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**Social Cohesion – a condition for growth?**  
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*Social cohesion and growth go hand in hand – they are mutually reinforcing. But the policies which we need to promote social cohesion today have changed radically. While many of our traditional social policies, designed several decades ago, tend to protect the status quo, what we need in today's rapidly changing economies are policies which allow our economies and our citizens to adapt rapidly and flexibly to changing circumstances. What we need to protect is the capacity to change. Education is essential – and to be at the world's technological frontier, we must focus on our universities. The concept of job security must change – what we need to offer our citizens is the security that they have the skills to move from one job to another. We must promote not only research and development, but the capacity to turn ideas into new products and services – innovation. European cohesion policy has been deeply reformed so that it can contribute fully to meeting these challenges – making regions and cities more attractive places to work and live, promoting entrepreneurship, research and development and innovation capacities; and improving the adaptability of workers and enterprises, and increasing investment in human capital. The unique delivery mechanism of cohesion policy, based on multilevel governance and on partnership, itself contributes to social cohesion.*

Ladies and Gentlemen

It is always good to start a round table with a bit of disagreement, to provoke the debate and get the discussion going. On this occasion I am afraid that I will have to disappoint you. I am more or less in complete agreement with what Jacques de Larosière has just said. Social cohesion and growth go hand in hand. They are mutually reinforcing. They are partners. My main message this morning, however, is that the policies we need to promote social cohesion have changed. In the time I have available, I want first to take a brief look at the idea of the European Social Model and what experience teaches us; second to look at the

policies we need today; and third at the role of European cohesion policy.

Jacques de Larosière mentioned in his introduction 'le modèle social européen'. This model is characterised by values such as freedom, democracy, equality, solidarity and openness. Within this model we have government intervention to reduce poverty and social exclusion, and to achieve a fairer distribution of income. It is characterised by some basic instruments which include pensions, health care, social protection for the poor or disabled, and redistributive taxation. The first point I want to make is that while there are common features of the European Social Model, in reality the model varies from country to country, both in terms of what it does, and in terms of the impact it has on the quality of life of the citizens and on the economy. The weaknesses with which the model is associated are not experienced to the same degree in all economies. If we agree that in Europe we have roughly five social models, and we take their equity and efficiency as a measure of their sustainability, we can say that the Nordic model delivers both equity and efficiency; the Anglo-saxon one offers more efficiency than equity while the continental one does the opposite. And the Mediterranean one delivers neither. The first two are sustainable. The new Member States form a separate category – they are in a transition period of bold and deep reforms. If I were to look for the major factor that generates sustainability, I would say that success is not explained by redistributive policies, but by the amount of human capital which the individual brings to the market. Jacques de Larosière is right – it is education that matters.

This leads me to my second point. While the aim of social cohesion remains valid, and while many of the achievements of the welfare state

are worth preserving, the policies we need today have changed radically. Many of our traditional social policies and labour market policies were conceived in the very different economic context of the 1950s and 1960s. Their 'original sin' is that they tend to protect the status quo, while what we need are policies which allow our economies and our citizens to adapt rapidly and flexibly to changing circumstances. What we need to protect is the capacity to change. We talk a lot in the European Union about the need to become more competitive if we are to derive maximum benefit from economic changes driven by globalisation. But we will not be competitive if we accept a fracture in our societies that excludes whole sections from productive employment. We must avoid the formation of the two categories of citizen that the Polish sociologist Zygmunt Bauman has called "the global" and "the local", the former the often highly skilled workers of the knowledge economy that are the winners, and the latter the losers often unskilled and excluded from the formal economy and the opportunities created by of the process of globalisation.

What then are the reforms which we need to put in place? I have just mentioned one which is the emphasis on developing labour potential and human capital. Equity can no longer be considered in terms of income distribution. It must be considered in terms of opportunity, and here again education is essential. I would add here that while in Europe we have done well on primary and secondary education this is not enough. If we want to be at the frontier of technological innovation – producing rather than absorbing inventions – then it is on our universities that we will have to focus, including attracting more students into the sciences. In my trips to the regions, businesses frequently tell me that the decisive factor for their investments is that there should be good schools.

Secondly, our efforts also have to go into increasing activity rates. The key to greater social cohesion is to promote work. Just to add to Jacques' earlier statistics – the employment rate in the EU25 is below 65%. In the US it is 72%. On a yearly basis, the average worker in the EU 25 works 16% hours fewer than the US equivalent. We could have a long discussion on the extent to which this situation reflects a greater preference for leisure, or is the result of distortions in the market caused by tax and benefits systems. But it seems to me that this is a situation that will have to change in the face of demographic trends.

Third, the concept of 'job security' also has to change. What we need to offer our workers is the security that they have the skills to move from one post to another. And we also have to ensure that the market is sufficiently flexible to offer them new possibilities. In short we must promote flexibility and adaptability, by seeking to protect people rather than protecting jobs. 'Flexicurity' is the rather inelegant word we use for an approach based on the view that flexibility and security are not contradictory, but complementary and indeed mutually supportive. To simplify greatly this approach, it means that a lower level of protection for workers against dismissals is combined with active labour policies which include not only unemployment benefits, but also a right, indeed perhaps an obligation for the unemployed for training. The aim ultimately, is to replace the concept of 'job security' with 'employment security'.

Then there is of course the issue of public expenditure. The above reforms entail increases in expenditure on education and on research and development. But this will be facilitated to the extent that pension

systems are reformed, and here I believe that the only long-term solution is to extend working lives.

In the EU many of the levers for these reforms are in the hands of the Member States. The European Commission, within its competences, is nevertheless playing a substantial role. There are at least two areas where the Commission is active. First, the Commission is playing a key role in building a consensus on the benefits of economic reform and in sharing of experiences and best practice. We try to build a coalition of friends of reform. The Commission has re-launched the Lisbon agenda with a clear focus on growth, jobs and competitiveness, and for the first time involving the Member States in a much more structured process of priority setting, reporting and exchange of best practice. The new Social Agenda launched by my colleague Vladimir Spidla at the beginning of 2005 is very much part of this. It aims to maintain the European social model, while bringing it up to date and seeking to ensure that it is sustainable in economic terms on the basis of the sort of reforms I outlined above. Take the issue of 'flexicurity' which I mentioned above. It seems a plausible policy response in today's rapidly changing economies. But around this table we are all aware that in areas such as labour markets, a "one size fits all" approach to policy will not work. It is against this background that the Commission and the Finnish Presidency organised the Informal Tripartite Summit in Lahti in October. This was the first opportunity for the social partners to provide input and to exchange experiences on flexicurity at the European level. They will follow this up with a report to the Commission as input for the Communication on flexicurity which we are planning for the first half of 2007. The Commission is leading similar processes on issues such as

demographic change, on the reconciliation of working and family life, and on labour law in general.

Let me turn now to European cohesion policy. We have deeply reformed it recently. When talking of cohesion policy we often focus on money, but as important is the unique delivery mechanism we have developed based on multilevel governance and the partnership principle. The mechanism itself contributes to European cohesion. In October, the Council adopted the Community Strategic Guidelines for Cohesion Policy for the period 2007-2013. These Guidelines confirm that cohesion policy should become the principal mechanism at Community level for delivering the renewed Lisbon agenda of growth and jobs. Member States have agreed to focus their Regional and Social Fund investments over the next 7 years on 3 broad priorities; making Europe, its regions and cities more attractive places to invest, to work and to live; encouraging innovation, entrepreneurship and the growth of the knowledge economy by developing research and innovation capacities; creating more and better jobs, improving the adaptability of workers and enterprises, and increasing investment in human capital. These priorities are fully in line with the policies I mentioned earlier. And I can confirm to you that the strategies which Member States are currently submitting to us reflect these priorities extremely closely.

I want to conclude by stressing just three brief points.

First, the very nature of Cohesion Policy is to promote economic and social convergence. But this policy is far from being simply an instrument of redistribution or support. Rather it is a policy which is designed to dynamise local economies. The priorities we have identified and the

instruments we offer should allow them to discover or to unleash the comparative advantages which they possess, and to put themselves on the path of sustainable development.

Second, we all agree that we must take Europe forward towards the world technological frontier. To be there and to remain there we need more investment in research and development, but the real challenge for Europe is to develop the capacity to take ideas and to convert them into material reality. This is what we call innovation. And this is my third point. We need to find ways to convert our research and development into new products, services, patents, and employment; we need to create the micro and macro-economic conditions for innovation-based growth. The buzzword is innovation. And it is my aim that the new generation of cohesion policy creates “innovating regions”, promoting innovation and contributing to improved social cohesion, and showing that cohesion and competitiveness are indeed two sides of the same coin.