it does not take serious enough the goal to secure the incomes of every old citizen. Yet it is perfectly possible to introduce a universal guarantee and to co-ordinate it with earning-related benefits in a primarily corporatist system. The Finnish way of co-ordinating contributory and non-contributory benefits serves as an interesting example. On the other hand, the high ceilings in the corporatist countries (and in Finland), implying a high degree of middle-class inclusion can serve as a good example for the other countries if they are serious about the income security goal. Moreover, the evidently big difficulties in co-ordinating complementary programs for migrant workers supports a strategy where the statutory programs provides the main bulk of insurance also for better paid Europeans.

In terms of poverty alleviation, the citizenship principle in non-contributory programs is superior. It has also advantages in terms of securing gender neutral basic benefits and in terms of providing the right incentives for employment since it avoids poverty traps. There is of course an argument which has to do with target efficiency - in a static perspective citizenship based benefits might thus be more expensive. However, the improved incentive structure might have dynamic results on the tax base of the financing of the system.

Discussion

The conclusion is that a reasonable - if not *the* right - balance between contributory and non-contributory benefits can be found in different socio-political contexts. However, it is an advantage to combine earnings-related and residence based benefits. Such a strategy coupled with an individualisation of rights will also promote employment and gender equality. Apart from an individualisation of rights,

I argue that the abolishment of other barriers to labour force participation such as lack of adequate social services should be put high on the agenda.

Is it possible to maintain an agreement on the desirability to continue with the 'market making' on a European level? If the answer is yes, this requires that the free-movement of labour is guaranteed by co-ordination of benefit entitlements of workers. The differences in social policy regimes are century long and likely to persist (Esping-Andersen 1990). In terms of financing the traditions differ but the trends are in several respects similar. One important trend is that the distinction between taxes and social security contributions have been blurred. This is problematic in many respect. It has, for example, contributed to an increased uncertainty about the sustainability of social insurance programs. While the crisis of the welfare state is a threat to social protection, it might also create a momentum for desired reforms. A serious discussion of the co-ordination problems could inform the discussion. It would among other things be desirable to create a new order when it comes to the financing of the welfare state. The greatest challenge is that all countries, irrespective of what kind of policy regime they have applied, have good reasons for modernising their systems.

The European Commission has made an important contribution in clarifying the problems and dilemmas that the Member States are facing. As always, there is more than one alternative for action. The crucial issue is what happens if nothing is done. Is it hard economic conditions that will force the Member States to abandon vital principles of social protection? Will mass-unemployment continue to exert the same pressure and continue to be the same threat to the European welfare states?

The communication of the commission is a powerful argument for the welfare state but also for reforming it. I find it easy to be in general agreement with that. However, when it comes to the financing I think the different proposals are contradictory. What I am thinking of is the advice to shift the financing of income maintenance from indirect labour costs to taxes on production and environment. Not only is this a way of externalising the costs. If the cost of labour is too high then the cost of labour will have to be decreased. Moreover, if Europe wants to tackle the unemployment problem in a different way from the Americans, then education and training is the key - not locking in people in jobs that in reality cannot support them. Only if there is lack of education can such a strategy be justified.

In the end, I would argue that the welfare state can be seen - and should be - a project of civilisation (Ferge 1997). This means that the states should redistribute resources so that also the poorest persons can enjoy the degree of civilisation which would otherwise be reserved only to the rich. In this way the welfare state becomes a strategy of equality (Tawney [1931] 1952). In this civilisation project, the design of the systems of social protection can play a very important role. The same thing goes for the systems of education and vocational training, as well as other aspects of active labour market policies. Yet these measures can never compensate for bad macro-economic policy making, at least not of the magnitude experienced in most European countries over the past decade. The time has come, not only to find a balance between contributory and non-contributory systems of social protection, but also to find a balance between supply and demand oriented economic policy measures - and to my mind we are quiet far from reaching that balance.

The European Commission is making an interesting and important contribution to the social policy debate by raising issues concerning the need to modernise and improve the systems of social protection so that they would serve old as well as new goals in a changing environment. However, it has to be recognised that there is a role conflict in, on the one hand, serving as a forum for discussion and, on the other hand, promoting specific ideas and having some obvious goals. The ongoing discussion on both national and European level, as well as future reform work, will show if the Commission has found the right balance between these two objectives.

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Old-age provisions - financed by contribution or tax? Reforms and reform discussions in Germany

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1. The problems facing pensions insurance

Pensions insurance in Germany is to be fundamentally "reformed" for a second time within a decade. On 10th October 1997, the Bundestag adopted the 1999 Pensions Reform. The Opposition cannot delay its passing through the Bundesrat, but it can prevent payment of the additional federal grant agreed with it. It is to be refinanced through higher Value Added Tax, and any such increase must be approved by the Bundesrat.

That a reform should be necessary such a short time after 1992, rests first of all on the dramatically increased burdening of pensions insurance with the costs of a level of unemployment which is far too high in Germany, and secondly on the fact that pensions insurance is also considerably burdened by the costs of German Unity. As a result of these two factors, the 1997 contribution rate has exceeded the 20% limit and in 1998 will near 21%.

Furthermore, pensions insurance financed through contributions, above all from salary earners, and in a pay-as-you-earn system, faces quite fundamental problems. The population is aging. The net reproduction rate has fallen from approximately 1.2 (1966) to 0.64 (1994). The life expectancy of 65-year olds has risen between 1962 and 1994 by 2.3 years for men, to 70 years, and by 3.9 years for women to 83.5 years. By 2030 it will have increased by a further 2 years. In addition to this, insured parties are taking their pensions too early. In 1960, some 66% of over 60-year olds were still in gainful employment, but today, despite a rising life expectancy, it is only some 30%. Since 1960 the pensionable period has been extended by 60%.

The financing basis of pensions insurance is becoming narrower. Numerous indicators - wage ratios, development of earned income and profits - show that there has been a clear percentage shift from the labour factor to the capital factor. Therefore national insurance receipts have fallen back, relatively speaking. Going along with this development, and despite legal obligations to insure, the insurance fund has eroded. Self-employment increases. This has to do with the weight of services, also increasing in Germany, and also with the fact that salary earners ostensibly pass themselves off as self-employed, in order to circumvent the ties of employment law and to save on social security contributions. For the latter reason, normal labour relations are often transformed into minor employment relationships which are free of social security contributions. Cheaper foreign workers displace

their German colleagues, in particular in the construction sector. Since it is meant to concern "sent" workers, no contribution is paid for them in Germany - if at home it is difficult to check.

The difficult enough financial situation of pensions insurance is made even more difficult by the policy that additional burdens were inflicted upon it, which should have been financed through taxes. Indeed a great proportion of the financial burden arising from the unification of Germany was financed through national insurance. As always, pensions insurance had to bear war-induced burdens. On account of maternity considerations, state income support uses considerable means for the equalisation of family burdens, relieving the many strains on its capacity, without the corresponding contributions being paid. In the meantime, however, the finding has been accepted, that financing of state functions only to the charge of those who pay contributions is to a large extent unjust, and must be changed. Thus, with the 1999 reform, not only should there be savings, but also a rescheduling of funds.

An aging population, unemployment, and changing occupational structures, are global problems, not only concerning the German pensions system. Almost all countries must find new answers for their systems. With us the discussion has become so basic, though, that the question also arises as to whether new forms of social security must be found. Tax-financed basic pension schemes have been discussed as a replacement or as an enhancement of a contribution-financed pensions insurance, and whether the underlying pay-as-you-earn system should not be replaced entirely or at least in part by a level premium system. The reform which has now been adopted only provides an answer to a part of the question.

2. Refusal of a basic pension

A tax-financed basic pension has once more been refused. It was demanded because pension insurance would no longer be a match for future social changes. The "Generationenvertrag" (a system whereby old people receive a pension from their children) would be revoked, with young people no longer being prepared to pay the increasing contributions. Besides, pensions insurance would break away its contribution basis. "Normal labour relations" would be rarer in salaried employment. Therefore financing must be switched from contributions to taxes, which everyone has to pay. The basic pension would lead to greater solidarity, since it does not differentiate on the basis of whether anyone is rich or poor, healthy or ill, whether anyone has or has not got a job, and whether anyone is in gainful employment or at home bringing up children. It incidentally corresponds to the principle of subsidiarity, that state provisions for the elderly are restricted to a basic cover, in order to leave the opportunity and the freedom for extended private provision. This would eventually result in a clear increase in the proportion of capital-covered provision in the overall social security system.

The reasons against bore greater political weight. The introduction of a basic pension - even as a replacement for pensions insurance - would, in the long, constitutionally necessary, transitional period, up to at least 2020, lead to considerable extra costs as compared with the previous system. Lower pensions must be reinforced, and higher payments be made on account of protection of title.

Furthermore, a basic pension would also be received by those who were hitherto not insured. For a long time the costs of social security would not be lowered, but raised, so that the next generations would be more severely burdened. Nevertheless later they could only expect a basic pension in return. Furthermore, on account of the increased dues, many would take an opportunity to provide privately and more fully for their old age. And the economy as a whole would also be more severely burdened by the extra costs. Negative repercussions would be feared on location safeguarding and the labour market. By virtue of these extra costs, the basic level of protection has politically no chance as a supplement to pensions insurance. In this respect it remains a subsidiary income support.

The basic pension does not do justice to the aims for which it is meant to be introduced. It is necessary, since the "Generationenvertrag" underlying pensions insurance is revoked. But it only rewrites the basic economic fact that all social security expenditure can only be paid for out of current gross national product. And the basic pension would be founded upon a "Generationenvertrag". That is why it also would be independent of the changes in the demographic structure and the labour market. If life expectancy rose, then it would be paid for longer. If unemployment rose, the financing burdens would also increase. And then either provisions would have to be curtailed or taxes raised. Independence from economic development characterises all insurance schemes, and the basic pension would be no exception. However, since it would drastically reduce the level of security, it would - but only after expiry of the long transitional period - on account of the lower overall costs, be relatively less strongly exposed to demographic change. They would then have so much more effect on additional security schemes. Developments in Germany show how much the economic situation affects operational old-age provision.

Pensions insurance must adapt to social and economic changes. The cover given through it can thus in the long term be only relative - as with other insurance systems. Though it is not in the discretion of the legislators. Since the pension is based on contribution finance by own provision, it enjoys constitutional ownership protection. It does not exclude attacks by legislators, but they must be commensurate and reasonable, and be subject to constitutional control. Being tax-financed, the basic pension would lack the necessary equivalence between contribution and later provision. Thereby quite other dimensions would be opened to political influence. Year on year, amidst strong political discussion, the enormous tax proceeds then required for old-age cover would have to be made available in the budget. In comparison with contribution-financed pensions insurance, the basic pension would not then be a reliable old-age provision. Since by reason of tax financing there exists no individual constitutionally protected claim on provision, in times of poor finances, attempts to make the basic pension dependent upon individual need, could be powerful. As a result, national insurance would then be abolished, and there would not remain any improved income support.

Basic pension instead of pension insurance would also not be suitable to prevent poverty among the elderly. It would be a result and a success of pensions insurance that need would be taken away from the elderly, and that a phase of life would exist and for which one would strive as early as possible, in order to enjoy it for as long as possible. The basic pension would turn back this development, and

reduce state social security for all to a minimum level. The proposed amount would not be sufficient to exclude poverty. Because of the strong increase in Value Added Tax to finance the basic pension, the cost of living would clearly rise.

Social welfare going beyond the level of income support should indeed be left to private old-age provision. However that overlooks the fact that for the greater number of people it would be difficult, through their own provisions, to build up additional cover which increases the basic pension to a level corresponding sufficiently after retirement to the standard of living achieved during professional life. There is no obligatory old-age provision in Germany. Since it is forfeitable, only those are entitled to its benefits who were sure of a job for many years. Difficulties in building up one's own provision will be experienced above all by recipients of lower incomes but also those with middle incomes and salaries, especially when they are married and bringing up children. But one ought not overestimate the opportunity to build assets which in the event of old age, invalidity, and death, can be used for an appreciable build-up of social welfare. Since the additional provision is voluntary, it will often be sacrificed in favour of other things regarded as more important in the short-term. In particular, health-impaired persons would have difficulty in building up an additional private old-age provision, because they are either completely excluded from insurance protection or they must pay higher premiums as a risk surcharge.

Taxes will be paid in favour of an anonymous generality. Those who pay contributions cover themselves, and their dependants. The division of the tax burden into generally useful taxes and individually useful contributions has the chance of greater acceptance on the part of those affected. If this doubling were given up, or the weight shifted more to tax, then the flight into black economy would take on greater dimensions, especially as one would in any event receive the basic pension independently of tax payment and need. Besides, to the extent that taxes were clearly raised by reason of the financing of the basic pension, opportunities to save on tax would gain in significance. The injustices currently discernible, in the German tax system, would be intensified if old-age provisions were also financed through it. Thus, in Germany for example, there is a break away of the assessed income tax, which above all self-employed and better-earning employees have to pay. Applied to the subject of a basic level of protection, this would mean that those who could make full use of the opportunity for tax write-offs, must pay little or no tax, even though later they receive the basic pension.

Finally, a strong argument was also that in all the countries in which there is a tax-financed basic pension scheme, expanded compulsory pension schemes were created, in order adequately to cover the difference between the basic pension and ensuring a standard of living.

3. The necessity of reforms in the system

The strongest argument against the basic pension was the conviction of those politically responsible that pensions insurance is sufficiently flexible to adapt in the future to social change. It therefore needs adjustments in the system, but not reforms in the system. Appreciable steps to stabilise it financially in the long term, were already taken in 1992. Without it is reckoned, for the year 2030, at the

beginning of the highest demographic strain, just for pensions insurance alone, with a contribution rate, according to economic development, of between 36 and 41%. Should the reform proposed by the Bundestag arrive, it can be held until about 2020 at under 20%. Only after that will it rise again and be at 22.4% in 2030. With a rise of contribution rate over a period of more than 30 years of some 2 percentage points there can be no question that the long-term problems arising from demography cannot be solved through an adjustment to the existing system.

It is not so much the number of children which is critical to employment. The better the younger generations succeed in balancing out their lower occupation through a higher employment rate, the more demographic developments lose import. The highest political aim must therefore be to arrive at a higher employment rate. The present high unemployment must not be discouraging, particularly as after 2000 bulging age-groups retire and the under-occupied advance. If there are jobs, they can also be occupied by migration. According to economic developments, the population figure for Germany in 2030 will have fluctuated between 66 and 78 million inhabitants.

3.1 The halt of early retirement

Starting point for the measures decided in the meantime was in particular the strong rise in pension duration. The legislators halted the trend towards "early retirement" with transitional arrangements. With reduced earning capacity pensions, in future the situation of the labour market will not matter, and only the health of the insured will be critical. The preferred retirement ages for women, the unemployed, and for long-term insured were raised to the regulatory retirement age of 65. The insured are indeed entitled to early retirement, but no longer to the burden of the mutual benefit fund. For each month of early pension they must accept a reduction in their pension of 0.3%. After 2012, early retirement will first be possible from the 62nd year. The retirement age for the severely handicapped will be raised to the 63rd year, and persons affected can take early retirement at 60, but only against the corresponding reductions.

The halt of early retirement made pensions insurance more independent from the risks of the labour market. On the other hand, the possibility that the elderly, the young, or the unemployed free their job, was not to be fully denied. These various aims are combined in the old-age part-time model. It presupposes that, if, after completion of their 55th year, employees reduce their working hours to a half of the regular weekly rate, then employers nevertheless pay at least 70% of the previous net take-home pay and contributions to pensions insurance on the basis of 90% of the earlier income. Furthermore, the job which thus becomes free must be occupied once more, by an unemployed person or a trainee. If these prerequisites are fulfilled, the unemployment insurance reimburses the employer, for 5 years at the most, both for the higher wages and also for the higher contributions to pensions insurance. Founded on a voluntary basis, this model will gain greater weight in practice, after both sides of industry have agreed on the corresponding collective arrangements. For insured people from 61 a statutory entitlement to old-age part-time work has been conceded as regards their employers.

3.2 The "demographic factor"

After the trend to early retirement was halted, and indeed also turned around, it was now to be decided, whether the further extension of life expectancy should go more strongly to the burden of the pensioner or, as before, almost exclusively to the burden of the persons paying the contributions, that is to say the following generation. The Bundestag decided upon a solution which divides the additional expenditure arising from it among pensioner and contributor. A "demographic factor" is inserted into the adjustment formula, which, if life expectancy increases, leads to a lower pension adjustment. Correspondingly, outlays fall, as does the contribution rate. This approach is founded on the fact that the consideration for the paid contributions consists not only in the level of the pension but also in its duration. Thus with strongly increasing life expectancy, so the level of pension does not sink too much, and turns out near income support, the demographic factor only having a half of the effect on the adjustment. The other half of the additional costs is to be financed through contributions. An escape clause prevents the average net level of pension falling below 64% on account of this factor. Until 2030 it is reckoned on a 5% reduction in the growth of pensions, which on average, though, will also be paid for more than 2 years longer than today. The slower rise is the "price" for the longer payment period.

The alternative, instead of the demographic factor to the extent to which life expectancy has increased, of raising the retirement age, has been thrown out. In order to achieve corresponding real savings, the retirement age would have to be raised to over 70. Only those paying contributions would be concerned, today's pensioners remaining exempt. To achieve greater fairness, generation to generation, they should also be involved in the costs of the increasing life expectancy. This would only be possible through a change to the adjustment. A further raising of the retirement age would incidentally increase the negative effects on the labour market, which is connected with the already determined rise in the preferred retirement age.

4. The necessary adjustments to the changing working environment

Neither in 1992 nor now have the legislators given an answer to the changing structure of the labour market. So neither has - as always demanded - the insurance freedom of minor occupations been abolished or restricted, nor the trend halted of transforming the labour relationships where contributions are obligatory into "false self-employment". It is thus a matter of persons with gainful employment similar to employment, who themselves have no employees, essentially being active for an employer and not appearing on the labour market as autonomous businesses. For the most part they are activities which, before, were carried on by the same people in dependent occupation. In order to avoid the obligation to pay contributions being thus circumvented, the said people should themselves be included in the national insurance obligation, if in the individual case they are in fact self employed.

In Germany, part-time occupation is also growing, if not to the extent of other European countries. In 1980 around 4% of all workers were occupied part-time,

and in 1994 the figure was 18.3%. The proportion of part-time occupied men rose to 4.7%, and that of women to 35.8%. So far as the transition to flexible working hours creates more jobs, it brings higher contribution income to pensions insurance. On account of the lower wages, though, individual claims become lower. Despite that, pensions can fulfill their security function. Income and pension from part-time occupation are at most (only) an additional household income.

The problems with false self-employment already showed that distinguishing between dependent occupation and self-employed activity is becoming more difficult. The criteria are becoming unclear. The increasing use of information and communications technology will only accelerate this. They make for more independence from the classic forms of labour relationship. When is someone, who works in front of a screen at home, still involved in the business of his employer? If, however, the classic term of employee is losing in significance, can it not remain the decisive classification criterion as to whether anyone is covered by social security or not? It was always the task of social security to let those who are dependent upon gainful employment for their living collectively provide for the loss or reduction of their earning capacity, and to avoid state help. In view of this objective, the difference between dependent employment and self-employed activity will in the future become less important, since self-employment can no longer as before be equated with economic security. Developments lead one to expect that both in the interests of those concerned and also society, the insured group of people will be widened to all the self-employed who are typically to rely on the use of their working power for a living. This assumption will still trigger lively discussion in Germany, but it is hardly revolutionary. Those self-employed were always liable to social security who were active in an employee manner. This group was extended to craftsmen, farmers, and artists. Even in the professions, -namely solicitors, doctors, pharmacists - it is no new development. Professional pension schemes already fulfill this function as social insurance on a national level.

5. Pensions insurance and social offset - to the limits of contribution financing

The cost-saving exercises in pensions insurance are concentrated on the adjustment formula and on the elements of social offset. That also has constitutional reason. The legal protection of ownership entitled to pensions includes only the principle of an adjustment, not a concrete procedure. Since they are not or not fully financed by contributions, elements of social offset enjoy lower protection of ownership than pension parts, which alone are financed through contributions.

So not only would early retirement without deductions be abolished, but also, for example, the counting of training time would be shortened from a maximum 13 to 3 years, and limited in terms of value. The higher valuation of the first contribution years would be reduced. On the other hand, time spent bringing up children will be considered for longer, up to 3 years, assessed higher, that is to say with the average earnings of all insured, and in future extended in addition to other insurance terms. Social offset would thereby be more reorganised than restricted.

In pensions insurance law, elements of social offset can be included. This blending of the insurance principle with the principle of social offset has a long tradition. It corresponds to the character of "social" insurance. The question to be drawn from that, is whether, if pensions insurance is to be used as a "medium of redistribution", the corresponding costs must be financed by the state, that is to say from tax revenues. This takes place in Germany through federal grant, according to general assessment, but inadequate.

This harms the equality of burden of all citizens, since officials, self-employed, and persons with income above the contribution assessment ceiling, or, for example, from assets, are exempted from these burdens. This also leads, therefore, to a redistribution from "under to over", because contributions are raised not like taxes on a progressive tariff, but at a rate which is the same for all. Contribution financing of general state responsibilities is furthermore irrational from the point of view of labour market policy, since unilaterally labour costs will be more strongly loaded. The reform passed by the Bundestag will create a setoff here. The federal grant should be so raised that the contribution rate can be set one percentage point lower than otherwise necessary. The regulation only comes into force, though, if counter-financing is guaranteed. The Law necessary for that requires the assent of the Bundesrat. It remains to be seen whether the Opposition will, as announced, thwart the refinancing of non-insurance provisions, which it likewise demands.

The tax-financed federal grant is not restricted to the offset of non-insurance provisions. It must at least guarantee it. It is also an expression of the responsibility of the state for the achievement potential of the obligatory insurance scheme organised by it. That the state is responsible, is the reverse of the duty to contribute and the protection of ownership conferred upon pensions.

6. No transition to capital cover

Agreement exists between Government and Opposition over the fact that any proposed change from the pay-as-you-earn system to the capital cover system is excluded. In order to finance the existing entitlements concerning pensions insurance, a capital reserve of over 10 billion DEM would be necessary, three times the present Gross National Product. Such a sum can neither be saved, sensibly laid aside, nor again dissaved at the correct point in time. A (social) insurance, which includes 80% of gainfully employed and incomes up to a monthly 8,200.-DEM (1997) can only be financed by a pay-as-you-earn system. Incidentally, the generations which had to build up this capital would be doubly burdened: they would have to finance current pensions contemporaneously. Besides, the risks would only be replaced. The pay-as-you-earn system is indeed more strongly dependent on demography, but independent of money value stability, and currency exchange rate risks. The capital cover system is also dependent upon the demographic element of "longer life expectancy", and moreover endangered by a lack of money value stability and currency exchange rate risks. One should not underestimate that. Throughout the world, almost all societies have to fight against demographic problems. This also applies to the still very young states in South America and Asia. The success of their restrictive family policy will, as the World Bank also points out, soon leave these populations older. Therefore thoughts of

investing in these countries, so that in future, with the interest, not only their own but also our problems will be solved, have only a limited chance.

Despite party lines, the possibility, for pensions insurance, of "tunnelling" has been rejected by a majority. The idea was to build up a reserve with a higher contribution rate than was now necessary, which later could be used to limit any rise of the contribution rate. Such a fund could hold a contribution rate of 20% stable until 2040. Though in the meantime the reserve would amount to more than 1.4 billion DEM. Such a solution certainly has many advantages for pensions insurance: The pensions discussion would endure for a long time. The demographically determined rise in contribution rates could be flattened out. The advantages of a limited capital cover system could be linked to those of the pay-as-you-earn system. But the objections prevail. It will unanimously be assumed that any possible reduction in the contribution rate must be used to reduce non-wage costs and above that the high level of unemployment. It cannot, furthermore, be guaranteed that the saved means be used as agreed. Even small reserves have constantly triggered political covetousness. Finally, the accumulation of such high amounts of money by quasi-governmental institutions poses a serious regulatory problem.

7. The price of society growing older

Despite the possibilities, in the current system, further to limit the rise in contribution rates, we will have to pay the price for growing older. How high that turns out to be, depends not so much on the system of old-age provision, but above all on whether and to what extent it proves successful to create payable jobs, to distribute work and income better, and thereby to make better allowances for the elderly and the handicapped. The decisions to be taken must also take into consideration that social peace is an essential factor for the economic environment. This applies in Germany as in Europe. But it has its price.

Modernising the institutions of European social insurance

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The institutional predicament of European social protection

As is well known, in Europe (especially continental Europe) the institutional core of the welfare state is constituted by the principle of social insurance, i. e. a right based guarantee of public support in cash and/or in kind against a pre-defined catalogue of standard risks: old age, invalidity, the death of a supporting spouse, sickness, unemployment and family dependants (Flora and Alber, 1981; Alber, 1983). This right based guarantee rests in its turn on the compulsory inclusion of large sectors of the population (in some cases the whole population) in public schemes, whose main source of financing are contributions levied on the gainfully employed (with the partial exception of health care and family allowances in some countries). There is obviously more in the contemporary welfare state than just social insurance (e.g. transfers and direct care for persons in special need, minimum income schemes, labour market policies, social integration measures and so on). Social insurance proper continues however to absorb virtually everywhere in Europe the largest share of resources and thus rightly occupies the center stage in the reform debate.

Despite its enormous historical relevance and success (or perhaps because of both), European social insurance is currently affected by a severe institutional crisis. The more visible side of the crisis is an external "maladjustment": the functioning of social insurance has become increasingly incongruous with respect to the functioning and transformation of proximate spheres such as the family and the labour market and also with respect to wider changes in the economic environment (market globalization, post-industrialism etc.). The less visible, but equally serious side of the crisis is internal: European social insurance suffers from a marked loss of adaptiveness, the logic inherent in its functioning as an institution is giving rise to an increasing number of "traps" or vicious circles which paradoxically hinder the adjustment to external challenges and risk to erode the very foundations on which the whole edifice is resting.

The re-adaptation debate has already discussed in detail the external side of the crisis. A brief summary of the main points of this discussion might serve, however, to remind just how serious the mismatch has come to be.

The external maladjustment

At the time of its inception and subsequently of its consolidation (roughly up until the early 1970s), social insurance displayed a satisfactory degree of complementarity with respect to the population and family structures of European societies as well as to the configuration of labour markets. The traditional catalogue of standard risks tended to reflect quite closely the prevailing structure of social needs, as shaped by a high fertility and a shorter life expectancy, growing "fordist employment" in the industrial sector and lower rates of female participation, a male breadwinner model of family and a traditional pattern of gender relations etc. (Ferrera, 1993).

The complementarity between the welfare state and other proximate spheres has however undergone a rapid erosion in the last couple of decades. In the first place, the mechanisms of social insurance have increasingly lost their syntony with the changing structure of the European population and with the changes in family patterns and relations: a point by now unravelled *ad abundantiam* by the international debate. Without comprehensive re-adaptation, social insurance risks to become at the same time financially unsustainable and incapable of effectively protecting those most in need. The principles of earnings-related, "defined benefit" formulas and of derived rights contingent on formal family status (as opposed to individualized rights) are telling examples of institutional techniques which have largely lost congruity with respect to the changed socio-demographic context.

A similar syndrome can be seen also in respect of the relationship between traditional social insurance and the labour market. The decline of fordist jobs, the rise of non standard forms of employment (part time or temporary jobs, atypical work etc.), the massive surge of structural unemployment have put in serious question the effectiveness of the traditional schemes of unemployment insurance based on past contributory records and compensatory benefits. The increased participation of women in the labour market has in its turn produced significant changes in both the work and the family spheres - changes which make the traditional gender related assumptions and regulations of social insurance increasingly obsolete: another *locus classicus*, by now, of the debate.

Perhaps the best way to summarize the issue of the external incongruence of social protection is by saying that the standard risks which continue to be the object of institutionalized forms of solidarity have become increasingly poorer indicators of the needs emerging from a changed pattern of social and economic relations. Traditional social insurance schemes still tend to concentrate benefits on old risks which no longer - per se - generate need, while they increasingly fail to protect new needs which are not formally recognized as standard or at least relevant risks. As examples of these new needs we can mention social exclusion, or family breakdowns, or the obsolescence of work skills and therefore of people's "employability" (a new concept which is now widely used in the social policy jargon) or, to take an example related to health, the needs connected to long-term dependency in case of chronic illnesses or disabilities. These contingencies have become increasingly frequent in European societies and they are new relevant sources of need, but are not (fully) recognized as risks deserving standardized and reliable public (insurance) protection. On the other hand there are "old" risks (let us

think of short term absences from work due to mild sickness, or the death of a spouse and even old age to some extent) which continue to be recognized as social contingencies deserving relatively generous, automatic insurance protection regardless of whether they actually originate need or not.

This predicament can largely be seen as the result of a growing mismatch between the institutionalised structures of social protection and changes in their environment. These changes have gradually altered the effects of established rules and practices, thus giving rise to unintended consequences, while organisational inertia has retarded adaptation. The predicament is affecting the various welfare states to varying degrees and, almost by definition, tends to be more serious where the principle of social insurance is more firmly entrenched, i. e. in the so-called "Bismarckian" systems. Here the allocative (risks vs. needs) and distributive (protected vs unprotected social groups) implications of the mismatch have combined to dig a real gap between a clientele of strongly covered "insiders" (individuals and households) on the one side, and growing numbers of under-protected "outsiders", on the other side. In many of these systems (particularly in Southern Europe) there is evidence of an over-cumulation of insurance benefits on the side of "guaranteed" workers, with quasi-tenured jobs (often two or more of these jobs per household) paralleled by inadequate (if not total) lack of protection for those people who are employed in the outer, weaker sectors of the labour market. In particular there seems to be a growing gap between the so called DINK families (double income, no kids; insider jobs) and the SIMK ones (single income, many kids; outsider job or unemployment)¹. Though less visible than in the US, an American-style underclass has already formed in some regions of Europe, falling completely outside of the reach of social insurance.

In recent years the negative effects of the maladjustment syndrome have started to pass what might be called a "critical mass threshold" and have therefore prompted a number of institutional reactions: "re-adaptation" is not only a theme of debate, but also a visible sequence of concrete reform measures throughout Europe (EC, 1993 and 1995). There is however a rather widespread feeling that the pace of change and possibly also its very direction are not commensurate to the scope and speed of environmental pressure. To understand the reasons of this low or slow degree of adaptability we must shift our attention from the external maladjustment to the internal constraints to change.

The internal "entrapment"

Officially born more than one century ago in Wilhelmine Germany, social protection is certainly not a young institution. Thus it should be no surprise to discover that it displays today all the signs typically connected with institutional aging.

Again, let us focus our attention on the principles and mechanisms of social insurance. At the time of its original inception, this practice - at least on the European continent - was rather exactly what the name said: an instrument for the

1) On this point cf. Also *infra*

pooling of risks and the actuarial transformation of contributions into contingency-related benefits. Compulsory coverage prevented phenomena of adverse selection and allowed room for some degree of "social" redistributions based on need. Risks were defined with an eye to the insecurities created by the surrounding environment and with an eye to the technical features of the new policy instrument. With the passing of time, however, a number of dynamics have endogenously shaped the evolution of social insurance in ways which have gradually weakened its external adaptability.

A first dynamic has to do with risk definitions. Once institutionalized in legal provisions, these definitions lost their original instrumental character to acquire an intrinsic value of their own. Let us think of "old age". At the turn of last century surviving the age of 65 was indeed a risk for the bulk of the population: many people did not live this far and if they did, they were very likely to be in great need. Around the year 1900, in Germany, France, Italy or England an average male at the age of 20 could only expect to reach the age of 62; if he outlived his 40th birthday, he still could only hope to reach the age of 68.¹ Thus, remaining alive beyond the official age of retirement was a "risk" in the strict sense of the concept and the risk definition (old age=life after 65) "matched" behaviours and contexts. Once formalized into pension rules, however, this notion of old age became a social norm per se, a taken-for-granted principle for the organization of the life cycle, regardless of external transformations. Faced with socio-demographic changes (a longer life), the norm did not adapt to the new context, but elicited itself large scale contextual adaptations, offering a fertile ground for the social construction of "retirement" as a distinct phase in people's existence and as a novel collective practice (Kohli, 1986).

A second dynamic has to do with the perception of the role of social insurance itself. This technology gradually came to be perceived as the most appropriate and "normal" instrument for responding to social questions, especially during the long post-war expansionary phase. Technological specialization started however to produce both competence and failure traps. On the one hand, in fact, social insurance began to be applied also in fields which did not quite suit it (e.g. public housing) or to produce overlaps and duplications: in other words inefficient phenomena of mis-insurance or over-insurance due to excessive exploitation of the technology. On the other hand, the exploration of new policy paths has systematically encountered a host of organizational obstacles and cognitive/ideological prejudices. A telling example of this syndrome can be taken from Southern European health care. The establishment of national health services in these countries during the last two decades has been severely "boycotted" by two typical failure traps: the failure to remove all the elements of the previous systems based on insurance funds; the failure to fully develop the new, alternative technology (Ferrera, 1996a).

A third endogenous dynamic of institutional change was the gradual relaxation of the actuarial foundations of social insurance. This process was prompted by external shocks (in particular, the wars), but once set in motion it evolved with

1) For detailed figures, cf. Flora (1983).

increasing momentum according to its own logic. The real turning point in this process of relaxation occurred in the 1950s and 1960s, during the golden years of welfare state expansion. Social insurance maintained its original name, but gradually lost its original nature of a redistributive mechanism programmatically founded on a direct link between contributory obligations and matured rights of protection. The break was particularly visible and marked in the case of pension insurance. With the shift from funded to pay-as-you go systems of financing, in many countries entire generations of pensioners were "blanketed in" the newly established schemes, i.e. they started to receive benefits almost immediately after the establishment of the schemes even if they had not paid in the foreseen contributions. Likewise, almost all countries introduced earnings-related, defined benefit formulas, i.e. methods for calculating pension benefits programmatically disconnected from the amount of paid contributions.¹

This break with the actuarial or at least self-balancing character of social insurance was perfectly in line, in the 1950s and 1960s, with the demographic and socio-economic fundamentals of the time. The transformation has had however far reaching implications in the subsequent decades - and here we get at one of the most serious institutional paradoxes of endogenous origin.

With the weakening of the actuarial and symbolic link between contributions and benefits, social insurance has lost "one leg", as it were, in the sense that its internal development has come to be primarily determined by a logic of "entitlement": public benefits and services as an unconditional right at the occurrence of certain standard contingencies, regardless of either the amount of previous financial contributions into the system or actual need. And it is to be noted that in countries with a judicial review tradition (e.g. Italy, France or Germany) this entitlement-centred re-interpretation of social insurance has been upheld and reinforced through time by the legal system (e.g. through constitutional jurisprudence) confirming the admissibility of claims of compensation irrespective of contributions or need (in the Italian legal doctrine regarding social insurance this principle is called "automatismo delle prestazioni")².

Institutional logics based on automatic entitlements are inherently conservative of the distributive configurations which originated them. By inducing adaptive expectations, they "lock in" the perceptions and preferences of individuals and social groups. Consider what is happening in those countries which have recently attempted to reform their pension systems. Popular resistance is most immediately connected with fears of material losses, i.e. with concrete distributive interests. But how are these interests justified by their bearers (in public discourse as well as in their own minds)? Typically by invoking institutional norms in a self-referential fashion: our pensions are due to us because we are "old" (at the age of 60/65), because we have paid contributions (whether enough or not is beside the point), because other people have had them before, because there is a law

1) For a reconstruction of pension policies in the various European countries since World WarII, cf. Flora, 1996/1997.

2) Cf. Ferrera, 1993. On the activism of the Constitutional Court in Germany cf. Alber, 1996.

defining our entitlements and laws must be respected etc.¹ The congruity of demographic or professional seniority alone (i.e. irrespective of contributions or need) as a valid justification of distributive claims is not questioned: a typical manifestation of the perversities of over-institutionalization.

The "lock in" syndrome has affected not only individual and group mentalities, but also (and crucially) individual and group interests: popular resistance to change is obviously and visibly a prime question of material gains and losses (Pierson, 1994 and 1996). Institutionalized promises create (sometimes *ex novo*) their own policy clienteles. There is little need to underline the effectiveness with which these relatively new social collectivities have recently mobilized to block even minor restrictions of their "insider" entitlements (the French strikes of the Falls of 1995 and 1996 are still fresh in everybody's memory).

The technical difficulty of de-constructing complex social and financial chains of entitlements must certainly not be under-estimated - especially in the field of pensions. The respect of basic equity criteria requires delicate operations of legal surgery, even prior to social and political bargaining. Avoiding relatively minor subtractive inequities for the clients of established programmes may well deserve social consideration and political attention: its opportunity cost is however the persistence of major injustices for unprotected outsiders. In Italy and Spain recent attempts at curbing the income of affluent pensioners (through higher contributions on benefits in Italy or health care charges in Spain) have been blocked by indignant outcries of protest, while the derisory amount of family benefits or social assistance continues to remain an issue of low salience in the policy agenda of these two countries (Ferrera, 1996b).

To sum up: several endogenous dynamics have contributed to aggravating the crisis of the welfare state. By creating rigidities, inefficiencies and vicious circles, they have hindered external adaptation, "entrapping" social insurance in a sort of institutional dead end.

A maladjustment spiral?

After a certain point, failure to adjust may lead to institutional decay and even breakdown, with serious implications also for the external environment. The risk of such a scenario is especially high when the adaptive blocks within a given institution induce perverse adaptations on the side of its environment, which in turn reinforce the blocks within the institution. Are there signs of this self-destructive syndrome in the crisis of European social protection?

At least in continental systems, some signs are clearly visible. As is well known, honouring the generous insurance entitlements of insider groups (especially their pensions) implies the maintenance of high contributory rates on wages - a fact which will be aggravated by the demographic shrinkage of active cohorts in the

1) *These seem to be the lines of reasoning which prevail among the mass public. A research on this topic, based on an analysis of readers' correspondence on pension "cuts" to Italian newspapers, is currently under way at the University of Pavia.*

future. High social contributions earmarked for insider entitlements have in their turn two serious negative consequences:

- they pre-empt alternative uses of financial resources, thus rendering extremely difficult the much needed allocative (risk vs. need) and distributive (insiders vs. outsiders, DINK vs. SIMK families etc.) re-balancing of social protection. If the "equilibrium rate" of contributions for pensions remains as high as 33% of wages (Italy's post-reform regulations, for example), where can resources be found to establish a minimum income scheme, to finance active employment politics, to improve family benefits and services etc.?
- they crowd out standard employment, discouraging firms from creating new insider jobs and actually accentuating their labour shedding inclinations, already connected with globalization and post-industrialization. It must be noted that the restructuring of the labour market is not socially neutral: the weaker groups (women, young people, the low skilled etc.) are in fact systematically filtered out of the "inside".

Thus both dynamics contribute (among others) to increase the polarization of protection between guaranteed and unguaranteed workers and citizens. So far at least, this self destructive vicious circle has not resulted in large scale disruptions of the social fabric (e.g. the formation of an American style underclass) thanks to the persistence of rather robust spontaneous and family solidarities: Southern European unemployment and poverty levels, for example, would act like explosives were they not somehow contained in their social and material implications precisely by the "Southern family".¹ But even this buffer to overall institutional breakdown is now visibly thinning out.

The vicarious role of the family as a substitute for absent policies and/or as a bridge between the inside and the outside of the labour market finds obvious objective limits of social efficiency. Families can provide subsistence and caring, but only locally: one can count on these goods if one is there to collect them. Dependence on the family decreases mobility and thus labour market availability (a nexus which has been recently fully documented by Italy)². Moreover, families cannot provide adequate work skills: they can thus do very little to improve the employability of their members. Finally, faced with contextual stresses with which it cannot cope, the family itself has reacted through a number of perverse adaptations:

- a frantic search for any possible anchor with the insider world through at least one of its members; this aspiration turns even outsiders into supporters of the distributive status quo, increasing the political obstacles to its reform;
- the exploitation of all possible niches in the "underground world" (e.g. the black economy); but this form of institutional "exit" results - as exit always does - in a discouragement of "voice", aimed at changing a perverse institutional setting;

1) On the features and "logic" of South European systems of social protection, cf. MIRE, forthcoming.

2) Cf. Galli, 1996.

- a delay/decline of reproductive behaviour: postponed marriages, decreasing infertility etc. Inasmuch as these behaviours reflect involuntary choices based on a structural lack of opportunities, they can be interpreted as the real epitome of perverse adaptation - an indisputable symptom of an active maladjustment spiral.

Is there a way out?

Recasting the institutions of European welfare

We obviously have no ready-made answer. Some general speculative remarks can however be proposed by way of conclusion and for the sake of discussion. If our reconstruction of the institutional predicament of European social protection is correct, then breaking the self destructive spiral of *ripiegamento* (a circular folding, in Italian) means to find some institutional wedge capable of arresting it: in particular, capable of disactivating the perverse structures of incentives which lock all relevant actors inside the spiral. Two main and broad strategies for pursuing this objective can be considered.

The first might be called a strategy of institutional *risanamento* (restoring to health, in Italian). This would imply efforts on two fronts:

- the correct identification of the set of contextual challenges requiring institutional adjustment. The "re-adaptation" debate has already made numerous positive steps in this direction;
- the identification of "institutionally intelligent" reforms, with an eye to both their external implications (e.g. on financial equilibria, on economic productivity and competitiveness, on public budgets, on social integration etc.) and their internal implications. This latter aspect is almost as important as the former: reforms must be designed with a view to deconstructing the endogenous vicious circles which block not only adaptation, but adaptability itself¹.

In the case of pension insurance, for example, one promising strategy of intelligent *risanamento* could be to shift from "defined benefits" to "defined contributions" formulas (a shift currently under way in Sweden and Italy: cf. EC, 1995). This shift allows not only to streamline a pension system with respect to its external challenges, but also to gradually de-construct the logic of automatic entitlements illustrated above. If well designed, a contributive formula can restore the idea that old age protection is not an ascriptive entitlement simply based on anagraphic an/or work seniority, but a conditional guarantee, contingent upon contributory efforts or - failing these - socially ascertained need. A defined contribution formula is moreover more hospitable to semi-automatic "safeguard clauses" which make it inherently more adaptive to demographic changes².

1) We have borrowed the notions of "intelligent reforms" and "intelligent welfare state" from the Social Justice Commission's Report, which contains many interesting ideas in this vein. cf. Commission on Social Justice, 1994.

2) An interesting discussion of these issues for the Italian case is contained in Padoa Schioppa Kostoris, 1996.

Along with the risanamento strategy, there might be however a second, more ambitious strategy. This would entail a rather radical restructuring of the ends and means of European social protection, with a view to anticipating and somehow shaping the evolution of the environment rather than just adapting to it ex post. The intellectual debate on the future of welfare has been recently discussing several promising ideas in this direction. In particular, we think of the "citizen's income" debate, the "health care citizenship" debate and the "human capital" debate. Building on these debates, one could imagine a far reaching rifacimento, a true remaking of the welfare state, aimed at creating a new institutional "core" based on the following guarantees:

- a universal and unconditional guarantee to a citizenship income forming the first pillar of collective economic support¹;
- a universal "health promotion" guarantee, including a basic (but circumscribed) right of access to prevention, cure, rehabilitation and caring services²;
- a universal package of "human capital" guarantees, offering opportunities for life-long learning, education and training.

These new citizenship rights ought to be designed to enhance high degrees of institutional adaptiveness, i.e. in ways which facilitate experimentation and experimental learning, "positive sum" contagion across institutional spheres and social groups, in-built mechanisms of change and constructivist, rather than posterior adjustments.

Such a "paradigm shift" may well be inherently beyond reach: for cultural and cognitive limitations, even more than for political ones. But it may be worth of some further reflections.

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1) For a debate on this issue, cf. among others Atkinson, 1995, Brittan 1995; Ferry, 1995, Van Parijs, 1995.

2) For a debate on this issue cf. the "classical" discussions of Daniels, 1985 and Callahan, 1987. For a survey, cf. Granaglia, 1988 and 1994.

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Individualising rights and maintaining solidarity

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Two key points underlie the discussion on individualization of social protection presented in the European Commission's Communication entitled "Modernizing and Improving Social Protection in the European Union". A new equilibrium has been established between men and women with the massive entry of women into the labour market, rendering the traditional conception of social protection founded on the "male breadwinner" model increasingly obsolete and conflicting with policies that tend to confine women to the domestic sphere. Furthermore, women receiving derived rights are discouraged from entering the labour market and are kept in a state of dependency vis-à-vis the beneficiary of rights, finding themselves in a very vulnerable situation if the relationship breaks down. The individualization of rights aims at putting a stop to this practice. It can be considered in the framework of a policy intended to encourage potential workers to enter the labour market. Individualization of rights brings social protection into line with employment contract legislation that treats workers as individuals. The establishment of equal opportunities between men and women have given rise to new demands and tended towards making the individual fully responsible for his own well-being.

The Commission thus links two quite different and even divergent trends of thought that today openly favour an individualization of rights.

The first defends the liberation of women. Women are seeking financial independence within their couple in relation to men. This attitude goes hand in hand with their role on the labour market and the financial independence that this has brought. In this context, individualization means that two adults living together in a marital or semi-marital relationship should no longer be considered as being dependent or interdependent, but rather they should be treated as financially independent individuals, responsible for their own material survival (Luckhaus 1994). In terms of social protection, individualization postulates that each adult should benefit from his own rights to a sufficiently large degree that he is able to live autonomously without any reference to his marital or semi-marital status¹. This approach correlates with a more general tendency that goes way beyond the

1) SJERPS (Ihs), *Indirect discrimination in Social Security in the Netherlands: Demands of the Dutch Women's Movement*, in BUCKLEY and ANDERSON (eds.), *Women, Equality and Europe*, 1998, pp. 96 (cited by Luckhaus 1994).

problem of gender and even raises the question of "children's rights" in a movement towards greater autonomy for every individual.

The second trend of thought protests against the cost of non-individualization. Some economists think that the evolution of social protection systems in Europe requires for economic and financial reasons an individualization of rights and obligations.

Individualization would mean that derived rights¹ based on family relationships, i.e. marriage or cohabitation, are abolished and replaced by individual or direct rights² based on contributions (Meulders et al 1997). This is but one aspect of a much broader tendency to make social security systems more contributory, linking rights to contributions.

These two approaches are somewhat parallel. Individualization of social protection rights through the abolition of derived rights will not ipso facto and automatically lead to financial independence for women. The European Commission has outlined the difficulties that would have to be overcome if rights were to be individualized in the various branches of social security.

However, logically speaking, the convergence of the two approaches should progressively lead European systems to evolve towards an individualization of rights. Yet we can see no clear move in this direction. An economic study (Meulders et al 1997) and a more legal analysis (Paris Seminar 1997³) carried out to examine social protection systems in the 15 European Union countries have concluded that numerous derived rights exist and few rights have been individualized, incidentally pointing out that individualized universal rights to benefits subject to means tests place individuals back into a situation where they are dependent upon other adults. Only the Nordic welfare system seems to be largely individualized and could serve as a model.

In Denmark, marriage is no longer the basis for social regulation, but has become an arrangement of a private order. Each individual is meant to be financially independent. Independence is obtained through participation in the labour market. Women entered the labour market in huge numbers in the 60s and subsequently asserted their right to work, a right which was guaranteed by the State in the form of a permanent link to the labour market. From a social protection viewpoint, this

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- 1) *"Derived rights" are understood as a certain number of allocations based on the family relationship that a non-working adult maintains with the beneficiary of direct rights through marriage or cohabitation. These rights are not dependent upon contributions, since usually no additional contribution is made either by the beneficiary of rights or the beneficiary of derived rights. These rights are intended to provide social protection for persons who are not active members of the workforce and hence are not entitled to direct rights. The question of "derived rights" does not arise in universal coverage systems (cf. below).*
 - 2) *"Direct rights" or "individual rights" (the two terms are taken as being synonymous) are the rights acquired by an individual either on the basis of the contributions he has paid in social insurance as an active member of the workforce or on the basis of the principle of universality whereby only the condition of residency applies and status in the workforce is irrelevant. In universal systems, all rights are individualized.*
 - 3) *The present paper was largely inspired by works resulting from the October 1997 seminar, which took place in Paris under my direction and that of Marie-Thérèse LANQUETIN.*

social agreement combines universal rights, insurance-type rights based on professional activity and the availability of free welfare services, notably catering to the needs of young children and the elderly. More recently, children have also been granted individual rights. The individual is perceived as a future, present or past worker.

When we leave the Scandinavian cultural sphere we are confronted with a more paradoxical situation. Whilst women continue to play an increasingly important role in economic life despite high unemployment figures, social protection systems are still founded on the traditional family model. Germany and France offer interesting examples of this tendency.

In Germany, and more particularly in the Germanic cultural environment (Germany, Austria, Luxembourg), marriage remains the basis of social regulation and the family benefits from special protection. Marriage is seen as being a "partnership" within which the husband and wife share roles; the husband has a professional activity which enables him to feed his family and the wife stays at home to bring up the children and look after the elderly (traditional "breadwinner" model). From this point of view, individuals benefit either from direct rights through their professional activity or from derived rights through the marriage or kinship which links them to the insured family member (Bismarck model of social insurance). This approach goes hand in hand with an absence of, or poorly developed, services catering to the needs of young children and the elderly and with part-time professional activities for women.

France, with its "family-based" social rights system (Strobel 1996), is somewhat comparable to Germany, although it is also a case apart. Social regulation is not based on marriage as a value - social protection imposes relatively few constraints on the actual status of couples living together - but rather on the family in terms of offspring -reproduction - and interdependence between generations. The role of child care is traditionally ensured by the State, which provides services for even the very youngest of children. The State also maintains a neutral attitude on the participation of women in the workforce¹. This is a matter of personal choice for the individual. For many years now, women have been very active in the professional arena; the rate of participation is high at all ages on a full-time basis (Scandinavian model). In view of this, non-individualization of social protection rights also appears to be due to internal constraints of social security systems². The French example shows that the increasingly greater role women are playing on the labour market is having little effect on the social model. The unit of reference remains the family and not the individual.

Cultural differences in European family models and the role these models play in social regulation determine the power of evolution of social protection systems to

- 1) *However, parental leave and a massive rate of unemployment, particularly for women, has had a negative effect on the level of professional activity of certain women i.e. mothers. Women use this as escape route to avoid precarious employment situations. A monthly allowance of 3,000 francs from the 2nd child onwards is considered as a sort of "salary for mothers".*
- 2) *Social conflicts arising from the "Juppé Plan" in the area of social security have highlighted the difficult evolution the French system is undergoing.*

an equally great extent as do economic issues concerning the advantages and disadvantages of individualising rights for women.

The aim of this paper isn't only to analyse recent reforms that are paving the way to greater individualization of rights in our social protection systems, but also to point out new tendencies jeopardizing rights that have already been individualized. In the second section, various solutions for individualising rights without undermining the earning power of women and running counter to the very object of social protection, that is to say, social security will be examined.

This analyse will obviously be influenced by the environment in which the author carries out her research, namely France and Luxembourg, two countries which offer few individualized rights¹ and incorporate social protection systems founded on social insurance². Whilst they belong to similar cultural spheres (in terms of family) they are also very different (in terms of marriage as a value of reference).

Individualization in the light of facts

All social protection systems in Europe are based to some extent on legal systems which link the social protection of an individual to that of others through family relationships - between parents and children - and marriage. Cohabitation relationships are being increasingly taken into account. These links give the individual a right to certain benefits (widow pensions, health insurance) or influence the amount of benefits to which the individual has the right, either positively (increase in old age pension for a dependent spouse) or negatively (reduced unemployment benefits in case of cohabitation) (Meulders et al 1977)³. With the individualization of rights, "derived rights" are abolished and the direct rights of an individual are acknowledged.

An analysis of recent social protection reforms in Europe shows no clear tendency towards greater individualization of rights. Furthermore, certain reforms considered as being a step in this direction in the country in which they take place are contested by authors in other countries⁴. This is notably the case in the reform relevant to the "splitting" of pension rights in the event of divorce in Germany, a point that we will come back to later. On the other hand, certain recent reforms mark a reverse tendency, e.g. systems founded on individualized universal rights

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- 1) According to the findings of the Meulders Report (Meulders et al 1997), France and Luxembourg also have taxation systems that are far less individualized than any other country in Europe.
 - 2) Luxembourg's social insurance system based on the Bismarck social insurance model is much older than the French system. Both systems evolved after the Second World War, notably under the influence of the Beveridge doctrine.
 - 3) Certain authors include lone parent allowances in their analysis of non-individualized aspects of social protection systems (LUCKHAUS 1994)
 - 4) During preparations for the Paris Seminar in October 1997, participants were sent questionnaires. In the 4th section dealing with "moving from a non-individualized system to an individualized system", in answer to question 4.1 "Is there a recent example of change in your country?", we received a wide variety of responses showing that the notion "individualization of rights" is understood in a number of different ways.

modified by the introduction of a means test. This issue seems sufficiently important to be dealt with separately.

1. Few examples of individualization of rights.

When we speak of individualization of rights, we tend to consider that the stakes involved and the problems raised vary depending on the type of risk in question.

Individualization and health care

European countries have two types of health care systems: some countries have a universal regime providing all residents free access to a national health system and others provide health care through a health-insurance system based on the notion of family. Two recent reforms have led to an individualization of rights in both types of system.

Denmark, which guarantees each resident the fundamental right of free access to the national health system, has just introduced an individual social security card for children granting them their own rights in this domain. This reform seems to have been motivated by two factors: the will to introduce greater transparency in health expenditure - it was previously impossible to separate costs of child health care from that of the mother - and the need to overcome practical difficulties engendered by divorce and alternate custody of the child. This follows fiscal modifications that have been introduced to individualize taxation and abolish tax reductions for child dependants. In compensation for former tax reductions, each child has the right to an allocation (child benefit) that is usually paid to the mother. In this way, the Danish government is seeking to allocate sums of money which will directly cover the needs of the child. This is a universal, uniform benefit specifically for the child; neither attribution nor amounts should be dependent upon the financial situation of the parents.

In the framework of the "Juppé Plan" in France, it was suggested that a universal health insurance system be set up to provide the same health care rights for all, the only condition being regular residency in France. This system would replace a multitude of professional activity-based regimes providing direct rights for workers and derived rights for their family. With the extension of the notion of family, first the spouse, then the common law spouse, and finally "any person living with an insured person and being totally dependent upon him", homosexual partners included, could benefit from derived rights. But with changes that have taken place in the employment arena¹, growing instability in relationships between couples and public health problems - AIDS, infections due to weakened immune systems and new plagues that are appearing - public authorities have been led to carry out major reforms based on individualization and universality. At the same time

1) In France, a worker is entitled to health care only after having worked at least 120 hours per month or 200 hours in three months. In the event that less hours are worked, social contributions are a pure loss. In Germany, salaried workers must earn at least DM 610 per month, below this threshold they are exempt from compulsory insurance. In both cases, it is considered that the workers is financially dependent upon another person who is insured and who therefore provides him with health insurance coverage.

modifications have been made in modes of financing: a supplementary social security contribution known as the CSG ("contribution sociale généralisée") has been introduced to substitute social charges drawn from salaries alone. However, individualization of rights constitutes a necessary condition for access to health care although it is insufficient to provide access effective to all. The reform should be completed by a reorganization of the health system, notably with payments being made directly by the insurance fund to health care institutions and patient contributions to medical costs ("ticket modérateur").

This approach should be distinguished from that applied in Germany where, since 1989 the dependents of an insured person - spouse and children - can assert their health care rights directly at the office of the health care provider¹. This conception of individualization of rights only concerns the use of "derived rights" and doesn't concern the constitution of individual direct rights.

Individualization and widow pensions

The widow pension, that is a derived right *par excellence*, is granted to widows and widowers who lose their spouse and have not yet reached the age required for entitlement to their own old age pension. This form of coverage takes into account the state of dependency of the widow or widower upon the deceased spouse. The objective of widow pension may be either to guarantee the surviving party minimum benefits of a different type to income support benefits, or to enable him/her to maintain a standard of living corresponding to what he/she was used to before the death of the spouse.

In 1984, Denmark abolished widow insurance, justifying its decision on the principal of equal rights between men and women. However, this principal would have been respected had equal rights been accorded to both widows and widowers. By opting for individualization, Denmark appears to be pursuing a different goal. This reform has aggravated the financial situation of certain widows (LUCKHAUS 1994).

The Netherlands seems to have taken into account the difficulties encountered in Denmark. For the time being at least, plans to purely and simply abolish widowhood insurance have been dropped. The recent reform under the "General Surviving Relations Act" (A.N.W.) which came into effect on the 1st July 1996 could be interpreted as a transitory measure in a first step towards individualising rights. This measure takes into account the low percentage of women who have, until very recently, entered the labour market and the fact that women traditionally interrupt their professional activity to bring up their children. Hence only women born before the 1st January 1950, as well as younger women with child dependants under the age of 18, can benefit from this measure. All other women should try to enter the labour market. Moreover, the allocation of this pension is subject to a means test and can be reduced or even completely cut when the surviving spouse already receives an income above a certain threshold. The progressive individualization of rights has been interpreted as "privatization", since a couple has the alternative of

1) In the same way, duration of insurance coverage for the direct insurance beneficiary is calculated on the prior periods of insurance necessary to give subsequent access to certain individual rights.

taking out life insurance to cover needs in case of widowhood if one of the two partners chooses not to work.

Individualization and old age pensions

The "splitting" of pension rights in case of divorce, introduced by the 1977 family and marriage law reform in Germany, is the example the most often quoted in reference to individualization of rights and retirement. This reform introduced the notion of sharing rights in the case of divorce. The totality of rights acquired by the spouses through professional or assimilated activities throughout their life together are added then split equally between the two spouses. The spouse who has no or lesser rights can benefit from a portion of the rights of the other spouse. Various proposals have been put forward to extend the "splitting" system to couples during their marriage, though no concrete steps have been made for the moment. Shared rights serve notably as a means of compensating the spouse who, because he was busy looking after the home or bringing up the children, has not exercised a professional activity that would have enabled him to acquire his own pension rights.

Splitting pension rights has become rather popular in other European countries, more particularly in southern Europe, but is considered by some authors as being "incompatible with the individualization of rights process" in the field of social protection. Although this practice does give a divorcee direct access to a pension, accusations have been made that it reinforces the idea of financial dependency between spouses by perpetuating "past measures under another guise" (LUCKHAUS 1994). Indeed, the "splitting" doesn't lead to the constitution of individual direct rights, but only to the use of rights acquired by the spouse. Nevertheless, this approach may seem quite coherent in the German cultural sphere, given the fact that the basis of social regulation are marriage and family.

The recent "General Old Age Pensions Act" (A.O.W.) in the Netherlands has individualized rights by sharing pensions between spouses or de facto spouses. However, rights can only be paid when each individual reaches the age of 65. If one member of the couple turns 65 but the other partner has not yet reached that age, only half of the pension is paid. If the partner who has not yet turned 65 does not work and therefore has no resources of his own, the retired person may receive a supplementary allocation for his dependant until that person receives his own pension when he reaches 65. This type of individualization has a doubly perverse effect: on the one hand, it dissuades women- usually younger than their spouse or de facto spouse - from continuing to work when their partner has already retired and, on the other hand, it introduces into a contribution-based system a means test that is usually only applicable for welfare allocations.

2. The reverse trend: from individualization to financial dependency

This trend concerns the application of a means test to allocations that were previously based on the principle of universality. This is more particularly the case in the Netherlands, where entire sectors of the National Insurance Scheme destined for all residents - the well-known schemes given abbreviations which usually begin with an A - have come under attack. Nonetheless some cases also exist in France, where the government is attempting to apply a means test to family

allocations, the only universal right in its entire social security system. We could interpret this trend as being part of a two-step process. In the initial phase, the State individualizes rights on the basis of the principle of universality. In the second phase, the welfare state back tracks under the constraint of public deficits and both universality and individualization are reconsidered. Finally, only populations identified as actually being in need and worthy of state welfare are covered. The process underlines the ambiguity of universal rights which are financed by taxation and hence remain completely under State control.

The trend can also be seen in other countries, especially in the field of old age pensions for the surviving member of a couple. Through the application of the principle of equal rights for men and women, payment of this pension has been extended to widowers, although it was originally intended for housewives who did not have pension rights of their own. At the same time a means test has been introduced, the pension being reserved only for widows and widowers with insufficient revenue to maintain the standard of living they were used to before the death of the spouse or de facto spouse. The modification has not led to an individualization of rights. On the contrary, under the guise of applying the principle of equality it has, in fact, reinforced interdependence between partners.

The introduction of means-tested benefits had almost automatically been accompanied by a non-individualization of rights. Indeed, rare are the cases in which only the means of the applicant are taken into account. State payment for institutional care for the elderly and the disabled in the United Kingdom is based on an "individual-based, means-tested logic". In principle, calculations for social rights take into account de facto situations (i.e. household incomes) and hence also the resources of the person upon whom the applicant depends, whether this person is a spouse, a de facto spouse or any other sort of cohabiter or cohabitee.

Recent evolutions in some European social protection systems have thus created new forms of interdependence between individuals and raise issues of two types. Firstly, social law seemingly provides an ever greater degree of autonomy in comparison to civil law and more precisely to family solidarity constraints in terms of compulsory maintenance. Secondly, social law is widening the circle of dependants above and beyond ties of marriage and kinship, a fact which is creating delicate but nevertheless fundamental problems.

Traditionally, Europe has always been divided into two major blocs, with an imaginary dividing line between countries in which maintenance obligations are high and those in which maintenance obligations are limited. In countries of the former type, civil law dictates that, in case of need, one spouse shall assist the other, parents shall assist children even when they are adult, children shall assist parents and grand parents, sister-in-laws and brother-in-laws shall assist parents-in-law. This broad conception of the family still exists to a large extent in France, particularly in regards to costs engendered by the elderly living in institutions. In countries of the latter type, only spouses are supposed to provide mutual support within their ties of wedlock and parents have an obligation to bring up their children until they reach the age of majority. Beyond that point, the individual in need must turn to the State or the community.

However, as we have seen above, a rift has developed between social law and civil law. Originally, the law acknowledged the rights of an individual who had no

legal ties to a social insurance beneficiary (e.g. de facto spouse). Gradually an increasingly liberal concept of the family has been imposed in a number of countries. Today this trend is working against the individual.

By applying a means test for a large number of allocations and by using as a basis de facto situations rather than civil law to assess the means of dependants, social law presumes financial dependence for all individuals who live together. In this way, it introduces solidarity constraints which are no longer founded on civil law and which go way beyond the circle of legitimate maintenance dependants. The Netherlands offers an extreme example of this. It considers as interdependent any two adults living together under the same roof, regardless of whether they have children, and even goes so far as to include brothers and sisters, a grandfather living with his grandson and any sort of communal life between young people.

This evolution raises three categories of problems. Firstly, there is a problem of symmetry between the rights and duties of interdependent individuals: in Luxembourg, minimum guarantee of income legislation (RMG) imposes an obligation of mutual assistance on de facto couples and yet only marriage gives access to social security rights. The second problem concerns the protection of private life: when individual rights are transformed into welfare benefits, social monitoring and the old fear of the administration interfering in the private life of the individual is reactivated. Then there is the cost of individualization of allocations: providing social benefits on the basis of a means test is intended to reduce the strain on the national budget. From this angle, the point at issue is not the cost of non-individualization but rather the cost of individualization.

After having described and analysed both processes, it seems that the individualization and non-individualization of rights, although apparently contradictory, could well be interpreted as arising from a single and same logic - economic cost and the slow but inexorable withdrawal of the welfare state. This danger has not gone unnoticed by the European Commission which, in its Communication, admits that individualization could lead to a "deterioration in certain circumstances", that its effects will differ depending on the branch of social security concerned and that the present position of women on the labour market could lead to heavy losses in old age pensions, especially if the pensions of surviving spouses are cut. It seems necessary to articulate policy around both economic and social factors, and this calls for a redefinition of the role of the State and a new approach to the welfare state.

Individualization and solidarity

How can we avoid drastically impoverishing women if rights are individualized? Three solutions seem possible. Each of them offer advantages and disadvantages and correspond to a greater or lesser degree with the cultural models currently existing in Europe.

1. Guarantee the right to employment

The Danish model based on employment offers a first solution. All individuals being considered equal, all should play a productive role and benefit from the same

rights. But even in this case, the system must take into consideration the varying life styles between different individuals, between those who have the responsibility of looking after children or disabled adults and those who do not. This approach, if applied to the whole of Europe, may seem totally unrealistic, at least in the short term. Indeed, the current family models existing in Europe and the mentalities that result from them appear very deeply rooted.

But above all, every individual old enough to work should be guaranteed the right to work and should effectively exercise this right, at least in some form which is actually connected to the labour market. However, the huge rate of unemployment in Europe has proved that this condition is not being fulfilled in a number of countries. In France, the right to employment guaranteed in the Preamble to the 1946 Constitution remains no more than an abstract principle. It certainly cannot be seen as a "rights-claim" accorded to every individual and placing public authorities under the obligation to produce results. In a 1983 decision handed down by the Constitutional Council, the following proclamation was made: "It is up to legislators to set up a legal framework which will better ensure every individual's right to find work in order to enable the greatest number of persons possible to exercise this right"¹. The macro-economic goal is "full employment" and the public authorities should conserve the choice of means to this end.

2. Universal social protection

A second solution would be to extend the principal of universality to entire sectors of social security, notably in the area of old age pensions. Indeed, universal rights dependent only upon residency impose few constraints on the specific behaviour of individuals. However, there is a strong risk that allocation of rights without an explicit counterpart in terms of contribution is no longer the order of the day, as we have already seen in the case of the Netherlands.

Moreover, in systems founded on social insurance and the guarantee of a "replacement income" on retirement calculated on previous professional activity, universality is dreaded and even rejected in the name of "uniform allocations". Numerous observers fear that allocations will be leveled downwards and evolve towards minimal social protection. Hence the project in France to set up a universal health insurance scheme has been interpreted in a variety of ways. Some observers feel that it is a first step towards compromising the post-war social agreement and dismantling the social security system.

Any reform at this level would require a modification in modes of financing ("taxation") and in modes of representing the interests of the insured ("parliamentary or political democracy" versus "union or social democracy within social security sectors").

1) 28th May 1983 decision relevant to employment-retirement regime, O.J. dated 1st June 1983: KERSCHEN (Nicole), *Towards a tripartite regulation model in the labour market: the relationship between the State and collective bargaining powers on unemployment insurance policy. A social approach.* Droit Social 1997 N°12.

Above and beyond this fear, which may be justified - only the future can tell - those who defend the principle of universality attempt to base their argument on the rights of man, on the notion of fundamental rights. Universality and individualization of rights in the form of health care provided by health insurance systems does constitute a guarantee of the fundamental right to be healthy. Social protection benefits in cash raise other issues that will be developed in conjunction with other fundamental rights (KERSCHEN and LANQUETIN 1996; 1997).

3. "Caring" activities in the acquisition of social rights

A third solution would be to take into consideration the different life styles of individuals and to take note (at least in the short term) of differentiated roles in the labour market (part-time employment, interruptions in career) and activities accomplished in the domestic sphere (child care, looking after dependent old people or the disabled).

Approaches adopted in the various countries to what, in the Anglo-Saxon world, is known as "caring" activities can be classed around three dominant models. Before looking at these models in detail, it seems important to point out that whereas child care is part of the natural role of parents, caring for the disabled and dependent elderly persons is one of the hazards of life that is not necessarily imposed on every individual. It is therefore necessary to consider these two types of "caring" in a different light, even though identical compensatory solutions could be envisaged in both cases.

Schematically, we can distinguish three cultural spheres in Europe according to the attitude they adopt in regards to "caring" activities.

In the Scandinavian sphere, men and women may take parental leave to bring up their children. The explicit objective is to allow parents to reconcile their professional and family lives. This depends both on the financial compensation provided for the loss of income and the guarantee that parents can return to their job once their leave is over. This same logic has been extended to other types of "caring". Special services are also made available to cater to the needs of children, dependent elderly persons and the disabled.

In the German sphere, "work" carried out by the mother in caring for her children or for dependent elderly persons is explicitly acknowledged, thereby reinforcing the traditional role of the woman within the family, although legislation makes no issue of gender. Compensation is given through the allocation of cash benefits¹. Benefits are received only by those who don't have a professional occupation or who have partially interrupted their career, though this varies from country to country. Furthermore, the years consecrated to "caring" activities are taken into account for old age pensions (e.g. three years per child in Germany). In Germany, a fictitious value is attributed to these tasks and calculated as a percentage of the average income of workers contributing to the compulsory insurance fund. Both working and non-working women can benefit from this

1) Child-care benefits for the parent who raises the child, dependency benefits for the third party who takes care of a dependent person.

measure. The dependency-insurance fund recently set up in Germany goes much further than simply providing the non-professional third party "carer" with cash benefits and retirement rights. These persons are now affiliated with a work-related accident insurance fund and entitled to professional training and leave with replacement, which demonstrates the fact that caring for a dependent person is seen in quite a different light to child care. Services are gradually being set up in the German sphere to accompany these innovations. Since 1996 all children in Germany over the age of three have the right to attend kindergarten, though only in the morning. For this reason, a lot of women work only part-time. The introduction of dependency insurance should lead to a professionalisation of services for dependent persons. These services are not intended to replace the women in child care and other "caring" activities, but rather to assist her in fulfilling her traditional role.

In the British sphere, child care is considered to be a strictly private affair. Therefore no specific measures relative to "caring" activities exist. A similar approach is characteristic of the Netherlands, where very few facilities are available to parents. Some social rights integrate the child-care function of parents. Hence a single parent dependent on welfare benefits does not have to seek employment whilst looking after his very young child, and a couple may choose to work only part-time. Similarly, the periods a parent consecrates to bringing up his child until it reaches the age of 12 are partially taken into account for unemployment benefit rights. Due to the low level of recognition accorded to the function of child care and caring for the disabled, women's liberation movements in the United Kingdom and the Netherlands have adopted a pragmatic attitude that may appear surprising. They are calling for "caring" activities to be recognized by the welfare state. "Caring" should be made "visible". If we are to achieve this goal, it would be necessary to set up compensatory regulations enabling women, but also men, to acquire social rights during the periods they consecrate to raising children and looking after others (LUCKHAUS 1997).

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After having examined the situation, it seems evident that no single individualization of rights model can be imposed on all 15 countries of the European Union. Denmark and Germany offer models of a remarkable internal cohesion. They are founded on different bases: employment versus marriage. The Danish model enables individuals to carry out their professional and child-care functions without losing the financial independence gained through acquisition of their own rights. The German model, based on a sharing of male and female roles within the family, individualizes rights by sharing out the rights acquired in both the professional and domestic sphere. However, an analysis of the evolutions underway in the different social security systems shows that many alternatives are available and that no single course of action should be advocated. Certain countries need to be given time to progress in their reflection on the individualization of rights and to decide on the reforms necessary to lead the way. Analysis has also shown that reforms set into motion at present are not necessarily leading in the required direction. The Netherlands is particularly interesting in this regards and incites us to reflect more deeply on the real signification of evolutions underway: should we consider this as an experimental laboratory for a XXIst century version of social security or does it purely and simply represent the

destruction of a welfare state in which universal rights have been broadly developed?

If we want to start a discussion on the European level, we first need a common language. The concept of individualization isn't clearly defined in the European Commission's Communication. A summary definition - "the acquisition of individual rights for everybody and the use of these rights" - could be used as a minimum basis for discussion. Starting out from this definition, each cultural sphere could find its own way of tackling the problem of individualization of rights in the various branches of social protection without losing sight of either its roots or its foundations.

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Fourth session

What should the union do to support and complement the activities of the member states in the social protection field?

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Can the idea of benchmarking be applied to social protection?

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1. Introduction: Social protection and benchmarking

Whereas the basic reasoning of insurances is heavily conditioned by their necessity to deal with the problems of adverse selection and moral hazard, the challenge presents itself somewhat differently with social insurances. The latter, in fact, circumvent the problem of adverse selection by starting from an insurance obligation. The danger of moral hazard, however, remains in tact and may even be aggravated by the aims of social insurance schemes to guarantee at least some kind of minimum income standard. Although social protection should not necessarily be put on a par with social insurances, the latter undoubtedly continue to play a major role in social protection policies. So, also for social protection the objective of guaranteeing minimum protection may be taken to be of crucial importance. This is even more so since other devices of social protection like social assistance and universal (demogrant) schemes tend to focus unambiguously on minimum protection.

Yet, also other objectives can be attributed to social protection. At the micro level social insurances have a longstanding tradition of aiming at safeguarding the acquired standard of living. This was especially the legacy of the Bismarckian approach to social security. Moreover, in recent years the instrumentality of social protection for reintegrative policies has been stressed. At the macro level similar objectives have been ventured: the role of social protection in horizontal and vertical redistribution towards income equalisation, its contribution to stabilising consumption and to improve labour supply, to social cohesion and to the fight against social exclusion are a first set of examples. Its impact on labour costs, decreasing labour demand, on the government budget and on the allocation of GDP are a second set of effects that may follow. At the meso level of the administration of social protection schemes, finally, stigmatisation and non take up effects are put against human dignity and citizenship rights and yielded discussions on the trade off between efficiency and efficacy, selectivity and universality.

So, many objectives have been associated with social protection. Yet, the pursuit of these objectives yields all kind of effects. Some of these effects are aimed at, but others are considered to be dysfunctional. Moreover, not all policy agents, political parties and social movements that deal with social protection value either each of the explicit objectives or the actual effects in the same way. And things become

even more complicated as there is hardly any agreement on the precise meaning of each of the objectives. The debate on minimum protection and poverty standards illustrates the ambiguous meaning of these concepts, the difficulties to operationalize them and the controversy with respect to their normative character.

Analytically such discussions may be enriching, for policy purposes, however, they can be devastating. In the first place because they may prevent policy agents from taking stock of reality. And in the second place because they may block them from finding agreement, be it even temporary, on normative standards.

Benchmarking could provide an important part of the solution to these problems. In Longman's Dictionary of Contemporary English a benchmark is defined as "something that is used as a standard by which other things can be judged or measured"¹. So the idea of benchmarking in social protection would be to define standards with respect to different aspects, objectives and effects of social protection by which reality and its development could be assessed. Such benchmarks should not necessarily have a normative character, but could be useful already by providing simple yardsticks against which reality could be measured both overtime - thus taking stock of developments - and by comparing different systems from different member-states. Especially the latter approach of assessing the ins and outs of social protection in the different member-states of the EU in the light of a set of previously defined benchmarks could be an obvious way to monitor the development of this most important social institution to which member-states devote up to one third of their GDP, but on which the EU has hardly any direct competence.

2. EU-competencies in the field of social protection

It is important to be aware of the scope of the Treaty of Rome as its inspiration lingers on in the European Single Act and in the Treaties of Maastricht and of Amsterdam. The explicit and core objective was, and still is, the development of a large European internal market, which would be based on free trade and would guarantee economic progress. The focus of the EU remains within this framework of promoting a single market for goods and services, capital and manpower. The enlargement of the scope of the EU towards a common monetary system and safety policies did not alter its attitude towards social protection. The latter is only of relevance for the formal competencies of the European institutions to the extent that it interferes with the free movement of workers and the guarantee of equal opportunities for business to compete in the single market.

1) Longman Dictionary of Contemporary English, Harlow, Longman, 1995 (3rd ed.), p.107. - Apparently this meaning stems from 'a mark made on a building, post etc that shows its height above sea level, and is used to measure other heights and distances in a survey'. Ibidem.

Hence the EU has got direct competence on the coordination of social protection in order to safeguard the free movement of workers. Regulations 1408/71 and 574/72 are taking care of this.¹ With respect to guaranteeing free competition there has been some controversy already in the late 50's, as to whether this would suppose some harmonisation of social protection.² At that time it was decided that harmonisation was not necessary and that the European institutions should not be given any explicit competencies on it. The only exception that was made concerned the equal treatment of men and women, which was elaborated through the 3rd, 4th and 5th directive.

In the 60's and again in the 80's, however, the discussion on harmonisation was revitalised. In the wake of the enlargement of the EU and in the momentum of the single European Act and the then called "operation 92" questions were again ventured on the necessity to deal explicitly with harmonisation. It was argued that some explicit competencies for the European institutions were necessary to prevent social dumping, to fight social exclusion and to guarantee a Citizen's Europe. Yet, soon it became clear that harmonisation, any EU-competencies for it and even the very concept itself had become taboo. In a cautious way, however, the discussion would be continued under the umbrella of 'convergence'. Yet, given the recognition of the member-states' full competencies according to the principle of subsidiarity, any direct EU competencies in this field were no longer at stake. And this would eventually be confirmed in the Maastricht Treaty. So, what remained, was the possibility to make (not binding) recommendations inviting the member-states to pay some attention, when elaborating policies, to what were thought to be common objectives and criteria in social protection. Two recommendations were issued by the Council in 1992: a first one, dated 24 June 1992, on "Common criteria concerning sufficient resources and social assistance in social protection systems" and a second one, dated 27 July 1992, on "the convergence of social protection objectives and policies".

Two observations should be made with respect to these recommendations. In the first place it strikes that the targets that are presented in them do not really represent a challenge for the member states to improve their social protection systems. With the exception of the demand to provide for legal devices to guarantee sufficient (minimum) resources and which brought Portugal meanwhile to introduce a minimum income scheme, all recommendations made in these texts rather confirm or even underrate the provisions that are already in operation in the member-states. So one gets the impression that these recommendations have been approved because they did not put a real claim on the member-states. It is after all rather strange to put forward objectives that are already met. In doing so the recommendations confirm the unwillingness of the member-states to see any

1) *At his moment a discussion is held as to how these coordination devices could cope with a more mobile and flexible labour force, and especially with respect to the growing importance of its 2nd and 3rd pillar social protection. Cfr the recent conference on 'Changes and Challenges' that was held on 30 - 31 October 1997 in Noorwijk (NL).*

2) *HOLLOWAY, J., Social Policy Harmonisation in the European Community, Edinburgh, 1991, p.11-100.*

real initiative being taken by, let alone any real competencies being given to, the European institutions.

Secondly, however, both recommendations provide for an explicit request to the EU-Commission to submit regular reports describing the progress achieved and the obstacles encountered in implementing the recommendations, and to organize regular consultation, the systematic exchange of information and the continuous evaluation of the national provisions adopted, and to develop the use of appropriate criteria for that purpose.

As far as the convergence recommendation is concerned, the Commission issued two illuminating reports on social protection and its development. A third one is being prepared. As for the minimum protection recommendation, however, reports, although prepared, have never been published. What is missing, moreover, is any systematic attempt to develop appropriate criteria in the light of which developments could be assessed. Benchmarking and monitoring national social protection policies would be the obvious way to exploit these explicit requests which have been addressed to the EU-Commission.

3. A valid approach to benchmarking with respect to social protection.

In order to avoid any invalid assessment of social protection it is of utmost importance to elaborate a valid set of benchmarks. In this respect three perspectives should be taken into account.

a. The three pillars of social protection.

The first perspective refers to what meanwhile is being referred to as the three pillars of social protection. Already some ten years ago Sinfield was among the first to apply Titmuss' analytical framework to social security and in doing so pleaded for getting social security out of its institutional cocoon by adding to the statutory social security schemes any other forms of state intervention with similar objectives. As a result social security should be seen to embrace not only the statutory schemes but also occupational and fiscal schemes. Occupational and fiscal welfare in fact represent the hidden part of the social security building. One can even argue that if one wants to avoid illegitimate isolation a functional analysis of social security would even dictate to take also into account private insurances and somewhat older and forgotten institutions like family solidarity and maintenance liabilities. All these institutions have in fact retained some potency to contribute to the common aim of continuing the existence level by providing some form of replacement or adjustment income. Given the pressure in many European countries towards privatisation, this aspect will be of crucial importance.

b. Gross and nett figures.

A second perspective has to do with the way in which social protection benefits and expenditure are given account of. In some countries social benefits are in fact subject to taxation. At the micro level this means that the nominal benefit level

provides an overestimation of the purchasing power it represents; at the macro level it means that gross social expenditure should afterwards be corrected downwards in order to give an indication of nett social protection expenditure and hence of the real share of social protection in terms of the government budget and GDP. Estimations that were made by the Dutch Ministry of Social Affairs indicate that differences of up to 5 % of GDP may result. (see table 1)

Table 1: Gross and nett public and private expenditure for social protection (including health care) as % of GDP, 1993 (Provisional figures)

	Public gross (1)	Public nett	Private	Total
Belgium	27.3	n.a.	1.9	n.a.
Denmark	31.0	26.8	1.7	28.4
Germany	28.3	26.6	4.4	31.0
Netherlands	30.2	25.1	5.0	30.1
UK	23.4	23.2	4.7	27.9
Sweden	38.0	34.1	2.9	37.0
Japan	12.4	n.a.	n.a.	n.a.
USA	15.6	15.5	11.9	27.4

(1) The provisional figures are based on OECD sources. The latter provide other information than Eurostat as OECD takes only public expenditure into account and as it uses a broader definition of active labour market policies.

Source: NEDERLAND-TWEEDE KAMER, *Sociale nota 1997*, nr 25002, 1 & 2, p.112 and further references.

c. The socio-political context of social protection.

A last perspective refers to the danger of disconnecting social protection from its socio-political context. Social protection has in fact focused for a long time on internal, endogenous factors, thereby losing sight of the broader societal function of the social security system.

This function can best be explained by pointing to the basic societal process onto which social policy is grafted. It holds that we educate and train people to ensure that they are able to enter the (paid) labour market and thereby have the opportunity to gain a primary income. And this income in turn enables them to have command over resources to guarantee their social integration. Yet, when this basic process is endangered because of limited resources that might prevent families from aiming at adequate education or training for their children, family benefits and study grants are activated. Moreover, when this process is interrupted because of unemployment, in capacity to work or old age, social protection systems operate to provide replacement income in order not to endanger social integration. Meanwhile restorative actions like health care, work mediation, retraining and even partial re-employment schemes are activated with an aim to secure a quick reinsertion in the labour market, restoring the basic process. When both these

reinsertion devices and the income protection schemes are inadequate, however, the risk of social exclusion - of deficient social integration - materializes.

So, social protection basically operates as a by-pass mechanism in those cases where insertion in the labour force is no longer possible or desirable. In such cases their aim is to mend the chain by guaranteeing the availability of (replacement) income in order to safeguard social integration. One may even argue that replacement income schemes all cover the same basic social risk, i.e. incapacity to work. In the case of unemployment this risk materializes because there is no work; in the case of sickness and invalidity because there is either temporarily or permanently no work capacity. Taking into account the way pension schemes were introduced, they must be classified as particular forms of invalidity schemes in which incapacity to work is presumed as soon as the pensionable age is reached, and hence any proof of incapacity is no longer used as an entitlement condition.

Yet, social security policies cannot limit themselves to the mere provision of income protection, be it at a minimum or at an earnings related level. Income schemes have to be complemented - though not replaced as the OECD tends to suggest - by reintegrative actions like retraining, work mediation and rehabilitation schemes.¹

With a view to benchmarking the location of social protection within its broader socio-political context makes us aware of the intrinsic connections which exist between social protection, labour demand and labour supply. Benchmarking social protection without controlling labour demand and labour supply would provide a highly invalid assessment of the systems' functioning and development.

4. The European social model ...

The functionality of the social protection system can only be assessed in the framework of the broader labour-income nexus of which it has become an integral and intrinsic part. In this respect one is becoming aware of the existence of a European socio-economic model that seems to be characterized by starting from a minimum earnings- and benefit level. What follows from this are relatively high labour costs but also high labour productivity, yielding high unemployment (and other forms of discarding from the labour market) that is taken care of by elaborate systems of social protection. Such approach rests on an intensive interference of the state in society. The recent political rhetoric for more market, deregulation, consumer freedom, labour mobility and flexibility and for the abolition of minimum wage and benefit levels can hardly hide its plea for an American implantation in this European model. The US model rests indeed on less government intervention. It has no minimum earnings level and focuses low labour costs but yields lower labour productivity and low unemployment rates and provides also a low level of social protection. Together with the low wages this limited degree of social

1) A. SINFIELD, *Blaming the benefit: The costs of the distinction between active and passive programmes*, in A. BOSCO & M. HUTSEBAUT (eds), *Social Protection in Europe: Facing up to changes and challenges*, Brussels, ETUI, 1997, p.261-288.

protection generates a high poverty incidence and complex situations of social exclusion. (For some productivity indicators on the US and EU, see table 2).

Table 2: Productivity indicators - % differences (EU = 100)

	US		EU
GDP/capita	130	>	100
GDP/employed person	108	>	100
Number of hours worked	144	>	100
GDP/hour worked	89	<	100
Remuneration/hour	101	=	100
Productivity/remuneration	87	<	100

Source: M. CICHON, Can Europe afford the future financing of the Welfare State? in A. BOSCO & M. HUTSEBAUT (eds), *Social Protection in Europe: Facing up to changes and challenges*, Brussels, ETUI, 1997, p.82-84.

So the question arises as to what extent Europe will be obliged, willing and politically capable to impute American characteristics into its own model. This European model apparently encompasses mechanisms that induce high productivity which is welcome in a time of global competition. On the other hand, however, there is some urge to adjust it given the high unemployment rate and the heavy social protection budget burden it yields and the trend towards dualisation of labour participation this engenders, with especially the lower skilled and less productive strata of the labour force as the categories that become at long term risk.

Within this European model, however, three distinct traditions present themselves: the Scandinavian, the Atlantic and the continental tradition. The difference between them stems from long-standing cultural differences which account for the different way in which they conceive social policy and the social contract which constitutes its basic framework. The traditional Scandinavian model emphasizes (re)insertation in the labour market, whereas the Continental/Bismarckian model stresses a good by pass mechanism with earnings related benefits that are capable of replacing the lost wage to a high degree. The Atlantic/Beveridgean model focuses even later in the societal process by providing flat rate income protection in order to safeguard minimum social participation; earnings related protection was originally left to occupational provisions and private initiative. Southern Europe did not so much provide an intrinsically distinct model, but rather a less developed continental one.

5. ...and its adaptation.

Basically this European societal model stems from the post war period and was tuned to the industrial society that had matured by then. Within this framework social protection rested on three assumptions. The first was full employment (cf. the Beveridge Report): labour demand should be high enough to limit the number of the unemployed and to allow for the reintegration of those with a (partial)

incapacity to work. A second assumption was that of the family responsibility of the insured worker. Benefits should be high enough to allow the worker and those who depend on his income, to live on. Hence the introduction of derived rights and family rates (together with child allowances). The family bias that was thus elaborated could represent up to 30% of the social security budget.¹ Finally there was the assumption of the typical industrial worker in a stable, full-time job.

These assumptions are important as they are opposed to the major challenges that have confronted the social protection systems in recent years. High unemployment rates have not just presented social security systems with rising number of beneficiaries and an ensuing expenditure growth but have also eroded their contribution base. Women's liberation and the growing labour market participation of women have not only diminished the need for family-based benefit devices, but the generalisation of the two-income family as the social standard has meanwhile brought single income households (and especially single parents) into greater risk. Atypical and part time work represent a less stable basis on which to build benefit rights and urge the benefit schemes to devise more complex administrative procedures. On top of these shifts, progress in medical technology, the growth of life expectancy, the de facto decrease of the pension age (early retirement schemes) and the baby boom generation confront health protection and pension schemes with increasing expenditure figures.

Yet, there are different socio-cultural policy traditions in the Scandinavian, the Atlantic and the continental Welfare State approach. In fact, the Atlantic tradition rests on a direct relationship between the state and the individual citizen. Social protection takes a passive stance and is only activated after some market failures have presented themselves, by guaranteeing in these cases some form of minimum income protection. In the continental and Scandinavian models, on the contrary, a more pro-active attitude is taken. The continental approach is used to foresee the effects of market failures by elaborating social insurances to cope with the traditional social risks and to guarantee benefits at levels that are meant to safeguard the acquired standard of living. In the Scandinavian approach an even more preventive attitude is taken by focusing labour participation and reintegration; in its policy approach income maintenance schemes play a subsidiary role. So, it may be expected that these three different traditions will also respond differently to the challenges of modernising and improving social protection for the future.

6. Different policy making structures.

The broader labour-income nexus rests on a social contract that gets shape through the policy struggle between the major socio-economic parties involved. Yet, it is becoming increasingly unclear who are the parties involved, and to what extent their organisations and spokes(wo)men can voice their viewpoints. This is the case at the European level, but also at the national level. Especially in the

1) D. MEULDERS, *Individualisation of Rights and Social Protection*, in AISS & EUROPEAN COMMISSION DG V, *Adapting to new economic and social realities: What challenges, opportunities and new tasks for social security ?*, Papers of the European Conference in Aarhus, Denmark, 19-21 November 1996, p.149-158.

continental (and Scandinavian) countries in which the core social policies used to stem from the social partners and in which these policies used to be based on a social contract between these partners and not between the Nation-State and its citizens, policy making becomes blurred. To the extent that full employment has implicitly been given up, that the large numbers of unemployed, of insufficiently skilled and of (early) retired are no longer represented by the unions, these categories are looking for new spokesmen and organize themselves in categorical movements. Such a setting will complicate policy making and will make it even more difficult to elaborate the taut balance that is necessary for society, at both the national and European level, to survive in both an efficient and equitable way.

Yet, modernisation and globalisation, technological developments and the information society, aging of the population and the new gender balance and the demand for a flexible and mobile labour force represent important challenges to social protection. But these challenges can only be addressed adequately and solidly if they can be channeled through a policy making process that can provide policy solutions that are co-inspired by equity, solidarity and social cohesion. Yet, new social movements, NGO's and grass roots initiatives, although voicing relevant needs, are difficult to be tuned with the traditional social policy agents, i.e. the social partners. They have difficulty in finding access to and an appropriate role in the core policy arenas. So, adapting social protection and making it functional to its new socio-economic environment might depend more on an adequate adaptation of the social policy decision making structure than on an adaptation of social protection itself. The latter adaptation will more easily follow an adaptation of the policy making structure. Adapting this structure might well be a prerequisite to the modernisation of social protection. The Atlantic tradition with its focus on a direct responsibility of the state for a minimum protection of its citizens, and with a more outspoken tradition of social inequality, will have less difficulties to cope with all this than the Scandinavian and continental traditions. Of the latter two, the Scandinavian one with its focus on labour demand and labour supply policies will be better equipped to do so than the continental countries in which the social contract plays a crucial mediating role. For them a new stable social contract might not be possible as long as the new policy making structure has not crystallized. My guess, therefore, is that continental countries like Belgium, France, Germany and Austria will have most difficulties to accommodate and will exert most pressure to rethink the policy making procedures at both their national and the European level.

7. Benchmarking: its functionality, focus and scope.

The growing complexity of modern societies, the complex societal setting in which social protection systems operate and the multidimensional challenge by which they are confronted plead for rational policy making. Moreover, if new social needs should be validly assessed and their spokesmen adequately be informed, it is of utmost importance that all member-states should adequately monitor their social protection systems and the socio-economic context to which the latter should be instrumental. Even if social protection remains a full competence of the individual member-states, the latter's mutual dependence in a single market and monetary union plead for monitoring social protection on essential parameters for which benchmarks might be elaborated. That the EU-Commission would take

prime responsibility for promoting and facilitating such activities would not be revolutionary at all. By doing so it would merely take serious the tasks it was charged with already in art. 118 of the Roman Treaty, tasks that as far as minimum and social protection are concerned, were confirmed 'in fine' of the recommendations I referred to earlier. Yet, it is important to repeat that such activities are not just instrumental to social protection itself, but also to social policy agents who are in need of relevant and valid information.

Yet, in elaborating benchmarks and setting monitoring devices social protection should be addressed in its broader socio-economic context. If this is not done, any assessment of social protection tends to become misled by the social protection paradox which holds that the best social protection **policies** are elaborated in countries where the social protection **system** can be kept as minimal as possible. It is only when labour demand is lacking, and reintegration policies are deficient that a large share of GDP has to be devoted to social protection.

Finally, an instructive set of benchmarks should cover input, throughput as well as output parameters. With respect to input, the focus is traditionally on social expenditure statistics. The Esspros statistics of Eurostat made a good start in devising an elaborate system in which also second pillar expenditure is taken into account. Verification for the Netherlands proved, however, that there is quite some underreporting by the member-states.¹ In a period in which privatisation of social protection is on the agenda, an extension of the Esspros statistics towards private insurance coverage of the social protection risks and towards any tax expenditures that are linked to it becomes of crucial importance. As far as labour is concerned, the available labour demand and initiatives to extend and improve labour supply should be benchmarked and monitored.

For as far as output is concerned the European Commission has taken some initiatives in the past with respect to poverty, social exclusion and its measurement. The European Community Household Panel ECHP that managed to get launched is however in need of a long term perspective and of more systematic analytical backing. Because of its panel character it has the potentiality not just to inform on poverty incidence rates, but also to devise mobility indicators with respect to transitions between labour and social protection; and the other way round on reinsertation mechanisms. Given the high degree of mobility in and out of poverty, mobility indicators based on odds ratios would be much more instructive as benchmarks for poverty and social exclusion policies than the traditional, static poverty incidence rates. Moreover, a systematic analysis of earnings-related protection becomes a necessary complement to poverty studies in a period of growing privatisation, labour flexibility and dualisation.

With respect to throughput, benchmarks on the administrative efficiency of social protection administrations, even compared with private insurance offices, on non take up rates, on the long term effectiveness of retraining and reintegration schemes, and on any trampoline effects of labour supply schemes and initiatives, would be highly relevant.

1) C. BOOS, L. GELEYNSE, R. MUFFELS & J. BERGHMAN, *Omvang van de Sociale zekerheid*, Den Haag, VUGA, Commissie onderzoek Sociale Zekerheid, 1993, 148p.

8. To conclude.

Let me finish with some warnings. First of all it is important to elaborate empirical benchmarks and to monitor them systematically. Clear and reliable benchmarks that are monitored overtime will be the most instructive and yield most effect. Yet, assessing benchmarks, monitoring policies and interpreting the findings in a comparative and EU context supposes some specific expertise and the necessary time to have this built. So let me plead for revitalising and bolstering the genuine comparative expertise that grew in the framework of the previous expert groups and observatories of DG V. This should stop the expertise destruction that has been taking place in recent years. And especially, allow me to warn DG V for having the activities of genuine experts been taken over by the kind of consultants who can perfectly manage an EU-contract, but are hardly hindered by their knowledge of social protection in its social, political, economic and cultural embedding.

Social protection within the economic and monetary union

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Introduction

In line with the agreements reached at the Maastricht European Council, the Member States of the EU have been making efforts to assure the convergence of their economies in order to meet the criteria for stage 3 of EMU. For most Member States, convergence has meant resort to fiscal austerity to redress public deficits in excess of the Maastricht limit of 3% of GDP. This transition is, however, taking place against an inauspicious macroeconomic background, as the EU is still struggling to recover from the recession of the early 1990s. Despite continuing high unemployment, social protection budgets, consuming half or more of public expenditure, inevitably appear to be inviting targets for spending cuts.

In parallel, growing demands on social protection - engendered by the combination of demographic movements and rising expectations - are increasingly at odds with the willingness of society to raise the required revenue. Competitive imperatives have prompted a search for alternatives to social charges as the principal means of financing social protection. This conjunction of macroeconomic pressures and questioning of the welfare state has fueled doubts about the wisdom of the convergence process and, indeed, of EMU. It has also encouraged the Member States to look critically at social protection systems and to bring forward reforms widely judged to be necessary, but which they have been reluctant to confront.

Much of this debate is, however, conducted without much regard to the underlying economic logic. Problems associated with the *transition* to monetary union are confused with the principles that will govern its operation; conjunctural trends are misinterpreted; and long-term structural evolutions are mixed-up with the convergence process. At the same time, many questions about economic management and social provision under EMU remain unanswered, and it is no surprise that this has led to fears that EMU will have damaging social consequences.

The wider economic and social context in which EMU will function also has to be taken into account. The progressive internationalisation of business and finance inevitably limits the freedom of action of governments to pursue social policy. Overly high social charges are seen not only as an impediment to competitiveness (see the 1994 OECD jobs study), but also as a possible obstacle to inward investment, and there is a widespread recognition that the role of the state in many

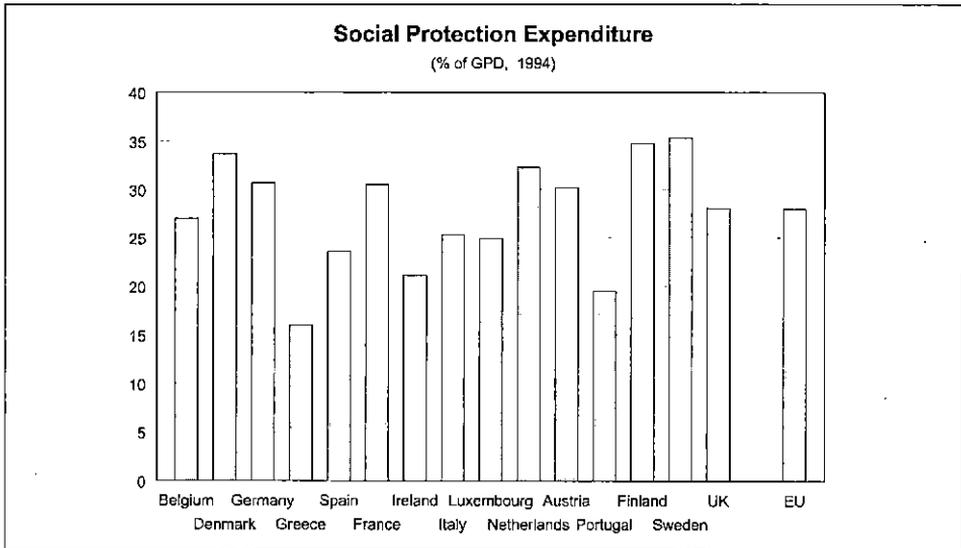
countries has become excessive. Equally, high unemployment and social exclusion are coming to the fore as key challenges facing public policy, whereas inflation - the target for which much of the apparatus of monetary union has been designed - appears no longer to be much of a threat.

All of these considerations bear on possible development of the Union's contribution to social protection policy. The aim of this paper is to analyse some of these matters in order to shed light on the inter-play between EMU and the development of social protection. The next sections of the paper look at the character and the diverse aims of social protection in the EU, revealing the variety of policy objectives covered. How EMU can be expected to impinge on social policy is then discussed and the mechanisms which might give rise to difficulties are identified. The case for a more extensive Union involvement in social protection is then considered; key policy issues are highlighted and the paper is completed by an appraisal of their implications.

Social protection in the EU

As economic and political integration have advanced in Europe, the question of harmonisation of social protection between the Member States has repeatedly arisen and, just as often, been swept under the carpet (Chassard, 1992). The reasons for this are not difficult to identify. Social protection has evolved in different ways in the Member States and the resulting systems reflect delicate political compromises and balancing of interests achieved over decades. Much is made of the differences in the architectures of social protection systems derived from the Beveridge and Bismarckian traditions, yet for practical purposes there is more common ground than disparity between them.

This is, to a degree, recognised in the July 1992 Council Recommendation which articulates the Union's approach to social protection policy. This Recommendation sets out targets for the harmonisation of the *objectives* of social protection, but left Member States free to use their own systems. What the Recommendation also does, however, is to limit the Union tier largely to exchange of information and, by implication, to rule out the development of a more extensive role.



The similarities between the social protection policies of the Member States are evident not only in the scale of social protection outlays (see figure 1), with an average of 28% of GDP, but also in the range of contingencies covered by the system. Citizens of the EU Member States obtain 'protection' against sickness, unemployment and invalidity, as well as retirement pensions. However, as the last *Social Protection in Europe Report* (European Commission, 1995) showed, the relative generosity of different provisions varied markedly between countries.

Nevertheless, social protection is a core element in European society and is one of the defining features of that elusive notion the 'European social model'. Fundamentally, it is one of the principal means by which redistribution is achieved (see figure 2). In other parts of the world, social protection systems are either much less developed or do not exist at all. Rather than there being the conventional two-way division of national income between the share of profits and the share of wages, EU Member States have a third share in the form of social protection.

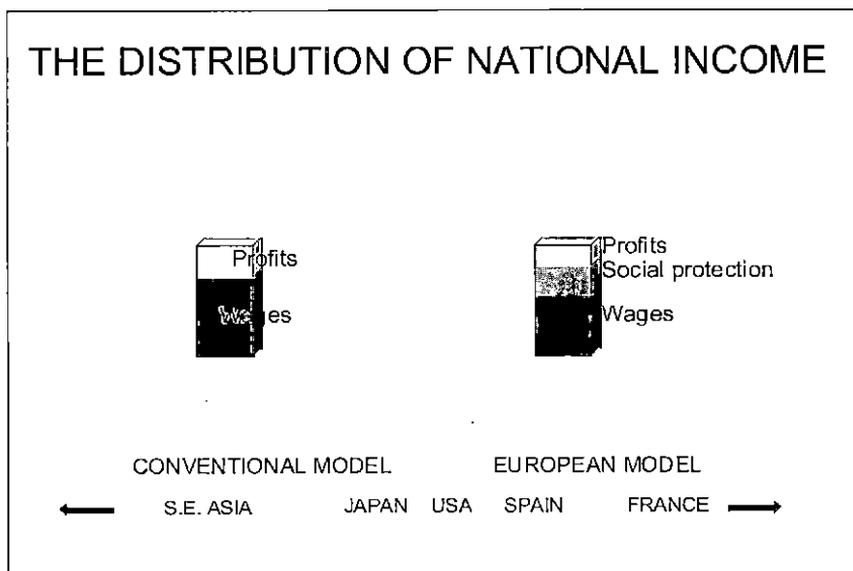


Figure 2

The aims of social protection

Social protection fulfills a number of linked but distinctive roles in European society. It is, first, a mechanism for assuring redistribution towards the less fortunate - protection taken literally. But much more of what falls under the heading of social protection is, in practice, a form of institutionalised savings. Although the correspondence between contributions and benefits is much less direct in countries such as Denmark or the UK where general taxation rather than social charges finance a large part of social protection, this does not contradict the underlying principle. Contributions are made during the working life, benefits taken after retirement or when ill.

Unemployment benefit also acts as a form of institutionalised insurance, but has a complementary aim which constitutes a third function for social protection, namely to assist the functioning of the labour market. This can, however, be two-edged. The replacement income provided by unemployment benefit allows the individual the time and space to search for a job that matches his or her skills and attributes. Overly generous benefits could, though, reduce the incentive to take work, thereby aggravating unemployment.

A fourth dimension of social protection is its role in macroeconomic stabilisation. Because an economic downturn reduces contributions and raises social protection expenditure, the social protection system dampens the effects of the downturn. It does this by raising public deficits, although it is worth noting that if unemployment

insurance was provided exclusively by the private sector, private sector financial balances would also tend to move into deficit. In the context of economic integration, especially EMU, a second, related stabilisation function of the social protection system is to alleviate asymmetric shocks affecting parts of the monetary union.

The ramifications of EMU

EMU will affect social protection, directly or indirectly, in various ways. To the extent that the promise of EMU will deliver a more prosperous EU economy that employs more people and generates higher incomes per head, the outlook should be positive for social protection. Under this 'Dr Pangloss' scenario, the demands on social protection should be lessened and tax rates should be lower for a given level of social protection. The trials of the transition to EMU do, however, illustrate the downside. Relative stagnation of the EU economy means that the financing of social protection comes under strain and that governments face acute difficulties in maintaining discipline in the public finances.

Evidence from the US, Canada and other federal countries shows the important role played by 'automatic' fiscal stabilisers in dampening such shocks. Whether it is on the tax side or the benefit side that the effect arises depends on the detail of the respective systems, but the aggregate effect can be substantial. Estimates vary markedly on the importance of flows from the federal level in the US (for example, Sachs and Sala, 1992; or Bayoumi and Masson, 1994), but are agreed in showing that both the stabilising and redistributive effects of the EU level of governance are negligible by comparison even with federations where the federal level is modest in scale. The absence of cross-border social protection can, consequently, be regarded as a significant weakness in the EMU policy framework.

The case for EU involvement in social protection

In assessing whether or not the EU should have an expanded role in social protection, the different functions have to be taken into account. In part, the case in favour rests on theoretical analysis of how powers and responsibilities should be divided between tiers of government. The problem in optimising policy assignment is to achieve efficiency in the provision of public goods and services through the correct allocation of functions between levels of government (see, for example: Oates, 1991, Musgrave 1983).

Assigning policy between tiers of government

The assignment of policy responsibilities between tiers of government reflects a combination of factors. Constitutional influences are at the root of many of these policy assignments and in this respect the *Treaty on European Union* is plainly an important legal base. In certain instances, there is a clearcut logic: the fact that the EU is a customs union implies a common external trade policy. Some are the result of historical compromises - indeed accidents - with a particular competency resting with a level of government for reasons of political expediency. Hard economic or political logic has, on occasion, led to shifts in policy assignments, and it can be

argued that the case for monetary union derives substantially from the inability of highly integrated economies effectively to pursue independent monetary policies.

In considering how best to assign policy responsibility for the provision of social protection, theoretical, practical and political factors need to be considered. Economic and political theory provide some insights which, while apt to be abstract, can help to guide decision-making. The various elements of the theory of fiscal federalism and other strands of public choice theory are a useful starting-point.

Fiscal federalism suggests that it makes sense to retain responsibility for a policy area at Member States (and possibly at the regional or municipal level) if that makes it easier to reflect the wishes of the relevant population and thus to tailor the policy accordingly. Lower tiers of government are also to be preferred where the costs of harmonisation might make it more expensive to deliver the policy centrally. The theory points towards higher tiers of government where there might be conflicts between lower jurisdictions that can best be resolved centrally. Social protection and other mechanisms for redistribution need to be scrutinised under this heading.

Central provision is also justified if this permits a reduction in the cost of policy delivery. A further argument for central administration of a policy is where the costs or benefits of the policy fall outside the territory of the authority administering it. This can arise if citizens of one Member States are able to deflect the cost of provision to another. Similarly, one area may be able to 'free-ride' on services provided by another.

Looking specifically at redistribution, Brown and Oates (1987) identify two main justifications for assigning responsibility for assistance to the poor to the highest tier of governance - their analysis relates to the federal level in the US so that the parallel is with the 'Brussels' tier in the EU.

- * First, 'the well-being of the poor is of national concern'. Policies adopted by lower tiers of government do not necessarily reflect this and can give rise to externalities which engender sub-optimal transfers.
- * Second, even if there is no concern for the poor in other parts of the integrated economic space, the probability that the poor would migrate to prosperous areas is a reason for transfers to less-favoured regions.

It can be argued that both conditions apply in the EU: the reference to cohesion in Article 2 of the *Treaty* is an expression of the first, and there is obvious popular antagonism to poor immigrants in the richer Member States. Should the Union tier of governance have this competency in the EU?

The EU context

There are some general reasons for seeking to move policy responsibility for social protection 'upwards'. These include:

- * *Consistency with the single market.*

Because the attention of policy-makers and commentators has, not without cause, centered on *monetary* union, the 'E' in EMU has tended to be given less

attention. Plainly, the single market is an important facet of the 'E', and social protection arrangements are bound to have an influence on the freedom of movement of both labour and capital. If workers are deterred from moving across borders because there are obstacles emanating from the manner in which social protection systems function, the promised benefits of union risk being compromised. This could happen if contributions to insured benefits were not sufficiently transferable between countries or if entitlements were lesser in areas offering job opportunities.

Similarly, if the level of social charges or the obligations imposed on employers differ, these could influence the incentives to investors in the selection of locations, this could result in an allocation of investment shaped by the incidence of social charges rather than economic efficiency. If national systems remain separate, there may be incentives for Member States to dismember them to achieve short-term competitive gains, but ultimately with damaging consequences. There are parallels, in this respect, with competitive devaluations. As Berghman (1991) observes, 'in most federal states, the core social protection schemes are organised on a federal level in order to prevent social competition amongst states and in order to guarantee solidarity and equity of distribution'.

* *Dislocations caused by EMU.*

The notion of asymmetric shocks has featured prominently in the analysis of monetary union. On the whole, the presumption is that these are temporary, although years may elapse before the consequences of such shocks unwind. Economic integration can, however, also lead to economic restructuring (indeed, that is part of the justification for dismantling of barriers to free movement in so far as it allows a 'better' allocation of resources), which has a lasting effect on the economic prospects of regions. There are both equity and efficiency arguments for cross-border income transfers in these circumstances, and social protection is a possible mechanism for this purpose.

* *Solidarity and its close relative, cohesion*

These are at the heart of any settlement on social protection. In the EU, cohesion has been interpreted to mean regional inequality and the social inequalities that stem from unemployment. It has not encompassed redistribution of current incomes from rich to poor or from economically active to inactive. Yet these are accepted as part of national solidarity equations. Bearing in mind the deductions of the theories described above, it could be argued that at least some redistribution ought to become an obligation of the Union level. Redistribution has long been accepted as one of the functions of government, and it is generally the case that the highest tier of government plays a prominent part in achieving it.

Within a Member State, redistribution takes place principally through the tax and public expenditure systems, and these 'solidarity' mechanisms are legitimised by a national consensus worked out, in some cases, over several generations. No such consensus exists between Member States in the EU, with the result that cross-border solidarity is lacking. It is, nevertheless, interesting to note that the broad structure of European social protection continues to be supported by the social partners, and recent reports by the *Competitiveness Advisory Group* (1996),

which call for increased flexibility and modernisation of the labour market, stop short of advocating the dismantling of social protection.

* *Deepening of the EU*

The principles set out in Article 2 of the *Treaty* imply a more comprehensive union in which the members assume responsibility for one another. The issue to be confronted is whether the elevation of 'cohesion' to one of the fundamental principles the EU seeks to respect (in Article 2 of the *Treaty*) requires integration of policy on redistribution. With social protection budgets at the level they are in the EU, this is bound to be a contentious issue, if only because of the scale of funding. This can be explained, in part, by worries about the budgetary implications, but also because most Member States continue to regard social protection as a domestic policy concern. Yet as Sanchez (the Spanish contributor to a study by Jacquemin and Wright, 1993, on the challenges facing the EU) warns, there may be serious dangers in an 'economic Europe going faster than social Europe. If this relative gap widens, the Community project may not be viable.'

Options for the union

Various possible developments have been envisaged to encourage convergence in social provision in what has been an extensive debate (see for example: Room, 1991; Pieters and Vansteenkiste, 1993). Perhaps the best developed is the 'social snake' scheme (Dispersyn et al., 1992) under which agreed minimum standards would be gradually raised towards those prevailing in the Member States with the best developed systems of social protection. The essence of this proposal is to limit the difference between the most extensive social provision and the least by ensuring that if some Member States increase their provision, efforts would be made to obtain improvements in other Member States. The drawback of this proposal is that it implies a levelling-up that may prove unacceptable in the current climate and also a cost penalty for generous Member States.

Another proposal is 'The Thirteenth State' (Pieters and Vansteenkiste, 1993), a scheme to create a system of social insurance operated at the supra-national level, and aimed primarily at migrant workers. This is advocated as an alternative to the complexities of regulations which govern the entitlements of those who move between national jurisdictions, and would involve the establishment of a system administered at the supra-national level which would operate alongside existing national ones. It would, therefore, be an evolution directly inspired by the philosophy of free movement in the single market programme.

Proposals have also been made for the EU to offer complementary social protection in regions or to social groups most affected by short-term economic crisis, as advocated in the MacDougall report (1977) and by Begg and Mayes (1991). Such schemes, which could take the form of supplementary unemployment benefits, would provide a further layer of social protection, and, at the same time, help to reduce socio-economic differences between EU regions, hence contributing to cohesion. A study of such a scheme in France (Melitz, 1993) suggested that it would find it difficult to avoid two problems. First, if the benefits are to be financially relevant for significantly reducing differentials between regions,

they would become a permanent transfer from rich to poor countries, likely to be politically and socially rejected by richer regions. If, on the contrary, the transfer payments are kept low, and are organised such that they can only be of short duration, then they would have little impact in the recipient areas.

Budgetary constraints have inhibited serious consideration of such proposals since they would imply at least a doubling of the European budget to have a meaningful impact. Moreover, even relatively unambitious schemes would require that the Member States concede a critical point, namely that cross-border transfers for income support rather than structural purposes are justifiable. Many of the richer Member States are strongly opposed to concessions on this principle.

A possible way forward

In considering the merits of greater involvement by the EU in social protection, it has to be recognised that there is no *necessary* link between economic union and social union. An economic space can, in principle, function without any provision for social integration. On any realistic scenario, social protection will remain primarily a competency of the Member States for the next few years. EMU will, however, have a wide-ranging effect on the social and economic landscape that will demand new solutions to the challenges of cohesion and redistribution. How these matters are dealt with will be intimately linked to political choices on what form of Union the EU seeks to become. The Amsterdam Treaty, according to many initial reactions, signals that further assignment of powers to the supranational level will not occur and the publication by the Commission of *Agenda 2000* reinforces this impression.

In these circumstances can a meaningful role for the Union in the field of social protection be envisaged? It is important to recognise, in answering this question, that the constraints are essentially political rather being matters of principle. The preceding discussion has shown that there are compelling arguments for shifting at least some of the functions of social protection to the Union level and that the advent of EMU adds weight to these arguments.

Leaving aside the various (and generally uncontentious) arrangements for exchange of information and the implementation of administrative procedures that allow eligible citizens of one Member State to obtain benefits in another, a number of options can be identified.

A first, relating directly to the macroeconomic consequences of monetary union, would be to establish some form of stabilisation scheme that operated via the social protection system. Commission studies have shown that a relatively modest stabilisation fund of 0.4% of Community GDP would be able to achieve a substantial dampening of asymmetric shocks. These calculations are purely macroeconomic in character and do not depend on the manner in which the flow of funding is spent.

A possible mechanism for securing this stabilisation effect, which has been proposed by various authors, would be to link it explicitly to variations in unemployment. Thus, if the unemployment rate in a region or country were to exceed the Community average by more than a designated amount, this would

trigger a net contribution to that country's unemployment fund. Such an arrangement could be made self-financing by setting it up as an equalisation fund with relatively low unemployment areas as net contributors. There would inevitably be problems associated with the lack of comparability of unemployment figures, but these are not insuperable. The scheme could also be criticised for possessing the wrong incentives in so far as it would penalise successful economic performance, although that is an accepted norm in all Member States.

A second way forward for the union in complementing the actions of Member States in social protection would be to strengthen provisions that affect the mobility of workers. Full harmonisation is, plainly, unattainable, but there are many ways in which obstacles could be diminished, thereby making the single market more effective. Simply having contributions and benefits denominated in Euros will be an important psychological change, but the Commission can also add value by using its regulatory powers where necessary, and by persuasion and exchange of information. More radically, some form of clearing system, as is anticipated for VAT could be put in place to make sure that the burden of social protection is equitably distributed. Longer-term proposals such as the thirteenth (renamed 22nd or 23rd by the time it might be a serious proposition) deserve further scrutiny.

Redistribution of *current* income, as effected in most countries to transfer income from richer to less well-off communities (whether defined in social or regional terms), is not likely to prove acceptable across borders in the EU. The Structural Funds are cross-border payments, but are supposed to be used exclusively for structural purposes, and have regulations framed to this end. They nevertheless establish the principle of cross-border payments for cohesion purposes. If it is accepted that closer union implies that enhanced efforts to promote cohesion, there are ways in which the mandate for the Structural Funds could be extended to encompass some aspects of social protection. One possibility here would be to allow some capital projects related to social protection to be eligible for support from the Structural Funds.

More generally, changing the Union involvement in social protection will call for political imagination and, eventually, action. The lack of cross-border solidarity, understandable concern to retain control over sensitive questions of redistribution in society and worries about inappropriate policy from 'Brussels' are all legitimate reasons for the *status quo*. Equally, EMU and other factors which deepen integration bring closer the day when the arguments for an enhanced Union role in social protection will need to be heeded. For these reasons, the choices made on social protection are likely to be crucial in defining what form of Union evolves in the years to come.

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Closing speeches

Closing Speech

Mrs. Gabrielle CLOTUCHE

*Director for social policy and action
European commission*

Yesterday, some people raised the question of the role of the European Commission in respect of the challenges posed to our systems of social protection.

Allow me, first of all, to respond that the first task of the Commission was, in March of this year, to present the communication which has been the subject of our debate.

And tomorrow? What is to be the follow-up to this wide ranging discussion and our joint reflections?

You know, I am sure, but it is perhaps necessary to remind you that the team responsible within the Commission is a new team.

Many among you still know me as Director General of Social Security in Belgium. In fact, I joined the DGV on 15th July this year.

Rob Cornelissen, well known as "Mr. Regulation 1408/71" is today the head of the unit responsible for this dossier. This change within the DGV took place at the beginning of the year.

During this time, others left the DGV. A new team then - so why not initiate a new stage of cooperation? That is our proposal.

In his opening speech, Commissioner Flynn talked of a "policy partnership" and of a new dynamism in discussion.

Cooperation as partners; cooperation based on two principles:

- convergence, and
- subsidiary.

What does this mean?

Member states and the Commission must act as a team. We have different roles, but a common objective: "monitoring and benchmarking" social protection in Europe.

It is clear that member states remain responsible for the management of their own systems.

At the same time, joint political reflection at a European level is vital.

Yesterday, Professor Pedrosa reminded us extremely well of the role which the Commission was able to play in the moves taken by Portugal to initiate a minimum guaranteed income. He went on by committing us to a European consensus.

Doctor Palme added that the Commission also has a task as advocate. Advocate for which cause?

The debates in which we took part yesterday, over three sessions, brought to light the quest for the thread, which is of wool or of silk, of cotton or of linen, it all depends, thread which one knits, weaves, or crochets, but which we all wear: our "socio-economic European model" ...?

Advocate for the task enunciated in Article 2 of the Treaty :

"The maintenance of a high level of employment and of social protection" - yes.

More precisely, we have heard that problems very often exist in the institutional details of systems. Discussing the future of social protection without having a detailed knowledge of national systems will lead us nowhere.

That is why I would like to get you to share in the ambitions which we have for a group of experts, an informal group but of excellent quality, and with an even greater potential: the group of Directors General of Social Security.

We are convinced of the pivotal role which this group can play in the debate on the future of social protection in Europe. The working methods of this group must become more effective.

How? "Share - deepen - enlarge".

1. Relations between the Directors General and the Commission must become more interactive. A generic dialogue must be established. We must run our meetings to a common agenda.
Up until now, only the Commission prepared the agendas. Of course it is useful that the Commission informs member states of certain work, studies, and so on. But member states also have political priorities which they might wish to discuss. This is a first suggestion for establishing a better exchange of ideas and experience.
2. The second idea consists of deepening the debate on specific subjects. Already this year, two ad hoc groups of experts, expressly mandated by their Directors General, are at work, one on employability, and one on the minimum wage. The experience is fruitful and giving excellent results.
We want to continue on this route, and create ad hoc groups in a systematic manner, with precise mandates.
3. At the same time, we are similarly convinced of the necessity of widening our discussions.
 - a) To enlarge the theme of our discussions: At our last meeting, in October, some people had expressed the desire for an exchange with colleagues in the field of employment. A similar group exists in the field of public health. Once a year (one meeting in three), we shall organise a joint meeting (with the one or the other).
 - b) To widen - in the geographical sense - the scope of our reflection:
 - Regulations to co-ordinate social security systems are already being applied in the European Economic Area. Why not invite to the table the Directors General of Norway, Liechtenstein, and Iceland, as is done at

meetings of our colleagues in the field of employment? And who knows, one day perhaps Switzerland?

- Colleagues in countries which are candidates to join the E. U. (Cyprus, Central and Eastern European countries) are present at this conference; we would envisage informal meetings with them, in the future, to share our knowledge (meetings of experts, but clearly not negotiations).

c) To enlarge the circle of participants:

If there must be a demonstration, then the present conference serves that purpose. But others before it have shown the same.

The practitioners, like the Directors General and ourselves in the Commission, must multiply contacts with representatives from the academic world.

More than ever, we need to listen to and compare our experiences with new ideas which can only come from the world of academic research.

Thus, we would like to create around the team, as a support to the group of Directors General, a network of high-level advisors - a sort of "circle of wise men".

4. I would like, finally, to call upon management and workforce - that they should not be absent from the debate at a European level on social protection - or better still, that the social dialogue should not put social protection to one side. Your presence here leads me to hope that we might find a way of associating - Europe and social protection will be the winners.

5. Amsterdam, finally obliges us not to forget the citizen - civil dialogue can usefully be developed during the course of the second Forum in 1998.

I therefore make an appointment for the Directors General on 21st January next in Brussels to debate these proposals.

In conclusion, I hope that we may be able, with these various measures, to repeat the fruitful experience of this conference in Mondorf.

I thank the Luxembourg Presidency for this excellent initiative and all those present for their participation.

Closing speech

Mrs. Mady DELVAUX-STEHRÉS

*Minister of social security
Luxembourg*

Since I have the pleasure of closing this session, I would like to start by thanking all the speakers, organisers and also the participants in the seminar and also to express my pleasure in seeing representatives of the countries of the European Economic Area and the countries which are applying for membership of the European Union among our number. I believe that this seminar has been an occasion for mutual enrichment. Although I am sorry to say that I have not been able to participate in all the work of the seminar, I am pleased to have a fairly full resume - from what I have been able to understand in the corridors - of what has been discussed over the two days, and I think, Madame President, that you have already reached an initial goal. In fact, in your communication, you said that the Union is an appropriate framework for debates which aim to promote a better mutual understanding of the long term perspectives and identify the common challenges faced by Member States. Therefore, in this sense we can confirm that the seminar has already achieved its aim.

I am not going to draw conclusions, because it is too soon to do this today, but, if you will allow me, I would like to give some initial reactions from a minister who has been in charge of social security for many years, since 1989 to be precise. A small country situated between three neighbours, Luxembourg welcomes many non-Luxembourg residents into its territory. Many people from the French, Belgian and German border areas come to work in Luxembourg every day. Therefore, we understand the difficulties of co-ordinating social security on a daily basis. This is a matter which has not been covered in this seminar. I would like to repeat the invitation made at the beginning of the seminar; if you remember I wished to add this matter to the long list of points for discussion.

To come back to the major questions which were discussed during the seminar, your conclusions propose a return to basics, and I would particularly like to start from the basics. I believe that I can speak for all governments and ministers if I confirm that we cannot envisage a European Union without a social dimension. I am well aware, as we all are, that we are in a difficult situation with regard to the financing of social protection, and the reasons for this have largely been explained. But, you have reminded us on several occasions, already, of the founding texts of the European Community, which aimed at guaranteeing a high level of social protection. I cannot imagine that we will progress in the construction of Europe, achieve an internal market, and introduce a single currency, if we ignore the social dimension of Europe. More than ever, we must insist on the importance of the links of solidarity between social groups. The freeing of markets and free circulation of capital are, perhaps, interesting objectives to be achieved, but there is a risk that the benefits sought will not be achieved if we do not manage to ensure social cohesion in Europe. It will only be through clearer visibility and perception of the

social dimension in the construction of Europe that we will be able to make it possible for citizens to identify with the Europe that we are creating. I would like to join you, therefore, in confirming that, for me, the social dimension is the compulsory departure point for all our deliberations.

Having said this, I do not deny that there are problems, and that we must try to resolve them and discuss them together; this is why I would like to support the call that Madame Clotuche made for the collaboration of social partners. Mr. Hansen's speech particularly stirred me and I would like to come back to this, not to say that I did not understand the significance of his words, but to say that I find it difficult to understand his position, at least as I interpret it.

It seems incomprehensible to me that employers, after having noted briefly that social protection is too expensive in Europe, withdraw and leave others with the responsibility of looking for solutions to reorganise the existing systems. I believe, in fact, that employers have an obligation not just to concern themselves with the competitiveness of the economy, but that, in the European social model, they have a role to play in the creation and management of social protection. I believe that the most dangerous route is that of each person passing this responsibility to someone else, and leaving the common route of maintaining and consolidating social cohesion in Europe. Therefore, I believe that we should immediately try to find a common solution, with governments and social partners working together.

The first remark that I would like to make with regard to the discussions which I was able to hear, is that, in my opinion, we need to clarify our ideas. I appreciate many of the speeches, but, although I have not heard them all, I have the impression that we are often talking at cross purposes. Even though we have a common aim, we also need to create a common language and common ideas, to avoid the misunderstandings, which I think I have noted.

For example, in trying to find my way through the terms used, I have to admit that social protection is a wider concept than social security, a term which we tend to use in my country and many others.

Then we spoke of the dimension of citizenship, a notion which, in my opinion, goes beyond what we all call social protection. But I get lost when we confuse what we call social security, which confers a right on every insured person, regardless of their income, to social assistance which, in my understanding, involves a means test before allocation of benefits.

Therefore, if we wish to find a common language, in my opinion, we need to clarify the concepts first. The idea of bench-marking is on the agenda; but I am wondering what we are comparing, if nothing is comparable to start with. It seems to me that we need to define our ideas and use the same terminology as a basis for all our future work.

I thought I heard, during the speeches, that there was a consensus requesting a modernisation and adaptation of our system, I no longer dare say of social security, but rather of social protection. The question has been raised of whether we need to include new requirements in these systems. If I take the example of Luxembourg, I can say that we are faced, like every other European country, with the effects of an aging population on the cost of old-age protection; this same aging is increasing the costs of health protection and places great emphasis on the question of taking

responsibility for dependency services. These are the key points of our discussions, and I believe that the same is true in most European countries.

On the other hand, we must take advantage, in our traditional systems, of matters relating to single parent families and I am referring to everything which has been said relating to the care of children. We must reach agreement on whether this is part of traditional social protection or whether this matter is slightly different. In my opinion, if there is a generation contract to be maintained, this must not be one-sided, but it must work both ways. On this matter, we must broaden our ideas and conclude a new social contract between the generations.

I do not wish to insist, today, on matters of finance, as they appear in each country, and on the question of whether finance should come from contributions or taxes. I am inclined to go back to the employers' position, saying that it really doesn't matter if it is always the same people who pay, whether this is through the bias of contributions or that of taxes. We must find another way of financing social protection other than through charges on employment. If we want to stop the movement towards social dumping, a lowering of protection for workers and social cover for citizens, I believe that we must also discuss how to avoid unhealthy competition in the tax field. The two matters are linked.

First, we must clarify the ideas, then undertake to carry out a reform and modernisation of social security by carefully targeting the groups that we wish to reach. The organisation of social security certainly includes an element of redistributing riches, but I remain entirely convinced that the effects of social security must not be limited to the worst off; on the contrary, if the idea of solidarity which underlies social security is to be acceptable to us, the circle of beneficiaries must not be limited to the group which is worst off, but must be extended to cover all citizens. The day before yesterday, it was said that the global cost of expenses which we call social security does not vary much from one continent to another, but that the method of financing these expenses is different. We must, therefore, work together to find the most intelligent way of financing the most efficient social protection.

I would like to encourage the Commission, in its propositions, I would like to congratulate the new team set up and encourage it and, in particular, I would like to encourage it to put social security on the agenda as often as possible. I have, for several years, participated in the Council of Ministers for Social Affairs and Employment, and I note that there are few discussions which relate to social security. This means that social security ministers all remain in their countries, alone with their problems, often without knowing what is going on in neighbouring countries. You have said during the seminar that reciprocal information is a minimum objective which you have fixed yourselves and I believe that I can say that this minimum has not been achieved at the level of social security in Europe.

Starting from this point, we can build what could be a common policy. One final word on common action, since I have discerned certain fears and certain misunderstandings. I am convinced that we can bring an action at the level of the Union without that necessarily meaning the undertaking of enormous community credits. We will not make great progress unless we limit ourselves to a discussion of community programmes, whether they are costly or not. An undertaking of 25 million Ecus in a fight to combat unemployment is not bad, but we all know that this

is not the efficient way to overcome unemployment. There will, moreover, always be one Member State which declares that it is not ready to invest, even one million Ecus, in financing a programme if it does not know whether or not it will be efficient. I am, therefore, asking for a realistic policy, so that we can get out of the existing situation.

Social security, in the same way as employment, falls under the competence of Member States and we must find the areas in which the European Union can offer added value. One of the methods we have and which we tend to ignore in terms of policies, is legislating together. We can fix a number of criteria, starting, if necessary, from codes of good conduct, and agree to apply them, but without forgetting that, where necessary, we can take legislative measures which can be imposed to reach the objectives we have fixed ourselves.

Well, Madam President, I hope I have not been too long-winded. To finish, I would like to reiterate my thanks to all the participants and particularly to wish you courage and energy, both yourselves and the experts; there is a lot of work ahead of us.

Thank you.

TABLE OF CONTENTS

	Page
Speech of welcome	
Mrs. Mady DELVAUX-STEHRÉS.....	3
Opening address	
Mr. Jean-Claude JUNCKER.....	5
Opening address	
Mr. Padraig FLYNN.....	11
Does social protection jeopardize european competitiveness?	
Prof. Anthony B. ATKINSON.....	19
Employment and social security: is there a trade-off?	
Prof. Dr. Johann EEKHOF.....	29
Can European union maintain a high level of social protection?	
Mr. Kari VÄLIMÄKI.....	35
To provide security in a flexible economy	
Prof. Robert SALAIS.....	43
Archieving integration of all within society	
Dr. Paulo PEDROSO.....	59
Social security in European societies tomorrow, what for?	
Mr. Karl-Gustav SCHERMAN.....	63

Speech by

Mr Juan Antonio APARICIO PEREZ.....69

To find the right balance between contributive and non-contributive schemes

Dr. Joakim PALME.....73

Old-age provisions - financed by contribution or tax?

Reforms and reform discussions in Germany

Prof. Dr. Franz RULAND.....83

Modernising the institutions of European social insurance

Prof. Maurizio FERRERA.....93

Individualising rights and maintaining solidarity

Mrs Nicole KERSCHEN.....103

Can the idea of benchmarking be applied to social protection?

Prof. Dr. Jos BERGHMAN.....119

Social protection within the economic and monetary union

Prof. Iain BEGG.....131

How can the Union support and enrich the activities of its member states in the field of social security

Mr. Jean-Michel BELORGEY.....143

Round-table statement

Dr. Volker HANSEN.....151

Round-table statement

Mrs. Béatrice HERTOGS.....155

General report

Mr. Yves CHASSARD.....159

Closing speech

Mrs. Gabrielle CLOTUCHE.....169

Closing speech

Mrs. Mady DELVAUX-STEHRÉS.....173

General report

Mr. Yves CHASSARD

*Director for studies
Bernard Brunhes International
Paris*

The conference was divided into four sessions. The first three were devoted to discussing the challenges the European social protection systems currently face, and the way they respond to them. Their common agenda was in fact *the search for the characteristics of the European social model*. The fourth one debated the question of how the Union should support and complement the activities of the Member States in the social protection field.

Can the European Union maintain a high level of social protection?

The *first session*, chaired by Mr. Stephen HUGHES, Chairman of the Employment and Social Affairs Committee of the European Parliament, discussed economic issues. Can the European Union maintain a high level of social protection? Does social protection jeopardize European competitiveness? Is there a trade-off between social protection and employment? Mr. Kari VÄLIMÄKI, Director General, Finance and Planning Department, Ministry of Social Affairs and Health in Finland discussed the two keynote speeches.

Dr. Johann EEKHOFF, former Secretary of State and Professor at the University of Köln, argued that highly developed social protection systems do create a number of distortions in the labour market and are indirectly responsible for the high level of unemployment in Europe. He advocated a deep reform centered upon the idea of targeting benefits on the most needy, which would transfer responsibility to the citizen and leave a greater room for individual savings. Professor Anthony B. ATKINSON, from Nuffield College, Oxford, argued on the contrary that one could find very little evidence of a negative impact of social protection on growth and employment. Before threatening the living standards and security of millions of people, European governments need to be firmly convinced that social protection can be blamed for jeopardizing Europe's competitiveness. The case is at present far from being proved beyond reasonable doubt. At a theoretical level, the impact depends on the institutional structure; the empirical evidence is mixed and can be interpreted in different ways.

If there is no trade-off between social protection and employment, there may be an increasing trade-off between social protection entitlements and workers' take home pay. Econometric evidence has shown that, in a number of countries, any increase in employers' as well as employees social security contributions tends now to be offset by a reduction in net wages, rather than by a reduction in firms'

profits or a raise in prices of goods and services. It appears then more clearly than workers do support the burden of any additional cost of social protection. The political consequences of that change could be very important and should be taken into account when addressing the improvement and modernisation agenda.

Social protection in Europe to-morrow: what for?

The *second session*, chaired by Mrs. Eleonore HOSTASCH, Minister for Social Affairs in Austria, was devoted to a debate on the needs for social protection within European society to-morrow. Dr. Paulo PEDROSO, advisor to the Minister for Social Affairs of Portugal gave some reflections on how to achieve integration of all within society and Prof. Robert SALAIS, from the Institute for Research into Contemporary Society in Paris, presented some views on how to provide security within flexible economies. These two contributions were discussed both by Mr. Karl-Gustav SCHERMAN, President of the International Social Security Association (ISSA) and by Mr. Juan Antonio APARICIO PÉREZ, Secretary of State for Social Security in Spain.

A long-lasting debate tends to oppose two approaches of the European social model and the relationship between the social and economic spheres. The first one considers that it is neither desirable nor possible to try to curve the rules of the market economy, and that there is no way out of accepting the economic change (globalisation, information society...) and adapting social protection to that change. The second one insists on being concerned not only by the requirements of economy but also by workers' rights and citizenship.

The discussions during that second session have resulted in a large consensus, based on SALAIS' analysis. To the function of securing a minimum standard of living, which is classically expected of social security systems, the need for economic flexibility adds the objective of maintaining and developing the capacities of people during their life cycle. In a flexible economy, a concern regarding human capital become primary and the only way to achieve economic growth in Europe is to enhance its human capital. Therefore there should be no conflict between economic and social goals, no conflict between social rights and the sustainability of the welfare system.

At the same time, the development of European society leads to new needs for protection and security:

- Longevity is no longer a major risk, but the risk of becoming unemployable after 55 becomes real.
- The nature of unemployment has changed: it is no longer just an effort of geographical mobility which is expected from those who lose their job; a growing proportion of them has to undertake an effort of skills' mobility to get a chance to re-enter the labour market.
- New patterns of poverty are spreading out, even in southern Member States, which require the design of specific integration policies.
- And finally, a new genuine risk is appearing: the risk of being unable to perform flexible work, due to a lack of capacity to master the uncertainty of markets and production situations.

To increase one's capacity to perform flexible work, one has to be able to learn from exposure to events. More than a framework of *protection* against the consequences of uncertainty, the flexible worker needs a framework of *security* in front of events, which gives the individual the opportunity at any time to make long-term forecasts. A convention of confidence in the work situation can only work if the worker is guaranteed that his or her life's ambitions remain feasible.

SALAIIS proposes a new path for reducing individual and collective vulnerability in front of economic events: to lead an employment policy centered upon people's paths of life and work, substituting aids to the individual for aids to the job. He argues that efficient flexibility in European economies must combine the exercise of effective freedom and changes of work. It is in this direction that the still formal development of individual rights guaranteed at a European level may take place. Using a concept already put forward by Alain SUPIOT, he proposes to guarantee some *social drawing rights*. The individual would build up a credit, the provisions of which he would be free to use at various moments of his or her life. Hence, this approach would permit to reconcile the two above-mentioned approaches of the European social model: the one centered upon the *adaptation to the economic requirements* and the other centered upon *rights*.

Modernising European social protection systems; the key strategic choices

The contributions to the *third session* of the conference, chaired by Mr. Frank FIELD, Minister for Social Security, United Kingdom, invited to qualify the outcome of the second session.

If the European model for social protection is still unclear, the anti-model is clear. Prof. Maurizio FERRERA from the University of Pavia described the "maladjustment spiral" and the "internal entrapment" of social protection systems, particularly in southern Europe, where there is evidence of an overaccumulation of insurance benefits on the side of "guaranteed workers", with quasi-tenured jobs, paralleled by inadequate - if not total - lack of protection for those people who are employed in the outer, weaker sectors of the labour market. Hence, standard risks become poorer indicators of needs and families react through a number of perverse adaptations: a frantic search for any possible anchor with the insider world, the exploitation of all possible niches in the black economy and a decline of reproductive behaviour.

Is there a way out of this institutional decay? FERRERA sees a possible strategy of "*risanamento*" (restoring to health) which would imply, for example, in the case of pension insurance a shift from "defined benefits" to "defined contributions" formulas. Such a closer link between contributions and benefits, already under way in reforms recently adopted in Finland, Italy and Sweden, would allow de-constructing the logic of automatic entitlement and disactivate the perverse structure of incentives which lock all relevant actors inside the spiral.

This *trend towards more contributory programmes* is considered as being well suited to the current state of European societies. Prof. Dr. Franz RULAND, from the University of Frankfurt, reported that a tax-financed basic pension has once again

been refused in Germany. While those who pay contributions cover themselves, and their dependants, taxes will be paid in favour of an anonymous generality. If the contribution principle was given up, then the flight into black economy would take on greater dimensions, as one would in any event receive the basic benefits independently of tax payment and need. Opportunities to save on tax would gain in significance and the injustice currently discernible in the German tax system would be intensified, if old-age provisions were also financed through it.

Dr. Joakim PALME, from the Swedish Institute for Social research, backed that view, when stating that the contributory principle has gained relevance since most people are employed. However, both contributory and non-contributory benefits should be included in the statutory system of social protection. The social protection budget is not fixed but dependent on the content of the entire system: the better the social protection offered by the system, the stronger the willingness to pay. It is an advantage to combine earnings-related and residence-based benefits. Such a strategy coupled with an individualisation of rights will also support the gender and employment issues.

Nicole KERSCHEN, from the National Centre for Scientific Research, France, discussed the individualisation issue: how to individualise rights while maintaining solidarity? She points that the analysis of recent social protection reforms in Europe shows no clear tendency towards greater individualisation of rights. Moreover, certain recent reforms mark a reverse tendency, e.g. systems based on individualised universal rights being modified by the introduction of a means test.

The general debate, which ended this third session, revealed a large consensus on the most desirable trend for developing European social protection systems. Given both the difficulties to fund the welfare systems and the current rate of unemployment all over the Union, *universal non-contributory models are no longer sustainable* and tend to be replaced by *contributory schemes completed by means-tested programmes*, for those whose contribution records are insufficient.

One can point, however, two difficulties as a consequence of this trend. The first one comes from the magnitude of non-wage labour costs associated to social protection systems based on the contributory principle. There is clearly a contradiction between that trend towards more contributory schemes and the objective of reducing non-wage labour costs. Both the Council and the Commission have proposed such a reduction as one of the key actions of the European employment strategy, which was defined in Essen in 1994 and has been endorsed since then at each European Council. As stated in the Joint Employment Report 1997 (page 11), "while there is evidence that the high tax burden on labour has militated against recruitment of workers... few Member States have undertaken a thorough overhaul of the tax system in order to make it more employment-friendly". This contradiction between the *internal logic of development of social protection systems* and the *requirements of employment policy* should be worked out in the future.

The second difficulty comes from the growing need to provide the unemployed with a support for integrating the labour market. Significant proportions of them find themselves in a situation where, due to insufficient contribution records, they turn rapidly from insurance compensation schemes to assistance schemes. This early shift from insurance to assistance may increase the difficulties of the unemployed,

if it causes them to be rejected from the labour market and lacking in hope and social confidence. Recent experience in Denmark has shown the effectiveness of an integrated compensation scheme as an element of an active labour market policy.

At the end of his paper, Maurizio FERRERA proposed a far reaching "*rifacimento*" (refoundation) of European welfare states, aimed at creating a new institutional "core" based on a universal and unconditional guarantee to a citizenship income, a universal "health promotion" guarantee and a universal package of "human capital" guarantee, offering opportunities for life-long learning, education and training. Starting from a totally different context, his proposal resembles SALAIS' proposal for *social drawing rights*. Both of them design a system rather different from those, which are currently being built. They may be worth some further reflections.

What should the Union do to support and complement the activities of the member States?

The *fourth session*, chaired by Mrs. Gabrielle CLOTUCHE, Director for Social Policy and Action, DGV, European Commission, discussed the role of the Union in the social protection field. Prof. Jos BERGHMAN, from the University of Tilburg, proposed in his paper an attempt for a valid approach to *benchmarking with respect to social protection*.

Prof. Iain BEGG, from South Bank University in London, looked at the possible impact of the forthcoming achievement of the *Economic and Monetary Union* (EMU) and Mr. Jean-Michel BELORGEY, from the French Conseil d'Etat, discussed the impact on social protection of establishing a *Union of citizens*.

The new Treaty of Amsterdam, when it is ratified, will incorporate the so-called "social protocol" adopted in Maastricht. Then, the Community will get explicit competence to adopt, by means of Directives, minimum requirements for gradual implementation in the following fields: "the integration of persons excluded from the labour market" and "social security and social protection of workers". In the latter field, unanimity will be required, while in the former these Directives may be adopted at the qualified majority.

Should there be a greater involvement by the EU in the field of social protection? It has to be recognised that there is no necessary link between economic integration and social integration. An economic union can, in principle, function without any provision for social integration. EMU will, however, have a wide-ranging effect on the social and economic landscape that will demand new solutions to the challenges of cohesion and redistribution.

To investigate to what extent there is a case for any new action at Community level, one should consider the *social consequences of the economic integration process* within the Community. At the end of the 80's, the reflections and discussions based on the "Social Dimension of the Internal Market" had led to the following conclusion: the completion of the internal market -namely, the free movement of goods, capitals and workers and free provision of services - can fully accommodate with each Member State keeping responsibility for the design, the

organisation and the financing of its own social protection system; consequently, *there is no case for any harmonisation* of these systems but the Union should foster the *convergence of Member states' policies* in the social protection field.

From the adoption of the Convergence Recommendation by the Council in July 1992, the Commission tried to organise the exchange of information between Member States. This agenda was coherent with the convergence strategy: once common objectives are agreed, common references can be used to assess the outcomes of reforms. However, exchanging experiences -not only information - is a difficult task. It requests a lot of refinement of the raw information in order to extract what is useful for other Member States.

The Commission tried to go further and better integrate this European strategy for social protection into the bulk of the employment strategy, which the Council had endorsed by at the Essen European Council and which led to the new Title on Employment in the draft Amsterdam Treaty. The Commission proposed to open a European debate on the future of social protection (October 1995 Communication), which triggered a lively debate in 1996 and led to the March 1997 Communication "Modernising and Improving Social Protection in the European Union". In this Communication, the Commission proposed a working agenda based on the analysis of the common trends which structure the background in which European social protection systems operate: the change in the nature of work, the ageing of the population, the change in the gender balance within society and the new patterns of workers' migrations throughout the EU. Doing so, the Commission proposed a framework for *improving and modernising social protection* in Europe; but this framework, if it tends to be comprehensive, is still too general to feed in practice the modernisation process within Member States.

Should the Commission go further? First of all, this European framework should be further disseminated throughout the Union, with a view to being actually taken into account in the national debates. A number of Member States have recently set up ad hoc specific committees to investigate the way forward reforms in the field of social security. Both the Commission's services and the Group of Directors General for Social Security should find practical means for ensuring that reflections made at Community level are sufficiently considered by Member States, when they launch a debate on social security.

At the same time, it could also be appropriate to deepen the convergence strategy and to try to link it more closely with the development of the European employment policy, in line with the provisions of the Amsterdam Treaty on employment. After all, the *benchmarking exercise* that has been implemented for employment issues is not very different from the promotion of a *convergence of social protection policies towards common objectives*. Both of them are based on the same principle: to set common objectives and indicators for gradually building a common policy. Should the Union go on with the idea of setting common objectives for social protection policies? One could imagine to embark in a process of revisiting the 1992 objectives, with a view to integrating the reflections that have been developed for two or three years, especially the need to "activate" the social protection benefits, e.g. to provide beneficiaries not only with cash benefits but also with both incentives and opportunities to get fully integrated within society. This idea was already set in the 1992 Recommendation, but it has been worked out a lot

since then. Integrating more targeted objectives within a new Council Recommendation would give them a new momentum.

The EU has entered a new phase of integration within Member States economies. After the "objective 1992" period and the achievement of the internal market, another period begun since 1995 and the enlargement to Austria, Finland and Sweden. This new period is characterised by a double perspective. On the one hand, it is pretty sure now that the EMU will be implemented in due time and most probable that most Member States will join since the beginning. On the other hand, the first stage of negotiations for a future enlargement will begin in a few months time with six countries (Hungary, Poland, Estonia, Czech Republic, Slovenia and Cyprus) and the European Commission has already designed a pre-accession strategy.

Neither the consequences of EMU, nor the impact of enlargement to central and Eastern Europe countries (CEECs) on national social protection systems have yet been fully measured. Will EMU increase the magnitude of workers' migrations within current borders of the EU? Will the enlargement lead to important migration flows from the East to the West? In the past, both the fear of a "tourism of benefits" and the fear of distortions of competition between firms due to unequal rates of social security contributions, have been driving forces towards an harmonisation agenda, while the willingness of each Member State to keep responsibility on its own system acted in the opposite direction.

Will these fears become stronger, once EMU is achieved and the enlargement process is completed? A common currency will facilitate country to country comparisons between the level of benefits. It may create new incentives for tourism of benefits. The 1990 Community Directives adopted in June 1990 and governing the right of residence in another Member State of the Union have set clearly that a condition for getting that right was to make the proof that one should not be in a position to be supported by the welfare state in the host country. The underlying principle was that of contributory social protection systems, in which each worker can bring his or her acquired rights when moving to another Member State. But this principle is difficult to accommodate with reality. It may happen, for example, that someone becomes unemployed after a durable working spell in another Member State and do not find a new job during the time (s)he receives *social insurance* benefits in the host country. Will he or she qualify for getting *social assistance* benefits, and - even more importantly - for benefiting by *active measures* designed to help the unemployed re-enter the labour market? What will be the answer to that question, if migration flows within the Union turn to be much higher than they are now?

At the same time, the enlargement of the single market to the CEECs, where labour costs still are much lower than in most current EU Member States, will draw attention to differences in social charges and non-wage labour costs. The fear of de-location of activities may become a highly sensitive issue among European public opinion. Greater attention may be paid to the differences of mandatory social security contributions between the Member States who have kept a highly developed first pillar of social security, and those who have re-structured their social protection system and given greater space to a more flexible second pillar of occupational schemes.

In front of these challenges, a claim for more harmonisation of social protection systems may receive a new impetus in the near future. The European Commission should prepare to that eventuality and explore possible ways of reconciling this claim for harmonisation with the legitimate concern of Member States not to let the dynamic of the internal market hinder their social protection systems.

Closing speeches

Closing Speech

Mrs. Gabrielle CLOTUCHE

*Director for social policy and action
European commission*

Yesterday, some people raised the question of the role of the European Commission in respect of the challenges posed to our systems of social protection.

Allow me, first of all, to respond that the first task of the Commission was, in March of this year, to present the communication which has been the subject of our debate.

And tomorrow? What is to be the follow-up to this wide ranging discussion and our joint reflections?

You know, I am sure, but it is perhaps necessary to remind you that the team responsible within the Commission is a new team.

Many among you still know me as Director General of Social Security in Belgium. In fact, I joined the DGV on 15th July this year.

Rob Cornelissen, well known as "Mr. Regulation 1408/71" is today the head of the unit responsible for this dossier. This change within the DGV took place at the beginning of the year.

During this time, others left the DGV. A new team then - so why not initiate a new stage of cooperation? That is our proposal.

In his opening speech, Commissioner Flynn talked of a "policy partnership" and of a new dynamism in discussion.

Cooperation as partners; cooperation based on two principles:

- convergence, and
- subsidiary.

What does this mean?

Member states and the Commission must act as a team. We have different roles, but a common objective: "monitoring and benchmarking" social protection in Europe.

It is clear that member states remain responsible for the management of their own systems.

At the same time, joint political reflection at a European level is vital.

Yesterday, Professor Pedrosa reminded us extremely well of the role which the Commission was able to play in the moves taken by Portugal to initiate a minimum guaranteed income. He went on by committing us to a European consensus.

Doctor Palme added that the Commission also has a task as advocate. Advocate for which cause?

The debates in which we took part yesterday, over three sessions, brought to light the quest for the thread, which is of wool or of silk, of cotton or of linen, it all depends, thread which one knits, weaves, or crochets, but which we all wear: our "socio-economic European model" ...?

Advocate for the task enunciated in Article 2 of the Treaty :

"The maintenance of a high level of employment and of social protection" - yes.

More precisely, we have heard that problems very often exist in the institutional details of systems. Discussing the future of social protection without having a detailed knowledge of national systems will lead us nowhere.

That is why I would like to get you to share in the ambitions which we have for a group of experts, an informal group but of excellent quality, and with an even greater potential: the group of Directors General of Social Security.

We are convinced of the pivotal role which this group can play in the debate on the future of social protection in Europe. The working methods of this group must become more effective.

How? "Share - deepen - enlarge".

1. Relations between the Directors General and the Commission must become more interactive. A generic dialogue must be established. We must run our meetings to a common agenda.
Up until now, only the Commission prepared the agendas. Of course it is useful that the Commission informs member states of certain work, studies, and so on. But member states also have political priorities which they might wish to discuss. This is a first suggestion for establishing a better exchange of ideas and experience.
2. The second idea consists of deepening the debate on specific subjects. Already this year, two ad hoc groups of experts, expressly mandated by their Directors General, are at work, one on employability, and one on the minimum wage. The experience is fruitful and giving excellent results.
We want to continue on this route, and create ad hoc groups in a systematic manner, with precise mandates.
3. At the same time, we are similarly convinced of the necessity of widening our discussions.
 - a) To enlarge the theme of our discussions: At our last meeting, in October, some people had expressed the desire for an exchange with colleagues in the field of employment. A similar group exists in the field of public health. Once a year (one meeting in three), we shall organise a joint meeting (with the one or the other).
 - b) To widen - in the geographical sense - the scope of our reflection:
 - Regulations to co-ordinate social security systems are already being applied in the European Economic Area. Why not invite to the table the Directors General of Norway, Liechtenstein, and Iceland, as is done at

meetings of our colleagues in the field of employment? And who knows, one day perhaps Switzerland?

- Colleagues in countries which are candidates to join the E. U. (Cyprus, Central and Eastern European countries) are present at this conference; we would envisage informal meetings with them, in the future, to share our knowledge (meetings of experts, but clearly not negotiations).

c) To enlarge the circle of participants:

If there must be a demonstration, then the present conference serves that purpose. But others before it have shown the same.

The practitioners, like the Directors General and ourselves in the Commission, must multiply contacts with representatives from the academic world.

More than ever, we need to listen to and compare our experiences with new ideas which can only come from the world of academic research.

Thus, we would like to create around the team, as a support to the group of Directors General, a network of high-level advisors - a sort of "circle of wise men".

4. I would like, finally, to call upon management and workforce - that they should not be absent from the debate at a European level on social protection - or better still, that the social dialogue should not put social protection to one side. Your presence here leads me to hope that we might find a way of associating - Europe and social protection will be the winners.
5. Amsterdam, finally obliges us not to forget the citizen - civil dialogue can usefully be developed during the course of the second Forum in 1998. I therefore make an appointment for the Directors General on 21st January next in Brussels to debate these proposals.
In conclusion, I hope that we may be able, with these various measures, to repeat the fruitful experience of this conference in Mondorf.

I thank the Luxembourg Presidency for this excellent initiative and all those present for their participation.

Closing speech

Mrs. Mady DELVAUX-STEHRÉS

*Minister of social security
Luxembourg*

Since I have the pleasure of closing this session, I would like to start by thanking all the speakers, organisers and also the participants in the seminar and also to express my pleasure in seeing representatives of the countries of the European Economic Area and the countries which are applying for membership of the European Union among our number. I believe that this seminar has been an occasion for mutual enrichment. Although I am sorry to say that I have not been able to participate in all the work of the seminar, I am pleased to have a fairly full resume - from what I have been able to understand in the corridors - of what has been discussed over the two days, and I think, Madame President, that you have already reached an initial goal. In fact, in your communication, you said that the Union is an appropriate framework for debates which aim to promote a better mutual understanding of the long term perspectives and identify the common challenges faced by Member States. Therefore, in this sense we can confirm that the seminar has already achieved its aim.

I am not going to draw conclusions, because it is too soon to do this today, but, if you will allow me, I would like to give some initial reactions from a minister who has been in charge of social security for many years, since 1989 to be precise. A small country situated between three neighbours, Luxembourg welcomes many non-Luxembourg residents into its territory. Many people from the French, Belgian and German border areas come to work in Luxembourg every day. Therefore, we understand the difficulties of co-ordinating social security on a daily basis. This is a matter which has not been covered in this seminar. I would like to repeat the invitation made at the beginning of the seminar; if you remember I wished to add this matter to the long list of points for discussion.

To come back to the major questions which were discussed during the seminar, your conclusions propose a return to basics, and I would particularly like to start from the basics. I believe that I can speak for all governments and ministers if I confirm that we cannot envisage a European Union without a social dimension. I am well aware, as we all are, that we are in a difficult situation with regard to the financing of social protection, and the reasons for this have largely been explained. But, you have reminded us on several occasions, already, of the founding texts of the European Community, which aimed at guaranteeing a high level of social protection. I cannot imagine that we will progress in the construction of Europe, achieve an internal market, and introduce a single currency, if we ignore the social dimension of Europe. More than ever, we must insist on the importance of the links of solidarity between social groups. The freeing of markets and free circulation of capital are, perhaps, interesting objectives to be achieved, but there is a risk that the benefits sought will not be achieved if we do not manage to ensure social cohesion in Europe. It will only be through clearer visibility and perception of the

social dimension in the construction of Europe that we will be able to make it possible for citizens to identify with the Europe that we are creating. I would like to join you, therefore, in confirming that, for me, the social dimension is the compulsory departure point for all our deliberations.

Having said this, I do not deny that there are problems, and that we must try to resolve them and discuss them together; this is why I would like to support the call that Madame Clotuche made for the collaboration of social partners. Mr. Hansen's speech particularly stirred me and I would like to come back to this, not to say that I did not understand the significance of his words, but to say that I find it difficult to understand his position, at least as I interpret it.

It seems incomprehensible to me that employers, after having noted briefly that social protection is too expensive in Europe, withdraw and leave others with the responsibility of looking for solutions to reorganise the existing systems. I believe, in fact, that employers have an obligation not just to concern themselves with the competitiveness of the economy, but that, in the European social model, they have a role to play in the creation and management of social protection. I believe that the most dangerous route is that of each person passing this responsibility to someone else, and leaving the common route of maintaining and consolidating social cohesion in Europe. Therefore, I believe that we should immediately try to find a common solution, with governments and social partners working together.

The first remark that I would like to make with regard to the discussions which I was able to hear, is that, in my opinion, we need to clarify our ideas. I appreciate many of the speeches, but, although I have not heard them all, I have the impression that we are often talking at cross purposes. Even though we have a common aim, we also need to create a common language and common ideas, to avoid the misunderstandings, which I think I have noted.

For example, in trying to find my way through the terms used, I have to admit that social protection is a wider concept than social security, a term which we tend to use in my country and many others.

Then we spoke of the dimension of citizenship, a notion which, in my opinion, goes beyond what we all call social protection. But I get lost when we confuse what we call social security, which confers a right on every insured person, regardless of their income, to social assistance which, in my understanding, involves a means test before allocation of benefits.

Therefore, if we wish to find a common language, in my opinion, we need to clarify the concepts first. The idea of bench-marking is on the agenda; but I am wondering what we are comparing, if nothing is comparable to start with. It seems to me that we need to define our ideas and use the same terminology as a basis for all our future work.

I thought I heard, during the speeches, that there was a consensus requesting a modernisation and adaptation of our system, I no longer dare say of social security, but rather of social protection. The question has been raised of whether we need to include new requirements in these systems. If I take the example of Luxembourg, I can say that we are faced, like every other European country, with the effects of an aging population on the cost of old-age protection; this same aging is increasing the costs of health protection and places great emphasis on the question of taking

responsibility for dependency services. These are the key points of our discussions, and I believe that the same is true in most European countries.

On the other hand, we must take advantage, in our traditional systems, of matters relating to single parent families and I am referring to everything which has been said relating to the care of children. We must reach agreement on whether this is part of traditional social protection or whether this matter is slightly different. In my opinion, if there is a generation contract to be maintained, this must not be one-sided, but it must work both ways. On this matter, we must broaden our ideas and conclude a new social contract between the generations.

I do not wish to insist, today, on matters of finance, as they appear in each country, and on the question of whether finance should come from contributions or taxes. I am inclined to go back to the employers' position, saying that it really doesn't matter if it is always the same people who pay, whether this is through the bias of contributions or that of taxes. We must find another way of financing social protection other than through charges on employment. If we want to stop the movement towards social dumping, a lowering of protection for workers and social cover for citizens, I believe that we must also discuss how to avoid unhealthy competition in the tax field. The two matters are linked.

First, we must clarify the ideas, then undertake to carry out a reform and modernisation of social security by carefully targeting the groups that we wish to reach. The organisation of social security certainly includes an element of redistributing riches, but I remain entirely convinced that the effects of social security must not be limited to the worst off; on the contrary, if the idea of solidarity which underlies social security is to be acceptable to us, the circle of beneficiaries must not be limited to the group which is worst off, but must be extended to cover all citizens. The day before yesterday, it was said that the global cost of expenses which we call social security does not vary much from one continent to another, but that the method of financing these expenses is different. We must, therefore, work together to find the most intelligent way of financing the most efficient social protection.

I would like to encourage the Commission, in its propositions, I would like to congratulate the new team set up and encourage it and, in particular, I would like to encourage it to put social security on the agenda as often as possible. I have, for several years, participated in the Council of Ministers for Social Affairs and Employment, and I note that there are few discussions which relate to social security. This means that social security ministers all remain in their countries, alone with their problems, often without knowing what is going on in neighbouring countries. You have said during the seminar that reciprocal information is a minimum objective which you have fixed yourselves and I believe that I can say that this minimum has not been achieved at the level of social security in Europe.

Starting from this point, we can build what could be a common policy. One final word on common action, since I have discerned certain fears and certain misunderstandings. I am convinced that we can bring an action at the level of the Union without that necessarily meaning the undertaking of enormous community credits. We will not make great progress unless we limit ourselves to a discussion of community programmes, whether they are costly or not. An undertaking of 25 million Ecus in a fight to combat unemployment is not bad, but we all know that this

is not the efficient way to overcome unemployment. There will, moreover, always be one Member State which declares that it is not ready to invest, even one million Ecus, in financing a programme if it does not know whether or not it will be efficient. I am, therefore, asking for a realistic policy, so that we can get out of the existing situation.

Social security, in the same way as employment, falls under the competence of Member States and we must find the areas in which the European Union can offer added value. One of the methods we have and which we tend to ignore in terms of policies, is legislating together. We can fix a number of criteria, starting, if necessary, from codes of good conduct, and agree to apply them, but without forgetting that, where necessary, we can take legislative measures which can be imposed to reach the objectives we have fixed ourselves.

Well, Madam President, I hope I have not been too long-winded. To finish, I would like to reiterate my thanks to all the participants and particularly to wish you courage and energy, both yourselves and the experts; there is a lot of work ahead of us.

Thank you.

TABLE OF CONTENTS

	Page
Speech of welcome	
Mrs. Mady DELVAUX-STEHRÉS.....	3
Opening address	
Mr. Jean-Claude JUNCKER.....	5
Opening address	
Mr. Padraig FLYNN.....	11
Does social protection jeopardize european competitiveness?	
Prof. Anthony B. ATKINSON.....	19
Employment and social security: is there a trade-off?	
Prof. Dr. Johann EEKHOFF.....	29
Can European union maintain a high level of social protection?	
Mr. Kari VÄLIMÄKI.....	35
To provide security in a flexible economy	
Prof. Robert SALAIS.....	43
Archieving integration of all within society	
Dr. Paulo PEDROSO.....	59
Social security in European societies tomorrow, what for?	
Mr. Karl-Gustav SCHERMAN.....	63

Speech by

Mr Juan Antonio APARICIO PEREZ.....69

To find the right balance between contributive and non-contributive schemes

Dr. Joakim PALME.....73

Old-age provisions - financed by contribution or tax?

Reforms and reform discussions in Germany

Prof. Dr. Franz RULAND.....83

Modernising the institutions of European social insurance

Prof. Maurizio FERRERA.....93

Individualising rights and maintaining solidarity

Mrs Nicole KERSCHEN.....103

Can the idea of benchmarking be applied to social protection?

Prof. Dr. Jos BERGHMAN.....119

Social protection within the economic and monetary union

Prof. Iain BEGG.....131

How can the Union support and enrich the activities of its member states in the field of social security

Mr. Jean-Michel BELORGEY.....143

Round-table statement

Dr. Volker HANSEN.....151

Round-table statement

Mrs. Béatrice HERTOGS.....155

General report

Mr. Yves CHASSARD.....159

Closing speech

Mrs. Gabrielle CLOTUCHE.....169

Closing speech

Mrs. Mady DELVAUX-STEHRÉS.....173