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IN THE EUROPEAN UNION - 2000**

**Second annual report**

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## General Introduction

*Christophe Degryse and Philippe Pochet*

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For this second edition of “Social Developments in the European Union”, we have singled out four social policy themes which, to our minds, reflect the main trends of the year 2000. The first is the outcome of the Lisbon summit, and more particularly its impact on the European Employment Strategy. The second subject is an unavoidable one: the Social Agenda, which – at least until its possible revision in 2003 – sets out the European Union’s priorities in the social policy sphere. The third major theme is developments in respect of social security, in particular social exclusion and poverty on the one hand, and the future of retirement pensions on the other. The fourth and final section of this report relates to enlargement, which is posing more and more questions especially as concerns its social impact. Our last chapter is devoted to this future conundrum.

Selectivity is a necessity: the analyses appearing in “Social Developments in the European Union - 2000” inevitably result from decisions as to which topics deserve priority, since this year has been particularly eventful in the social field. We shall not cover – at least not in any detail – some subjects on which major headway has been made, such as measures to combat discrimination (most notably the framework directive on equal treatment as regards employment and working conditions), the establishment of an area of freedom, security and justice (with all the progress made in respect of asylum and immigration), and the hotly-debated Charter of Fundamental Rights. By contrast, the Community social dialogue has not moved forward significantly, as illustrated by the continuing deadlock in the negotiations on temporary employment. This is why, unlike in “Social Developments - 1999”, we have chosen not to cover this matter here. That being the case, the four themes selected have been chosen because they are symbolic of EU progress in these fields. Indeed, in our opinion, an analysis of them enables us to understand in particular the current thoughts and deeds of the European institutions in respect of social affairs.

1. The **Lisbon** European Council (March 2000) constituted an important turning-point in this connection, in terms of both method and content. It imbued Europe with new strategic ambition. Unlike earlier initiatives, this ambition relates neither to institutional changes nor to new powers for Europe. It revolves around a new method: the open method of co-ordination which, however one may judge it, has already facilitated fresh discussion of topics that had become taboo. It likewise entails a new balance between institutions, giving greater weight to the European Council (the latter will henceforth meet every spring to check on progress in the process launched at Lisbon). On the economic front, Lisbon sets out a number of priorities for action intended to lead Europe into the knowledge economy. The main thrust of such – highly ambitious – action concerns entry into the information society: implementation of a global action plan “eEurope”, promotion of electronic commerce, full liberalisation of telecommunications markets by the end of 2001, connection of all EU schools to the internet by the end of 2001, widespread electronic access to all basic public services by 2003. A European research area is to be developed to back up these priority actions, notably through the networking of national research programmes and the promotion of private investment in research. Finally, further deepening of the internal market should also shore up this overall aim. All of which should, according to the Fifteen, result in the elimination of obstacles to services, as well as a more rapid liberalisation of gas, electricity, postal services and transport, plus a reduction in State aids.

The economic aspect of Lisbon – *to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth* – is therefore based on competitiveness targets, which will primarily be achieved through new liberalisation in telecommunications, energy, postal services and public transport, as well as through enhanced competition entailing a rolling-back of the State (reduction in public assistance, etc.). As to the social aspect – *growth with more and better jobs and greater social cohesion* – it focuses more on specific quantified targets than on a particular legislative programme. As we shall see in the article devoted to the European Employment Strategy, employment rate targets are gradually to become the main thrust of the Community strategy. This strategy now comprises the establishment of indicators in various fields, and the Nice European Council adopted a battery of 35 “structural” indicators covering the four major issues covered in Lisbon.

Be that as it may, Nice did not fulfil all expectations: the reform of the European treaties did not alter the requirement for unanimity on taxation and social protection matters, whereas “internal market” aspects and the liberalisation/deregulation of public services or public monopolies are to be decided by qualified majority voting (QMV). This has led Janine Goetschy to state that one *“might fear that the very existence of the open method of co-ordination (OMC) may deter the Member States from envisaging ambitious treaty reforms to extend the range of Community powers and to move certain areas from unanimity to QMV. From this point of view, the meagre outcome of the Nice treaty reform in the social domain was a particularly ill-judged and politically tactless episode: its insignificant social policy results have merely illustrated and reinforced the sceptics’ fears concerning the open method of co-ordination (...). In future, if the OMC really is to be installed as a supplementary, legitimate means of regulation, and not as a direct competitor with – and replacement for – the Community method, it is essential to attempt to make headway at the next intergovernmental conference and treaty reform in terms of Community responsibilities, so as to demonstrate that the OMC and progress with the Community method can and must go hand in hand”* (Goetschy, 2001).

2. The social aspect of Lisbon is complemented by the **Social Agenda**, adopted at the Nice European summit (December 2000). This document determines the broad outlines of European social policy action for the coming five years. During the autumn it provoked a disagreement, or even a stand-off, not only between Member States but also between the French presidency and the European Commission. The “dual objective” of social policy proclaimed therein faithfully reflects the economic concerns of Lisbon, namely the *“role of social policy as a productive factor”* (in addition, of course, to the pursuit of specifically social goals, namely the protection of individuals, the reduction of inequalities, and social cohesion, but as secondary considerations). What is more, the notion of “quality” has come to the fore in European deliberations, and the idea of defining quality indicators has gained ground.

The various orientations of the Agenda (1) were subject to tough discussion, especially as concerns the respective roles of legislation and the open method of co-ordination. This aspect is dealt with in more detail in the relevant chapter. It must however be acknowledged that, in one sense, these differences of opinion have been overtaken by events: whereas there is a good deal of talk both in favour of and against the open method of co-ordination and “soft law”, some very significant legislative progress was accomplished in the social sphere in 2000. For the record, we would mention the adoption by unanimity of two directives on non-discrimination; the political agreement on, and adoption of, the regulation and directive on the “European limited company” statute and employee participation, in abeyance

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1. Namely more and better jobs, new forms of security for workers, a new balance between flexibility and security, fighting all forms of exclusion and discrimination, modernising social protection, promoting gender equality, and the social policy aspects of enlargement.

for 30 years; and the crucial progress with the draft directive on information/consultation of employees at national level.

3. Some important developments have likewise been apparent in the field of **social protection**, particularly in terms of combating poverty and social exclusion. Priority aims were drawn up by the High-Level Working Party on Social Protection and approved by the Social Affairs Council, then by the Nice European Council. These aims revolve around four themes, which in turn form part of the follow-up to Lisbon:

- participation in the job market and access for all to resources, rights, goods and services;
- prevention of the risks of exclusion;
- action in favour of those who are most vulnerable;
- mobilisation of all of the actors concerned.

These aims were endorsed at the highest level, at the Nice summit, and the Member States are now expected to pursue them by means of the open method of co-ordination. Biennial national action plans are to be presented as soon as June 2001, and indicators are to be defined.

Concerning the sensitive question of retirement pensions, the Commission, the Economic Policy Committee and the Social Protection Committee have each put forward their “version” of the future of pensions, which shows that the debate is moving on rapidly at European level, albeit not necessarily in a very coherent manner. Whereas some approach this issue almost exclusively from the perspective of the financial viability of pension systems, others are concerned about their social viability, i.e. their capacity to meet their social obligations. It is this latter approach which seems to have prevailed at the Social Affairs Council in November and which emerges from the conclusions of the Nice Council. But this theme will clearly be at the heart of the debate throughout 2001: by the end of the Göteborg European summit (June 2001) we should know how it is to be handled at Community level.

4. The fourth theme on which we shall expand is the social impact of **enlargement**. The Treaty of Nice has settled the institutional aspects of the matter; what is far more of a challenge is the practical aspects and an analysis of the likely repercussions of this radical change, firstly on our own social models and on those of the candidate countries, and, secondly, on the European social model as a whole. These questions still remain largely unanswered to date and, as we shall see in the article, little progress has been achieved. However, we thought it essential to draw attention to what is going on at a time when a reorientation and deepening of social policy is much needed. One especially important question is the role of the social partners in national and European regulations. Indeed, because of their particular history, the trade unions and employers in the candidate countries have a lower (and undoubtedly less legitimate) profile than in the present European Union. At a time when – to take employment as an example – the European social partners are being called on by the governments and the Commission to play a dynamic role in the “adaptability” pillar of the guidelines, what is to happen in the case of the CEECs? The Commission now considers even the more “light-weight” procedures, including on employment policy, to be an integral part of the *acquis communautaire*. The first national plans on employment of the CEECs point to positive developments, even though arguably it would be advisable to have different objectives, better tailored to the social situation of these countries. After all, social protection and its future will be a key element of this enlargement. Rapid developments are currently taking place in the European Union, and population ageing has become a central topic of discussion. How will this develop with the forthcoming integration of the candidate countries into the EU, most of whose pensions systems have developed in a direction which strengthens the second and third pillars to the detriment of State pensions?

One final word, before closing this brief introduction, about a few important topics which we have been unable to explore in this edition of "Social Developments in the European Union": the outcome of the intergovernmental conference and the new Treaty of Nice, its immediate follow-up – i.e. what is already being dubbed the "post-Nice" phase (including the question of the Charter of Fundamental Rights) – and overall macroeconomic trends in the EU.

As concerns the Treaty of Nice, our comments can be short and to the point, since evaluations of the quality of this new treaty are practically unanimous. Nice considerably complicates decision-making procedures within the Council. QMV, which has not been extended to the degree hoped for, is to be amplified by two new criteria as from 2005: over and above the percentage of votes required for a decision to be adopted (73.4%), it will be necessary, firstly, for a majority of Member States to agree and, secondly, for at least 62% of the EU population to be represented. Decisions will therefore be more difficult to take in the enlarged Europe. With regard to the other institutions, the decisions taken are the fruit of convoluted compromises. The potential ceiling of 700 Members of the European Parliament could be exceeded (rising to 732 MEPs); the number of European Commissioners will be restricted only on the accession of the 27<sup>th</sup> Member State, and according to rules yet to be defined. In the social domain (Article 137), the scant progress made concerns the addition of two new subjects to the list of fields covered by EU action: combating social exclusion and modernising social protection systems. According to the Treaty, these fields can be tackled at European level only by means of straightforward co-operation among Member States (no legislative or regulatory harmonisation). As to social security, the protection, representation and collective defence of employees, as well as working conditions for non-EU nationals, the unanimity rule is still in place: this reveals once again how very nervous the Member States are about these matters.

It is hardly surprising, in this context, that attention turned immediately to the "post-Nice" phase, a period of debate, reflection and reform launched in 2001 and scheduled to culminate in a Declaration at the European summit in Laeken (Belgium) in December 2001. This will be followed by a new intergovernmental conference in 2004. According to Annex 4 of the Treaty of Nice, this process should relate *inter alia* to the following issues:

- a more precise demarcation of responsibilities between the European Union and the Member States, with due respect for the principle of subsidiarity;
- the status of the Charter of Fundamental Rights of the European Union;
- simplification of the treaties, without changing their meaning (2);
- the role of national parliaments in Europe's institutional architecture.

It is worth stressing that the Charter of Fundamental Rights, whose status is thus to be discussed further, was the subject of much controversy throughout the year 2000. It gave rise to political questions: should this text be integrated into the Treaty on European Union, should it become the preamble of an as yet hypothetical European constitution, or should it remain a mere solemn declaration? Legal questions: will the Charter foster the development of jurisprudence under the auspices of the Court of Justice of the European Communities? Will it pave the way for new appeals? And questions of content: whereas a relative consensus prevails among the Fifteen concerning civil and political rights, there are still deep divergences in the area of economic and social rights. Should the Charter be innovative, in this regard, as compared with existing international documents? The text adopted at the Nice summit reflects the laborious compromises reached during the negotiations. The Charter was not integrated into the Treaty on European Union; it has not been given binding force; and social and trade union groups have been outspoken in protesting at the weakness of its content. Questions relating to the status of this document will have to be solved during the post-Nice phase, probably not without some awkwardness.

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2. We would recall here the important research carried out on this topic by legal experts at the European University Institute in Florence ([www.iue.it/rsc/welcome.html](http://www.iue.it/rsc/welcome.html)).

Let us say one last word about macroeconomic trends in the European Union. The employment situation improved considerably in 2000. Growth picked up and unemployment declined markedly in most European countries (a record number of jobs were created in Spain and France). Thus the European Employment Strategy is coming on stream in a context entirely different from that of 1997 or 1998. The guidelines have been subjected to a mid-term review and changes, some of them quite substantial including in particular the new priorities laid down in Lisbon (above all those concerning the employment rate).

As for taxation, a degree of political progress was achieved – agreement concerning the directive on taxation of savings – but a sword of Damocles will hang over this agreement until 2002: it will not be finalised unless fiscal accords can be signed with certain third countries such as Switzerland. With regard to business taxation, the code of conduct aimed at eliminating fiscal dumping sets 1 January 2003 as the cut-off date for dismantling 66 tax schemes identified as “prejudicial”.

Finally, nothing significant has happened in respect of strengthening economic policy co-ordination, apart from the change of designation (from “Euro-11” to “Eurogroup”). Let us nevertheless end on a positive note by recalling once again the agreement, reached after several decades of deadlock, on the “employee participation” part of the proposal on the European limited company, which paves the way for the directive on information/consultation at national level, to be adopted in 2001.



# The European Employment Strategy after Lisbon: from intention to strategy?

*Philippe Pochet and Christophe Degryse*

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## Introduction

Two major events took place in the field of European employment policy during 2000. The first occurred in March at the Lisbon summit; the second, in autumn, was the now customary unveiling by the European Commission of its “Employment Package”. The European Employment Strategy was in a sense ratified at the Lisbon summit, in that it was extended to other aspects of social policy. What is more, it was given a binding numerical target, which has become one of the principal orientations of the guidelines: to increase the employment rate to 70% by 2010.

The mid-term review of the guidelines also brought about some significant changes: not only do a number of guidelines now have more precise indicators for their assessment, but a new emphasis has emerged (so-called “horizontal” objectives) in keeping with the Lisbon conclusions. Finally, the role of the social partners, particularly under the adaptability pillar, has been spelled out.

These two important events will be analysed in more detail in the following paragraphs.

## 1. Lisbon: a twofold intention and a method

The implementation of the Amsterdam Treaty employment provisions led us to describe this process, in a recent article, as a “*strategy, for want of an intention*”. Our main criticism concerned the fact that between 1997 and 1999 the European Employment Strategy (EES) had focused primarily on policies to train and adapt the labour force, on co-ordination and leadership procedures “*which doubtless did not really need the European Union to be put in place*” (Pochet and Degryse, 1999). The European Union gave an impression of being active in employment policy but without knowing what strategic aims to pursue.

From this point of view, some clarification was obtained in 2000. Indeed, while it may be considered that 1997 to 1999 were the years when a European employment *strategy* began to take shape, 2000 can certainly be regarded as the year when an *intention* became apparent. At the Lisbon summit (March 2000), the fifteen Heads of State and Government imbued this strategy with content and with policy objectives. In addition, they clearly laid down a new working method: the open method of co-ordination, about which a good deal has already been written. Given the strategic importance of this summit, we shall take a more detailed look at it.

The Lisbon European Council, held on 23 and 24 March, had a twofold aim: to relaunch Europe’s economy, so as in particular to close the gap between the EU and the United States in respect of the information and knowledge society, and at the same time to consolidate social cohesion and employment. In this regard the fifteen Heads of State and Government pointed out what they saw as the Union’s main weaknesses and shortcomings: still too many people out of work, despite a vigorous upturn in the economy (15 million unemployed); a European employment rate deemed too low (European average rate of 62%); too few women and older workers participating in the labour market; chronic underdevelopment of the service sector; and a lack of staff skilled in information technology.

On the basis of these findings, a strategic objective was set for the next ten years: “*to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*”.

The wording of this objective is highly ambitious, professing no fewer than six orientations, three of them predominantly economic and three predominantly social:

- to become a knowledge-based economy;
- to be the most competitive and dynamic economy;
- to be capable of fostering sustainable growth;
- to increase the number of jobs (employment rate);
- while ensuring that those jobs are better ones;
- to strengthen social cohesion.

Moreover, the text of the Council conclusions explicitly refers to full employment as an objective to be met, and states that an average economic growth rate of 3% is “*a realistic prospect for the coming years*”. Contrary to what some had hoped, this is not a “policy objective” but an “economic prospect” (3). Be that as it may, it is worth pointing out that the devising of numerical objectives for employment policy (European average employment rate of 70%; goal of full employment) is a development which few observers would have predicted, even a few years ago.

### **1.1 Economic aspect of Lisbon**

On the economic front, Lisbon lays down a number of priority actions intended to take Europe into the knowledge economy. These main themes – highly ambitious ones – relate to the development of the information society, the establishment of a “European research area”, the promotion of an environment favourable to small and medium-sized enterprises, and further integration of the internal market and of financial markets. From a macroeconomic perspective, Lisbon’s main aims were to reduce the tax burden on labour, to redirect public expenditure and to ensure the long-term viability of public finances.

This economic venture – *to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth* – is therefore based on competitiveness targets which are to be attained mainly through new liberalisation in telecoms, energy, postal services and public transport, as well as through enhanced competition entailing a rolling-back of the State (reduction of State aids, etc.).

### **1.2 Social aspect of Lisbon**

On the social front, the Lisbon summit set out to modernise the European social model by investing in human resources. The notion of an “active welfare state” emerged, and is defined as an objective to be met by means of the following measures in particular:

- in terms of education and training: halving the number of 18 to 24 year olds with only lower-secondary level education who are not in further education and training by 2010 (4); developing a common European format for curricula vitae; defining a means to foster the mobility of students, teachers and training and research staff; defining a European framework for the new basic skills to be provided through lifelong learning; turning schools and training centres, all linked to the Internet, into “multi-purpose local learning centres accessible to all”;

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3. For the record, in April 1999 the French and Italian Employment Ministers, Martine Aubry and Antonio Bassolino, signed a memorandum positing that the EU must adopt a growth target of 3% minimum, that the monetary policy of the European Central Bank (ECB) must be compatible with this target and, lastly, that the Member States’ budgetary policies must play a “*dynamic role*” including at Community level (public investment, support for business start-ups, etc.).

4. This target now features in the employment guidelines for 2001.

- in terms of an active employment policy: following up the Luxembourg process, improving employability and reducing skills gaps, giving higher priority to lifelong learning, increasing employment in services, and furthering equal opportunities. We would like to point out that, according to the Council, the Union should aim to raise the employment rate – currently running at 61% on average – to a level as close as possible to 70% by the year 2010, and to increase the number of women in employment from an average of 51% today to more than 60% by 2010. Member States are invited to set national targets in these areas (5).
- in terms of social protection: strengthening co-operation between Member States by exchanging experiences and best practice; mandating the High Level Working Party on Social Protection to prepare a study on the future evolution of pensions. Article 144 of the Treaty of Nice provides the legal basis for the establishment of a Social Protection Committee (to replace the High-Level Working Party), which should be a more visible and more authoritative institution (see also article on social protection);
- in terms of promoting social inclusion: devising indicators and exchanging information and best practice; mainstreaming the promotion of inclusion in Member States' employment, education and training, health and housing policies; developing priority actions addressed to specific target groups (minorities, children, the elderly and the disabled).  
The social aspect of Lisbon – *growth with more and better jobs and greater social cohesion* – focuses more on numerical objectives than on a particular legislative programme. The employment rate target is gradually becoming the central plank in the Employment Strategy.

### **1.3 Open method of co-ordination (OMC)**

Our third point relates to the conception and consolidation of the “open method of co-ordination” (OMC). This new method can be divided into four phases:

- fixing guidelines for the Union combined with specific timetables;
- establishing quantitative and qualitative indicators;
- translating the European guidelines into national and regional policies;
- periodic monitoring, evaluation and peer review.

The OMC arises out of the European Employment Strategy (Amsterdam Treaty) and the Broad Economic Policy Guidelines (BEPG). It has since then been extended to all economic and social reforms. As the Council presidency writes in its conclusions, “*achieving the new strategic goal will rely primarily on the private sector, as well as on public-private partnerships. (...) The Union’s role is to act as a catalyst*” (Council of the European Union, 2000).

### **1.4 Brief analysis**

The most noteworthy feature of the Lisbon intentions was that they rallied a consensus. Indeed, there seem to be no differences of opinion among the Fifteen, nor for that matter among the social partners, on the goals spelled out there (6). Becoming the most competitive economy while strengthening social cohesion appears to be an aim shared by the different actors in the EU.

This goal is moreover vital in the context of the digital revolution currently being experienced by Western European countries, which is altering patterns of production, work, consumption, leisure, etc. A link is made between this revolution and the decade-long and uninterrupted economic growth in the United States, which is an attractive model.

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5. NB the Stockholm European summit, in March 2001, defined interim targets for employment rates.

6. See the joint statement of the European social partners at the Forum on 15 June.

Let us not forget, however, that most of the analyses undertaken and findings reached by the Fifteen in Lisbon had already been agreed upon by the Delors Commission in its 1993 White Paper "Growth, competitiveness and employment". Even then, it dealt with the fight against unemployment, the creation of new technology jobs and Europe's backwardness compared with the United States. The Commission's preferred remedies were particularly ambitious: *"to create at least 15 million jobs, thereby halving the current unemployment rate by the year 2000"*. In order to do so, the idea was to invest in European infrastructure networks in the fields of telecommunications (€ 150 billion), energy and transport (€ 250 billion) and environmental projects (€ 174 billion), so as to promote a revival of growth. Already then there was talk of reducing labour costs with compensatory fiscal measures (CO<sub>2</sub>/energy tax, taxation of income from financial capital) (7). The unemployment rate, hovering around 10.5% in 1993, had fallen to 8.5% by 2000. This decrease is sizeable, without a doubt, but it is a long way from the goal envisaged in the White Paper.

The Lisbon approach is markedly different from that of the White Paper. It does not prescribe numerical objectives for reducing unemployment, but only for increasing the employment rate, which is not necessarily the same thing (see below). According to this approach, as we have seen, the competitiveness targets are to be met by means of further liberalisation (telecommunications, gas, electricity, postal services, public transport), enhanced competition and a rolling-back of the State (reduction of State aids and the tax burden on labour, but this time without compensatory measures). This very liberal "recipe" should make it possible to harness the European economy to the technological revolution, giving the latter scope to develop.

Legislative action seems to have been overlooked, even though it does make a timid comeback in the European Social Agenda, subsequently approved at the Nice summit in December 2000 (see next article). In one sense, Lisbon makes the European Union a common framework for action in co-ordinating the employment policies of the Fifteen, but without determining where in Europe the new economy is to be politically regulated. This development is of course accompanied by a particular insistence on everything that facilitates comparisons of economic and social performance (structural indicators, benchmarking, peer review).

## 2. The Luxembourg process after Lisbon

These developments strengthen both the method and the aims of the European Employment Strategy. The open method of co-ordination is consolidated and now takes up its own position in between legislative procedures – regarded as more "rigid" or even "bureaucratic" – and the more flexible instruments of "soft legislation" (resolutions, recommendations, opinions, etc.) without binding force. Despite the fact that this method lays down no sanctions in the case of failure to meet the targets set, it is worth pointing out that these targets are politically "binding", above all the one concerning the employment rate. The constraint on governments is not a legal one; it is a moral, if not a psychological constraint. In a word, it is political. A country given a poor ranking by the structural indicators on the employment rate for women or older persons, for example, will find it hard to avoid a domestic political debate about what might suddenly appear to be a "problem" (but which might be the outcome of past decisions, taken by the national social partners).

Lisbon therefore raises the impact and political significance of the European Employment Strategy, and especially of the guidelines adopted in that context.

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7. The Member States adopted this White Paper, but deleted the excessively binding goals (creation of 15 million jobs), the funding of trans-European networks and plans for European energy taxes.

The European Employment Strategy exercise in 2000 demonstrated that the process is now fully up and running. The Commission and Council together present the Joint Employment Report, which constitutes the main evaluation document. On the basis of this analysis, the employment guidelines for the following year are drawn up. Furthermore, recommendations are addressed to the Member States concerning the implementation of their National Action Plan (NAP), i.e. compliance with the guidelines at national level.

These guidelines must be seen in parallel with another Community exercise, albeit a predominantly macroeconomic one: the (annual) adoption of the Broad Economic Policy Guidelines (BEPG). Given the risk, underscored by some social actors, that these two processes could head off in different – not to say conflicting – directions, the Lisbon European Council called for greater account to be taken of employment issues in the elaboration of the BEPG.

It has to be admitted that the first attempt has not been a success. Indeed, significant differences in tone are sometimes apparent between the recommendations linked to the employment guidelines and those contained in the Broad Economic Policy Guidelines (for a detailed analysis, see Dufresne, 1999). What is being played out behind a wealth of procedural detail, which we shall spare our readers, is either a possible redressing of the balance between the Ecofin Council and the other formations of the Council of the Union (notably Employment and Social Affairs) to the benefit of the latter, or else growing domination by the Ecofin Council over these other formations, thanks to technical backing from the Economic Policy Committee. How will this power struggle between different Council formations, and between Ecofin and the European Council, evolve? The question is still open; evidently, no final line has yet been drawn under this extremely political chapter.

Under these circumstances, the role of the Heads of State and Government as a supreme body is essential, even though the Finance Ministers have already been known to disregard the conclusions of the European Council: they declined to implement the conclusions on the trans-European networks of the 1993 White Paper.

## **2.1 *Elaboration of the 2001 guidelines***

Four major factors influenced the Commission in its approach to the elaboration of the 2001 guidelines: the conclusions of the Lisbon summit, the mid-term review of the Luxembourg process (carried out on the basis of the remit laid down in the Lisbon conclusions), the analysis of the Joint Employment Report, and the acknowledged need for simplification in certain fields.

The fact that both the overall (horizontal) objectives and the specifics of the guidelines can evolve in such a manner is extremely important. This proves that the EES is an ongoing process capable of taking into account changes in the economic environment (lower unemployment), but also new political priorities (Lisbon) (8) and internal evaluations of its strengths and weaknesses.

Based on experience with employment policy, the joint Commission/Employment Committee evaluation put forward a certain number of general considerations (9). We would highlight the following points:

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8. For instance, the scope of the guideline (no. 11) relating to the promotion of employment in services has been extended to include personal services, in keeping with the conclusions of the Lisbon summit.
  9. See the joint evaluation by the Employment Committee and the Commission (European Commission, 2000a: chapter 5).

- the emergence of new structures and institutions for decision making and the evaluation of employment policies, which have put employment at the centre of European and national policy making and improved the synergies and co-ordination between the various policy areas;
- an increased involvement of different actors in the process; nevertheless, the desire for a broader public debate emerges from a realisation that the process is sometimes confined to discussions among the Employment Ministers;
- a demonstrated commitment by governments and all of the other actors to contribute within their sphere of competence to the Employment Strategy; criticism is however levelled at what is deemed the excessively weak participation of the social partners in the process, especially in respect of the guidelines affecting them (adaptability pillar);
- an increased transparency of target setting, exchange of best practice and peer review, which in itself is an element of confidence building in economic policy. The Employment Committee has spawned a sub-group on indicators.

According to as yet incomplete evaluations of the effects of the EES on national policies, the changes do not appear to have been unequivocal. No generalisations can be made about the real impact of the Employment Strategy at national level, given the absence of overall data. Our hypothesis is that its impact has been unequal from one field to another and one country to another. The Commission and Member States have embarked on an evaluation process in 2001, which will provide a broader basis for an overall evaluation.

The changes to the guidelines relate to the so-called horizontal objectives, as well as to the guidelines themselves.

## **2.2 Guidelines: the horizontal objectives**

The main innovation of the employment guidelines for 2001 relates to the introduction of “horizontal objectives”. Over and above the four-pillar structure which, according to the Commission, has proved its worth and should therefore not be altered (at least not before the end of the five-year cycle finishing in 2002), the new general priorities resulting from Lisbon are included as horizontal objectives: raising the average EU employment rate to 70% by 2010; more involvement of the social partners; life-long education and training (10). It is these three horizontal objectives that we shall analyse in more detail below. The fourth point concerns the indicators themselves, which we shall treat as a cross-cutting objective. In order to progress in the area of employment, it is necessary to have relevant indicators.

### **2.2.1 Raising the employment rate**

The objective of raising the employment rate, which has become the principal strand of the European Employment Strategy, is not without ambiguity. A superficial analysis would lead one to believe that “increasing the employment rate” is another way of saying “reducing unemployment”. The Commission keeps this confusion alive by referring to the commitment to return to conditions of full employment alongside the general objective of raising the employment rate. In actual fact, a rise in employment does not necessarily result in an equivalent fall in unemployment.

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10. The other two goals are to maintain a better balance between the four pillars of the Employment Strategy and to improve the indicators.

The target of attaining the employment rate of 70% proclaimed at Lisbon (11) will in fact mainly affect specific age groups (especially young people and those aged over 50, as well as women). One may wonder, incidentally, whether the intention to raise the employment rate among youngsters aged between 16 and 24 might be incompatible with the intention simultaneously to raise the school-leaving age and to improve qualifications (for the record, according to Lisbon the number of young people with only lower-secondary level education who are not in further education and training should be halved by 2010).

Raising the employment rate means either putting the unemployed into work or inciting persons of working age, but who are currently not on the labour market, to (re)join the labour force. We should point out here that, during periods of rapidly rising unemployment, certain Member States – by agreement with the social partners – have encouraged voluntary withdrawal from the labour market (by means of early retirement and enhanced social allowances for older unemployed persons). This type of policy was intended to promote the recruitment of young people. Today, the decisions made at European level are the absolute opposite of this policy, seeing it as a priority to increase the number of persons in jobs, even if these persons do not wish to go back to work under the present circumstances. In semantic terms, this shift is expressed through the transition from the goal of “combating unemployment” in the early 1990s to a strategy “in favour of employment”.

What reasons lie behind this gradual shift in priorities? Or, more simply, why is it not enough to bring down unemployment? One hypothesis posited by some observers might be that the decisions made at European level are aimed at making our societies move from systems of redistributing wealth to systems of redistributing employment. As is quite rightly emphasised in the Lisbon summit conclusions, “the best safeguard against social exclusion is a job”. From there it is only a short step to deduce that the employment rate needs to be increased in order to ease the funding of social protection systems; this will allow Europe’s businesses and industries to become more competitive and, furthermore, will safeguard the future of statutory pension schemes (12).

Another motivation, more clearly expressed in the Broad Economic Policy Guidelines, is that “the low employment rate (...) hampers the EU’s growth potential”. In other words, as P. Feltesse puts it, “shortages of certain skills will become all the more significant as overall unemployment falls. This (...) possible brake on growth prompts governments to increase the activity rate” (Feltesse, 2000). These hypotheses lead one to imagine that, in reality, the 70% employment rate masks a dual phenomenon: on the one hand, people are on average remaining active until a later age which is gradually approaching the statutory retirement age for men (this constitutes a return to the situation prevailing before the crisis of the 1970s and thereafter); on the other hand, the number of women working beyond the age of 50 has risen sharply. In this way the difference between this objective and that of combating unemployment as such becomes apparent.

We would point out in this connection that more attention has been paid to combating discriminatory aspects of the labour market in a bid to strengthen the link with social inclusion (GL 8). This must be viewed in tandem with the Community’s adoption of two directives on non-discrimination (one vertical, the other horizontal) based on Article 13 of the Treaty (13).

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11. Although this “Social Developments” report covers only the year 2000, we ought to mention the outcome of the Stockholm European Council (March 2001) in this regard. It defined some interim targets for 2005 and, above all, the new target of reaching an employment rate of 50% for the over 55s by 2010.
  12. The report of the Economic Policy Committee compares – on pensions – one hypothesis taking Lisbon into account and another not doing so, but does not reach any substantially different conclusions for the year 2050. For a criticism of this report, see Math, 2001.
  13. Directive 2000/78/EC of 27 November 2000, published in the Official Journal of 2 December 2000, L303.

### 2.2.2 The social partners

The second horizontal objective of the 2001 guidelines is to strengthen the role of the social partners, who were invited by the Santa Maria da Feira European Council to play a more visible role in implementing and following up the guidelines falling within their competence. The Commission and the Employment Committee had on several occasions bemoaned what they deemed to be minimalist involvement of the social partners in the guidelines, especially in those directly affecting them. The respective roles of the social partners and the Member States have been better defined in the pillar relating to adaptability (GL 14-16):

*“The Member States shall develop a comprehensive partnership with the social partners for the implementation, the monitoring and the follow-up of the Employment Strategy. The social partners at all levels are invited to step up their action in support of the Luxembourg process. Within the overall framework and the objectives set by these guidelines, the social partners are invited to develop, in accordance with their national traditions and practices, their own process of implementing the guidelines for which they have the key responsibility, identify the issues upon which they will negotiate, and report regularly on progress as well as the impact of their actions on employment and labour market functioning. The social partners at European level are invited to define their own contribution and to monitor, encourage and support efforts undertaken at national level”.*

All in all, the social partners will be involved in the following guidelines:

- 6 (develop job matching and prevent bottlenecks);
- 9 (prevent undeclared work);
- 11 (local and regional action for employment);
- 13 and 14 (modernising work organisation);
- 15 (lifelong learning);
- 17 (tackling gender gaps);
- 18 (reconciling work and family life).

UNICE expressed surprise, and even concern, at the Commission’s criticism of the social partners’ involvement. The ETUC, for its part, felt that it should not be placed in the same boat as UNICE, since all its advances and proposals had been rejected by the employers’ organisation.

UNICE/UEAPME, CEEP and the ETUC have until now been gathering in initiatives from the social partners following their joint statement for the Vienna summit (December 1998) concerning the European Employment Strategy in a document entitled “Factors for success: a compendium of social partners’ initiatives relating to the employment guidelines”. They hope to continue debating these good practices at national round tables: this would seem rather unambitious in view of the role assigned to them by the new guidelines.

We would note that, as concerns the inclusion of health and safety in guideline 15, UNICE suggests: “Applying the open co-ordination method to help a better application of existing legislation and asking Member States to set themselves targets for reduction of work accidents and occupational diseases can be an interesting approach” (UNICE, 2000a).

### 2.2.3 Lifelong learning

The third horizontal objective relates to lifelong learning. Particular emphasis was laid on this objective in the Lisbon conclusions. According to the definition of the Member States and the Commission, lifelong learning encompasses “all useful continuous learning activities, formal or informal, aimed at improving knowledge, aptitudes and skills”.

As an indication of this importance, there is a structural indicator devoted specifically to lifelong learning, measured by the extent of “*adult participation in education and training*” (on the structural indicators, see Peña Casas, 2001).

The guidelines on lifelong learning within the “employability” pillar (GL 4-6) have been grouped together so as to express more clearly the integrated approach to such learning. The shared educational objectives have been updated (GL 4-5) and requirements for a greater number of national objectives incorporated. We would like to point out that the Education Ministers too have fully immersed themselves in the open method of co-ordination (European Commission, 2001a). One of the structural indicators approved by the Nice Council concerns the *number of young people leaving school early and not continuing their studies or any form of training*. This is an indicator of investment in human resources based on the need for young people leaving school to have a good level of basic education so as to improve their employability and ensure their social inclusion. Another indicator concerns public expenditure on education and the role it can play in human capital accumulation (European Commission, 2000b).

#### **2.2.4 The structural indicators**

The last aspect concerns the indicators themselves. The Commission in fact realised that the Member States would more readily abide by common objectives when these were accompanied by precise indicators. Even if the stated aim is not to create rankings, the existence of indicators and each Member State’s inevitable assessment of its relative position are means of exerting “pressure to converge”.

The Employment Committee has created under its auspices a sub-group specifically devoted to the indicators. This group has produced two reports, approved by the Employment Committee in spring (14). Most of the indicators put forward in these two reports have been used for the evaluation contained in the draft of the Joint Employment Report 2000 (European Commission, 2000a). The majority of the indicators devised for monitoring the employment guidelines – in particular the main performance indicators – have been added to the list of indicators for the annual summary report, presented in the Commission’s Communication “Structural Indicators” (see also article on social protection and European Commission, 2000b).

A number of numerical objectives have appeared within the guidelines themselves. These relate mainly to initial training (halving the number of young people with only lower-secondary level education), internet connection (all educational establishments to be on-line by 2001 and teachers trained by 2002) and improvements in continuing training (reaching 10% of the labour force and, as concerns the social partners, ensuring that all workers can acquire a grounding in the information society by 2003). Mention is also made of improving reception structures by setting national targets. Lastly, the gender dimension must be assessed under all the guidelines.

New indicators are to be added next year, in particular ones linked to quality.

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14. “Performance and policy indicators for monitoring the employment guidelines for 2000” (EMCO/010/00/EN) and “Structural performance indicators for monitoring the employment guidelines for 2000” (EMCO/016/00/EN).

### **2.3 The recommendations**

Within the ambit of the European Employment Strategy, the possibility of issuing recommendations (as the Ecofin Council has done in respect of the Broad Economic Policy Guidelines) is crucial to the credibility of the process. For the second year running, therefore, the European Commission has presented its employment recommendations to Member States. Unlike last year, this exercise unfolded without tension or a media furore (see "Social Developments in the European Union - 1999"). It has to be said that the Commission did not take up the suggestion made in 1999, namely that the total number of recommendations be reduced so as to focus them better. On the contrary, it put forward even more (58 as opposed to 52 in 1999), in the main reproducing and only slightly modifying those of 1999. Of the 18 new recommendations, three are addressed to Spain, two to Belgium, Germany, France, Luxembourg, Italy and the United Kingdom (see table in annex). This issue, which is a key to effective implementation of the guidelines at national level, will need to be kept under close scrutiny.

### **2.4 Community incentive measures / Public finance contributions to employment / Role of the European Social Fund**

*Article 129 of the Amsterdam Treaty stipulates that the Council "may adopt incentive measures designed to encourage co-operation between Member States and to support their action in the field of employment through initiatives aimed at developing exchanges of information and best practices, providing comparative analysis and advice as well as promoting innovative approaches and evaluating experiences, in particular by recourse to pilot projects".*

It was on the basis of this provision that, on 20 July 2000, the Commission proposed to the Council and Parliament the adoption of "Community incentive measures in the field of employment" (EIM) (European Commission, 2000c). These EIMs are intended as a working tool to underpin the European Employment Strategy; they are part of the follow-up to the Lisbon objectives. One noteworthy feature of the EIMs, in connection with the European Employment Strategy, is that these measures have a financial impact on the EU budget. The Commission proposes earmarking a total budget of €55 million for the five-year period 2001-2005 (15 million in 2001, then 10 million for each remaining year thereafter). It is somewhat surprising that this proposal was not aligned with the five-year cycle of the EES. The launch of incentive measures is being proposed two years ahead of the final evaluation of the Luxembourg process, and activities going beyond this initial period are envisaged. But this decision no doubt has more to do with the fact that the Luxembourg process needed to be fully up and running before any initiatives with financial implications could be put forward, and indeed the EIMs should make it possible to fund such evaluation activities.

The Commission wishes these EIMs to be incorporated into the analysis and evaluation of overall employment trends. It proposes financing activities geared to monitoring the European Employment Strategy in the Member States, evaluating the National Action Plans, exchanging experience in terms of the pillars and of individual guidelines, as well as funding the technical and scientific work needed for developing common indicators, etc. Moreover, attention will also be paid to prospective and experimental research (pilot projects and demonstration projects). It is worth noting that, in a Communication adopted on 16 January 2001, the Commission proposes that the new European Social Fund programmes (2000-2006) should allocate some €60 billion to investment in human resources and to labour market modernisation and reform, by way of ESF support for the European Employment Strategy.

The Lisbon Council called on the European Commission to draw up a document on “The contribution of public finances to growth and employment”, which was done on 21 December 2000 (European Commission, 2000d). For the record, this debate first surfaced in the late 1990s – at a time when public finances were converging – concerning the usefulness of public investment, especially in respect of growth and job creation. This document takes up where others left off. Ultimately it contains nothing more than the usual ingredients of the Broad Economic Policy Guidelines: the “challenge” of maintaining strict budget discipline within the economic and monetary union, the need to make poorly paid jobs more financially attractive than social benefits, and the need to ensure the long-term viability of public finances. Finally, although the Commission recalls the importance it attaches to public investment in the field of knowledge (education and training), it does so in order to emphasise that such investment must be made by restructuring public expenditure and not by increasing it overall (on this Communication, see also the article on social protection). This sheds new light on the Lisbon conclusions: if Europe and its Member States are to become *the most competitive and dynamic knowledge-based economy in the world*, it will apparently be at the cost of rolling back the State.

In any event, these various documents reveal the considerable importance of the Lisbon objectives, not just within the European Employment Strategy itself but also in the activities of the European Social Fund and, more generally, in the orientation of economic policy.

## Conclusion

All things considered, 2000 was an important year in determining the content of the European Employment Strategy.

Nonetheless, the most fundamental change concerns the aims of the common European approach to employment policy. Primarily social goals (combating unemployment), which long remained bereft of any operational method or ambition, have in fact given way to economic and financial targets. As we have seen above, the “employment rate battle” is now closely linked to the question of funding social security systems (demographic challenge), stabilising public finances and boosting the European Union’s economic growth potential (skilled labour; emergence of economic immigration as an issue). Surprisingly, the point of reference is no longer the low unemployment rates in the United States – as was still the case five or six years ago – but the strong US performance as regards employment rates.

This fundamental change calls for a few comments by way of a conclusion.

- First of all, it tends to be forgotten that, despite the large number of jobs created (2.5 million in 2000), unemployment still remains at a socially unacceptable level – a European monthly average of between 8% and 9% in 2000, which corresponds to some 14 million workers still without jobs. The fact that four years of economic recovery and robust growth (3.5% on average in 2000) have not improved things more needs highlighting, at a time when moves are afoot to raise the employment rate and when there are aspirations to create conditions of full employment. Unless more deliberate action is taken, a downturn in worldwide and European economic growth would soon wipe out the meagre results achieved in combating unemployment. The question of growth then leads us on to question certain macroeconomic decisions and, in particular, the European Central Bank’s strategy and its wish to sustain such growth. Its analysis of structural unemployment which could in its opinion re-ignite inflation, for want of radical reforms, compels us to challenge the strategy of this body. The main weakness of the European Employment Strategy is precisely this: the lack of a connection with macroeconomic policies.

- Another aspect is that of quality in employment. Although it is true that this issue has become central to Europe's social policy concerns, and that the term "quality" has replaced the terms "flexibility" and "deregulation" – still in vogue not so long ago – it has to be admitted that the means of achieving this quality in employment have not been worked out. The Community social dialogue is deadlocked on the subject of temporary work, due to the minimalist attitude taken by Europe's employers on this matter. Having clinched three successive framework agreements, the social dialogue appears to have broken down (cf. failure over the draft agreement on information/consultation of workers at national level, near-failure noted by the ETUC in early 2001 on temporary employment, substantive divergences on telework). The negotiating timetable remains extremely thin, despite repeated appeals from the ETUC, and neither the Commission nor the Member States are hastening to flesh it out. Paradoxically, it is the legislative route that has made most headway this year, with the adoption of the anti-discrimination directive and the "worker participation" aspect of the European limited company. Surely this striking contrast must increasingly throw into doubt the framework of the European social dialogue, and surely it puts into perspective the limited successes of the Employment Strategy? Priority will henceforth be attached to the definition of "indicators": this is a particularly difficult task which requires a more functional definition of what is meant by quality. Here too, 2001 will be a crucial year.
- As far as the guidelines themselves are concerned, we have demonstrated that they have undergone sometimes substantial changes. At the risk of repeating ourselves, 2001 will be a year of in-depth analysis and reflection on the future of the Luxembourg process, which is to be adapted in 2002.

Whatever subjective assessments – be they positive or more critical – may be made of the European Employment Strategy, one must acknowledge that the strategy is continually evolving and being redefined; this allows the actors a good deal of scope to exert influence, even over its design.

## ANNEX 1

## Comparison of Council recommendations in 1999 and 2000

	Number of Council recommendations:					
	Adopted in 1999	Proposed in 2000	Maintained in 2000	Modified in 2000	Deleted in 2000	Adopted for the 1 <sup>st</sup> time in 2000
<b>Belgium</b>	4	5	0	3	1	2
<b>Denmark</b>	2	3	0	2 (one 1999 recommendation has been split in two)	0	0
<b>Germany</b>	5	5	1	2	2	2
<b>Greece</b>	6	6	1	5 (two merged into one)	0	1
<b>Spain</b>	4	5	0	3 (merged into two recommendations)	1	3
<b>France</b>	4	5	0	3	1	2
<b>Ireland</b>	3	2	0	2	1	0
<b>Italy</b>	5	5	0	4 (two merged into one)	1	2
<b>Luxembourg</b>	2	3	0	2 (merged into one single recommendation)	0	2
<b>Netherlands</b>	2	2	0	2	0	0
<b>Austria</b>	3	3	0	3	0	0
<b>Portugal</b>	3	4	0	3	0	1
<b>Finland</b>	3	3	0	3	0	0
<b>Sweden</b>	2	3	0	2	0	1
<b>United Kingdom</b>	4	4	0	3 (two 1999 recommendations merged)	1	2
<b>Total</b>	52	58	2	42	8	18



## The new European Social Agenda 2001-2006

Philippe Pochet

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### Introduction

The unveiling of a multi-annual work programme or agenda has always constituted an important stage in the creation of a social dimension to European integration. Indeed, such documents circumscribe the boundaries of Community action (what is the “European social dimension”?) and determine its key orientations. Lastly, more often than not, they lay down a method of achieving the aims put forward. By way of example, a Commission publication of 1973 stated that *“in the opinion of the Commission, the role of Community measures is to facilitate the establishment of minimum social standards which may be regularly improved. It follows that the social policy of the Community should be assessed in its own right and not merely regarded as a means of compensating for the unfavourable social repercussions of economic progress”* (p.12). Ever since the first social programme, adopted by the Council in 1974, the European Community has systematically used multi-annual social planning as a way of setting out its long-term activities in this sensitive and controversial field (on this point, see Vandamme, 1984 and Riflet, 1984).

Inherent in this social planning are two sources of controversy: on the one hand, the advancement of economic integration (common market, single market, monetary union) and, on the other, the desire to create a social dimension as such. This dimension has taken shape in the light of successes and failures experienced during previous phases and bears all the hallmarks of its historical backdrop. Furthermore, successive programmes contain proposals not accepted during the previous period (as was the case, for instance, of the directive on information/consultation at national level, and the one on the social aspects of the European limited company). In other words, social programmes aim to complement the economic dimension, which is at the heart of political integration, but also to develop a stand-alone social dimension whose very definition has evolved over time. In addition, such action has often been taken “on the margins” of formal Community competence (Pakaslahti, 1999), revealing a degree of political voluntarism on the part of the Commission and Member States.

The dichotomy between a social dimension as a complement to the economic dimension and a social dimension as such is compounded by another controversy relating to the relevant level at which to take action. Just as ideological differences exist as to what constitute appropriate policies, there are as many – if not more – concerning the level at which these policies can best be devised and implemented. The debate around subsidiarity has often related first and foremost to social policy in general, or to certain social policies in particular. For instance, the fight against poverty still remains a typical example of policies which should remain national or even regional, for reasons of proximity and/or particular historical, cultural or political decisions. Conversely, according to its advocates, a strong social dimension should become – or be consolidated into – an integral part of European policy-making.

## The new Social Agenda: from Lisbon to Nice

### *The context*

The new Social Agenda is being adopted at a time when national budget deficits have been turned into surpluses in slightly less than half of the Member States and are under control in the others. Unemployment is starting to fall and once again there is talk of full employment and even, in some sectors, of a labour shortage. The stated aim is to achieve a 70% employment rate between now and 2010.

At an institutional level, the Lisbon European Council (March 2000) stated that the Council will pursue *“its reflection on the future direction of social policy on the basis of a Commission communication, with a view to reaching agreement on a European Social Agenda at the Nice European Council in December, including the initiatives of the different partners involved”*.

The core idea was to secure a more ambitious document than preceding ones (see part 2 of this report for a detailed analysis of the last social programme). This would not only be approved by the Commission and the Social Affairs Council, but would be symbolically enhanced further by adoption by the Heads of State and Government gathering at the European Council. But in reality, the sequence of events was completely different from what was envisaged at Lisbon.

On 28 June the Commission submitted its proposal for a Social Agenda (European Commission, 2000e). On the whole, the proposal was well received by the Employment and Social Affairs Council in July 2000. The Council adhered firmly to the post-Lisbon approach and the open method of co-ordination (see preceding article).

At the beginning of October, following a series of discussions and in line with its declarations on the objectives of the presidency, France submitted a short text which it believed could serve as a basis for the Council's Social Agenda. This text was much criticised, radically amended and finally adopted by the Social Affairs Council in November (15). Not only was its tone more aggressive and militant than that of the Commission's proposal, but the main bone of contention lay in the legislative proposals and in particular the draft directive on individual dismissals.

A dual controversy emerged. Part of it was between the European Commission and the French presidency and centred on control of the process, in other words who was responsible for submitting the Social Agenda. The other part lay between advocates of a return to the legislative approach and those in favour of the open method of co-ordination (OMC). The controversy is reflected in the superficially necessary reminder of the respective responsibilities of the Commission, Council and Member States in the cases of the legislative option and the open method. More than forty years after the founding of the Community, such reminders are of course significant. We will not focus on every twist and turn of this confrontation, but on the key discussions that the controversy has triggered. The differences are thrown into sharp relief by UNICE's siding with the Commission's approach, while the more critical CES sided with the initial French proposals.

Let us now follow the sequence of events, focusing first on the Commission proposals before detailing those adopted by the European Council in Nice. Most of the initial Commission and Council proposals are, as we will see, very compatible; indeed the final version adopted by the European Council is very close to the Commission's text. Although they can be considered complementary, events also showed that the full consensus needed to rush

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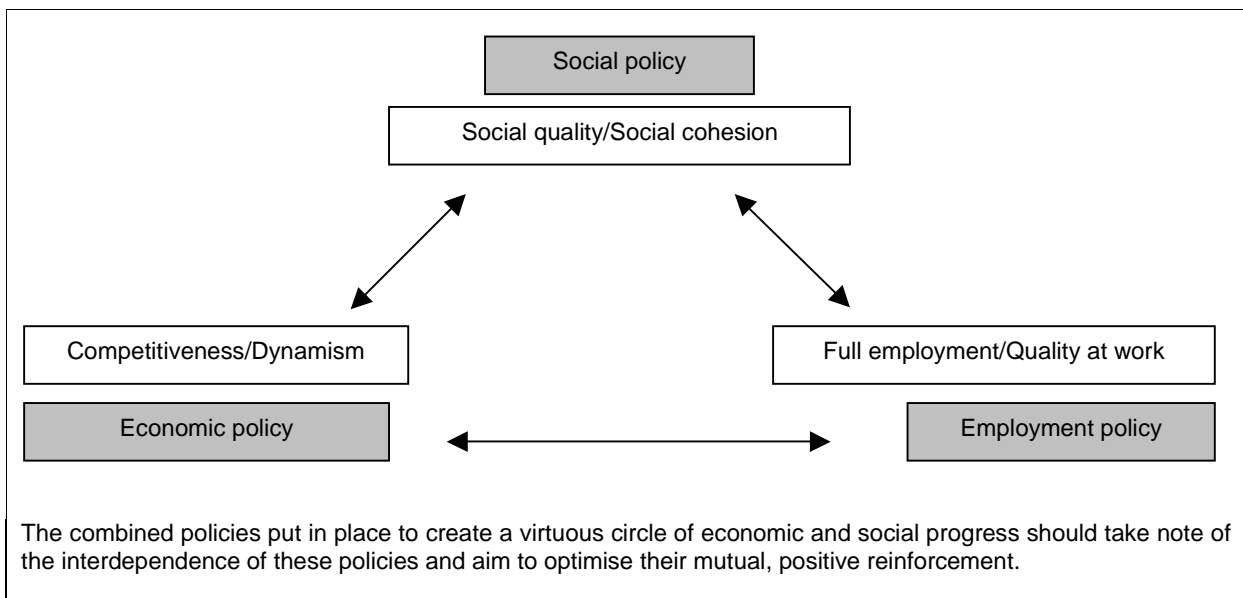
15. Contribution of the Council (Employment and Social Policy) to the Nice European Council with a view to the adoption of a Social Agenda.

headlong into the OMC was absent, and nor was there a majority for reverting to a more traditional version of an essentially legislative social programme like that of 1989.

While employment dominated the preceding Agenda (1998-2000), the term quality (of employment) appears throughout the Commission's text this time, the idea being that any job is not necessarily – and in absolute terms – a step forward, as the European mantra used to be. There is also a need to take into account the quality of the job. A survey by the European Foundation for the Improvement of Living and Working Conditions, emphatic on this theme, notes a relative decline in working conditions. This emphasis on quality is found in the titles of three of the five main chapters of the Commission's Social Agenda, as the table of contents shows:

- I. Full employment and quality of employment;
- II. Quality of social policy;
- III. Promoting quality in industrial relations;
- IV. Preparing for enlargement;
- V. Promoting international co-operation.

In addition to the extension of the open method of co-ordination and the introduction of the concept of quality, it must be stressed that the idea that social policy must be regarded as a productive factor is greatly in evidence. The subject is not totally new. It was already contained in the Commission's 1994 White Paper on social policy. The Dutch presidency (second half of 1997) reinforced this approach by organising a high-level conference entitled "Social policy and economic performance". The theme recurred in a seminar under the Portuguese presidency; in 2001 it will be addressed by the Swedish and Belgian presidencies (For more academic reasoning, see Beck *et al.*, 1997). But although the question of employment is the main starting point, it is accompanied by social policy (including social protection) and economic policy, each of which form the sides of the triangle outlined by the European Commissioner for Social Affairs, Ms. Diamantopoulou. Here is her triangle:



Beyond these key words, it is hard to extract the Commission's strategic orientations from reading this document. Indeed, the Commission stated all the measures that it intended to take for each priority orientation including, above all, the ones which are only an extension of initiatives already under way.

Most novel aspects of the Agenda are therefore interspersed among measures sometimes only of historical interest. The true intention is rather well hidden: not being clearly described, it can only be sensed (16). As the ETUC pointed out, *“the approach adopted by the Commission (...) was too much influenced by the presupposition that there is no political support within the Council for more ambitious proposals. In this sense, even if the Commission has correctly identified the problems, the proposed solutions are insufficient. The Commission has imposed on itself a kind of self-censorship, which is prejudicial to the quality of its proposals”* (point 8).

In debating the Commission’s Agenda, the European Parliament played a particularly dynamic role. In October it met with the Commission to deepen the debate on the Community proposals (more than 250 participants and experts took part). It was also about determining a series of new priorities and proposals. In the discussions leading to the Council’s Agenda, two issues were particularly sensitive: the place of the OMC and that of legislation.

### ***Where do legislation and the open method of co-ordination fit in?***

In its preliminary reflection on the Social Agenda, France said that it wanted to try and clarify which method should be used for the different actions or objectives (legislation, co-ordination, co-operation or redistribution), and readopted an idea first mooted by the Commission in the early 1990s. In the context of the subsidiarity debate, this idea had been to assess the most appropriate method for each issue – harmonisation, co-ordination, convergence or co-operation – given the identified needs and the value added by the Community. In other words, one chooses the instrument which seems most suitable for the identified problem.

This concern is today shared by other Member States as well as by the European Trade Union Confederation. Their common fear is that the open method of co-ordination might overtake or, worse, replace the traditional legislative method. Whilst underlining its positive view of the open method of co-ordination, the European Parliament also pointed out: *“the instrument of Community legislation may be used in areas of competence of the Union, inasmuch as it aims to establish minimum social standards at Community level and ensures both parliamentary democratic influence and judicial control over Union decisions; (it) therefore calls on the Commission to evaluate the legislative framework currently in force and to finalise the instruments chosen to implement the Social Agenda”* (Van Lancker, date: point 9). After long discussion, the text adopted in Nice finally stated that *“in the implementation of the Social Agenda all existing Community instruments bar none must be used: the open method of coordination, legislation, the social dialogue, the Structural Funds, the support programmes, the integrated policy approach, analysis and research”*. Right at the end of the discussions, a paragraph was also added on *“the need to take full account of the principle of subsidiarity”*.

The debate on legislation is interwoven with the preceding debate. The key question raised by the French presidency’s text was what place to give to legislation. Apart from prioritising the open method of co-ordination, as stated above, it included hardly any legislative proposals which were not already in the Commission’s Agenda. One of the issues which had posed problems was that of individual dismissals. This proposal was the main sticking point for the delegations not in favour of European legislation. The vague reference to possible legislative action on individual dismissals (*“to organise an exchange of views on individual dismissals, taking account of social security benefits and national labour market characteristics”*) marks a climb-down on this point. In this respect it is instructive to note that

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16. As a member of staff in DG Employment observed: “you have to read the footnotes to see what we mean”.

no-one seems to have thought of using the argument of Article 30 of the Charter of Fundamental Rights, which deals with “protection in the event of unjustified dismissal”.

Generally speaking, proposals of a legislative nature are being exhausted. Gradually the old proposals have been adopted (including through the social dialogue) and few new ideas are emerging. Most proposals concern the revision of old directives (for example the European works council).

The demands of the European Trade Union Confederation identified a number of legislative proposals but these have been largely ignored. Amongst these, let us highlight: a legislative proposal to guarantee absence of discrimination against employees exercising their trade union rights; a legislative proposal to guarantee the inclusion of employment aspects in EU decisions on mergers; a binding instrument on sexual harassment; a legislative proposal on establishing a right to a minimum wage; a proposal on phased retirement; and one on complementary social security schemes. The ETUC also calls for revision of eight existing directives. On the other hand, UNICE believes that *“the new social policy agenda still includes obsolete and useless legislative proposals or revisions of existing texts, such as the directive on works councils. UNICE is calling on EU Member States to proceed towards the modern approach of open co-ordination, in the Lisbon spirit of structural reform”*.

Behind the apparently innocuous debates on method lie profound differences of opinion concerning the social model to be promoted. The failure of negotiations on temporary work between the European social partners in 2001 is the most recent example of this.

### **Main orientations for the future**

The Agenda adopted by the European Council comprises two parts. The first sets out the state of play and the second presents the priorities in six main chapters. These are concise and include only new initiatives.

1. More and better jobs.
2. Anticipating and capitalising on changes in the working environment by creating a new balance between flexibility and security.
3. Fighting poverty and all forms of exclusion and discrimination in order to promote social integration.
4. Modernising social protection.
5. Promoting gender equality.
6. Strengthening the social policy aspects of enlargement and the European Union’s foreign relations.

We will point out the main priorities for the future by mainly following the lines of this Council Agenda. One way to see the accomplishments and shortcomings more clearly is a scoreboard. This idea, a French proposal which was already in the European Parliament document, was favourably received. The Nice Council wanted the spring European Council each year to assess the implementation of the Agenda “on the basis of Commission and Council reports and a regularly updated scoreboard”. However, the Commission’s first attempt is hardly conclusive. It recognises itself that this format does not rule out future scoreboards (European Commission, 2001b).

### ■ Orientation 1: more and better jobs

Unsurprisingly, many of the proposals are an extension of the employment strategy with an additional quality aspect. The very definition of quality in employment has moved forward. Thus, a Commission Communication in 2001 will look at what employment policy contributes to the quality of employment in different areas (especially working conditions, health and safety, pay, gender equality, balance between flexibility/security and industrial relations). On this basis, the Employment Committee will report on the issue at the end of 2001. This will enable indicators to be defined to monitor progress. A significant part is devoted to mobility. Indeed, unemployment differentials and the fear of labour shortages re-open the debate on the low level of cross-border mobility and remedies for it.

Two aspects need to be highlighted: one is the will to think through the long-term links between migration levels and employment. Immigration is clearly no longer a taboo subject (see also the Commission Communications on this). The other aspect is the political links between competition policy and employment. The extremely cautious wording on this issue is to be noted. The Commission is asked *“to continue its examination, with due regard for the responsibilities in the matter conferred upon it by the Treaty, of the relationship between social policy and competition policy, while maintaining appropriate contacts with the Member States and the social partners”*.

### ■ Orientation 2: a new balance between flexibility and security

This is the chapter which caused most controversy between Member States because it includes the largest number of possible directives. First of all let us note the reminder on revision of the “Works Council” Directive. The second important issue is health and safety. After intense legislative activity in the late 1980s and early 1990s, this area has slowed right down. Beyond codifying existing standards, the Agenda develops three important orientations: taking into account new dangers, such as stress in the workplace, through regulation and exchanges of good practices; better enforcement of the legislation in SMEs; and, since 2001, enhanced co-operation between labour inspectorates.

In terms of changes in the working environment, it is worth noting that, following the joint opinion of the social partners in November 2000, the European Monitoring Centre on Change (previously on industrial change) is back on the agenda. The working objective is to have it in place by the end of 2001 within the European Foundation in Dublin. Three old directives will be assessed for possible adaptation: the protection of employees if the employer is declared bankrupt, mass redundancy, and the protection of labour relations if the employer changes. The social partners are in particular invited to examine data protection questions.

We should also note initiatives in terms of social labels and corporate social responsibility, for which a Communication is planned. A conference on this issue is due to be held in the second half of 2001 under the Belgian presidency.

**We would emphasise that macroeconomic aspects have been addressed.** One of the weaknesses of employment policy and of social policy in general is that it largely ignores macroeconomic factors. The macroeconomic dialogue started up following the Cologne European Council (links between the European Central Bank, the social partners, the Ecofin and Social Affairs Council and the Commission) is not working very well. The discussions are too formal and the Finance Ministers are rarely present. And yet a series of academic studies shows the important links between monetary policy and labour institutions in terms of the level of inflation, economic growth and job creation. We now find in the Social Agenda a clear reference to the Cologne process and the need to make wage formation more transparent between Community institutions and the social partners. This will be important, provided that this wish of the Heads of State and Government is effectively implemented. We note that the

Executive Committee of the European Trade Union Confederation adopted a resolution on this issue in December 2000.

■ **Orientations 3 and 4: new perspectives on poverty, exclusion and social protection (see following article as well)**

A significant element in the rapid progress of this dossier is that poverty and social exclusion are ranked third in terms of the major issues to be addressed. Certain points have benefited in particular – i.e. social protection and the concerted strategy in this field (see article on the subject) – from the consensus reached between the time of the submission of the Commission's Agenda in June and the one adopted in November by the Council. It is a small symbolic step but it may usefully boost the will to raise employment rates. In other words, the idea is to avoid Europe promoting an increase in working poor, as has occurred in the English-speaking world. A directive on resource guarantees is not ruled out but the relevant wording is very cautious. Following the first national action plans against exclusion (June 2001) it is necessary to ensure *"a follow-up (...) to the 1992 recommendation on minimum guaranteed resources to be provided by social protection systems and examine possible initiatives to monitor progress in the area"*.

The timetable for social protection priorities is becoming clearer. This is how the programme for the next three years looks: for 2001, "to guarantee secure and viable pensions in future"; for 2002 "to make work pay and promote secure incomes"; and for 2003 "to guarantee a high and sustainable level of health protection". This way everyone is forewarned of the timetable and what it may involve. Dealing with the sensitive issue of pensions will reveal both its potential and its dangers. Sensibly, the programme refers to in-depth co-operation rather than co-ordination. We would point out that the Treaty of Nice now requires that provisions passed in the social area (Article 137) *"shall not affect the rights of Member States to define the fundamental principles of their social security systems and must not significantly affect the financial equilibrium thereof"*. This clearly shows the mistrust of Member States of any European "overlaps", including possible encroachment by the Court of Justice.

■ **Orientation 5: promoting gender equality**

It will be noted that the new initiatives include a proposal to set up an Institute for gender issues and a network of experts, and to adopt a directive based on Article 13 (non-discrimination) to promote equal treatment in areas other than employment and professional activity. Finally, the Member States should set themselves objectives to develop women's access to decision-making, be it in the public or economic and social sphere.

■ **Orientation 6: strengthening the social policy aspects of enlargement and external relations**

Little had been done in this area. So we note with satisfaction the more resolute tone of the chapter on enlargement and its social consequences, which aims to *"help the applicant countries to take on board the European Employment Strategy, implementation of the objectives of combating poverty and social exclusion, and strengthened co-operation on social protection"*. The impact on policies pursued by the candidate countries and the creation of institutions is potentially very significant, notably in promoting an approach involving the social partners. It is also an area to be developed as a priority (Clotuche, 2001) because the fact that it has been relatively neglected hitherto has only strengthened the influence of the World Bank and the IMF, as well as those who praise the American and even Chilean systems (see the article by de la Porte in this edition).

### ***Other aspects: future of the social dialogue***

The Commission's Agenda set out a series of initiatives on industrial relations and the different forms of social dialogue. They are not to be found as such in the Nice Agenda but their implementation depends solely on the Commission, which is why we are raising them here. The most important point here is the "revision of the operation of the structures of social dialogue with the social partners (as much on a cross-industry as a sectoral level) and, where necessary, the proposal of amendments". In addition a committee on the future of industrial relations will be created (chaired by Ms. Rodrigues). The social partners will be consulted at European level in order to identify areas of common interest, including those with most scope for collective bargaining, and on the need to set up voluntary mediation, arbitration and conciliation mechanisms to resolve conflicts at European level. We would point out that the European Parliament had requested the implementation of the right to collective action, in particular the right to strike, at European level.

### **Conclusion**

The new Social Agenda is quite different from previous action programmes. In particular it defines a new working method – the open method of co-ordination. Future debate and factors for consideration will cover issues at the heart of social regulation in subjects considered essential to the identities of national welfare states. The issues which, in the name of subsidiarity, were treated in a marginal manner (such as social protection) re-erupt onto the European scene with the new open method of co-ordination. They form the focus of a theory and practice which are not nearly as tough as in the field of employment, but nevertheless bring fresh impetus to the fight against poverty and exclusion. Subsidiarity, which necessitates definition of the boundaries between the fields dealt with at each level (17), is reinterpreted as the need to find flexible co-ordination between different levels. This occurs even when the idea of convergence is set to one side – publicly at least – as a political objective to achieve.

The real novelty of the current programme of action is the theorisation, known as the open method of co-ordination, of practices which had been pursued in the context of employment policy. To date, no-one can tell whether this approach offers an effective solution on social issues. It follows a long story of trial and error, starting with the idea of a gradual improvement of Europe's social dimension in successive stages (the 1974 programme), to that of a common platform in the face of deregulation (the 1989 programme), and that of progressive convergence (1992 social security recommendations). The attempt to instigate a convergence process at European level had failed due to the lack of a clear vision of how to implement it. If that appears to be partly solved by the open method of co-ordination, we must underline that it is partly to the detriment of the idea of convergence because this objective is no longer declared a priority. In 25 years, Europe has changed its working method four times in the social sphere, without thereby achieving a consensus on its objective.

This has been accompanied by a redefinition of what "social" means. The definition has shifted from seeking an independent model to an approach to the social dimension as a productive factor. Originally the idea was to separate the social dimension from the economic. Now it is to show/prove how complementary the social and the economic are. This change of approach is fairly radical. Previously, we evaluated welfare state systems in terms

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17. As a reminder, this is defined as: "in accordance with the principle of subsidiarity, the Community only intervenes if and in so far as the aims of the action envisaged cannot be adequately carried out by the Member States, and cannot, due to the scale or effects of the envisaged action, be better carried out at Community level".

of the possibilities that they offered for “decommodification”. Now the primary objective is to maximise “commodification”, i.e. the employability of people coming into and staying in the labour market.

Finally, the role of the Community is now more that of an agency, even of a secretariat, than that of a driving-force for the European social dimension (18).

If the Fifteen agree today on creating the social element at European level, it owes little to the social-democrat presence in the governments of a great majority of the Member States. The key point is that the method on which they agree for the moment delimits less a European social area than a desire to promote “the modernisation of national welfare states”.

As Jouen puts it (2000: 2), the aim of the European Union is to facilitate the evolution (modernisation) of national welfare states. *“From now on the path of progress consists not in taking the best of each to replicate it elsewhere, but in taking forward each of the systems simultaneously while preserving their equilibrium”.*

This step-by-step policy of the OMC may result in a common European project in the medium term, by progressively strengthening the convergence of national systems. However, to do this, parallel progress must be achieved on qualified majority voting in social matters. In this respect, Nice does not give the right signals.

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18. The Nice Agenda states that the Council “formulates and updates the orientations and the appropriate or common objectives; establishes, where necessary, quantitative and qualitative indicators and benchmarks”, whereas the Commission’s role is to support the OMC “by means of appropriate initiatives, with particular reference to the development of indicators, in conjunction with the Employment Committee and the Social Protection Committee”.



## **Social protection – two areas of work in progress: poverty and exclusion; pensions**

*Ramón Peña-Casas and Philippe Pochet*

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### **Introduction**

The year 2000 marked a turning point in the European Union's social policy. December 2000 saw the Nice European Council adopt a Social Agenda for 2000-2005. This was the culmination of a year in which the Fifteen made significant headway on the social dimension. Last year we highlighted the renewed attention of Community politicians to social policy (de la Porte, 2000). The Finnish presidency had endorsed this trend by stressing the overlap of social and economic policy, as growth must go hand in hand with modernisation of social protection (old age and other pensions) as well as the promotion of social integration and health. The European Commission's Communication on a concerted social protection strategy, on which we reported in detail last year, comprised four axes: making work pay, action against poverty and for social inclusion, and ensuring the future of pensions and healthcare.

This repositioning of social policy was notably consolidated by the establishment of a group of senior civil servants from the Member States to look at the different issues related to the future of social protection. This group became a Social Protection Committee, a complement to the Employment Committee, and added a social dimension to its economic alter ego, the Economic Policy Committee. This committee was subject to specific provisions in Article 144 of the Nice Treaty, its main function being to promote co-operation in social protection between Member States and with the Commission. Its tasks are to monitor the social situation and social protection policies in Europe, to facilitate exchanges of information and good practices, and to formulate opinions or prepare reports in areas within its competence.

The Portuguese presidency at the beginning of the year 2000 confirmed and reinforced this will to define social policy as indissociable from economic policy, especially during the European summits in Lisbon (in March) and Feira (in June) which set a new and very ambitious strategic objective for the Union: to become by 2010 *"the most competitive and dynamic knowledge-based economy in the world with more and better jobs and greater social cohesion."* (European Council, 2000 a and b) (see introduction).

This objective is part of a tripartite global strategy consisting of modernising the European social model through investment in human resources (education and training); creating an active welfare state (modernising social protection) and promoting social integration through action against poverty and social exclusion and by deploying policies on behalf of the groups most vulnerable to exclusion and/or discrimination.

The year also saw the Commission's proposal for a Social Agenda, dealt with in more detail in another section of this report. We would like to underline that between the Commission's initial proposal (June) and the Nice decision (December), significant progress was made in compromising on social protection issues. Discussion centred on two specific topics: action against poverty and social exclusion, and pensions. We analyse both below.

## **1. Strengthening social cohesion through action against poverty and exclusion**

The adoption and implementation of the various social objectives in European policy clearly reflect the social impetus given to the Union in 2000. The promotion of social integration through action against exclusion is going to be a significant area of action for the years to come. But one of the most important elements will probably have been, initially, the instruments available. The introduction of the *open method of co-ordination* (OMC) by the Lisbon summit, as a tool additional to the traditional legislative instruments of Community action, has boosted the European social process.

The use of the OMC in the social area should get round the stumbling-block of subsidiarity, which has long restricted the Community's scope for action against poverty and exclusion. We could point out the twists and turns and eventual failure concerning the adoption, in the mid 1990s, of a new Community "Poverty Programme". The new method seems to have succeeded in reducing the reluctance of Member States for European action in this area. We would also point out that the Nice Treaty now provides a clear legal basis for action against social exclusion (Article 137). On the other hand, there is no actual definition of the OMC in the Treaty. We therefore look below at how the open method of co-ordination works, as described in the Portuguese presidency's document.

The OMC has four complementary stages:

1. Fixing guidelines for the Union, combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
2. Establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
3. Translating these European guidelines into national and regional policies (national action plans) by setting specific targets and adopting measures, taking into account national and regional differences;
4. Periodic monitoring, evaluation and peer review organised as mutual learning processes.

The year 2000 saw specific progress mainly in the first point through the approval of common aims to fight poverty and social exclusion in Nice in December, after the political consensus at the Social Affairs Council in November. During the first half of 2001, the Member States were charged with preparing their two-year action plans (July 2001 - June 2003).

To assess progress and specificities in the field of poverty and exclusion more precisely in terms of the OMC, we look below at the four stages of the Lisbon schema.

### **a) First stage: defining common aims**

The first and crucial step is to define common aims. It is a particularly delicate stage in the area of social exclusion, the scale of which sometimes varies considerably from State to State. The task of the High Level Working Party, which became the Social Protection Committee, was to prepare the ground. The committee tried to take into account the many facets of poverty and social exclusion and the complexity of their forms. Consequently it seemed necessary to implement a wide range of policies so as to achieve the strategy objectives, whilst recognising the predominance of employment and social protection within these policies. It also appeared essential to mainstream the anti-exclusion policies with the others to further consistency between them.

Many common aims have been adopted. This is due to the diversity of problems in Member States and the multidimensionality of issues to take on board, something which generated fierce discussion. For example, discussions on child poverty were particularly symptomatic of the difficulty to agree on common aims. The many aims were grouped into four generic categories and were adopted at the Employment and Social Affairs Council in October 2000 with the following wording:

1. *Promoting participation in employment and access by all to resources, rights, goods and services*: this aim is split into two distinct sub-aims: first, facilitating access to long-term, quality employment and prevention of gaps in working life and, secondly, promoting access by all to resources, rights, goods and services by organising social protection systems to guarantee everyone the resources necessary to live with human dignity, and by putting in place policies for access to decent housing, health care, education, justice etc.;
2. *Prevention of the risks of exclusion*: by ensuring that all benefit equally from the potential of the knowledge-based society and the new information and communication technologies, and by implementing policies to avoid deficiencies in living conditions which may lead to situations of exclusion;
3. *Helping the most vulnerable*: by promoting the social inclusion of women and men in danger of finding themselves faced with situations of persistent poverty, especially due to handicap or belonging to a social group experiencing particular integration difficulties; by eliminating situations of social exclusion affecting children to give them every opportunity for integration and developing global action directed at areas affected by exclusion. Let us note that these aims may be implemented through integration with all the other aims and/or by specific action.
4. *Mobilisation of all relevant bodies*: especially by promoting the participation and voice of people whose situation excludes them from the policies and actions implemented on their behalf; by ensuring that all policies incorporate action against exclusion by the joint mobilisation of political authorities at national, regional and local levels; but also by promoting dialogue and partnership between all the public and private players (social partners, NGOs and social services).

The social players have welcomed this first step, but they have yet to see how these aims will be implemented in practice. Because, as the European Anti-Poverty Network (EAPN) points out, *“although the packaging looks promising, everything will now depend on how Member States respond to these advances at European level. Are they going to juggle with existing measures to meet the letter of the Nice aims, or are they going to be more ambitious and develop new anti-exclusion policies in close partnership with all involved, including associations representing the poor and marginalised?”* (19). The idea of setting up common structural indicators is at least a partial response to this issue.

## **b) Second stage: setting up common indicators**

An essential part of the OMC is the need to agree on a range of quantitative and qualitative indicators in order uniformly to assess each State's progress with the common strategy and to exchange good practices among Member States after peer review.

A first stage in setting up common indicators grew out of the Lisbon review of aims. Seven structural indicators for the social field have been retained for this purpose, from the 'social cohesion' chapter. They are: the income quintile ratio (the ratio between the incomes of the top and bottom 20% of wage earners) as a measure of inequality of income; poverty rates before and after welfare transfers (excluding pensions); long-term poverty over more than three years; the number of unemployed households; regional differences (variation of

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19. EAPN, *Network News*, Nr. 81, February 2001, page 1.

regional unemployment rates); long-term unemployment; the number of young people leaving school early and not continuing in education or training. We need to distinguish here between poverty, for which indicators can readily be agreed, and the much more complex issue of exclusion, which lacks a universally accepted, generic definition (20). By way of example, the table below shows standardised poverty rates in 1996.

**Poverty rates in Europe (in %)**  
**(60% of the median standardised income)**

DK	L	NL	A	D	F	EU	B	E	IRL	I	GB	GR	P
11	12	12	13	16	16	17	17	18	18	19	19	21	22

**Source:** European Community Household Panel, 1996 wave. Finland and Sweden excluded.

This table shows the variability of poverty in Europe, with deviations ranging from one point to twice as much, e.g. between Denmark and Portugal. This analysis must of course be fine-tuned depending on each country and the statistics it has to assess poverty.

Purely as regards the poverty rates, States vary in defining their standards. Thus the 60% rate used in this table is a Eurostat standard, whereas some countries use a threshold of 50% and others still refer to average and non-median wage as their standard.

Let us also note that indicators in this area are subject to two trends. One runs from top to bottom with structural indicators set at a European level, of which some, in terms of social cohesion and employment, relate to these fields. The other runs from bottom to top, with the future inclusion, in all the national action plans, of the indicators used in the country. This will make a fuller collection of standardised European indicators available by the end of 2001.

The definition of structural indicators for use in the summarised report submitted by the Commission to the Stockholm summit (spring 2001) was the subject of a power struggle between the Commission, the Social Protection Committee and the Economic Policy Committee.

In September 2000, to comply with what it had been asked to do at the Lisbon and Feira summits, the Commission published a Communication (European Commission, 2000b) on indicators worth considering as a basis for the Stockholm summit to assess how the Lisbon objectives worked out in practice. This Communication divided the indicators into five subject-areas: the economy in general, employment, innovation and research, economic reform and social cohesion. The latter section brought together the most directly social indicators of the Lisbon objectives.

The Commission recognised and backed the role of the Social Protection Committee in selecting social cohesion indicators for development. But apparently the Social Protection Committee carried relatively little weight *vis-à-vis* the Economic Policy Committee in the final choice of indicators. The latter submitted a report to the Ecofin Council. After discussion with the Commission and the Social Protection Committee, the latter forwarded to Nice (21) a list of 35 indicators to use, of which it selected 12 on which it wished to "focus public debate".

20. On the issue of poverty measures and poverty and social exclusion indicators useable for comparison, see the report from the Observatoire social européen to the Belgian Minister for Social Affairs (Peña-Casas and Pochet, 2001).

21. Report from the Council (Ecofin) to the European Council in Nice on "Structural indicators: an instrument for better structural policies", doc. 13217/00, 27 November 2000.

And yet the poverty rate, an essential statistic for European social policy, is not on the shortlist of twelve indicators; these are guided essentially by an economic vision of poverty and social exclusion (22).

The Nice Council welcomed the list of 35 indicators whilst deferring discussion of the shortlist until the Stockholm Council. The controversy which arose on subjects which might appear technical actually epitomises the imbalance between economic and social players. It also reveals an important difference in philosophy between Member States for whom the social dimension is only a by-product of the economic, and those for whom it has a specific importance at least equal to the economic. These differences were very clearly expressed in Nice, during discussion of the European Social Agenda.

### **b.1) Towards other indicators**

The Social Agenda calls for “progress, as from 2001, on the basis of the indicators adopted by the States in their national action plans, towards achieving compatibility as regards those indicators and the defining of commonly agreed indicators”. We must immediately underline the ambiguity of the expression “commonly agreed”, which may quite easily mean both European indicators and national ones which have everyone’s assent.

The decision by the Social Protection Committee to set up an “Indicators” group should in any case contribute to this convergence of social indicators and allow it to set itself up more clearly as the point of reference, rather than the Economic Policy Committee, for all matters relating to indicators.

We would point out that although the European Trade Union Confederation (ETUC) has not yet made a direct statement on common aims, it has reiterated its wish to be associated with the process of defining indicators as well as, in accordance with the resolutions adopted in Helsinki during its Conference, to see a guaranteed income for everyone (at least 50% of the national income available to all) and a guaranteed minimum pension based on each Member State’s average full-time wage (23).

Finally, very anxious to have reliable indicators which are comparable between Member States so as to move towards a common approach, the Belgian presidency (second half of 2001) has decided to add its contribution notably by organising a major conference on this issue in September 2001.

### **c) Third stage: national plans**

Once the common objectives have been accepted, the next stage is to produce national action plans. Over the course of the year 2000 and beyond, the transposition of European objectives into national plans has given rise to a great deal of research and political work in most Member States. Developing action plans has often been accompanied by work to evaluate the depth and features of poverty and social exclusion in each country. Having created an Observatory on Poverty and Social Exclusion, France published a report on these issues at national level (National Observatory on Poverty and Social Exclusion, 2000).

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22. The most directly social aspect of the Lisbon objectives, brought together under the name ‘social cohesion’ in the Commission’s Communication, has been considerably amended by this process, reflecting the will of the Economic Policy Committee to evaluate the social dimension almost exclusively in terms of the economic dimension, since social cohesion depends implicitly on employment and unemployment. Therefore the unemployment indicators have been replaced (e.g. regional cohesion in unemployment rather than GDP per capita) or added (e.g. long-term unemployment rate) to the indicators chosen originally by the Commission in consultation with the High Level Working Party on social security.
  23. ETUC resolutions, paragraph 40, page 38.

Germany did likewise. This intense research activity to determine the extent of poverty and social exclusion can be seen as one of the first positive effects of a European strategy against poverty and social exclusion. The process of defining agreed comparable indicators is the next step.

#### **d) Fourth stage: monitoring**

This last aspect of the open method of co-ordination will be carried out in the future. The various national action plans will be delivered by 1 June 2001, and the Commission will have to submit a report summarising the points in these plans and giving an overview of the campaign against poverty and social exclusion at EU level. This will identify good practices and the particular features of poverty and social exclusion in each Member State.

#### **e) The action programme**

The definition of common objectives accompanies the setting up of a concerted European strategy against poverty and social exclusion. That is a new and significant fact which has come up this year and meets the long-standing demands of the social players.

The Commission has proposed a five-year action programme (2001-2005) as part of this strategy. Based on the open method of co-ordination, it aims to encourage co-operation among Member States, to strengthen the effectiveness and payoff of policies combating poverty and social exclusion.

It has three objectives:

- *improving the understanding of social exclusion*: analysis of its characteristics, causes, processes and evolution, including collation of comparable statistics, drafting common methodologies and thematic studies;
- *organising co-operation and reciprocal training in the context of national action plans*: co-operation and exchange of information and better practices on the basis of developing quantitative and qualitative indicators and evaluation criteria and by monitoring, a peer review carried out at regular intervals, with the Commission completing an annual report on progress made in the accomplishment of common objectives;
- *developing the capacity of players to address social exclusion effectively*: promoting dialogue involving the different actors and support for European networks of non-governmental organisations active in the fight against poverty and social exclusion but also promoting the networking of existing poverty and social exclusion monitoring centres.

This Community programme was not adopted in 2000, in particular because the Parliament wished to increase the budget initially earmarked for it (from € 70 to 100 million). Likewise discussions were inconclusive on the level of funding for European NGO networks (raising it from 80% to 90%) and on the need to set up a think tank to accompany the programme.

#### **Concluding comments**

It is certainly always possible to discuss the appropriateness or true feasibility of realising all or some of the stated objectives. Although these objectives may appear to be simple wishes for some, they are nevertheless a common umbrella of action within which all can orientate themselves according to their own interests and difficulties, whilst trying to keep a common approach by implementing unanimously accepted objectives. One can only hope that it will in time lead to a real reduction in poverty and exclusion within the Union, which remains the ultimate aim of these policies, regardless of level. At least the issue of poverty and social exclusion is now on the table, and that in itself is progress. It remains desirable that the social players (social partners, NGOs, etc.) will become more effectively involved in this

process, as they have said they want to, and will contribute to it the experience and sensitivity of those principally concerned: the poor and the excluded themselves.

## 2. Pensions

Let us turn now to the second aspect. There have been major developments this year concerning pensions. However, the Social Agenda remains cautious and there is (as yet) no question of using the open method of co-ordination in this sphere. The aim is to “*continue co-operation and exchanges between States on strategies designed to guarantee secure and viable pensions in future: national contributions forwarded with a view to the Stockholm European Council meeting (March 2001), study on this subject to be sent by the Employment and Social Policy Council to the European Council in Gothenburg (June 2001), which will determine the subsequent stages*”. Although the institutional dynamic is clear (a study in the Council), the Agenda remains vague as to the intended objectives and above all the means of achieving them. We would point out that, as far as pensions are concerned, the Ecofin Council carries as much weight as – if not more than – the Employment and Social Affairs Council.

We could summarise what is going on by highlighting two types of approach: the first, economic in nature, is to question the medium and long term financial viability of pension systems and its impact on public finances. The second focuses on the resources which will be available to future pensioners and on the general social considerations linked to this issue.

Even though pensions constitute one of the four themes included in the Commission Communication of 1999, the events of this year can be explained above all by moves afoot outside of the social arena *per se*. Let us first of all recall that, whereas public pensions fall within the scope of the Social Affairs Ministers, the same does not apply to supplementary pensions which come under the internal market. Pension funds, their free movement and the prudential rules applying to them are handled separately. This separation is borne out by Court of Justice rulings which state that the third pillar and to a certain extent the second pillar of pensions must comply with the rules of free competition (Bosco, 2000).

What is more, the Finance Ministers take a close interest in the ageing of the population and its likely impact on public finances and on the Stability and Growth Pact, which restricts the budget deficit to 3%. The Economic Policy Committee had already issued some recommendations in this regard (EPC, 1997) and established a sub-group under its own auspices (24). The Luxembourg employment process likewise has a considerable impact on the debate. The objective written into the guidelines, namely an employment rate of 70% in general and 60% for women, will inevitably bring about a gradual increase in the working population (thereby reducing the increase in the ratio of retired/working people).

Finally, the European Central Bank has in several documents voiced concern about the budgetary stability of (non pre-funded) public pensions. The ECB, whose influence over the conduct of economic and social affairs is mounting, initially confined itself to expressing alarm that “*the budgets of almost all the euro area countries will be faced with the serious financial consequences of population ageing in the medium term*”, “*this phenomenon affect(ing) in particular public pay-as-you-go pension and health systems*”. It merely advocated a fall in public debt ratios, the constitution of financial reserves and a “*more determined*” pursuit of reform of social protection systems (Dufresne, 2000a). The ECB did not venture beyond a fairly general wish-list, calling for “*the social partners to shoulder their*

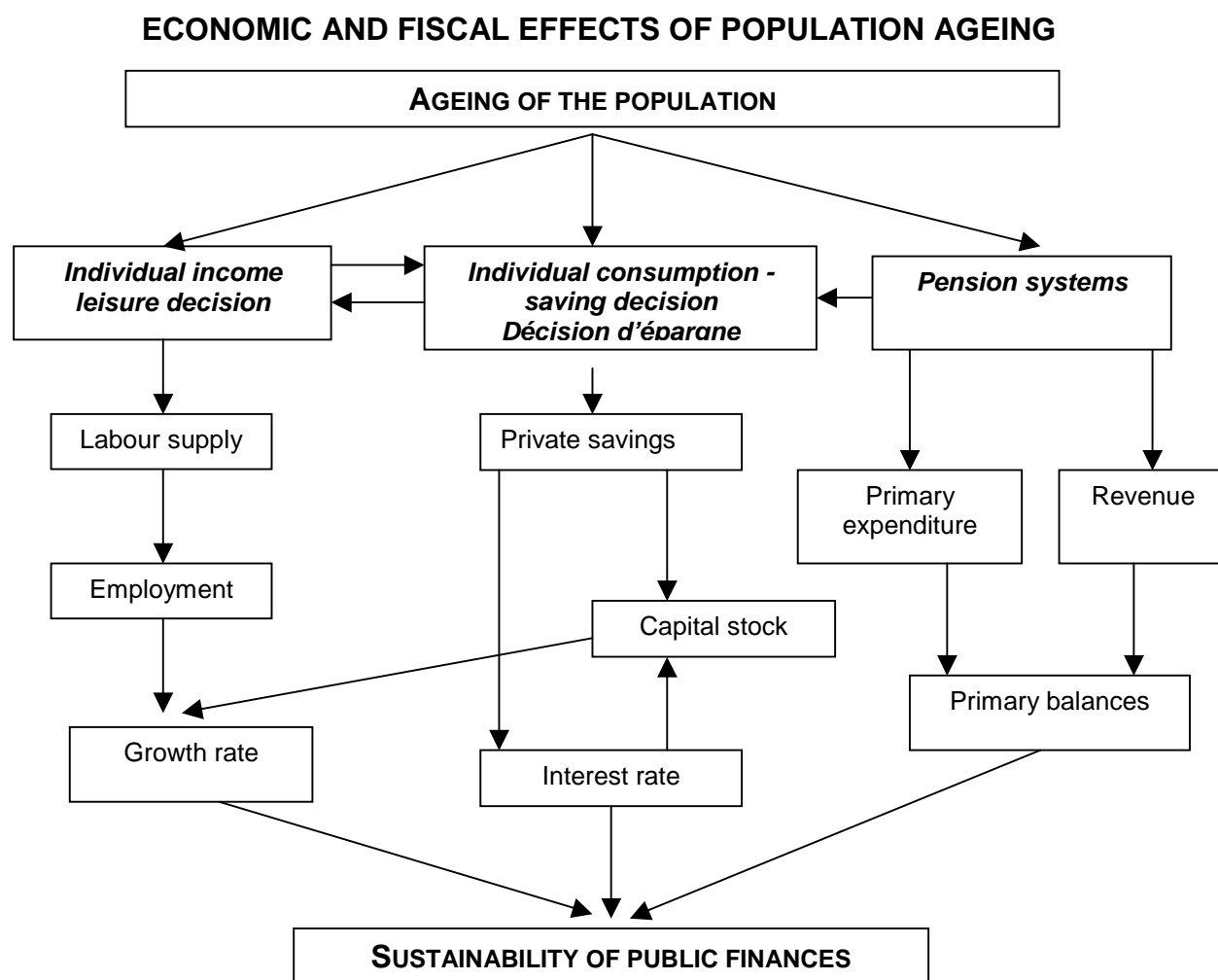
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24. The sub-group was chaired by the Italian Treasury Minister, Professor Vittorio Grilli, and also included members of the OECD and the ECB.

*responsibilities*” and demanding “*a break with so-called acquired rights*”, which is necessary for “*the flexibility of market structures and the consolidation of public finances*” (25).

In July 2000 the ECB addressed itself for the first time in a specific and in-depth manner to retirement pensions in the Member States and to the consequences of ageing on public finances (ECB, 2000). Reading this study, it is quite difficult to find any real difference between the ECB’s views and recommendations on retirement pensions and those expressed by the EPC, or in Commission texts, relating to economic policies.

It is worth showing how the ECB assesses the effects of ageing by reproducing the following diagram, taken from its study on pensions published in the ECB Monthly Bulletin for July 2000.



**Source :** ECB, 2000.

Other influential groups linked to the employers, such as the European Round Table (ERT) (26) and the De Benedetti Foundation, have also published worrying conclusions on the future of pensions.

25. Speech by the vice-president of the ECB on 29 September 1999, quoted by Dufresne (2000b).

26. European Pensions, An appeal for Reform. Pension Schemes that Europe Can Really Afford, 2000.

The main events of the past year must be read in this context. In view of the diverging interests, it is useful to quote in full the remits given to various parties by the Lisbon European Council. On the one hand, it invited the Council *“to mandate the High Level Working Party on Social Protection, taking into consideration the work being done by the Economic Policy Committee, to ... prepare, on the basis of a Commission communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pensions systems in different time frameworks up to 2020 and beyond, where necessary. A progress report should be available by December 2000.”*

On the other hand, the European Council also requested *“the Council and the Commission, using the existing procedures, to present a report by Spring 2001 assessing the contribution of public finances to growth and employment, and assessing, on the basis of comparable data and indicators, whether adequate concrete measures are being taken in order to ... ensure the long-term sustainability of public finances, examining the different dimensions involved, including the impact of ageing populations, in the light of the report to be prepared by the High Level Working Party on Social Protection”*.

In the next few paragraphs we shall plot the differences in developments according to whether one follows the study on pensions or the report on public finances.

### **Report on pensions**

The Economic Policy Committee has submitted its interim report (EPC, 2000). One initial point is that it took the year 2050 as its time frame (the European Council looked to 2020). Most comments in the press have dealt with the findings for 2050, which are obviously much more uncertain. To give just one example, demographic hypotheses vary between 310 million and 430 million inhabitants in 2050. Nonetheless, despite its limitations and imprecision, this document is extremely important since the data contained in it serve as a basis for all Community documents on the subject, as well as for those of other actors. Shortly afterwards, for instance, the investment bank Meryll Linch put forward a series of indicators on pensions, based on the projections in the EPC document.

We reproduce below the EPC's projections, confining ourselves to 2020 and pointing out the differentials between 2000 and 2020 for the two hypotheses used: one is the normal scenario; the other takes Lisbon into account (growth and employment rate) (27).

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27. These two scenarios are not really comparable: in particular, they do not use the same demographic hypotheses. For a detailed, reasoned criticism see Math, 2001.

**Projected expenditure on pensions 2000-2020 (as a % of GDP, before tax)\***

	2000	2005	2010	2020	2020-2000
B	9.3	8.7	9.0	10.4	+1.1
DK	10.2	11.3	12.7	14.0	+3.8
D	10.3	9.8	9.5	10.6	+0.3
EL	n.a.	n.a.	n.a.	n.a.	
E	9.4	9.2	9.3	10.2	+0.8
F	12.1	12.2	13.1	15.0	+2.9
IRL	4.6	4.5	5.0	6.7	+2.1
I	14.2	14.1	14.3	14.9	+0.7
L	n.a.	n.a.	n.a.	n.a.	
NL	7.9	8.3	9.1	11.1	+3.2
A	14.5	14.4	14.8	15.7	+1.2
P	9.8	10.8	12.0	14.4	+5.6
FIN	11.3	10.9	11.6	14.0	+2.7
S	9.0	8.8	9.2	10.2	+1.2
UK	5.1	4.9	4.7	4.4	-0.7

\* The estimates for Greece and Luxembourg are to be provided by the national authorities in January 2001.

**Source:** Report of the Economic Policy Committee working party on population ageing.

**Projected expenditure on pensions (as a % of GDP, before tax)  
"Lisbon scenario"**

	2000	2005	2010	2020	2020-2000
B	9.2	7.9	7.6	8.7	-0.5
DK	10.2	10.7	11.8	12.8	+2.6
D	10.3	9.8	9.5	10.5	+0.2
EL	n.a.	n.a.	n.a.	n.a.	
E	9.4	9.2	9.2	9.8	+0.4
F	12.1	11.3	11.7	13.6	+1.5
IRL	4.6	4.6	5.5	6.7	+2.1
I	14.2	13.9	13.9	14.0	-0.2
L	n.a.	n.a.	n.a.	n.a.	
NL	7.9	8.3	9.2	11.5	+3.6
A	14.5	14.4	14.4	14.7	+0.2
P	9.4	10.1	11.0	12.7	+3.3
FIN	11.3	10.9	11.6	13.6	+2.3
S	9.0	8.6	8.7	9.4	+0.4
UK	5.1	4.8	4.4	4.0	-1.1

**Source:** Report of the Economic Policy Committee working party on population ageing.

It is noteworthy that the results of the two simulations are not radically different. We would point out, lastly, that the EPC has already decided to follow up its report on pensions but wishes in addition to analyse the impact of ageing on healthcare costs.

Shortly thereafter, following a good deal of internal debate, the Commission published its Communication (European Commission, 2000f). It sets out ten guiding principles and objectives:

1. Maintain the adequacy of pensions
2. Ensure intergenerational fairness
3. Strengthen solidarity in pension systems
4. Maintain a balance between rights and obligations
5. Ensure that pension systems support the equality between men and women
6. Ensure transparency and predictability
7. Make pension systems more flexible in the face of societal change

8. Facilitate labour market adaptability
9. Ensure consistency of pension schemes within the overall pension system: pension pillars should be mutually supportive and well co-ordinated
10. Ensure sound and sustainable public finances.

This text has been well received on the whole.

The High-Level Working Party on Social Protection (now the Social Protection Committee) for its part produced a progress report on future developments in social protection from a long-term point of view: safe and sustainable pensions (17 November). This rather general document draws on the EPC's simulations, attempting to broaden the issue to include social aspects and social cohesion.

Whereas the EPC report made more of a media impact, it was the Social Protection Committee's approach which prevailed. Indeed, the Nice European Council approved the Council's approach, "*which involves a comprehensive examination of the sustainability and quality of retirement pension systems*". This statement is important because it reaffirms more clearly that pension issues must be considered in the round and not solely in terms of their financial sustainability.

The next step is for the Member States to unveil their national strategies on pensions. All the governments sent in their contributions in March 2001. The questionnaire covered four major themes: the aims of pension schemes, the challenges they will face, the way in which governments intend to tackle these, and the political decision-making process enabling reform strategies to be devised and implemented (28).

The ETUC adopted a resolution entitled "Ensuring the sustainability and quality of pensions in Europe" at its Executive Committee meeting, in June 2001.

Although this first round of the confrontation between the Ecofin Council and the Employment/Social Affairs Council seems to have been won by the latter, the debate is resurfacing around the issue of quality in public finances.

### **Debate on public finances**

As stated above, the Lisbon European Council mandated the Commission to prepare a study on "the contribution of public finances to growth and employment: improving quality and sustainability" (European Commission, 2000d). This study deals in addition with the question of retirement pensions, and also served as the basis for a joint Ecofin/Commission document adopted in March 2001. What is more, the Ecofin Council believes that in future one part of the Broad Economic Policy Guidelines should be devoted to ageing and its financial implications (29).

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28. Preliminary study by the Social Protection Committee on the long-term sustainability of pension schemes, 23/2, 6457/01.

29. "Member States should develop strategies for addressing the longer-term demographic challenge and present them in conjunction with their Stability and Convergence Programmes. The strategies should be examined in the context of multilateral surveillance", Ecofin Council, Key Issues Paper on the 2001 Broad Economic Policy Guidelines; 7001, 12 March 2001.

The balanced approach to what is at stake seems to have totally disappeared in this debate. The overall message is that “*pension schemes in several Member States are in urgent need of ambitious reforms, not only to contain the pressures on public finances but also to redress the intergenerational imbalance*” (30).

In order to do so, public finances must shake off their debts more rapidly by boosting budget surpluses. The Commission's basic preparatory document for the Stockholm European Council states that “*what is needed in the Member States is a **comprehensive approach** which will involve reversing the trend towards early retirement; faster reduction of public debt in order to use interest savings to support pensions and healthcare; and continuing pension reforms in Member States, including allowing private pension schemes to take full advantage of the internal market*” (European Commission, 2001c).

Yet the data supplied in the report on public finances do not justify this urgent need for action (European Commission, 2000e): the Commission has calculated the likely effects of the public debt situation in 2010 and 2020 if the Member States were to proceed strictly in accordance with the medium-term objectives for 2003 laid down in their 1999/2000 Stability and Convergence Programmes. The medium-term objectives correspond to the budgetary balances for 2003 (Greece, France, Austria and Sweden: for 2002) provided for in the 1999 Stability and Convergence Programmes.

#### Coping with ageing: reduction in debt servicing (as a % of GDP)

	“Medium-term objectives” (deficit: +; surplus: -)	Debt ratio 2000	Medium-term objectives			
			Debt ratio 2010	Variation in debt servicing	Debt ratio 2020	Variation in debt servicing
<b>B</b>	-0.2	112	69	-2.1	44	-3.4
<b>DK</b>	-2.5	50	12	-1.9	-12	-3.1
<b>D</b>	0.5	61	40	-1.0	26	-1.7
<b>EL</b>	-0.2	103	64	-2.0	38	-3.3
<b>E</b>	-0.2	63	37	-1.3	22	-2.1
<b>F</b>	0.5	59	43	-0.8	32	-1.4
<b>IRL</b>	-2.6	46	1	-2.3	-20	-3.3
<b>I</b>	0.1	112	73	-1.9	48	-3.2
<b>NL</b>	1.1	62	38	-1.2	29	-1.6
<b>A</b>	1.3	64	52	-0.6	45	-0.9
<b>P</b>	0.3	57	41	-0.8	28	-1.5
<b>FIN</b>	-4.7	43	-7	-2.5	-45	-4.4
<b>S</b>	-2.0	59	20	-2.0	-3	-3.1
<b>UK</b>	0.3	44	24	-1.0	18	-1.3

**Source:** Commission Services.

As can be seen, the fall in public debt servicing would be more than 3 points of GDP for seven countries, over 1.5 for four, and from 0.9 to 1.5 points for the others. The most positive results are for heavily indebted countries such as Belgium and Italy, as well as for those with a budget surplus (Finland, Ireland).

30. This same tone is found in the Commission report on the implementation of the 2000 Broad Economic Policy Guidelines (COM (2001) 105 of 7/3/01, where pension reforms are described as “imperative” (page 4). It states that “most countries have still not taken the necessary measures to confront the budgetary difficulties which population ageing will entail” (ibid). This topic is likewise explored in the Economic Policy Committee's report on structural reforms: “insufficient preparation for the long-term public finance challenge of ageing” (page 13). (Annual report on structural reforms, 2001 of 6/3/01, ECFIN/EPC/171/01).

## Public finances and pension costs

If these data are compared with those of the so-called Lisbon scenario (see previous table), it becomes apparent that for most countries the reduction in debt servicing exceeds the additional expenditure envisaged on pensions, sometimes by a large amount.

### Consolidated results of debt reduction and increase in pension costs (Lisbon scenario)

B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
-3.9	-0.5	-1.5		-1.7	0.1	-1.2	-3.4		2	-0.7	1.8	-2.7	-2.7	-2.4

Our own calculations

The above figures are merely an estimate which would need to be validated by further research, but if one follows the Lisbon scenario (as interpreted by the Economic Policy Committee) and the Member States extend and consolidate for 20 years the objectives contained in their 2003 convergence plans, problems seem unlikely to occur. In order to meet this goal, the Commission and Ecofin Council are now adding healthcare costs. To be precise, however, account should also be taken of education and family allowances, whose costs should decline if the population aged under 20 falls.

This obviously does not mean that no solutions will need to be found for pension and healthcare problems over the coming twenty years, but indicates that there is no need to act in haste, nor to take drastic measures. Successful reforms are ones negotiated with the different actors involved.

## Conclusion

The processes underway in respect of social exclusion and poverty, on the one hand, and pensions on the other point up some very important developments at European level. The underlying momentum seems however to be quite different.

On poverty and social inclusion, the impetus is coming mainly from within the social domain. Moreover, this policy area can quite easily be incorporated into documents emanating from the Commission's Directorate General on Economic and Financial Affairs. Indeed, a liberal model can readily accommodate an active anti-poverty policy (especially in respect of child poverty) if, at the same time, steps are taken to privatise pensions, put the unemployed into jobs and stabilise healthcare costs. As to the real place of poverty in the European strategy, the acid test will be whether or not the poverty rate is ultimately maintained on the shortlist of 12 structural indicators.

Over and above these considerations, it has to be acknowledged that the combination of an employment strategy aimed at quality and a poverty reduction strategy might convey the message that the European model aspires to avoid the "working poor" trap. With a little co-operation between the Employment Committee and the Social Protection Committee, it ought to be possible to tackle the key issue of job insecurity. However, additional efforts appear necessary to expand national administrations' awareness of what is happening at European level (in France, INSEE has published a major study on national poverty taking no account of the European indicators or objectives), but also to inform local actors – public and private – and NGOs.

The pensions scenario is quite different. The Social Affairs Ministers are being reactive rather than proactive. The pace is being set by the Ecofin Council, which regards the issue of pensions as nothing other than a cost and a risk for public finances. However, as we have demonstrated, its arguments do not seem to substantiate its logic. Nevertheless, this does

not seem to be a real problem for the Ecofin Council, in that the comments seem to have been written before the results of the studies came out. By taking up the topic of pensions, the Economics Ministers have equipped themselves with a new weapon following on from the Stability and Growth Pact. They can thereby exert additional pressure for public finances to be profit-making, and are compelling Europe to reduce spending rather than boosting revenue. Actually, a study by the Netherlands **Central Plan Bureau** (ter Hele *et al.*, 2000) demonstrates that if GDP is increased by 0.7% through direct taxation, pension funding will not be a problem until 2080.

The integration of social and economic policies, brought about by the firming up of the objectives laid down in Lisbon, has highlighted above all else the struggle for influence between the European actors in each of these fields, as well as the unevenness of their respective resources. In this respect, the process of defining the structural indicators to evaluate the attainment of these objectives has revealed the Economic Policy Committee's thirst for power in the social field: such an attitude harks back to the long-standing debate about the respective importance of the economic and social fields, and the interaction between them. The resurgence of this well-worn debate may be seen as symptomatic of a change of tack in European policy-making, whereby economic policy is no longer the only credo.

Synergy between economic policy, employment policy and other policies (most notably social, but also for example environmental) is poised to become a driving-force behind the building of Europe, a process which – in the spirit of Lisbon – revolves around growth while deeming quality, integration and social cohesion to be imperative. From this point of view it will be possible to gauge the influence of the Economic Policy Committee and the Social Protection Committee over the definition of the next Broad Economic Policy Guidelines (BEPG) by the extent to which their joint proposal is taken into account.

## Is enough attention being accorded to the social dimension of enlargement? <sup>(31)</sup>

*Caroline de la Porte*

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### Introduction <sup>(32)</sup>

The forthcoming accession of 10 Central and Eastern European Countries (CEEC), plus Cyprus, Malta and Turkey to the European Union is of extraordinary character. It has been highlighted repeatedly by the protagonists: “*the enlargement facing the EU today poses a unique challenge, since it is without precedent in terms of scope and diversity: the number of candidates, the area (increase of 34%) and population (increase of 105 million), the wealth of different histories and cultures*” (European Commission, 1999a: 6). The Commissioner for enlargement, Günter Verheugen, has made a positive assessment of the progress made in the accession negotiations during 2000, which he has characterised as an “*extraordinarily good year*” for enlargement. He referred in particular to the institutional reform achieved during the European Council of Nice, which had been identified as the “*decisive*” element of the year <sup>(33)</sup>. Beyond institutional reform, however, no big steps forward had been taken. In the framework of the negotiations, the chapters in which progress was achieved were those covering the least controversial issues, leaving those dealing with the more thorny issues to a later date. In addition to the *acquis communautaire*, the political and economic “Copenhagen criteria” (1993) – but no particular social criteria – are an integral part of the negotiation process and must be met by candidate countries. Although enlargement is now technically possible, the post-Nice “*air du temps*” is pessimistic as to how functional the enlarged Europe will be. The due date for institutional re-configuration of the European Parliament implicitly means that the EU would be widened for the participation of some forthcoming members in the Parliamentary elections of 2004 (OSE, 2000).

In the Community’s legitimising discourse, the advantages of the prospective enlargement are clear. These advantages include the re-enforcement of political stability and peace throughout the European Union, the constitution of Europe as a strong economic player in the global arena, the strengthening of common economic and social societal values, moulded to the information and communication-based context. The need to improve social conditions in the CEEC has been highlighted by the Commission in the strategy paper of its annual report on the progress of the candidate countries towards enlargement. Indeed, one-third of the PHARE budget for 2000-2006 has been set out for economic and social cohesion (European Commission, 2000g). It will particularly be consecrated to the development of mechanisms and institutions for the implementation of the Structural Funds after accession. The chapter on social policy of the White Paper of 3 May 1995 on the preparation of the candidate countries for integration to the EU lists the *social acquis communautaire*. Legislative aspects covered are: equal opportunities for men and women, co-ordination of social security schemes, health and safety at work, labour law and working conditions, labelling of tobacco products and a high level of employment and social protection. It is notable that the last of the legally-binding *social acquis* – a high level of employment and social protection – has been difficult to re-enforce as there have been no associated criteria. Moreover, the social dimension of Europe is not taken into account in the Copenhagen criteria. It is also notable that in the propitious Social Agenda for 2000-2006, adopted during the Nice Council (see Pochet, 2000), some steps forward were taken in setting out the contours of a strategy for the social dimension of enlargement. The Union was encouraged

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31. I would like to thank Renate Langewiesche (ETUI) and Johannes Pakaslahti (KUL), for their useful comments on the draft of this article.

32. This article particularly focuses on enlargement to the Central and Eastern European countries.

33. Bulletin quotidien Europe, No.7882, 17 January 2001, pp.7-8.

to “*resolutely support the efforts already made by the applicant countries to adjust and transform their social security systems and to encourage the establishment of a process of convergence in making progress.* (34)” In the aftermath of the socially-orientated political decisions taken at Lisbon, the transformation, in theory, extends beyond the limited legally-binding *social acquis*, encompassing common social values. Recently, the participation of the candidate countries in the European Employment Strategy was included among the criteria. There are, however, still no associated criteria for the other “soft” areas of social policy. From 1999 onwards, there was a shift in the development of the social dimension within the European Union, notably by the instigation of the Commission communication “A concerted strategy for modernising social protection” (European Commission, 1999b). The EU Member States decided to set up a Social Protection Committee and to co-operate in the view of the common challenges that they face in their social protection systems. “*The need to confirm the place of social protection within the common values of the European Union in the context of enlargement*” is underlined in the communication. The four axes of the communication – make work pay, render pension systems sustainable, ensure quality health care for all and combat social exclusion – are, according to the Directorate General of Employment and Social Affairs, now officially part of the “political” or “soft” *acquis*, to be adopted by the candidate countries (Clotuche, 2001). However, the extent to which this is taken into account by the actors responsible for the actual negotiations is questionable. The infiltration of the EU social protection norms and values into the membership requirements was confirmed in the 1998-2000 social action programme (European Commission, 1998), in the framework of which the candidate countries were encouraged to “*ensure the full adoption and implementation of EU law and **practice** in the social sphere*”. It is only in the year 2000, as will be illustrated in this article, that a consensus seems to have emerged on the scope of the broader *social acquis* among different players. These players highlight that it is urgent for the candidate countries to accelerate efforts to further develop their social policies, especially to counter the growing social inequalities and the low capacity of their systems to combat widespread poverty. The replacement of the former production and distribution structures, and the preparation for EU membership have been enormously costly and have undeniably led to negative social consequences.

The negative effects of transition to a market economy are likely to be exacerbated as of membership of the candidate countries to the EU. Hence, it is not only desirable, but necessary for the candidate countries to formulate adequate social policies and to build solid social infrastructures prior to membership of the EMU. Prolonging their participation in the ERM-II mechanism would allow the forthcoming members to complete structural reform, to stabilise low-inflation policies, and to pursue reform in the social policy area (Langewiesche and Tóth, 2000: 381-382). Moreover, the systems in the candidate countries need to be able to resist undesirable social consequences upon EU membership, particularly as far as labour markets and the free movement of workers are concerned. This thorny is beyond the scope of this paper. However, it is nevertheless worth pointing out that numerous forecasts have been made of labour movement from the candidate countries after accession. Forecasts vary, but the results of the different analyses suggest that there will be no dramatic increases in migration, and that the impact on the EU labour market should be limited. The predicted labour migration is expected to be concentrated in certain member states, sectors and regions (Langewiesche and Lubyova, 2000). In order to address this issue, the European Commission has prepared a note, detailing the options regarding the free movement of workers, ranging from full application of the *acquis* in this area, through various possible flexible transition agreements to a general non-application of the *acquis* concerned for a significant period (European Commission, 2001d).

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34. Contribution by the Council to the Nice European Council with a view to the adoption of the European Social Agenda, paragraph 23.

The aim of this article is to shed some light on the social aspect of enlargement in the year 2000, from the institutional perspective. The first part briefly recalls the main steps leading to the decision to enlarge the Union. The second part explains the manner in which the social dimension of enlargement – social dialogue, employment and social protection – has gained ground. The manner in which different players conceive the *social acquis communautaire* will be described. The conclusion ties the different elements together, to make an overall assessment of the social dimension of enlargement, and the progress made in the year 2000.

## 1. Background – Retracing the key steps of the enlargement process

The steps for this unusual enlargement have been taken quickly, many would say too swiftly for the Union to be able to function successfully with up to 13 new countries. Now, however, the process has been shifted into a higher gear, and it is essential not to lose the momentum. 61% of citizens in the candidate countries would vote for EU membership if a referendum were held now. However, the will of the CEEC to become members of the EU is decreasing slowly, but surely. It is of interest to note that there are considerable differences between the stance of the “social elites” and that of the rest of the population. 80% of the “opinion leaders” in the candidate countries are pro-integration, which illustrates the positive influence of a higher level of information and education on the position of the wider public towards enlargement (Deutsche Bank Research, 2001). The public opinion among the EU member states (44% in favour of enlargement) on the acceptance of new member states is also caught in a downward spiral (35).

Let us briefly recall the milestones of the process that led to the decision to enlarge the European Union to close to 30 members. In the aftermath of the fall of the Berlin Wall in 1989, the European Community swiftly established diplomatic ties and concluded trade agreements with the CEEC. During the 1990s, Association Agreements, more often referred to as the “Europe Agreements”, were concluded by the European Community and its Member States with 10 CEEC, providing the legal basis for bilateral relations between these countries and the EU. In sum, the Europe Agreements cover trade-related issues, political dialogue, legal approximation and other areas of co-operation, including industry, environment, transport and customs. Under these agreements, trade between the EU and the CEEC grew rapidly. For other provisions, such as the free movement of workers, the “Europe Agreements” facilitated the conclusion of bilateral agreements between EU Member States and the 10 CEEC, but there was no over-arching provision. In retrospect, the Europe agreements are considered as precursors to EU membership (36), as they are “*based on shared understanding and values, and prepare the way for the EU and the partner countries to converge economically, politically, socially and culturally.*” (European Commission, 2001e). Membership applications were submitted by the 10 CEEC between 1994 and 1996. Similar agreements of association, excluding political dialogue, had formerly been concluded with Turkey (1963), Malta (1970) and Cyprus (1972) (European Commission, 1999a: 7-8). These countries had submitted their applications for membership prior to the CEEC: Turkey in 1987 and Cyprus and Malta in 1990. As pointed out by the European Economic and Social Committee, the social dimension “*was hardly visible in the Europe Agreements*” and “*social convergence was not an objective in the same way as economic co-operation.*” (European Economic and Social Committee, 2000) The integration of the CEEC to the EU could be conceived as an on-going process in the framework of the Europe Agreements, consisting of a step-wise removal of trade barriers, whereby the CEEC have had to make institutional

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35. Eurobarometer, No.54, 8 February 2001.

36. Legally and politically, however, the door for EU membership was not opened by the European Agreements.

adjustments to match EU standards. However, it is important to keep in mind that this has to a great extent been limited to the areas of trade and capital movements.

In 1993, at the Copenhagen European Council, the Member States selected an important route, from the Community perspective. They agreed that *“the associated countries in central and eastern Europe that so desire shall become members of the European Union... as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required.”* The Council also decided that, in addition to having to comply with the *acquis communautaire*, prospective members would have to adhere to specific political and economic criteria, notably:

- instituting democracy, the rule of law, human rights and respect and protection for minorities
- ensuring a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union
- taking on the *acquis* fully, notably including economic and monetary union (European Council, 1993).

It was the first time that additional criteria had been included in the conditions for membership. This was due to the particular nature of the Central and Eastern European candidates, which had to re-build their political and economic systems after the collapse of the Soviet Union.

A particular feature of this enlargement is that it has proved to be a “process in the making” or a “piecemeal decision process” (Falkner and Nentwich, 2000) and other criteria have progressively been included among the membership requirements. Indeed, at the Madrid European Council, in December 1995, the importance of ensuring the implementation of the *acquis*, through appropriate administrative and judicial structures, was highlighted. The Luxembourg European Council, in December 1997, highlighted that “the operation of the institutions” should be strengthened. Moreover, the decision was also taken to launch an “overall enlargement process” for all countries wishing to join the EU. Accession negotiations were formally opened with six countries on 31 March 1998: the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus, referred to as the “first-wave countries” or the “forerunners”. The accession negotiations consist of the terms under which candidates adopt, implement and enforce the *acquis communautaire*, which are divided into 31 chapters. Following the Commission’s initial set of Opinions evaluating the situation of each country in relation to the accession criteria, a follow-up system, via annual “regular reports on the progress of each candidate country”, was created. These reports – the first set submitted to the Council in November 1998 – are intended to serve as a basis for the Council to take decisions on the conduct of negotiations, and on including new countries in that process. The apparent apolitical and technical manner of embarking upon this enlargement is notable (Falkner and Nentwich, 2000).

In its composite paper of the 1999 regular reports, the Commission recommended opening negotiations with Malta, Latvia, Lithuania, Slovakia, Bulgaria and Romania, and to consider Turkey as a candidate country. In the Helsinki European Council of 10 December 1999, the recommendation to extend the process was followed: *“The European Council reaffirms the inclusive nature of the accession process, which now comprises 13 candidate States within a single framework. The candidate States are participating in the accession process on an equal footing.”* (European Council, 1999). At the door to the 21<sup>st</sup> century, the prospect of the European enlargement eastwards, referred to as *“an historic opportunity”* by Gunter Verheugen, Commissioner responsible for enlargement, shifted from the realm of the virtual to that of the real. Historically, the Helsinki Council will be remembered for opening the enlargement of the Union further, and for introducing two important principles, that of differentiation and that of transition. Concerning the former, it is the measurement of progress by each country individually, becoming member upon having fulfilled all

requirements. Concerning the latter, it consists of transition periods upon membership in certain delicate areas, to ease the process for the Union as well as for the forthcoming members.

The six-monthly meetings of heads of state have contributed considerably to the overall development of the enlargement process, fine-tuning the process and progressively rendering it more concrete. However, it is only recently that the social dimension has been extended to more than the limited legally-binding *acquis*, to encompass the essence of the "European social model". This includes the social dialogue and, as set out in article 137 of the Amsterdam Treaty, the promotion of employment, the improvement of conditions of life and of work, the fight against social exclusion and the guarantee of an adequate social protection for all citizens of the Union. However, the degree to which the wider *social acquis* are enforceable is still relatively weak. The progressive shift to a broader scope of *social acquis* in the Community strategy, and the role of different players therein, will be analysed below.

## **2. The extension of the *acquis social***

### **2.1 Perception of the *acquis social* by different institutional players**

The development of a wider understanding of social policy is reflected in the most recent regular report series on the progress of the 13 candidate countries in the view of enlargement (October 2000). This spotlight on the social dimension of enlargement is mirrored in Agenda 2000, where social policy has been identified as an "*important area of the Union's activity*" (European Commission, 1997). The need to progress in the social policy and employment area has been highlighted by the Commission in its strategy paper of 2000: "*...adoption of the *acquis* continues to be slow in the social policy and employment sector... social cohesion is at risk if progress is not made in these areas in parallel with (other) reforms. It is, therefore, essential that candidate countries accelerate their efforts.*" (European Commission, 2000g). In its timetable, the Union has set out a "*road map*" for progressing in the negotiations on chapters that remain open. Chapter 13 on social policy and employment is scheduled to be closed for all candidate countries in the first half of 2001. Currently, Chapter 13 is closed for five countries (EurActiv, 2001).

A snapshot of social policy analysis in the year 2000 regular reports on progress towards accession is illustrative of a wider interpretation of social policy development in the candidate countries by the European Commission. In a nutshell, the assessment of progress consisted of noting the developments in the legal *acquis* and in the "political" or soft *acquis*. The former encompasses the social dialogue, specific rules in labour law, equal treatment, health and safety at work, public health. The latter consists of employment policies, notably the European Employment Strategy and the need for the CEEC to have viable social protection systems (pensions, health care, protection in the case of unemployment, family benefits and allowances, social assistance, special provisions for disabled persons). This is in compliance with the Amsterdam treaty that extends the scope of Community social policy *acquis*. In its discursive dimension, the social policy identity of Europe in the broader sense of the term has been described in the following manner by the Commission: "*Our social structures are... based on shared values of equality and are distinguished by their universal nature and by the extent of their social support systems... European social standards are higher and stronger than those of all other comparable economies... social transfers in EU Member States help us to prevent poverty... the importance of achieving a balance – between economic and social policy and between flexibility and security – lies at the heart of the process of European integration... social policies are vital for greater and more widely shared*

*prosperity... social policy is a productive factor that brings benefits for the economy, for employment, and for competitiveness...*" (Quintin, 1999).

The European Parliament (EP) also recognises that it is important to pay more attention to the social dimension of enlargement (European Parliament, 2000a). The overall perspective of the EP's position, in regard to the social aspect of enlargement, is that it is of crucial importance. The EP believes that the social impact of enlargement will be "*difficult to estimate in figures.*" It has recognised that "*changes taking place in the candidate countries have led to social problems and in particular to marked social stratification and in some cases high unemployment*" and that "*overcoming economic and social differences between the current Member States and the future Member States is the most significant challenge for the Union.*" In this respect, the European Parliament also pointed out that the citizens of the candidate countries have high expectations of enlargement, as far as the quality of employment, and the social quality of life are concerned (European Parliament, 2000b). The EP notes with concern that the growth rates in the CEEC are not up to the predictions made in 1997 by the economic research institutions, and that social disparities are increasing. In a realistic forward-looking perspective, the EP has emphasised that "*the initial years following accession will mean a major challenge for the economies of the new Member States, particularly as a result of the inevitable changes which will affect their financial, economic and social structures.*" The social dimension is interpreted broadly, including both legal and political adaptations in the candidate countries." The EP calls for social policy measures to be taken now, during the pre-accession period, to enhance social cohesion and to avoid negative impacts upon membership, resulting from considerable differences in income within and between Member States.

The European trade union movement also conceives the *social acquis* broadly. According to the European Trade Union Confederation (ETUC), the European social model should be regarded "*as a king-pin of the enlargement process,*" consisting "*not just of the legislative instruments which comprise the Community acquis, but also benchmark documents like the Charter of Fundamental Rights proclaimed in Nice, the Council of Europe's revised Social Charters, the 1989 Charter of Workers' Rights, the Recommendations on social security, and the Nice social agenda... they enshrine a string of shared principles which are part and parcel of the European social model and Community legislation...*" (ETUC, ). Such a broad interpretation of the *social acquis* cannot be detected in the European employers' organisation's perspective. UNICE (Union of Industrial and Employers' Confederations of Europe) instead highlights the advantages of enlargement for enhancing the European economy's competitiveness globally (UNICE, 2000b).

The overall light in which the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) conceives the enlargement is wide, encompassing a political union, a common economic and monetary space, a wide-ranging market, as well as a social and cultural space. Indeed, CEEP affirms that the "European social model" is a reality experienced daily by millions of people living in the European Union, according to which life in society is conceived in a particular manner. To maintain the model, the CEEP prescribes economic efficiency, an increase in the employment rate, respect for the environment, sustainable development, protection of consumers, social progress, solidarity and the struggle against exclusion, as well as the involvement of citizens in society at local level (CEEP, 2000).

The European Social Model includes common values and norms, which the Economic and Social Committee (ECOSOC) argues should be transposed to the candidate countries. It stresses the importance of the engagement of populations and actors in the candidate countries for a successful accession. ECOSOC particularly highlights the need to pursue institution-building, social and employment reforms and the development of an active civil society. ECOSOC has notably stated that "*Civil society will be ready to accept EU*

*enlargement and to share burdens attendant upon enlargement only if active policies are pursued to promote employment, open new opportunities for training and jobs, and stabilise the social situation”* (European Economic and Social Committee, 2000: 17).

The European Anti-Poverty Network (EAPN) characterises the eastward enlargement as a “real challenge” in the fight against poverty and social exclusion. EAPN encourages the participation of different actors in making the national contexts socially equitable. Considering this, EAPN has arguably made a commitment to enhance pan-European co-operation and to boost NGO and civil society participation in the CEEC. EAPN actively encourages the creation of a partnership between the Western European and CEEC NGOs by the means of exchange of information and good practices (EAPN, 1998). Although the role of civil society and NGOs in the CEEC is moving forward, it is still embryonic.

Among the European level actors, there is clearly unanimity on the need to address the social dimension of enlargement and to include a wider set of criteria for EU membership. Indeed, the European social model consists of a high level of social protection and employment and the participation of different actors – trade unions and civil society – in making national, regional and local contexts socially equitable. Below, we will cast some light on the European specificities of the social dialogue, employment and social protection.

## **2.2 Social dialogue**

Throughout the 1990s, the social dialogue has progressively acquired a strong position in the European Union, with the incorporation of the Maastricht Social Protocol and Agreement of 1991 into the Amsterdam Treaty. The European Commission now views the social dialogue as being at the heart of the European social model, arguing that the crucial role it plays in EU member states should be developed in the candidate countries: *“we think it is important that all the candidate countries pay particular attention to how social partner organisations develop and to encourage active, autonomous dialogue between them...”* (Quintin, 1999) Indeed, the social partners have acquired the right to be consulted on the Commission proposals in the social sphere and have the right to conclude framework agreements, to be converted into Community legislation, applicable nationally. The social partners at national level play a crucial role in its implementation nationally. In the area of labour law and fundamental rights, the directives – notably on European Work Councils and the provision of information to employees – aim specifically at promoting the social dialogue at enterprise level. The re-enforcement of the role of the social partners in the CEEC is thus crucial (European Commission, 2000h: 2). According to Emilio Gabaglio, secretary general of ETUC *“Enlargement is a natural development in the process of European integration...”* He has underlined the importance of the role of civil society for its success: *“unification and enlargement will not succeed unless all citizens and organised forces are involved”*. Similarly, Marie-Helene Andre, confederal ETUC secretary, has pointed out that: *“The trade unions play an active role as pioneers to show the positive effects of enlargement, both in countries within today’s EU and in the candidate countries”* (ETUC, 2000a).

Such a participative approach is also supported by the Economic and Social Committee (ECOSOC): *“as the accession negotiations advance, it is increasingly clear that the engagement of populations and actors in the candidate countries is necessary to make accession possible... without the active engagement of socio-professional organisations, the enlargement process will not work”* (European Economic and Social Committee, 2000). The Commissioner for enlargement, Gunter Verheugen, too, supports this approach, and insists on the importance of involving strong, representative and independent trade union and employer organisations in the enlargement process, rather than limiting it to a narrow political elite (ETUC; 2000a). In order to counter the growing unfavourable public opinion in the CEEC on EU membership and as a key for European construction, ETUC and UNICE

recognise the need to enhance the role played by trade unions in the applicant countries in strengthening the prospects for EU membership, among workers and at enterprise level (ETUC; 2000b) The CEEP points out the need to strengthen the social dialogue, and also to increase the representativity of employers' that is particularly weak at enterprise, sector and branch levels. CEEP also highlights the need to ensure a more balanced tri-partite social dialogue, notably to decrease the preponderant role of the State in some countries. Similarly, ETUC encourages a continuous dialogue between the trade unions nationally and their respective governments in the EU and in the CEEC. It also underlines the importance of establishing such a dialogue in countries where it is absent. ETUC calls upon the European Commission to *"keep hammering home to these governments that involvement of the social partners in all issues of concern to them is an integral part of the European model."*

The EP, too, *"requests that... greater efforts be made to develop the social dialogue further... in order to contribute to democratic development, the development of social security systems, health and pension systems and health and safety at work, as well as to guarantee equal opportunities and equal treatment and non-discrimination by labour market policy."* In the regular reports of 2000, the Commission has pointed to the insufficient development of the role of the social partners in several CEEC, for example in Lithuania.

The role of the social dialogue in the applicant countries is of a different nature, partly due to the communist heritage. It is far from being a driving force in their social policies, as trade unions are viewed with suspicion. In general, people are hardly aware that trade unions are willing or capable of acting in their interest, and it is unlikely that trade unions in the CEEC will in the future play a role equal in vigour to the role they play in the present EU member states, and at European level (37). Membership is very low, and if anything, it is decreasing. Trade unions are relatively active at enterprise level, and in tripartite negotiations at national level. Yet, they are weak at sectoral level, which should in fact constitute the core of their activities.

Employers organisations are weak and seem unable to construct a stable and strong identity. The employer organisations, like trade unions, are active at the enterprise and national levels. At the enterprise level, they provide information that is requested, or facilitate networking. At national level, they are concerned with participating in major political debates. Their activity at sectoral level, similar to trade unions, is virtually non-existent (Draus, 2000a: 121-122).

The different European actors believe that it is essential for bipartite negotiations to be strengthened if the social dialogue in the CEEC is to obtain the credibility necessary for it to become a useful instrument.

### **2.3 Employment**

The employment situation in each candidate country – unemployment rate, proportion of active population in employment, wage level, etc – has been reviewed by the Commission in its regular reports on a yearly basis. Employment in the CEEC is now being accorded even more attention, particularly in the light of the quantitative benchmark set for the Union as a whole – to increase the overall employment rate to 70% and that of women to 60% by 2010.

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37. Interview trade union representative Estonia, 19 October 2000.

Although an improvement of the situation was reported in 2000, the overall result was not encouraging, but performance varies considerably from country to country. Indeed, the present situation is somewhat alarming in that *“the typical situation faced is one of slow, in some cases negative, employment growth coupled with persistently high levels of unemployment, particularly for the young and unskilled. Informal and undeclared work is commonplace”* (European Commission, 1999c: 109).

A novelty in the year 2000 has been the involvement of the CEEC in the EU's soft policy-making processes insofar as the employment policy is concerned. As part of the Luxembourg process, national action plans for employment were developed by most CEEC, in which targets were set, according to the needs of their particular contexts, in view of the European level objectives and benchmarks. In the regular reports of the year 2000, the Commission praised the CEEC for having developed ambitious national action plans, axed around the four pillars of the European Employment Strategy. Like the European Commission, the European Parliament also encourages the CEEC to develop, or develop further, the National Action Plans on employment, which are conceived as tools for “a more rapid structural change.” In this light, it notably encourages the CEEC to adapt their qualification profiles and education and training arrangements to adapt to the new knowledge-based European context. The ETUC, too, conceives the involvement of the CEEC in the European Employment Strategy as crucial, and highlights the role of trade unions at national level, to follow-up the national employment policies and to contribute to the promotion of a high level of employment at their specific levels (in enterprises, sectors and branches). Following the Commission's discourse, the ETUC emphasises the need for the candidate countries to strengthen actions under the four pillars of the employment guidelines. Taking into consideration the employment guidelines for 2000, it notably insisted on the importance of improving professional integration, in the framework of the “employability” pillar and of modernising the organisation of work in the framework of the “adaptability” pillar (European Commission, 2000h). The European Council of Stockholm reiterated that the CEEC were invited to participate in the European Employment Strategy.

Is the involvement of the CEEC in the soft process of employment effective? In other words, are the highly appraised en vogue words such as employability and adaptability translated into national targets? Given the difficulty of social partners and civil society to mould a credible place of action in the different national contexts, do they participate in the employment strategy according to the rules of the game? Apart from the question of the efficiency of such programmes, and that of the participation of all players concerned, the question of the adequacy of setting up such programmes at all arises. As a member of parliament, formerly Minister of Social Affairs in Estonia, states: *“The European Employment Strategy influences Estonia, but the situation and context in Estonia is very different from in the EU. The Estonian Labour Market is changing all the time. And I do not think that European Labour Market policies are adapted to the needs in Estonia. The European Employment Strategy is based on a well-established system with strong social partners and other institutions. The vision is connected with a structure”* (38). Although the European Employment Strategy is open in nature in that the national players select targets that pertain to their situation among a vast array of broader aims, the philosophy of the strategy is indeed connected with the embedded structures that are an integral part of the EU context. The situation is clearly different in the applicant countries, where the labour market is in a process of structural change. It is shifting from a preponderance of the agricultural and industrial sectors to the development of the service-oriented sectors. Although more stable than at the beginning of the 1990s, the structures and institutions connected with the labour markets are far from fully functional. Indeed, although transparency has increased and accountability mechanisms have been put in place, the payment of contributions, essential for fully functional social security systems (generally insurance-based) is still problematic. This

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38. Interview Member of Parliament Estonia, 23 March 2000.

explains the flourishing of the grey economy, which represents between 20 and 30% of the annual GDP (Draus, 2000b).

Perhaps a specific set of aims, adapted to the particular situation of the prospective member states, could be formulated, while keeping the same method. This would consist of drawing up guidelines and benchmarks at European level, preparing national action programmes in line with the national context, periodic supranational monitoring, evaluation and peer review, organised as mutual learning processes and finally, the issuing of recommendations to each country. One of the principal problems that could be tackled is notably the lack of confidence in structures and institutions, which is reflected in the problems arising in the social policy and employment field. It is notable that 30% of the PHARE budget is consecrated to institution-building, but special attention should be accorded to the psycho-sociological dimension of confidence.

## **2.4 Social protection**

During the year 2000, the EU Member States decided to apply the open method of co-ordination to the area of poverty and social exclusion and to work on rendering the pension systems financially and socially sustainable. In this context, the need for the candidate countries to have viable social protection systems has been integrated among the EU membership requirements. However, EU activity in the social area is so new, that not much thought has been given to how exactly the candidate countries are to go about this task, and how they can “prove” the adequacy of their social protection systems to the judges on the other side of the negotiating table.

In its report “Social Protection in Europe in 1999”, the Commission illustrates that the EU member states and the candidate countries are confronted with similar problems, and that the pressure on the social protection systems in the transition countries, in particular the reform that some countries need to undertake, should not be under-estimated. The significant – and growing – proportion of the CEEC population that lives in poverty is frequently mentioned by the Commission, which highlights how urgent it is to address the problem. For the first time, one out of five chapters of the Commission report was devoted to the social protection systems in the candidate central and eastern European countries, notably focusing on the state of affairs concerning three of the four pillars of the European Union’s social protection strategy (employment, pensions and health care). The picture of social conditions in the CEEC is bleak, but the report draws on figures that are not too catastrophic (39). More attention was also devoted to analysing the social protection systems in the CEEC in the yearly regular reports on progress of the candidate countries in complying with the European Union’s membership requirements. Other analyses of the social conditions and the social security systems in the CEEC make a harsher assessment of the extent of poverty and the inefficiency of the social security systems (see Special Issue of the Belgian Review of Social Security on the social dimension of enlargement, 2001).

The EP, too, encourages the candidate countries to invest in their social infrastructures. Mirroring the crux of the Commission’s discourse on social protection, the EP conceives investment in social protection as a productive factor. It stresses that the social protection objectives for the Union should also apply to the CEEC. Similarly, the ETUC also emphasises that the CEEC should build social protection systems. *“The essential principle is that of solidarity, which underpins all social protection systems, and includes social partner participation in setting up and running such systems. The principles of the welfare state underpin the European social model and so must be considered as building blocks of the process of change in the applicant countries.”* More specifically, in the case of economic

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39. Assessment of the social protection systems in Cyprus, Malta and Turkey are not included in the analysis.

growth, the ETUC highlighted that it should not only benefit the labour market, but must also help strengthen the social protection systems in cross-border regions, particularly focusing on infrastructure and structural policies for regional development and employment promotion. Similarly, CEEP does not conceive the principle of subsidiarity that governs social policy in the EU as an obstacle to a common political vision for present and future member states, and notably refers to the key objectives set out in the 1999 Commission communication on social protection. CEEP highlighted that attention should be accorded to reducing the national and regional disparities, in order to reinforce social cohesion, and that the Structural Funds, and notably the European Social Fund instrument, should be used in this respect. The European Trade Union Confederation also encourages the CEEC to put in place adequate social protection systems in order to decrease the risk of social exclusion and to enhance social cohesion. It notably encourages the CEEC to invest part of the profit from the private sector in social protection (Lourdelle, 1999: 91-92).

Many of the actors concerned have highlighted the need for the applicant countries to establish viable social protection systems, a crucial part of the European social model. In the light of the recently prioritised European aim to combat poverty and social exclusion, the CEEC should be involved in the reporting-targeting-evaluation procedure that mimics the Luxembourg process already now, so that the method which is taking form will be moulded to the needs of their national contexts as well. The modalities of their involvement in this process have not yet been envisaged.

## Conclusion

All key European protagonists realise that the enlargement process has now entered a red zone, and that it is crucial to move forward at a rapid pace to be able to accomplish the construction of a wider Europe at all. The combination of ambition and reason are key ingredients of the recipe of which the outcome is not yet certain. It will require a delicate dosing of the key ingredients and other spices, and just the right amount of cooking time. Too little time would result in an unprepared meal, while too much time would mean a burned meal, impossible to recover. Eneko Landabrau, Director General for Enlargement, underlined the sensitivity of the issue, stating that accelerating the rhythm too much would result in a flop, weakening Europe, and in particular its social dimension. On the other hand, any slowing down in the negotiations would also lead to a “fragilisation” of the Community. In both cases, the proponents for Europe limited to a zone of free trade would come out on top. Hence the importance of respecting the timetable laid down in the road-map. Politically, as well as for the public opinion in the EU and in the CEEC, it will be important for at least some new members to participate in the elections of the European Parliament in 2004. The opinions of ETUC, UNICE and CEEP have also underlined the importance of moving forward swiftly and with care, and are in tune with the present approach proposed by the Commission.

According to Gunter Verheugen, membership of the European Union is the only way forward for the peoples’ of the CEEC, in order for them to be able to reconstruct their societies following the period of communism that was imposed upon them. On several occasions, he has highlighted the importance of enlargement to the EU as part of their societal construction. This construction goes beyond the market dimension, notably also embracing the social dimension (ETUC, 2000a). However, the reality of the social conditions in the CEEC is rarely revealed in the public discourse. It should be put on the table now and the social dimension of enlargement should be fully integrated into the European agenda in order for it not to become a political time bomb. Such a development would be catastrophic for the EU and for the candidate countries.

Fears in the EU Member States are growing, notably concerning the free movement of workers. In the previous enlargements, new Member States have asked for temporary derogation for certain *acquis*. In the framework of this forthcoming enlargement, the request for derogation emanates from the current Member States. Germany first launched the proposal of a seven year derogation for the free movement of workers, which is now supported by most Member States and other players involved. In the East, this is conceived in a negative light. *“One of the difficulties presented by enlargement is that “selling it” in Germany or Austria requires the guarantee of “rigid” closed borders, while “selling it” in Poland, Hungary or the Czech Republic requires the promise of permeable, open borders”* (Le Monde Interactif, 2000). The issue of migration is among the most sensitive and controversial political topics within the EU, as well as in the prospective member countries.

Moreover, the European Union needs to send a clear and strong message to the CEEC, in all areas and in particular to the social policy area, to counter the domination of the ideologies propagated by the international institutions that have been particularly influential in the CEEC, notably the International Monetary Fund and the World Bank. The road map that has been proposed by the Commission is indeed a positive step forward, but it is important not to concentrate exclusively on technical conditionalities, and instead take the overall socio-political and cultural context into consideration.

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