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### **SOCIAL PROTECTION COMMITTEE MEETING ON POST-LISBON STRATEGY, 2 JULY 2009**

**DISCUSSION ON THE INTERACTION OF SOCIAL INCLUSION AND SOCIAL PROTECTION POLICIES WITH THE GROWTH AND JOB STRATEGY WITH A VIEW TO CONTRIBUTE TO THE DEBATE ON THE LISBON POST-2010 AGENDA**

**SPEAKING NOTES FOR CHRISTINA SODE HASLUND, ADVISER, SOCIAL AFFAIRS DEPARTMENT**

#### **Lessons learned from the Lisbon strategy**

The Lisbon strategy and its common objective of strengthening EU's capacity for growth and job creation was a turning point in European policy-making.

However, the fast changing global economy has not been met with adequate changes to EU policies or adequate national reforms. In other words, the Lisbon strategy has not delivered what was promised. This delivery gap must be faced when a post-2010 strategy is being designed.

#### **Post-Lisbon strategy in the field of social protection**

##### Problem: a shrinking and ageing workforce

When we look at the social dimension of a post-2010 strategy, the most imminent challenge that Europe is facing is the ageing and shrinking workforce. Put simply, we are living longer and we are not having as many children as before – this means more old people to support and fewer young people to go out to work.

This challenge remains despite the economic crisis and the current rising level of unemployment – in the long term it is even exacerbated!

Current demographic trends show that Europe's working-age population will start to shrink around the turn of this decade, resulting in the loss of almost 50 million potential workers by 2050 or a fall of 16 percent in the working-age population.

According to the Commission, this development will on average increase age-related expenditure in the EU by 4.75 percentage points of GDP by 2060. For some countries it will even be as high as 7 percentage points of GDP or more.<sup>1</sup>

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<sup>1</sup> COM(2009) 180/4



So these demographic trends will have an important negative impact on public finances and social systems, and must be addressed in a European post-2010 strategy.

## Solution: Modern employment and social policies

The solution to the demographic challenge is finding ways of getting as many people as possible to work, getting them to work longer, and finding ways to make them work more productively. This will create economic growth, contain public expenditure and secure sustainable social protection systems.

In the field of social inclusion and social protection, there are several specific issues that need to be addressed when we discuss a European post-2010 strategy.

- If we turn to the field of *social inclusion*:

Member states must modernise their labour markets and social protection systems to promote mobility and attract more people into the labour market. They must implement the principles of flexicurity.

In many member states, serious financial disincentives still inhibit people from entering, remaining and progressing on the labour market. In order to fully utilise Europe's untapped work force potential, policy-makers should tackle unemployment and inactivity traps by designing tax and benefit systems in such a way that they provide adequate income support while not discouraging work.

Member states should also ensure flexible labour law that facilitate hiring. Experience shows this is particularly important for including so-called disadvantaged people such as migrants, women, disabled people, etc.

An inclusive labour market is very much encouraged by employers. And at the moment, the social partners are negotiating a framework agreement on inclusive labour markets. The negotiations are expected to be finalised during the Swedish presidency. BUSINESSEUROPE therefore welcomes the focus the Swedish presidency will have on creating full employment for both women and men and on reducing exclusion from labour markets.

- If we turn to the field of *social protection*:

Low participation of older workers is a major component of the inefficient use of available labour in the EU. Considerable progress has been achieved over the past decade in raising employment rate of older workers. However, at 44.7 percent in 2007, it is clear that the Lisbon target of 50 percent will not be met.

Respecting the fact that this is a national prerogative, the EU should intensify the impetus for reforms at national level aimed at discouraging and progressively removing incentives for early exit while raising the effective and / or statutory retirement age.



At the same time, the EU should encourage the development of private pension provisions.

The further development of private second and third pillar pension schemes is key to alleviate the ageing pressure on public expenditure. It is therefore important to put in place attractive framework conditions to invest in such schemes. Policy-makers should avoid imposing provisions that could significantly increase the costs of operating occupational pension schemes in Europe.

BUSINESSEUROPE therefore recommends that the solvency rules applicable to institutions for occupational retirement provision (IORPs) remain unchanged and that the IORP directive is allowed time to take effect; and requests that any changes to the pensions system should be based on a solid and sound business case.

Above all, in time of crisis, it is important that no short-term measures to deal with the current economic crisis on social protection systems, including pensions systems, should be at the expense of the long-term financial sustainability of these systems.

### **Conclusion**

To conclude, one of the pivotal features of the European social models is their ability to combine both economic growth and social progress. But in order to continue this, European labour markets and social protection systems will need reforms.

I have here pointed to a few – but important – steps that could to be taken in order to get more people to work longer, contain public expenditure and reinforce the sustainability of the European social protection systems. You could also add health care reforms, improvement of public employment services, etc.

The bottom line is that the EU's capacity to improve social cohesion and provide protection against risk will depend on these steps being taken – and should be dealt with when a European post-2010 strategy is being designed.

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