

DEBATE

Jim Hoagland, Contributing Editor, *The Washington Post*

Yves, we need to politicise the European question.

Yves Leterme, Deputy Secretary General, OECD

I will not stand in the next European elections, but I would like to underline the truth of what Didier is saying. It is really crucial for the Commission and the European Council to have a message for these people. I will give you two examples from my former constituency. I went to see a company that produced vegetables in frozen form; the people there have been replaced by Romanian workers who are doing the job for a lower salary, and in Zeebrugge, one of the main ports in Belgium, the shift is organised with truckers who are employed, so to speak, by a Romanian company and are competing with Belgian truck drivers in terms of salary. Europe is a political institution like any other, and it is worth debating about what it delivers for its citizens; at the moment a lot of ordinary people perceive Europe as part of the problem instead of part of the solution. It is very easy for me to say this, and it is more difficult to put forward solutions, but I would not underestimate this effect in the outcome of the next European elections.

Jim Hoagland, Contributing Editor, *The Washington Post*

Jean is supposed to give us solutions. Can you talk about these problems, and give us a sense of why we should care about the success or failure of the European social model.

Jean Pisani-Ferry, General Commissioner for Policy Planning, France

Let me give you one reason. There is a lot of resistance now in various countries to these developments that are perceived as being unfair. One particular reaction that did not get much notice was David Cameron's change of view on immigration. The UK at the time of the first European enlargement, was the first country to say welcome to these workers from Eastern European countries; now they have completely changed course, and are saying that the Romanians and Bulgarians are not welcome, and that is a reaction to public opinion in the UK.

Therefore, if we see a situation where, for all these reasons, we put brakes on mobility and the integration of services markets, which was also resisted at the time of the Services Directive, we may have a situation where we still have one currency but a fragmented economy, and that will not work. We cannot have a single currency while putting barriers between economies. One of the reasons we had the Euro crisis is that the economy was not integrated enough, and for that reason we had large divergences in inflation for a very long time; that led to the crisis.

The answer should be more integration, but not without conditions making it acceptable for the people. Didier Reynders is one of those who have fought for the survival of the Euro, and he has also said we need to enlarge the compact of social rights that are considered common and necessary for those participating in integration.

Jim Hoagland, Contributing Editor, *The Washington Post*

Joaquin, what is the biggest single social problem that the EU, and therefore the Commission, faces, and what do you intend to do about it?

Joaquin Almunia, Vice-President and Commissioner for Competition, European Commission

The main problem these days is unemployment, and this is not evenly distributed among the different member states; Germany and some countries around it have even lower employment rates now than the day before the crisis started,



whereas Greece or Spain have 26%, more than 50% youth unemployment, and they lack possibilities of using the human resources they have, which is one of their most important assets.

How do we deal with unemployment requires different actions; we have some macroeconomic problems that have not been solved within the EU and particularly the Economic and Monetary Union. The fact that the periphery of the Euro area is undergoing a very serious adjustment, and not just fiscal – the current account adjustment is impressive in countries such as Greece, Portugal, Spain and others – but the countries in surplus are not investing the savings they have, and this creates problems on the demand side that are not helpful for creating possibilities for the countries that need to absorb unemployment and create opportunities for their people.

We also have another very important social problem which is taking place at the same time, immigration, as some countries in Europe need a labour force from abroad, in some countries from other member states of the Union, and projecting the evolution in the need for labour in the future, it is not only about immigrants from other parts of Europe but also from abroad. However, our societies are not prepared for this, and the rise in populism and euroscepticism, which is a real difficulty for the European elections in five months time, is partly based on tensions around immigration, on feelings that those coming from abroad will hijack public services, social policies, and so on.

This requires a huge political effort, and no one can deal with these challenges on an individual basis. The European solutions are more efficient for tackling these big challenges, but at the same time, the defensive attitude of national political leaders and forces tends to embrace protectionist attitudes, nationalist trends and defensive positions, and we are in a very difficult situation, where the solutions need to be discussed and put in place gradually, but without waiting for a good moment to do it, because we will not have such a moment to discuss these issues. The political trends are defensive, protectionist and nationalistic, and the very European idea that was very helpful for many reasons during the last 15 years is in a very difficult situation.

Jim Hoagland, Contributing Editor, *The Washington Post*

Is it possible to establish a relationship between immigration flows and competitiveness in the national case?

Joaquin Almunia, Vice-President and Commissioner for Competition, European Commission

Certainly, a lot of things need to be done for a country to be competitive; there needs to be a modern industrial policy, improvement in financial flows, and adequate institutional frameworks. However, if you want to be competitive you need a skilled labour force, and if you do not have a national labour force because of lower fertility rates, you need to open the doors, unless you decide to reduce potential and base your growth potential only on productivity. No one can imagine all countries being number one in productivity terms while being more competitive.

Peter Jankowitsch, Secretary General, Franco-Austrian Center for European Economic Convergence

An essential part of the European social model was the existence and success of social dialogue, meaning that social partners were in constant contact, allowing not only the development but also the reform of the European social model. The question of the importance this social dialogue should have in the future is missing from the discussion, particularly if it is necessary to develop various forms of the European social dialogue.

Mohamed Laichoubi, former minister, Algeria

Bonjour. Je suis ancien ministre algérien de la Protection sociale. Et ma particularité, c'est qu'en tant que chercheur je m'étais investi dans un travail sur la marginalité, sur les bidonvilles en périphérie d'Alger. Et donc, à l'époque, j'avais conçu une nouvelle approche de réduction de la pauvreté qui a été adoptée par un certain nombre d'institutions multilatérales, et adoptée par un certain nombre de pays.

Evidemment, cela m'a donné une expérience, et cela m'a donné la capacité de jeter un regard différent et de relever un certain nombre de préoccupations importantes dont je vais vous faire part. Surtout, je regarde, car je suis assez



souvent sollicité par mes amis européens pour amener un regard extérieur. D'autant que nous sommes aussi concernés par les anciens flux historiques d'immigration de population, ou d'immigration récente.

Alors, je vais d'abord procéder pédagogiquement par une légère provocation. Le sentiment, c'est que des pays qui ont une belle capacité d'expertise, qui ont une ancienneté dans la gestion et la fluidité du service public, sont mis en échec de la même façon que des pays récents, sous-développés, qui ont des problèmes de gouvernance. Chez les uns, les bidonvilles prolifèrent, et chez les autres il y a de grosses difficultés de gestion de la banlieue. Et donc le sentiment un peu, et la question est ouverte sur le système social en ce moment dans les questionnements politiques : la question du financement ne polarise-t-elle pas abusivement le débat d'une part ? Deuxièmement, est-ce qu'une grosse partie de la problématique ne nous échappe pas ?

Je m'explique : est-ce que le système de sécurité sociale, qui pour l'essentiel est tourné autour de la prestation, qui pour l'essentiel est autour du monde du travail, du chômage, de la perte de travail, du gain de travail, des ayants droits, est-ce que toute la partie liée aux nouvelles cartographies sociales européennes, aux nouvelles populations, la partie de l'exclusion, la partie de la marginalité, qui pose entre autres des questions de citoyenneté, qui pose entre autres des questions de communication, qui pose entre autres des questions de compatibilité en termes culturels ... en fait inventer les nouvelles sociétés. Parce qu'il faudra que mes amis européens se rendent compte qu'ils ne sont plus les mêmes. Ils sont différents.

Alors, est-ce qu'ils doivent relever le défi du futur en disant : comment ce présent, qui va déjà m'annoncer le futur, comment dois-je le gérer ? Et en plus, vous l'avez évoqué, c'est une partie de gisement de population nationale. Je parle des gens de nationalité européenne, qui risquent d'échapper aux efforts de développement. En recherche développement, j'ai besoin d'innovation, j'ai besoin d'audace. Et il n'est pas évident que ces populations dites marginalisées soient incapables de s'insérer dans l'inventivité, dans l'audace etc.

Et donc, est-ce que ce grand questionnement ne doit-il pas insérer ? Est-ce que l'ancienne mécanique qui s'occupe que de la prestation, des remboursements de santé etc., est-ce qu'elle n'est pas d'ores et déjà obsolète ? Est-ce qu'il ne faut pas revenir à une préoccupation fondamentale : comment le système social doit aussi avoir une dimension de responsabilité sur la cohésion, sur l'unité, sur la performance de la société, son futur et sa capacité d'innovation ?

Ernst von Weizsäcker, Co-Chair, International Resource Panel (UNEP), Co-President, The Club of Rome

I used to be a Member of Parliament, and I was chairman of the environment committee and before that of the globalisation committee, at which we looked at the history of the European social model, and found, not surprisingly, that it was a child of the Cold War. It was necessary for the West to prove that the free market economy was better than Communism for the masses, not only for the rich. This was the way of proving to Europeans and others that the free market economy could be good for all.

This was actually coming from America. George Marshall, Dwight Eisenhower, and before them, Harry Truman, clearly said that they had to prove that the free market economy is good for all, not only for the rich. Then, as you know, in 1990 Communism collapsed under the conviction that the free market economy was better, and the term globalisation emerged after 1990. What did it mean? It meant the demise of the state, the weakening of the state, resulting in part, or mostly, in a competition for lower taxation between countries, so that countries no longer had any money to finance justice, equity, social inclusion and so on.

Our conclusion in the commission was that, if we want to maintain the credibility of the free market economy, we had better make it inclusive again, and give the money that is needed for that to the state, because the free markets will not do it.

Jean Pisani-Ferry, General Commissioner for Policy Planning, France

Regarding social dialogue, let us be frank: it does not exist at European level. The Commission is not very interested, Business Europe is a business lobby, and unions are weak and divided, so nothing serious is happening. It might change, but that is the situation now. Listening to you I was also thinking that countries are very different in this



respect, and even in countries where you have social dialogue, you can have different roles. You have a very defined role for social dialogue in Germany; there are certain areas where the government does not intervene. Regarding my country, France, here is a confusion, an overlap, between the role of the state and that of social dialogue, so it is hard to move that to European level, and although institutions were put in place at the time of Jacques Delors, they have not been used for quite some time.

Je voulais aussi vous répondre sur les nouveaux risques. Je suis tout à fait d'accord. Nous avons construit un système à base professionnelle. Et on a essayé de boucher les trous ensuite, et de traiter des risques qui étaient mal traités par l'approche professionnelle. Mais on les traite mal aujourd'hui. C'est-à-dire qu'il y a à la fois des populations et des parcours individuels qui sont mal traités par ces risques, qui ne sont pas couverts. Ou bien simplement les gens n'accèdent pas aux droits auxquels ils ont droit. En France, il y a 8 milliards de droits qui en principe devraient se traduire par des prestations, et qui ne se traduisent pas par des prestations parce que ceux qui y ont droit ne le demandent pas.

Donc on a absolument le problème que vous dites. Et on a une conception de notre système qui est une conception trop rigide, héritée d'un moment où tout se construisait sur une base professionnelle. Et on était dans une économie de plein emploi, avec une difficulté à atteindre les objectifs.

Je pense que c'est un des grands enjeux des politiques sociales, sachant que les politiques qui sont spécifiquement pour les pauvres sont aussi des politiques qui ne sont pas nécessairement efficaces, parce qu'il y a un effet de stigmatisation qui fait que les pauvres s'en détournent ou que ça a des effets négatifs. Et en plus, elles sont mal acceptées par les classes moyennes qui aiment bien l'Etat providence lorsqu'elles en sont le premier bénéficiaire. Donc, le problème est très très lourd pour nous tous.

Jim Hoagland, Contributing Editor, *The Washington Post*

I was struck by the analysis of Mr von Weizsacker, that the welfare system was a child of the Cold War. The title of this session is, 'Whither the European Model?' We often used to have the question, 'Whither NATO?' Does the social welfare system have a future without the Cold War?

Yves Leterme, Deputy Secretary General, OECD

I would like to underline that we are now discussing the European welfare state because of the crisis. Mr. von Weizsacker referred to the period when the system was started and built up, but we have to be aware of the fact that, even in times of quite important economic growth, even in countries where there is substantial economic growth, along with security systems, over the last 25-30 years, this does not produce equality as it was meant to do, whether equality in income or in opportunities. Not so long ago we issued a report, *Divided We Stand*, about equality and developments in terms of income and GDP per capita, and there we can see that over the last 20-25 years, even in terms of very significant economic growth, success and progress, even in countries with an egalitarian tradition like Sweden, there is in fact growing inequality.

Elements which have been put forward by le collègue algérien sont également très importants. Nous avons bâti un système de sécurité sociale. Et les trois quatre piliers traditionnels, avec un financement, je dirais, préconçu. However, society has developed and changed, and once again we underestimate the element of resilience, empowerment, asking people to take responsibility for upskilling and preparedness to return to the labour market, have longer careers and so on. Therefore, it is also a question of resilience, and even in the next few years there was economic growth and the problem of financing social security systems was resolved, we will still have to look very closely and carefully at the element of equality and of improving social security schemes, which in fact declined over the last 20-25 years.

Joaquin Almunia, Vice President and Commissioner for Competition, European Commission

First of all, regarding social dialogue at the European level, I remember during the Delors period in the 1980s and 1990s there was such a process, at a moment when not only the attitude regarding European integration was more positive than now, but also when European institutions were able to adopt rules at EU level on social issues. This



moment disappeared during the past decade, and given that it is now practically impossible that the European Council and the Parliament will agree on common rules following the legislative decision-making process, the social partners at EU level do not find it useful, interesting or a priority to discuss new issues, apart from the different positions and priorities of Business Europe on the one hand and the European Confederation of Trade Unions on the other.

This is very unfortunate, because, secondly, the European welfare state, or social model, requires a lot of changes because society has changed completely. 25% of the EU population is at risk of social exclusion, according to figures that were released by Eurostat a few days ago. This means that our social budgets and social policy instruments are not at all efficient. Looking at the percentage of social expenditure according to GDP in Europe, 29%, it is higher than before the crisis; this was also released recently by Eurostat. However, inequality has grown and exclusion is at very high levels; poverty levels in some member states is very high, though this varies across Europe.

Therefore, in terms of the differences between member states, our social models are not as efficient as they were in the past, and this requires change, new policy instruments, new approaches, to avoid exclusion, to avoid the lack of social mobility for part of the population, to avoid the awful living and working conditions in most of the industrialised areas and big urban agglomerations. This is not being discussed, because in the last 25 years up to the crisis, we had a different approach, an approach which favoured light-touch or no regulation and letting the market do what it wished. This is the consequence of what happened at the end of the 1980s, with the end of the Cold War and the end of the Communist systems on the other side of the world.

However, the financial crisis has again changed the way we analyse our societies, but the policy discussion has not yet emerged. We are dealing with how to repair the financial system, how to repair the awful consequences of the crisis, but this discussion, of what we need to do in order not to repeat our past mistakes and have not only sustainable growth but a sustainable society, is not yet happening. This in my view is an urgent discussion if we want to protect our citizens and if we want to make good arguments for protecting our democracies, because ultimately the democratic system itself is at risk in the situation we are in now.

Jim Hoagland, Contributing Editor, *The Washington Post*

One of the interesting aspects of this conversation has been the identification of the question whether it is possible to have a job and still live in poverty. It is a question we are beginning to debate in the US as well.

Karl Kaiser, Harvard University

I would like to ask the panel whether the time has come for a courageous and, in my opinion, needed effort to deal with a growing problem, the pension system in Europe, where I see a danger of the whole European model getting into real trouble. The working age should rise, the pension age should rise, but that is not happening; it is happening in some countries, but in others the politicians are having problems resisting the pressure to stay where we are.

The signals of what should be done are going in the opposite direction. It started in France with the measures by President Hollande. The grand coalition in Berlin will probably vote it in today, with the referendum by the Social Democrats, which will probably take Gerhard Schröder's reforms back another step, lowering the age to 63. My question is whether we could do something about this at a European level, helping the politicians to deal with the problem, as otherwise the system will become un-financeable.

Hervé Mariton, French Member of Parliament

We pay a lot of money for our social system in France, but nonetheless it is rather inefficient, with what we call the French preference for unemployment. The start of the discussion was more or less about paying more, at the same time as some of us in France are putting forward the question of a new foundation for our social system. The discussion did not address the question of harmonisation or new European directions for the social system, but focused on what does not work. There are things that do not work, particularly in our country, so the debate about spending more may be because the crisis is not ours. The question of more harmony of the social system in Europe may be one idea, but it does not erase the fact that the fundamentals of our system in France do not work.

When we put the question as fundamentally as re-founding the system, it seems very far from what you were talking about. The discussion of spending more money may be of interest to all those outsiders we do not help, but if we keep to the lines we have been for so long, they will remain outsiders. When we speak about investment, some academics will say that education is part of investment; when we speak about the social system, academics may say that education is part of the social system. I acknowledge that a lot of money has to be spent on education, and that this is sound and reasonable, but I do not believe that extending all difficult issues to education helps to solve either the education issue or the social issue.

Fred L. Smith, Founder and Chairman, The Competitive Enterprise Institute, Washington DC

The issue we have been talking about are not unusual in the US. Washington State has a Boeing facility that might move to South Carolina, our pension funds are at varying levels of insolvency, and most of our states' welfare programmes attract or repel people around the country. All of them are similar to problems you have mentioned in the European situation, but in the US we have found that competition among the states and the type of rules they envisage has created some degree of experimentation. Indiana has moved to solve or at least alleviate its pension fund problems, and Illinois has decided to go bankrupt, as far as I can see. To what extent are you under-rating the value of having individual nation states experiment with solving these various problems rather than trying to elevate them to the European situation?

Didier Reynders, Deputy Prime Minister and Minister of Foreign Affairs, Foreign Trade and European Affairs, Belgium

I will make three short remarks, firstly about pensions. I fully agree that we need to go further with the social dialogue in terms of creating some minimum rules at European level, and also for pensions. This is because we need to go further with the single market and to do more with open trade with other parts of the world, but to have the support of the population we need to organise some minimum rules at European level, because, without that, we will have more and more protectionist approaches. Therefore, it is not a contradiction; we need to have some rules on social issues in order to have a real single market. We are not so far away in energy and other fields, and we need to do more in order to have open trade with other parts of the world.

The second element, regarding pensions, we need to take the financing of pensions on board in analysing the sustainability of public finances. We are looking at deficits and debt ratios at the moment, but we need to do more about the quality of public finances, which also involves looking at the kinds of public financing we need for pensions. We have the same discussions everywhere in Europe about how long we need to work. Maybe 65 was a good idea in the Second World War, because it was the life expectancy, so we did not need to pay the pensions; people had the good notion of dying at 65. However, if your expectancy is now over 80, you need to find a way to another world. Therefore, there are a lot of discussions, but maybe there need to be some minimum rules at European level.

And the third remark : je voudrais juste simplement revenir sur la question de notre collègue algérien, parce que je comprends, et je ne veux pas répéter ce qui a été dit sur le caractère inclusif pour ceux qui aujourd'hui n'ont même pas accès aux droits minimaux parce qu'ils ne les demandent pas. Mais derrière la démarche européenne, on parle beaucoup, dans toutes nos stratégies, d'innovations. Pour une partie de la population, ce sera évidemment la solution. Mais il y a une partie de la population qui n'aura pas le niveau de qualification pour rentrer dans ces métiers d'innovation et ces nouveaux métiers. Et donc, je crois vraiment – Jean le disait – que l'éducation, et notamment la formation professionnelle, sont des éléments majeurs dans toutes nos sociétés si on veut qu'une partie de la population, et notamment des jeunes, ait accès au marché du travail, pas dans les nouvelles technologies mais dans des métiers notamment manuels, pour lesquels pour l'instant certains pays ...

It may be the case in Germany; there are a lot of good activities and good relationships among the enterprises and the educational system, but in Belgium we are not doing enough about that. We need to go further, to have real clarification regarding the part of the population that is without access to the new high-tech jobs. However, it is quite important to have some minimum rules regarding some social issues and also in pensions at European level, perhaps some guidelines or some other references, if we want to attract the population to support the process. Otherwise, we will have more and more protectionist approaches.



Jim Hoagland, Contributing Editor, *The Washington Post*

So, it's lunchtime. Je vous remercie bien sûr pour les discussions très aimables et très très percutantes.

Nous allons maintenant procéder à un déjeuner débat. Et on reprend ici à 15 heures. Et là on verra.