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European Social Policy:

Common Challenges, Common goals

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0. Introduction

At the end of the second day of this important Congress of Insurance Medicine, I would like to share with you my view on the way in which we should develop a social dimension in European co-operation.

1. Major challenges

A series of major demographic, economic and social changes over the past 20-25 years across the Union have profound implications for social protection systems and will continue to do so in future years. According to the 1997 and 1999 European Commission Reports on Social Protection four major trends are of particular importance:

- 1.1) the ageing of the population in all Member States and the prospective increase in the rate of growth in the number of elderly people from 2010 onwards. The largest expansion will be in the number of people of 75 and over, who tend to have greater demands towards pension systems, health care and social services. At a time when increased female participation in the workforce is likely to reduce the available pool of unpaid family carers, the demand for long-term care will increase markedly. As you all know a falling birth rate over many years also causes a prospective decline in the number of people of working age, thus potentially undermining the financing capacity of the system.
- 1.2) the changing gender balance and the growing participation of women in the labor force, which has been accompanied by increasing demand for support services, both child care and the care of people with disabilities as well as the elderly infirm. This evolution puts gender issues and the importance of ensuring equality of opportunity for men and women at the forefront of the national and European political agendas.
- 1.3) the persistence of high and long-term unemployment and a low rate of participation in the workforce, especially among women and older workers, and the trend towards earlier retirement;
- 1.4) the increase in the number of households, the decline in the average size of households (or in other words: the rise of the number of people living on their own) and the increase of the number of households with no-one in work. This has made it more difficult to provide care and support from within the family and increased the importance of the availability of income and other support for people who are not in paid employment.

We may adopt a neutral attitude to these facts themselves, even a positive attitude. But they do require systematic adjustments to the welfare state's architecture.

If we look for a composite measure of the strain our mature welfare systems already experience today, we may use simple dependency ratios, i.e. the ratio between the non-working population with social benefits and the active population. In 1970, the ratio of employed people to those living on benefit was 2:1 in Belgium. Today it has shifted to 1:1. Greatly simplified, we can say that half of the increased dependency is due to unemployment, the other half to retirement. The use of this indicator needs of course refining. The image that a fixed group of 'payers' is poised against a group of 'recipients' is misleading because some people shift from one position to the other and back, and because both categories can co-exist within the same family. Nevertheless, this trend of increasing dependence must be stopped. The most frequently quoted reason is that the economic sustainability of social protection is coming under undue pressure.

Let me quote this important conclusion drawn recently by the European Commission from its projections on the future financing of pension systems in Europe: the real issue is the significant number of those of working age who are not part of the labor force at all (especially women not actively seeking work). "Expanding the number of these who are in work would help to alleviate the future problem of funding social protection systems at least as much as, if not more than, the reform of pension arrangements *per se*" (CEC, 2000:2).

But there is still another reason why a growing dependency ratio must give rise to some fundamental questions: dependence on benefit means, to a greater or lesser extent, social vulnerability. Part of this vulnerability cannot be avoided in an ageing society. Another part is avoidable, though, and hence must be reduced. In the latter case, dependency means that opportunities are denied: opportunities to actively participate in society.

There are still other indicators showing the strain on today's welfare state. The significant and systematic reduction in poverty that characterised our country in the 70s and 80s has ground to a halt. In health care, we are faced more than ever before with patients experiencing financial difficulties and with embarrassing policy choices because the resources do not longer match the new needs and possibilities.

However, all this must not lead to exaggerated pessimism. As medical doctors would say: "the patient shows symptoms of dyspnoea but he is not suffocating". An adequate insight into the causes shows the way towards a remedy.

2. European-wide convergence of ideas

The new Belgian government coined a new expression to summarize the challenge: we want to transform our country to an "active welfare state". The expression points to three different ideas: our goal is a society of active people; in order to achieve this goal, we need an "intelligently active state"; and thirdly, we do want to achieve this goal without giving up the old ambition of the welfare state to offer adequate social protection.

The Belgian government's approach is but one instance of a Europe-wide convergence of views on the future of the welfare state. Despite important national differences in practical policies, if one makes a systematic comparison of social policies, one is struck by the recurrence of a number of fixed points, on which many European governments seem to agree today. I will list five such fixed points.

- 2.1) Welfare policy cannot be reduced to employment, but employment is the key issue in welfare reform. Moreover, the nature of the employment objective has changed. "Full employment" as it was conceived in the past in most European countries, underlying traditional concepts of the welfare state, was full employment for *men*. The social challenge today is full employment for men and *women*. This is linked to the transformation of family structures and our conception of women's role in society. It points to the need to rethink both certain aspects of the architecture of the welfare state and the distribution of work over households and individuals as it spontaneously emerges in the labour market.
- 2.2) The welfare state should not only cover social risks as we traditionally defined them (unemployment, illness and disability, old age). It should also cover new social risks (lack of skills, causing long-term unemployment or poor employment, single parenthood) and respond to new social needs (namely, the need to reconcile work, family life and education, and the need to be able to negotiate changes within both family and workplace, over one's entire life cycle).
- 2.3) The traditional welfare state is, in a sense, predominantly a passive institution. A social risk has to result in a bad outcome, and only then there is the safety net spread by the various institutions that offer social security. An intelligent welfare state should respond to old and new risks and needs in an active and preventive way. As a corollary, it is stressed that the welfare state should not only engage in "social spending", but also in "social investment" (e.g. in training and education).

I would like to emphasize here that social investment is not a substitute for social spending. The idea that the "social investment state" can *replace* much of the traditional welfare state is unreal, given that we live in ageing society, with ever more people dependent on benefits and social spending because of age. Moreover, social investment does not come cheap, certainly not in the short run.

- 2.4) During the nineties, there was growing consensus that active labour market policies should be higher on the agenda and upgraded, both in quantity and in quality, by tailoring them more effectively to individual needs and situations. Active labour market policies presuppose a correct balance between opportunities, obligations and incentives for the people involved.

Hence, taxes and benefits must not lead to a situation in which poor individuals (or their families) face very high marginal tax rates when their hours of work or their wages increase, or when they take up a job. “Poverty traps” and “unemployment traps” - discouraging mainly low-skilled workers from taking up jobs - characterise not only selective welfare systems, but some other more universal systems as well, in differing degree.

Activation thus is the keyword. It is therefore necessary to subsidise low-skilled labour, by topping up low-skilled workers’ pay, and/or by selectively subsidising employers, combined with decent minimum wages. More generally, mechanisms in the current social security systems that discourage people rather than encourage them to be active, should be discarded as much as possible. As for my own country, there is a lot of attention to this issue: some striking inactivity traps are being removed, and my department is making a systematic study of the issue, scrutinising the entire social security system for the presence of such phenomena.

- 2.5) Such an active welfare state needs an economic environment, based upon both a competitive sector, exposed to international competition, and the development of a private service sector, which is less exposed to international competition, and in which low-skilled people find new job-opportunities. Continental Europe typically lags behind in the development of the private service sector. Wage subsidies for low-skilled people can also be instrumental in that respect.

I stress the recurrence of these “fixed points”, since it reflects the potential for a useful convergence of views on the welfare state among European policy makers, at least on the level of general diagnosis and general policy guidelines. I do not suggest that a consensus on such guidelines would lead to close convergence of national social models within the European Union, or to close convergence of practical policy measures. Different political, institutional and cultural backgrounds explain why differences in measures and in models will persist; imposing homogeneity would certainly not be sensible. Nevertheless, indicating such a convergence of general views on employment and employment-centred welfare reform among European policy makers is not a theoretical exercise. For instance, without this kind of convergence the political process set in motion by the 1997 Luxemburg Job Summit would have been more difficult. It is one of the reasons why the discussion of the National Action Plans on Employment and the elaboration of European Guidelines for Employment Policies turned out to be a substantive exercise - contrary to what sceptics might have feared.

Of course, establishing the potential for convergence of views on the welfare state entails much more than what I have said so far. A comprehensive approach of welfare reform requires thorough discussion on the future of pensions and health care, but I will not elaborate on these issues here.

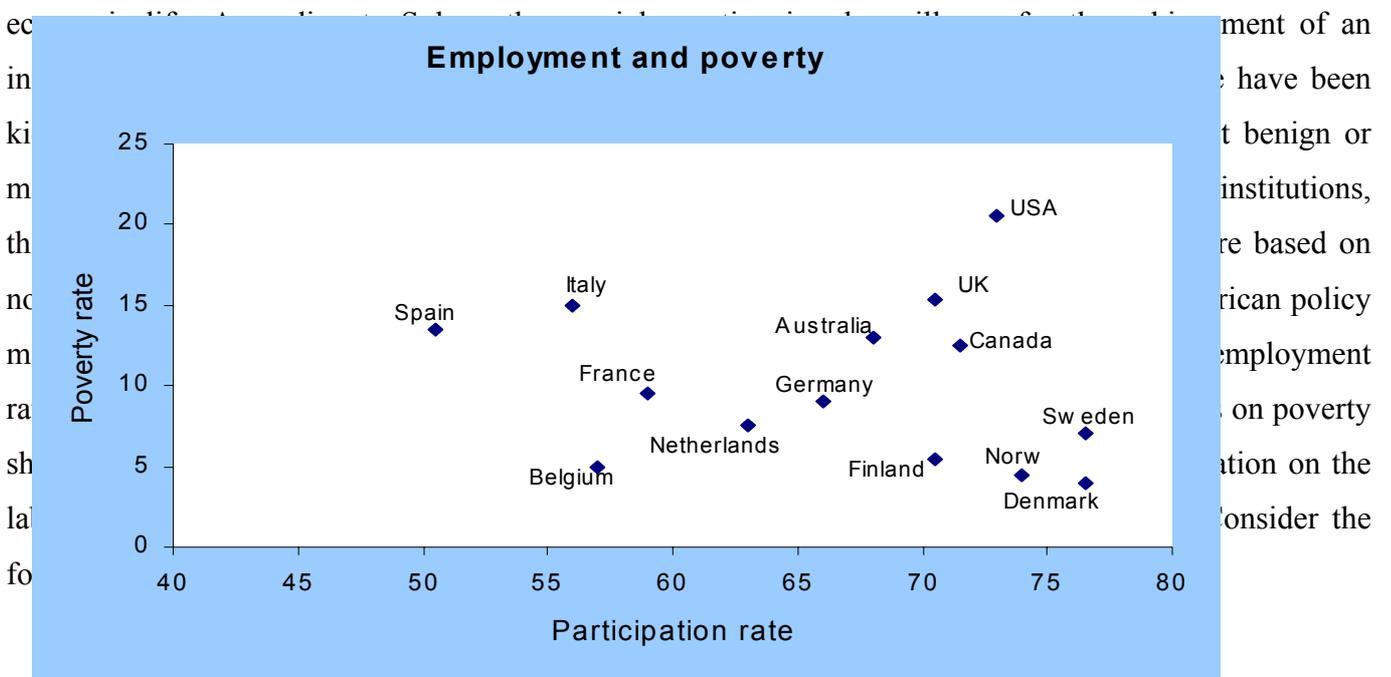
Instead, I would like to mention, briefly, two normative issues linked to this shift in emphasis to employment centred welfare reform.

3. Building an inclusive society: not a cheap option

Indeed, the awareness that full employment can no longer be defined in the traditional “male” sense (my fixed point 1) has led, in many quarters if not everywhere, to a fundamental shift in objectives. As the Lisbon Summit made very clear, it is not so much unemployment figures that exercise policy makers, in their longer term thinking, but labour market *participation rates*. This is quite a different thing, both in a practical and in a more fundamental sense. Characteristically, governments are less and less interested in fiddling with unemployment statistics. They also consider the growing number of people in disability or early retirement schemes to be as problematic as unemployment figures. The drive towards increased participation rates is supported with references to the value, for each citizen, of active participation in society, and references to the idea of inclusion. Let me emphasise then two considerations, which I consider important.

First, if participation in society is to be a central and overarching value, it cannot be limited to participation in the labour market. Active participation in the community can be pursued by activities outside the labour market - think of the role of parents in local schools. In general, care should be considered as a valuable form of participation in society. A comprehensive view of active participation implies that more be done to allow people to combine work and family life, not only by providing professional childcare, but also by means of flexible systems for short and long-term parental sabbaticals, available to the whole labour force and not only to a lucky minority. Also, if participation in society or inclusion is to have any meaning for the increasing number of elderly, or for those who cannot contribute productively to society, it must include a notion of participation in consumption, hence, decent income levels and intergenerational justice.

Secondly, and most importantly, if we really mean it, the inclusive society is not a cheap option. It requires not only extensive investment in education and training, massive subsidies to increase the net-income of low-productivity people as the American economist Phelps (1997) proposes, but also, as Nobel Prize Winner Solow emphasises, the effective supply of jobs via which people can participate in



More work does not automatically imply less poverty. If we look at the UK or the US, we see that the participation rate is much higher than in continental Europe, but the same goes for the poverty rate. One can infer from this graph that there is neither a positive correlation, nor a negative trade-off between high activity rates and low levels of poverty. Many European countries display good records in income protection and poor records in terms of employment rates. The Nordic countries, however, show that high participation and low poverty can be complements, rather than substitutes.

We may conclude from these facts that the relation between employment rates (activation) and levels of poverty (social protection) is not “*if* (employment) - *then* (no poverty)”; nor do we have a mutually exclusive relation “*either* (employment) - *or* (social protection against poverty)”. The relation can, and should be, “*and-and*”: it is possible and necessary to aim at both social protection and the promotion of employment.

When thinking about the future of social security, this insight is important. In fact, we can safeguard both the social effectiveness and the financial sustainability of social security systems.

4. Social benchmarking in the European Union

It is, among other considerations, this insight which lies at the heart of the Belgian government’s plea within the European Union for complementing the Luxembourg process on employment with a common European strategy on social protection. Just as with the Luxembourg process, this process should be one where explicit, clear, and mutually agreed targets are forwarded, after which peer review leads European member states to examine and learn from the best practices around. It would *not* be a process whereby the European Union takes over national competencies. “Best practices” should be taken literally here. What Europe needs is an exercise in ambition in the social policy area, the establishment of “standards of excellence” rather than standards of mediocrity.

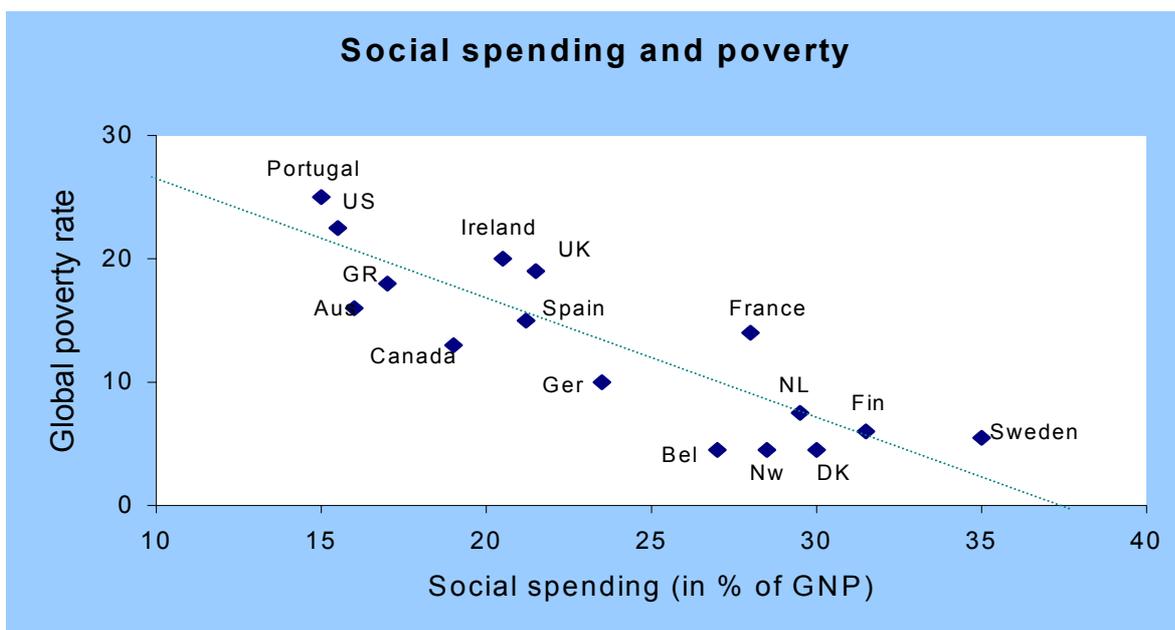
A variety of benchmarks for social protection can be forwarded, but we have stressed one in particular. We believe it is essential that European Member States commit themselves to standards of excellence in the battle against poverty, and systematically exchange information on best practices in fighting poverty. Assume, by way of example, that they agree to achieve within fifteen years the same performance record as the three ‘best-in-class’ with regard to financial poverty (or at least show a clear tendency towards this target). This would entail that at least 20 million European individuals are eventually tilted above the poverty line.

Although such a target is by no means the only social policy benchmark conceivable, I do want to emphasise it here. The next graph shows why. It reveals what I consider an “iron law of social policy”.

Winning the war against poverty requires a sufficient level of social spending hence a broadly based welfare state. Graph 2 does not prove that the structure of social spending cannot be improved, let alone that all social spending is sacrosanct. Yet, a credible commitment to combat poverty presupposes a firm commitment to the establishment of

a fully-fledged welfare state. And, where the latter exists, an equally firm commitment to its preservation and continuous adaptation to social needs.

Although the idea to define a common European target with regard to poverty is rather new – I launched it one year ago as a personal idea, and the Belgian government formally proposed it in January – rapid progress is being made, thanks to the Portuguese Presidency of the European Union and the European



Commission.

In July 1999 the European Commission took the initiative to launch a concerted strategy for modernising social protection. The Commission suggested that the Member States would approve four key objectives, which may underlie deepened co-operation: (1) to make work pay and to provide secure income; (2) to make pensions safe and pension systems sustainable; (3) to promote social inclusion; and (4) to ensure high quality and sustainable health care. These objectives would be associated with the exchange of information and the monitoring of policy developments through annual reports drawn up by Members States and the Commission. A High Level Working Group on Social Protection would be created. The Council of Ministers of Labour and Social Affairs approved this proposal on 29 November 1999. The High Level Group started functioning in February 2000 in order to prepare this concerted strategy.

Meanwhile the Portuguese Prime Minister, Antonio Guterres, launched the idea of a special European council, on “Employment, Economic Reform, and Social Inclusion”. The Belgian government saw this as a unique opportunity to get a commitment from all European member states that a process of benchmarking with regard to social exclusion would be started, and a unique opportunity to agree upon timing and method, thus giving the November decision of the Council of Ministers of Labour and Social

Affairs real political backing and momentum. This was one of the reasons we were keen on making a joint statement – supporting this very idea - with the British Government, in preparation of the Lisbon Summit.

We were then extremely pleased to learn that the European Commission endorsed the idea of a common European goal in the fight against poverty in its contribution for the special Lisbon Summit. Indeed, the Commission proposes, amongst others, the following targets :

- “reducing the numbers living below the poverty line from 18% today to 15% in 2005 and 10% in 2010”;
- halving child poverty by 2010”.

This certainly put additional pressure on the political leaders present at the Lisbon meeting.

Let me now quote from the Lisbon European Council’s conclusions. The European council decided that:

- “Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year. The High Level Working Party on Social Protection will be involved in this work”.
- “Policies for combating social exclusion should be based on an open method of coordination combining national action plans and a Commission initiative for cooperation in this field to be presented by June 2000”.
- “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.”

Also,

- “the European Council invites the Council to mandate the High Level Working Party on Social Protection 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.”

You will understand that we are very happy with this result: here you have a clear commitment, with regard to poverty and social exclusion, to set common goals, and to develop a European social scoreboard, before the end of the year, and to develop a systematic exchange of information and cooperation on a crucial aspect of social protection, to wit, the viability of pension systems.

5. The legislative agenda

Of course, the emphasis we put on the process of ‘benchmarking’ – ‘soft law’ in other words - does not mean that no attention should be paid to the legislative work to support European social policies, which is, for that matter, already on the European agenda. There are indeed social objectives, which can be met solely by the Union because they relate to the European internal market, to the trans-national character of companies and to citizen’s mobility. They cover, among others, the free movement of persons (including the indispensable co-ordination of social security, where we still have a long way to go because Regulation 1408/71, which aims at ensuring that migrants keep their social security rights, requires urgent simplification and extension), the promotion of social cohesion (structural funds), international aspects of social policy (workers’ rights in multinationals, in cases where enterprises are being transferred, secondment...). They further include minimal social standards and rules to prevent social dumping in the area of terms and conditions of employment, working hours, labour organisation, the rights of part-time employees, and so on. Europe also traditionally issues social measures aimed at objectives that the Union shares with Member States but where it is advisable that the Union should take the lead. Obviously, this is an open category but one which finds its foundation and justification in the social objectives of the Treaty. It may be illustrated with the following examples: the equal opportunities policy, non-discrimination, health and safety at work, promotion of social dialogue. Much progress has been made in most of these areas - more than the public generally realises - but there is still a long way to go.

Economic integration in itself is by no means neutral towards social security systems. Many examples can be found, but the most important ones concern:

- the ‘four freedoms’ of the internal market: the free movement of people (including patients and health professionals); the freedom of goods (including pharmaceuticals and medical devices); the freedom of services (e.g. access to health care or the right to belong, on a cross-border basis, to a private supplementary scheme); the free movement of capital (the euro and increased price transparency);
- competition law (consider, for example, the much-aired question “are health insurance funds ‘commercial undertakings’ within the scope of EU competition law?”);
- trends in health-care provision (are we moving towards the establishment of European groups of private clinics?);
- the trade-off and contradictions between industrial/research policy on the one hand and a social policy on the other (e.g. in the branch of medication);
- the Economic and Monetary Union (Maastricht criteria and the Stability and Growth Pact, cf. supra, transparency of prices between countries).

While not always targeted at the healthcare sector, much EU Single Market legislation can be applied to healthcare. National policymakers should be acutely aware of this fact following the application of

general Single Market rules on goods and services to the healthcare sector in the 1998 ‘Kohll and Decker’ judgements of the European Court of Justice. In these famous rulings the Court upheld the rights of two Luxemburgers to obtain, and be reimbursed for, spectacles and dental treatment from another EU Member State, without seeking prior authorisation from their social insurance institutions – as required by Regulation 1408/71. There is some confusion as to whether the right applies to both ambulatory and hospital services, so it remains unclear whether the fears expressed by some Member States that these judgements will undermine the financial balance of national social security systems by encouraging “medical shopping” will be realised in practice. Further rulings are underway to define the coverage of the first rulings (do they also apply to hospitalisation, to therapy that is still being considered as “experimental” by the insurer, to benefits-in-kind systems or to National Health Service systems, etc.). As it is too early to assess the exact legal consequences of the existing and forthcoming rulings, it is too early to see what practical consequences these rulings will have: will the enlargement of the EU increase flow of EU patients across borders; will consumer dissatisfaction lead to greater demand for standardised care throughout the EU? These developments might create some good opportunities for greater efficiency and greater innovation in the health sector at the European level. But we should not be blind for the danger that it could create a new dual-track system: if prior authorisation by Member States is no longer required, some patients may choose to be treated abroad. As travel and healthcare costs have to be paid up front by the patient, this may create a two-tier system whereby the more wealthy patients use the Kohll and Decker route, while others use the existing EU system. Overall the question is of course to which extend Member States can continue to define on the basis of their own political priorities who and under which conditions is entitled to get what care on behalf of the social security system.

The following graph shows some of the preliminary findings of the European Commission’s ongoing BIOMED 2 programme, which studies the direct impact of the single market on health. The researchers identified, in the period 1958-1998, 233 regulations, directives, decisions, recommendations, resolutions and rulings of the European Court of Justice which refer to health services and have a potential impact on regulating, financing and/or service delivery in the Member States. The graph shows that the EU has become increasingly active in the healthcare sector, particularly since the 1970’s. Additional research findings learn that the Single Market interventions particularly concern the pharmaceutical market. Importantly, it seems that the European Court of Justice plays a considerable role in the health services field, accounting for over 1 in 3 interventions studied. In other words, less than two thirds of all interventions were found to originate from European political decision-making.

The lesson from this all is that, even if there is no defined EU policy competence *per se* in healthcare (such competence does exist for public health), the European integration does have a real impact on health care which is likely to grow, even if we do not have an adequate grasp of the nature and extent of it. The long held assumption that healthcare could exist in a vacuum, hermetically sealed from the European Single Market, has been revealed as a façade. The EU’s influence on healthcare stems not only from the European Single Market, but also from EU legal competence in a variety of areas such as

industry, research, public health and competition, but also from major EU economic policies like the convergence criteria and the introduction of the single currency.

Some of these issues are being tackled (and they should be) from the point of view of applying competition law, mostly by the ECOFIN Council. But quite a number of interventions with important effects on healthcare currently escape every control of political decision-makers (rulings by the Court of justice, which fills in the gap left by politicians), let alone social security or (public) health decision makers. If we want to safeguard our social security schemes an integrated, global and forward-looking approach must also be developed from a social point of view. We urgently need to establish internal Market rules that take into account the interests of patients and health services rather than solely industrial interests. The first task will be to delineate the boundaries between the responsibilities of the Member States vis-à-vis the Community's role. I believe it can be argued that Member States should be enabled to keep effective control over the financing and delivery of health care.

What then, should we do at a European level?

As the European Commission indicated in its July 1999 Communication, in health care too, there is a scope for European co-operation. Member States should commit themselves to assuring that everyone person has access to high quality and affordable medical care, guidance and revalidation. This social objective should be the guiding principle of European collaboration in the field of health and health care. More particularly, we should create mechanisms that will allow a systematic exchange of experiences on, A/o fighting social inequalities in health, evaluation of the quality of medical practice, of new medicine and of new medical technology, rational organisation of health care and efficient use of scarce resources, home nursing, development of information technology and communications in health care and, finally, cost containment.

As far as health care is concerned, the soft law approach may not be able to close the gap between the needs for an increasingly Single Market and the maintenance of divergent health systems. When drafting Treaties, legal instruments etc., Member States should always carefully consider the consequences in terms of the impact of the internal market on health services. After all, the seeds of the Kohll and Decker judgements were sown in European legislation and Treaty provisions agreed by the Member States themselves.

6. Conclusion

European policy must become an 'equilateral triangle', to use the image proposed by Anna Diamantopoulou, the European Commissioner for Employment and Social Affairs. Macroeconomic policy is one side of the triangle, employment policy is another, and social policy the third. The thing is not only to join the social side with the existing economic and employment side; the existing sides have to be strengthened as well in order to arrive at a solid European policy triangle. I do think the Lisbon

Special Council made a decisive step in this direction. This novel inspiration clearly signals to Europeans that European policy is willing to fight for what really matters. Defending Europe as a social model also sends a clear signal to prospective Member States that this is an achieved model, that it is part and parcel of European civilisation and that it must be endorsed as an ambition by all those applying for membership. Because we, European social democrats, are currently a force to be reckoned with, we are responsible for making the European policy triangle strong and enduring. That is exactly what we must do before we invite other countries to endorse the European project.

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