

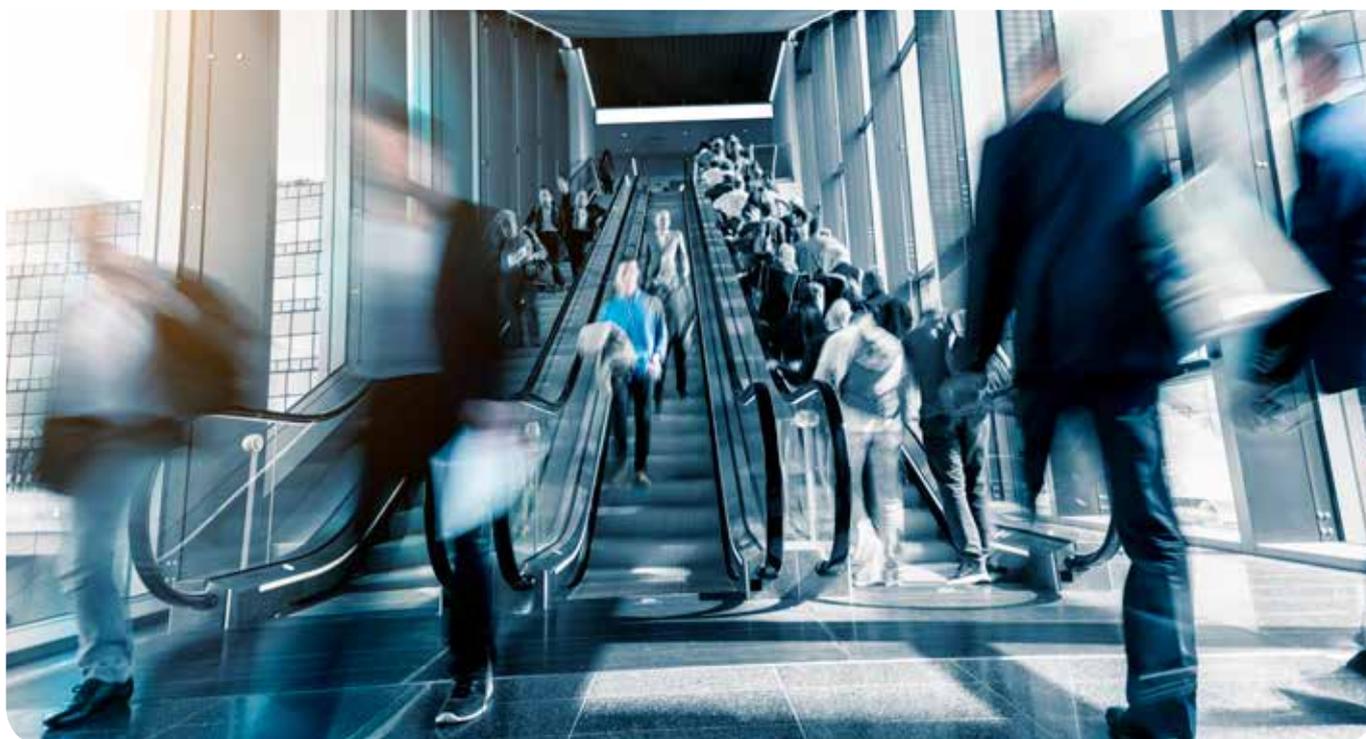


European Economic and Social Committee

Employers' Group

THE EUROPEAN SOCIAL MODEL

Can we still afford it in this globalised world?



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Introduction

The EU constitutes only 7% of the world's population and 20% of global GDP but accounts for at least 40% of global public spending on social protection. While the European social model is a unique achievement and no one questions its existence, its sustainability in the long term is a highly debated issue.

Europe already has an outstanding level of social security when compared to the rest of the world. While over 80% of Europeans – if needed – would be covered by unemployment benefit; worldwide this figure is only 25%. Looking at the number of days of paid leave that workers are entitled to, Europe is also at a high level in comparison to other countries. According to OECD report, the Europeans have a

minimum of 20 days of paid leave, excluding public holidays. In the US, there is no statutory minimum paid vacation or paid public holidays. In Japan, the initial annual leave entitlement is 10 days and there is no legal provisions for pay on public holidays.

At the same time, the European Union is increasingly lagging behind global competitors in fields such as R&D and innovation. China is transforming itself from the factory of the world into an advanced and modern player in areas such as green technologies and artificial intelligence. According to the recent European Innovation Scoreboard 2018, China has boosted its innovation three times faster than the EU.

The way global trade is organised is changing due to recent decisions taken by the US administration, and the world order as we know it is shaking.

All these factors have a significant impact on the competitiveness of the European Union. According to a recent competitiveness ranking prepared by the World Economic Forum, after Brexit only 4 out of the 10 most competitive countries worldwide will be in the EU.

European society is aging: by 2030, Europe will have the oldest society in the world. By 2050, it is forecast that over 28% of the citizens of EU Member States will be older than 65; currently this stands at less than 20%. In this context, maintaining the current level of social security will be even more challenging.

Against this backdrop, discussions on social issues – be it at European or national level – must recognise that the sustainability of the European social model depends on improving Europe's competitiveness. Economic considerations must be an integral component of discussions concerning the social dimension. Many of these issues should be addressed at EU level but this should not mean harmonisation of regulation. Variety is often a strength in this case and the subsidiarity principle should be respected.



Social policy: figures versus perception

According to a recent Eurobarometer survey, EU citizens see unemployment, social inequality and migration issues as the current challenges facing the European Union. This perception is in sharp contrast with the fact that Europe is still one of the regions with the lowest level of poverty worldwide and has the highest level of social protection.

The growing feeling of exclusion among European citizens and sentiments of a lost sense of belonging to the European project is leading to growing populism and cannot be ignored by policymakers. Citizens' concerns need to be taken into account.

This sense of vulnerability could be overcome by strengthening economic resilience. There will be no well-functioning social system without a well-functioning economy. The challenge is combining both the economic and social aspects in a balanced manner.

How to finance social policy in a changing economic reality?

The EU's competitiveness comes from well-performing businesses. As the level of resources needed to maintain the current level of social protection is growing, the EU has to increase both the base of the financing (let the economy grow) and its productivity.

A stable business environment is necessary for further economic growth. Megatrends such as the digital revolution, big data, the Internet of Things and Industry 4.0 are creating numerous new business models and business opportunities. Only with a regulatory framework conducive to these developments, can Europe sufficiently benefit from it and boost its competitiveness.

Boosting innovation is one of the ways to increase Europe's productivity and competitiveness. This requires an innovation-friendly regulatory framework that is flexible and does not discourage innovation. Also, more investment in innovation and R&D is needed. This requires a proper framework for private-public partnerships and European cooperation. Large research projects can be financed only through cooperation at EU level. When it comes to innovation, we also face a challenge related to mentality: Europe must become less risk-averse.

The opportunities emerging from the further development of trade are also mentioned as an important factor in boosting competitiveness. While cooperation with the US is suffering due to the political reality, economic ties with Canada, South Korea and Japan are flourishing. The current trade policy of the European Union, focusing on modern free trade agreements could increase the EU's competitive advantage by creating a trade network with the EU at its centre.



Another factor influencing Europe's competitiveness is the remaining single market barriers that make it difficult to fully tap the potential for business emerging from over 500 million consumers. Protectionist tendencies that we have witnessed recently in the EU (i.e. the debate around the posting of workers) put the existing single market in jeopardy. Moreover, there is still neither a European digital single market nor a venture capital market. These shortcomings need to be addressed.

A skilled and resilient workforce

A well-educated workforce will contribute to the future sustainability of the European social model. The more education and training respond to the labour market reality, the higher the chances for employment. Therefore, by improving education and training systems and by tailoring them to employers' needs, we will increase employment and thus reduce the burden on the social system.

Although Europe has a highly educated workforce, a skills gap is apparent – especially in certain sectors. The labour markets of the future will require different and more complex skill sets. For example, a focus on digital skills but also soft skills, such as creativity, problem solving and communication will be required.

Robotic automation and the development of artificial intelligence will have a significant impact on the future of work. While certain jobs will be automated and disappear, new ones will be created due to technological development. The overall number of workplaces is expected to grow but the workforce will have to adapt to the change – not only at the education stage but also during workers' entire working lives.

The labour markets of the future require life-long learning and will also mean later retirement. We should shape our systems in a way that motivates people to work and to develop skills so as to remain employable. Existing models, such as dual vocational training are part of the solution. Efficient inclusion of migrants in the labour market is also necessary due to the demographic structure of European society.

Due to the aging society, the resources needed to maintain healthcare systems is set to rapidly increase. In 2013, around 550 000 Europeans of working age died from major non-communicable diseases (NCDs - cardiovascular diseases, cancers, respiratory diseases, and diabetes). Approximately 50 million Europeans suffer from two or more chronic diseases. To improve these figures, Europe needs to invest in healthcare in general and in preventive medicine in particular. Investing in

improving the health of working age population will significantly reduce the costs of healthcare in the future. Innovative solutions to be brought about by robotic automation or augmented reality (i.e. e-health, telemedicine, etc.) could rationalise health-related costs.

The central role of social dialogue

Well-functioning social dialogue supports both competitiveness and the social model. Without sufficient dialogue, there is no confidence and trust between employers, employees and the state. This could lead to punitive legislation that hampers business development and, consequently, limits opportunities for employees.

The discussion on the future of the European social model cannot be held only at European level. It should involve the national and regional levels. The exchange of experiences and best practices at local level could contribute to policy making at national and European levels.

It is also worth mentioning that corporate social responsibility is about sustainable planning and is an important part of corporate strategy. Also, social entrepreneurship is growing, often through dynamic and flexible coalitions with civil society, international organisations, academic institutions and public institutions. The EU needs to facilitate this process – including by educating citizens about social responsibility.

What is needed on the political side?

- The values of the European social model should be maintained, but the model needs to be adapted to current circumstances
- Keep a proper balance between social and economic considerations
- Create a competitive framework to boost productivity in the EU. This will help to maintain a proper balance between economic, social and environmental interests
- Focus on the future of work and its consequences
- Have a vision and be courageous to place Europe as an autonomous power in the changing global context
- Speed up the reform of education systems to tailor them to the requirements of the future
- Take seriously into account citizens' concerns regarding social inequality, unemployment and migration
- Encourage and give platforms for social dialogue





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This document provides a summary of the discussion entitled “The European social model – can we still afford it in the globalised world?” which was held in Sopot (Poland) on 27 September 2018. The panel was organised by the EESC Employers’ Group in the scope of the European Forum for New Ideas.



**European Economic and Social Committee
Employers’ Group**

About the Employers’ Group

The Employers’ Group brings together entrepreneurs and representatives of business associations working in industry, commerce, services and agriculture in the 28 Member States of the European Union. Its members are committed to putting their own experiences to good use to further the European venture.

The European Economic and Social Committee is the only European institution that brings together entrepreneurs and people fully involved in the economic and social life of their home country. It ensures that the voice of business is heard at European level.



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