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Realising both economic growth and social protection in Europe in an era of globalisation

Opinion¹
Social, Health and Family Affairs Committee
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I. Committee's conclusions

1. The European social model is a package of common values that underlie Europe. These values are freedom, democracy, equality and solidarity. They have inspired the social systems of all European countries. Although applied in various guises, they share a number of common characteristics. It is not by chance that they all involve government intervention to reduce poverty and social exclusion, redistribute income more fairly, ensure high levels of social security and promote equal opportunities.

2. Europe today is faced with major changes – demographic, competitive and technological – that are transforming our society and economy. Adapting and modernising the social model will be a major challenge in the coming years. The European response should involve a mix of greater flexibility in the labour market and sustained high levels of social security. This balance between flexibility and security is an essential aspect of the sustainability of European social model.

3. While globalisation in itself is nothing new, the scale and pace of change are unprecedented. Europe is facing a real challenge, which it absolutely must take up. Europeans are not generally totally hostile towards globalisation, but are concerned about the resulting economic prospects.

4. There is an urgent need for Europe's leaders to offer a vision that combines prosperity and social protection in the new economic environment if we wish Europe's future generations to be able to live with the values our continent champions. Only adaptation and change in continuity will make this possible. But the diversity and exchanges that characterise Europe are a source of vitality and optimism, which are both invaluable in today's global economy.

5. But in managing this new climate of change, Europe cannot compete on costs alone. Strong social and employment policies are an essential aspect of achieving real growth and improving living standards. An economic and a social approach that goes hand in hand is needed to make Europe more adaptable, competitive with opportunities for all. This is precisely what the Council of Europe is committed to achieving: a modern, innovative, sustainable, European social model with high employment in an inclusive society based on equal opportunities.

¹ See Doc. 11366 tabled by the Committee on Economic Affairs and Development.

II. Explanatory memorandum

6. Globalisation, which the IMF defines as the economic interdependence of all countries worldwide resulting from the increased volume and variety of international trade in goods and services and of international capital flows, as well as from the relentless spread of technology, is not fundamentally new.

7. The difference between early-20th and early-21st-century globalisation lies in the increased speed and volume of trade coupled with technological advances (launching of communication satellites, Internet). Moreover, the fall of the Berlin Wall and the decline in ideological differences have seen the market economy to take hold throughout most of the world.

8. However, Europe remains sceptical about the changes triggered by globalisation. In other words, although Europeans recognise the benefits of a globalised future, they are not convinced by the prospects it offers. These concerns are mostly reflected in pessimism and a lack of confidence in the future. What we must consider is how Europe can succeed in the global economy while protecting its values and continuing to play its role in promoting a better world.

9. The globalisation process often seems contradictory. And too often globalisation is seen as a threat for our economies and for the European social model. Yet the new developed countries represent also new markets for Europe. Of course, in order to take best advantage of these new opportunities, Europe clearly has to increase its ability to adapt.

10. On the other hand, many developing countries have increased growth levels and reduced poverty by playing a larger part in trade and by successfully attracting foreign investment. However, such reductions in poverty through globalisation do need to be backed up by international development aid. In this connection, it is interesting to note that the most ardent supporters of globalisation are often the poorest countries.

11. It is obvious that economic growth has been the main vector in poverty reduction throughout the world over the last thirty years. The developing countries, which are most directly concerned by the opportunities globalisation offers, have every interest in continuing their economic growth in order to meet their needs. For instance, a country like China needs to maintain its growth in order to be able to tackle its many social challenges in the longer term.

12. However, trade is only one of the instruments that serve to improve the condition of humankind and boost freedom and social progress. To what extent is globalisation having an impact on Europe and how are its values being preserved? Some difficulties have been avoided because of globalisation and the resulting export boom for European economies. As a source of funding and investment, Europe has the ability to adapt and diversify its own sources of revenue.

13. At the same time, however, it may be asked whether the booming economies of the developing world are posing a threat to Europe's prosperity. A survey by Eurobarometer shows that the main priority and the main challenge in Europe is employment: 90% of those polled believe that combating mass unemployment should be a priority for the European Union. High unemployment is now a structural feature of a good number of Europe's major economies. Regulations and the cost of labour have now reached a level where it is becoming difficult to dismiss or, indeed, take on staff.

14. The demands of the social system are therefore diverging from those of businesses. One effective solution would be to replace old jobs with new ones and win the battle for investment. It is in this area that Europe suffers a severe handicap with its restrictive labour markets.

15. The existing social models and the various systems of social protection need to be reformed and adapted to today's environment. There are a small number of short-term solutions. Some countries are making efforts by encouraging higher birth rates (eg France and Ireland), but that is not enough to reverse the general trend. The arrival of additional migrants could also resolve part of the problem, but that would trigger new debates in addition to those already under way concerning immigration.

16. While all countries agree about the goals to be achieved (increased growth and productivity, greater innovation, less unemployment and poverty), the means to be employed vary according to the size, the capacity and the social profiles of the individual European countries and it is unlikely that they will all be able to follow the same paths.

17. In the area of research and development, Europe is also losing ground in terms of competitiveness and could face difficulties in important new sectors. There is a need to introduce fiscal incentives and to provide funding at European level for research and innovation projects.

18. The rapporteur is convinced that tomorrow's economy must be built on human capital. Investment in people yields real and lasting results - it is not "soft" investment. In economic terms, people have a very high long-term rate of return, higher even than investment in infrastructure. Investing in human capital makes economic sense. For instance, in the last five years, over 60% of the new jobs created have been in the highly-qualified sectors.

19. On the other hand, experience in the various countries shows that a political approach with generous unemployment benefits and considerable investment in active labour market policies combined with jobseeker activation and monitoring can have a positive impact on employment.

20. An active labour market policy and lifelong learning create the conditions which enable workers to make the transition from a low- to a higher-productivity job. If an active job-search programme is implemented and sufficient protection against unemployment is guaranteed as soon as possible where a risk of unemployment occurs, employees feel more secure and are more able to adapt to the changes caused by restructuring.

21. The rapporteur believes that strong social protection is perfectly compatible with growth and jobs. The fact that the Scandinavian countries continue to make the top five in international surveys on competitiveness is hard proof.

22. In this context, it appears that in Europe a consensus could be obtained among politicians and social partners in favour of flexibility that respected the balance between demands of the market and those of social protection for workers (which is the essence of the so-called *flexicurity* debate).

23. Flexicurity means being ready for change, managing change and establishing a balance between flexibility and security on the labour market. Equipped with the right skills, "old Europe" can succeed in global competition. Well-functioning labour markets and quality in working life are key to the kind of innovative Europe we want to emerge. Flexicurity should create a win-win situation for workers as well as for companies.

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