

21 March 2013

SOCIAL INVESTMENT PACKAGE

KEY MESSAGES

- 1 The European social model is challenged by the crisis. But it is solid and Europe continues to stand out as the region in the world with the highest levels of well-being and social equity.
- 2 The crisis, combined with demographic change, make it urgent for Member States to take resolute action to reform their social protection system in order to improve the effectiveness of social spending. Available financial resources should be spent in a productive way.
- 3 Each Member State should discuss and agree on the right balance between sustainability and adequacy of social spending in light of their specific economic and social circumstances.
- 4 Combating poverty effectively means to focus solidarity on people who need it most and to set the right conditions so that all who can work do so. For this, the priority is to ensure that enough jobs are created and that social policies focus on activation to stimulate labour supply.

WHAT DOES BUSINESSEUROPE AIM FOR?

- *Social protection systems have to deliver more with less or stable resources. For that reason, businesses broadly welcome the focus on the social investment function of welfare systems. Closer cooperation between the public and private sectors can contribute to a better use of public resources in the delivery of social policies, in particular through Public Private Partnerships.*
- *An important objective of social protection systems should be and remain to help jobseekers re-integrate into the labour markets. In the current circumstances, a focus of resources on the long-term unemployed and young people is justified.*
- *The European Social Fund must become more clearly oriented towards active measures such as education and training that actually promote labour market integration by better matching the needs of companies.*

KEY FACTS AND FIGURES

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| <p>EU Member States already spend in average 29% of their GDP on social protection.</p> | <p>With 7% of the world population, the EU accounts for more than 50% of international public spending on social protection and only 20% of global economic outputs.</p> | <p>42.7% of unemployed people in the EU have been unemployed for more than one year and are therefore long-term unemployed.</p> |
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I. Introduction

1. On 20 February the European Commission has published a Social Investment Package. This package consists of a Communication and is accompanied by a Commission Recommendation on 'Investing in Children: breaking the cycle of disadvantage' and a series of Staff Working Documents.
2. The Commission's aim is to provide for a policy framework centred around three functions of welfare systems - i.e. social investment, social protection and stabilisation of the economy. It argues for redirecting Member States' policies toward social investment throughout life, with a view to ensuring the adequacy and sustainability of budgets for social policies. Due to demographic change and the financial and economic crisis there is pressure on public budgets. The Commission believes that this reinforces the need to modernise social policies to optimise their effectiveness and efficiency and the way they are financed.
3. BUSINESSEUROPE has the following comments on the policy approach and proposals outlined by the European Commission in the Social Investment Package.

II. General comments

4. The Social Investment Package marks for the Commission a fresh approach to social welfare to address the social challenges of the current crisis, the demographic change and existing structural shortcomings that lead to a loss of competitiveness. In particular, the emphasis put on the adequacy and sustainability of budgets, on more effective social protection spending and on promoting social investments goes in the right direction.
5. BUSINESSEUROPE fully subscribes the statement in the Package that social policies are within the competence of Member States. The Commission may not undermine the competence of the Member States in the organisation of their social protection, in accordance with various cultures, economic positions and industrial relations traditions.
6. The guidance provided by the Package is complementary to the Employment package and aims to contribute to reach the Europe 2020 targets. Through the open method of coordination Member States should be encouraged to modernise their social protection systems in consultation with the social partners.



7. BUSINESSEUROPE supports the European social model transcribed into various national systems which aim to promote at the same time economic growth and solidarity. We acknowledge the positive role played by well-designed automatic stabilisers to cope with economic downturns.
8. EU Member States spend in average 29% of their GDP on social protection. The internationally uniquely high amount spent on social policies in the EU is shown by the fact that the 7% of the world's population that live in the EU produce 20% of the world's GDP but benefit of more than 50% of the world's public spending on social protection.
9. The latest available data show the continued importance Member States attach to social protection during the crisis. In 2011, 48.6% of general government total expenditure was devoted to the redistribution of income through social transfers in cash or in kind. Despite fiscal consolidation efforts, this figure has increased by 1.8% or 35.1 billion euros between 2010 and 2011.
10. Between 2005 and 2010, there was no uniform trend in income inequality. The average Gini coefficient in the EU remained stable at about 30%. In roughly half of the EU Member States income inequality narrowed.
11. After several years of crisis, rising unemployment and bleak economic growth prospects, the pressure on social protection systems to deliver more with less or stable resources is increasing. This has added to the already strong need to reform national social systems to adapt to demographic change.
12. Member states must reform and adapt their social policies and social security systems to make the best possible use of tax payers' money and contribute to economic growth and employment. Investing in growth is the best social investment since only growth can create jobs. As suggested by the Commission, this reform and adaptation process can best be monitored in the context of the European semester.
13. Social partners at national level play an important role in the financing and running of social security systems. Given their role on the labour markets, social partners should support the necessary adaptation of social systems to economic change.
14. Businesses broadly welcome the new focus on the social investment function of welfare systems. In this area, we are convinced that a closer cooperation between the public and private sectors can contribute to a better use of public resources in the delivery of social policies, in particular through Public Private Partnerships. By contrast, social impact bonds are not the right approach.
15. As regards the social protection function of welfare systems, the main objective should be and remain to help jobseekers re-integrate into the labour markets. In the current circumstances, a focus of resources on the long-term unemployed and young people is justified.



16. BUSINESSEUROPE welcomes the priority given by the Commission to making a more efficient and effective use of existing resources, before Member States consider the need for new ones.
17. In this respect, the importance of employment and activation to meet the Europe 2020 poverty target should be made more prominent in the Commission's Social Investment Package. Moreover, in order to manage the consequences of demographic change, all Member States should discuss and agree on the right balance between sustainability and adequacy in light of their specific circumstances.

III. Specific comments

1. Stabilisation function of well-designed automatic stabilisers

18. The Commission highlights the stabilisation function of automatic stabilisers. It is true that where they are well-designed, tax and benefits systems can contribute to stabilise economies by maintaining domestic demand level at a sufficient level to avoid impairing growth prospects.
19. However, many Member States need to improve their tax and benefit systems to make sure that the costs involved through passive benefits are not promoting passive behaviours of job seekers or contribute to unemployment traps which would be counterproductive both from an economic and social perspective. This requires putting a stronger emphasis on activation.
20. BUSINESSEUROPE doubts whether Member States need to be supported by the Commission to develop a methodology for reference budgets. The monitoring of the adequacy of income support is a first step towards undermining the national competence of the Member States in the organisation of their social protection-systems. Additionally the Member States are in the best position to set the level of income support themselves in light of their available national budget.

2. Activation to ensure cost effectiveness of social protection

21. Member States should ensure that tax and benefit systems encourage job search and employment participation. Increasing income tax thresholds as currently applied in the United Kingdom, and reducing the tax wedge have proven to be effective instruments to make people better off by working, rather than staying at home on benefits.
22. Moreover, BUSINESSEUROPE supports the Commission's call on Member States to implement its 2008 Recommendation on active inclusion. It is important to ensure synergies between the three strands of the recommendation, as they are clearly interlinked.
23. The main focus for member states in implementing the recommendation should be on inclusive labour markets. At the same time, it always should 'pay' to work. Therefore income support needs to be provided in a balanced way and encourage those who are able to work to find a job as soon as possible.



3. Social Investment

Promoting public private partnerships

24. BUSINESSEUROPE welcomes the Commission's call for more private and third sector resources to complement public efforts in social investments, particularly in the health sector. Europe could gain a lot from stronger cooperation between the public and private sectors in the delivery of social services, primarily through public-private-partnerships (PPPs).
25. PPPs are generally understood as forms of cooperation between the public and private sectors covering a great variety of activities such as transportation and wastewater services. They provide a number of advantages (i.e. better value for money, enforceable quality standards, wider choice and innovative solutions) for society and are therefore on the common interest. The use of PPPs so far in the social domain has been limited to the health sector. More needs to be done to promote the use of PPPs in the delivery of social policies.
26. By contrast, the proposed Social Impact Bonds, which are supposed to attract private investments in public social programmes and offer a return to private partners only in the case that the programmes achieve positive social outcomes, are not the best approach to attract more private social investments. A shared responsibility of public and private partners for the outcome of a joint initiative is understandable. But this model would make private investors responsible for the results of public driven policies whose objectives, scope and parameters continue to be defined by public actors alone. Besides this, social outcomes of such programmes are generally very difficult to measure.
27. Despite the clear advantages of creating more partnerships between the public and private sectors, BUSINESSEUROPE regrets to observe that in 2011 only 84 PPP transactions reached financial closure, which is significantly below the 112 and 118 deals closed in 2010 and 2009 respectively.
28. To promote PPPs, a wider exchange of national best practices is necessary. This includes the support for information exchange at European level and better training programmes for Europe's civil servants to enhance their capabilities in working with PPP-contracts.
29. Outsourcing is another effective way for cooperation between the public and private sector. Public authorities can contract private companies to carry out public tasks. In the Netherlands, for example, this has been done successfully for the integration of the unemployed.

Social entrepreneurship

30. Promoting entrepreneurial mindsets and a more positive attitude towards risk taking should be valued more in Europe as it can contribute to job creation and employability. Programmes aiming to foster entrepreneurship should be implemented in primary, secondary and higher education, including vocational education and training.



31. The concept of social entrepreneurship can be understood in many different ways. By their very nature, all enterprises pursue a social goal which transcribes, – amongst others, in the employment opportunities they offer to individuals.
32. If social entrepreneurship means non-for profit businesses, BUSINESSEUROPE stresses that access to finance is a concern for all companies, in particular due to credit constraints related to the crisis. In Europe, the vast majority of SMEs are dependent on bank loans to finance their investments and/or activities. Therefore, we are not convinced of the reasons why social businesses should be given a preferential treatment through privileged access to financial support from the Commission’s Programme for Social Change and Innovation.

EU Funding

33. Structural funds should focus on priority areas with a clear impact on growth and jobs, and be subject to a results-oriented approach, with independent evaluations and effective monitoring.
34. BUSINESSEUROPE broadly welcomed the proposed focus of cohesion policy on human capital development as long as investments are made in priority in areas which will impact positively on job creation, employability and contribute to a better match between labour market skills needs and the skills available on the labour markets.
35. The European Social Fund must become more clearly oriented towards active measures such as education and training that actually meet employers’ needs. A good way of ensuring high return on investment would be to allocate a share of EU resources from the European Social Fund to establish, reform or expand dual learning apprenticeship systems. Also a clear link between the ESF and the Country Specific Recommendations will make spending more coherent and effective. By contrast, BUSINESSEUROPE is not convinced about the suggestion to earmark 20% of the total ESF resources in each Member State around the thematic objective of social inclusion and combating poverty. The ESF is not a funding instrument of social policy and should not be misused to this extent. It is purely a funding instrument in the field of labor market policy and in this regard the most important one at EU level. Its resources should be used in the most effective ways for stimulating employment. Finally, BUSINESSEUROPE welcomes the proposal to ensure that Member States allocate an appropriate amount of ESF resources to reinforce the capacity of social partners.
36. More information on the micro-finance facility’s impact on growth and employment creation is necessary before considering whether this EU initiative adds value and, in line with this, whether it should be continued.

4. Social Protection

37. BUSINESSEUROPE underlines that social protection is the competence of Member States. The EU can play an important role by promoting the modernisation of social security systems and by allowing for an exchange of good practices.



Effectiveness

38. BUSINESSEUROPE welcomes the emphasis on adequate and financially sustainable social policies by using available resources more efficiently and effectively. The social systems must be simplified, fraud must be reduced, administrative burdens must be minimised. For example, setting up one-stop-shops, better targeting, and considering conditionality when designing policies are useful means to this end.
39. BUSINESSEUROPE supports the monitoring of the efficiency and effectiveness of social systems and their emphasis on social investment in the framework of the European Semester. In this respect, the Commission and Council should make full use of country specific recommendations to promote improvements in countries where not enough is done to ensure that social protection spending pays off.

Social investment through the individual's life

40. Investing in and protecting people at all stage of their lives is a valid objective for social policies. However, with constrained economies and public budgets, the Commission should acknowledge that priorities have to be chosen. Full support to all might not be a realistic goal.

Focus social spending on integrating young people and long-term unemployed into the labour market

41. Young people are an important group of society requiring targeted actions. The main challenge for them is to find a job. To achieve that, a prioritisation of available resources to this group may be needed, in particular in some countries, to allow a smoother transition of young people from education to work. An effective way of doing so is to promote access to work-based learning opportunities at all levels of education.
42. BUSINESSEUROPE welcomes the youth employment initiative recently agreed by the European Council in the context of the Multi-annual financial framework for 2014-2020. By targeting regions where youth unemployment is higher than 25%, this initiative will make sure that EU support will go where it is most urgently needed.
43. Moreover, in some countries in particular, youth guarantees may be needed to foster the employability of young people by giving them access to continued education, apprenticeship or traineeship within four months of becoming unemployed.
44. The Social Investment Package does not stress enough the need to focus resources in priority on the long-term unemployed and those at risk to become long-term unemployed. 42.7% of unemployed people in the EU have been unemployed for more than one year and are therefore long-term unemployed. Because this group of people is most at risk of falling durably outside the labour markets, they should be targeted in priority as part of Active Labour Market Policies.



45. An important objective is to encourage companies to hire long-term unemployed people and those at risk of long-term unemployment. Moreover, active labour market policies should prioritise the financing of those measures that aim to maintain and/or develop the employability of long-term unemployed people and their capacity to search and find a job. Third, unemployment benefits and social assistance systems should be reviewed to ensure that they do not create unemployment and/or benefits traps.
46. Finally, availability of a variety of attractive temporary and permanent contractual arrangements and reasonable labour costs are particularly needed to foster the integration of the long-term unemployed and young people into the labour market.

Gender dimension

47. BUSINESSEUROPE strongly supports gender equality and women's full and equal participation in the labour market.
48. To further increase female employment rates – which is a must – policy measures are needed, in particular to reconcile work and family life. There are multiple ways to improve that situation without imposing heavy constraints and costs on companies or on public finances.
49. The supply of quality childcare and other care-facilities plays a crucial role and enables women to enter the labour market and work full-time. However, the availability of childcare places remains unequal between Member States. Member States should organise sufficient childcare and other care-facilities to allow for the participation of both parents in the labour markets.
50. BUSINESSEUROPE believes that the negative depiction of part-time work within the Social Investment Package is unjustified. Part-time work is one mean to allow parents to work, which was so far mainly used by women. Part-time workers benefit from extensive protection through EU and national legislation as well as collective agreements. If anything, the possibility to work part-time should be further promoted among others, as one option of flexible work and Member States should not restrict it.
51. Regarding the gender pay gap, BUSINESSEUROPE advocates an approach that would focus actions on addressing the causes of gender-segregated societies and labour markets. Ensuring equal opportunities for women and men with a holistic view can provide a greater leverage for reducing pay differences. It is especially important to state that the main cause of the remaining gender pay gap is not discrimination. Various scientific studies have shown that there are numerous other reasons related to individual occupational biographies. Women get in average a lower remuneration than men because of e.g. reduced working time/part-time work (less work experience leads to less career and earning opportunities), child related career breaks or wrong incentives for single-income families by tax law and social security law. Furthermore women still tend to choose professions and sectors and work in small and medium-sized enterprises which



have a lower wage level. Following a study from IW Köln (Germany) from 2013, these reasons explain more than 90 % of the remaining gender pay gap.

Pensions

52. Against the backdrop of demographic change and a projected fall in the working-age population and in order to ensure the sustainability of the pensions and social benefits systems across Europe, people should work longer and the retirement age should be linked to life expectancy.
53. The suggested help in setting up services for people to keep track of their pension rights is a far more useful approach in regard to activation than any new EU legislation on the portability of pension entitlements.
