



Speech at Stanford University Forum on Contemporary Europe

Can We Globalize Markets and Safeguard Social Security?

***Flexicurity, more and better jobs
A Social Market Economy - Not a Market Society
A European Progressive Approach***

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- Check on delivery -

Honoured guests, ladies and gentlemen.

Let me first of all say thank you to the *Forum on Contemporary Europe* for inviting me to Stanford University today to share with you my thoughts on the future of Europe's Social Model in an increasingly globalised world. Thank you also to *Innovation Center Denmark Silicon Valley* and the *Danish Ministry for Science, Innovation and Technology* for their role in getting me here to Stanford to speak with you today.

The global political and economic landscape is changing as we speak. The financial crisis heralds **a new era in politics** because the solutions can be found neither in the traditional conception of interventionist socialism nor can they be found in the conservative free market fundamentalism – social democracy will become the natural answer on how to shape markets so that they serve the broader goal of progress in society.

The actual financial and economic crises have pushed further to the front our work to modernize the European Social states in the globalised economy. I call this project "**Our New Social Europe**".

The purpose of the New Social Europe is to offer a strategic framework for reviewing, rethinking and reforming the European Social Model in its many different versions. It is based on the achievements of the past and on a perspective of what we can achieve in the next 10 to 20 years.

The New Social Europe is based on a new vision of smart green growth for full employment, inclusive and sustainable societies, a growth concept aimed at serving the people of Europe to meet the needs of the present generation, without compromising the ability of future generations to meet their own needs.

We need better economic and social policies, not fewer, to make Europe's welfare societies more inclusive, strong and sustainable.

The New Social Europe will serve as a roadmap for political choices and policy development at all political levels, from local to the European and global levels.

The potential gains are there to be made: European cooperation and the enlargement of the European Union to 27 Member States represent the framework for potentially enormous new sustainable economic and social development. Europe is a global economic player - the Single Market is the largest economy in the world. Europe is both driving globalisation and affected by globalisation - we do not have to adapt passively, we can actively shape the future.

The risks, at the same time, are of rising inequalities, between rich and poor, between the young and the old, of failing cohesion in an increasingly diverse population, and of spiralling environmental degradation. But we can still tackle these challenges if we make the right choices.

Decisions are to be taken on how to make our societies inclusive, based on decent work, social dialogue, rights and opportunities for all. Decisions on finding a new balance between the active working population and a growing retired population. Decisions on putting Europe firmly on the path of sustainable development. It is now a question of making coherent decisions in a comprehensive and much stronger competitive framework.

The European Social Model is not the definition of one welfare system, but an expression of the common characteristics of the welfare states in Europe.

Within this European social model, our histories and structures are different. But, we have far more in common than differences. Whether it is the Nordic countries, the new Central and Eastern European member states, the continental or Mediterranean countries or the UK: Europe's people belong together in our New Social Europe.

One of the most important features of the European social model is the high value placed on the welfare state, namely the public sector. But in political debate, the role of the public sector has been somewhat neglected. I believe this is a mistake because the public sector de facto plays a key role in defining Europe's performance in economic and social terms. The public sector provides public goods, universal protection against social risks, such as unemployment and poverty. The public sector

is an undeniable factor in determining labour market conditions, including social dialogue. It is decisive for the practical realisation of solidarity, social justice, inclusiveness and cohesion.

With government budgets and public sectors ranging from 33% to 55% GDP, the public sector in Europe obviously plays a major role in the economy, including the production of goods and services. The role of the public sector acts as the backbone of European societies and the framework for the market economy – it is the precondition for Europe's social market economy and a bulwark against the development of a market society.

Many European countries have, by acting in an advanced partnership between the public and private sectors, transformed both social inclusion and the protection of the environment into engines of development, not as costs. This is the essence of **modern, proactive welfare states**. It is only by learning from each other's experiences that we will be able to renew Europe's welfare states, building on the best of the past for the future.

Today Europe is facing new challenges due to globalisation, new technology, demographic change, enlargement of the EU and climate change. Europe is falling behind in knowledge and innovation, in education. In most countries we have not found sustainable answers to these new challenges. There is a risk that more people will be marginalised and excluded from mainstream society.

The conditions for the future of our welfare states have changed. We will not achieve employment, social cohesion and sustainability, *unless* we take the lead in modernising and reforming on our conditions.

This new way forward is inspired by the compelling success stories that already exist in Europe. Some member states have combined social inclusion, economic performance, sustainability, and a highly qualified workforce, against a backdrop of a healthy and sustainable public sector, a competitive private sector and a strong civil society. The result is the highest quality of life in the world.

The four **Nordic countries**, Denmark, Sweden, Finland and Norway, are again and again ranked as some of the most competitive in the world. In the latest *Global Competitiveness Report* from the World Economic Forum – they were again ranked among the most competitive countries in the world.

They have showed how a sophisticated social model can provide the basis for competitiveness and growth. They are proof that the right kind of social policies are a productive factor. They appear as bumblebees. They seem too heavy to fly, but surprise you by being quick, agile and solid. They show that relatively high taxation, a strong public sector, high salaries, good provisions for all and high social protections do not exclude growth and prosperity, but, on the contrary, supports it.

The strategy of the Nordic countries has been clear. Their success has been achieved through a set of concentrated efforts: reforms of their labour markets, active labour market policies, prioritising education and life long learning, making sure that the time spent between jobs is as short as possible, promoting gender equality and

non-discrimination, active strategies for jobs of high quality, and high spending on research and development, with a particular emphasis on environmentally friendly technologies.

The Nordic countries have based their performance on the best part of their resources. The skills, talent and creativity of their citizens. They are proof that social security and competitiveness are not contradictions, but preconditions.

Europe has no long-term future trying to compete as a low-cost producer in a global economy. We cannot and should not seek to imitate the low labour costs, low taxes, and the low environmental and social standards of our competitors.

We should recognise that **Europe's social and environmental model is not an obstacle** in becoming the strongest competitor in the world, **but a catalyst**. Investors will choose Europe for its skilled workforce, its research centres, its first-class communications, its efficient public administration, its social harmony and its quality of life.

In **the social field** we should focus on having the most competent labour force, the most dynamic labour markets and the most supportive social system. But to make progressive reforms in our social state in Europe is a very complex and difficult process !

The Danish flexicurity

My approach to how to make reforms and build political will of course is primarily based on my own experiences as Prime Minister of Denmark for nine years.

When I came to power in January 1993, unemployment in Denmark was at a **25 year high at 13%**, much of it structural. This was coupled with low economic growth, high public debt and general pessimism amongst the general public.

At the end of my third term in November 2001, we had ensured a turnaround in Denmark's fortunes. We reduced unemployment to below 3.5 %, cut long-term unemployment to a third of what it had been, and eliminated youth unemployment. Our public finances had become sound and strong with surpluses and old-debt deductions.

This period of nine-years in my country was characterized by intense economic reform. Why did people accept these reforms?

- These reforms were a New Deal with the people. It formed part of a coherent project: to activate society, while raising social inclusion. Nobody was left behind in these reforms. People knew that we would not take anything away from them without giving something more important, something better back to them.

- These reforms were consulted and negotiated with the Social Partners: I promised to boost growth in the economy and create more jobs as well as making them co-responsible for lifelong learning, if they accepted a targeted flexibilisation of the labour market.

In 1993 I introduced an offensive programme for intelligent public investments: in active labour market policies, particularly lifelong learning, in education, in child care, and in R & D. In 1992 our growth was below 2 %. The real rate of growth in 1994 was 5.5% in the first year that we implemented labour market reforms.

The main elements of the Danish reforms were the following:

One, mobility was coupled with security in order to combine low unemployment and high productivity. In my reforms, hiring and firing became easier, but this was accompanied by supportive policies to provide economic security and facilitate the transition from one job to another.

Today, we don't have long notice periods for dismissal or high compensation payments from employers in the case of dismissals. But we do have high unemployment benefit, which means the loss of a job did not mean losing one's livelihood or losing motivation: the lowest wage earners have up to 90% of their last salary. This does not impair mobility. To the contrary. The Danish labour market enjoys the highest worker mobility in Europe, almost on a par with the US. It is our marriage of labour market flexibility with high welfare security that stops the growth of inequalities, keeps unemployment down and avoids labour market bottlenecks.

Two, the unemployed had the right to high benefits, but had a duty to either find a new job or re-train. We tightened the period in which unemployment could be claimed from 9 to 4 years. And we almost halved unemployment benefit for youngsters below 20 years of age following the first six months of being unemployed.

But at the same time, we introduced the concept of “**individual action plans**”, based on one-on-one interviews with the unemployed, which take into account the persons' qualifications, job opportunities in the local labour market and the need for re-training. **It became a fundamental right for the unemployed. Education, training schemes and job opportunities are then offered to each individual unemployed person – “an offer you can't refuse”**. If an individual refused repeated offers of jobs or training, they lost the right to the unemployment benefits and would only be eligible for the minimum social security.

Three, investing heavily in human capital through education, training and lifelong learning policies fulfils an economic but also a social objective. People saw that they had a right to develop their competences and progress in the labour market. In 1990, 32% of Danish workers were unskilled; by 2000, this number had gone down to 21%. Every year, 70% of working age citizens and 85% of young people participate in lifelong learning programmes in Denmark.

Four, the Social Partners were stakeholders in the reform process: they helped elaborate the reforms and implement them. They become co-responsible for

education, training and lifelong learning policies in order to ensure that they were adapted to labour market needs and avoided bottlenecks.

People gained more security and self-confidence in their ability to adapt to change as a result of this system. Denmark now has the highest level of economic well-being amongst the employed and unemployed of the industrialized world.

On this basis I would offer the following principles, based on my experience as Prime Minister:

- The benefits of labour market reform only emerge properly in a context of high economic growth. This was the case in Denmark in the mid-1990s. It is essential to make reforms in periods of growth: therefore intelligent public investments are crucial. (That's why recent structural reforms in Europe have been slow, unpopular and painful – growth is insufficient).
- Rights and benefits should never be taken away without giving back new rights and opportunities simultaneously. Modernisation must constantly be perceived as being in the interests of ordinary people. The public must feel that it has a positive stake in this drive for reform.
- For this reason, the word “necessity” must be avoided at all costs. People need to feel that reform is born out of a commitment to progress, not a reaction to unfavourable circumstances.
- You must be able to document concrete results. Citizens should be able to perceive positive improvements in the economy and labour market within the first two years following the introduction of reforms.
- Modernisation policies should be introduced as a package of reforms rather than as a succession of single measures. People should be able to see the whole story.
- Reform must be built on consensus rather than confrontation: consultation is essential, particularly with the Social Partners. In contrast to such an approach, a "take it or leave it" attitude can potentially backfire.

The welfare state is often associated with rigid job protections: laws and union contracts making it prohibitively expensive to lay off workers. Many other states in Europe, labour-market rigidities have been blamed for high unemployment rates in Denmark.

We are combining blend of markets and modern social protection. Denmark has Europe's highest rate of labour turnover. A most of it is voluntary. A 2005 Euro barometer poll found that over 70 percent of Danes think is it a good thing to change jobs frequently, compared with less than 30 percent in neighbouring Germany.

Precarious/short-tem contract employment has grown in most other countries but not in Denmark. Where most other OECD nations have a knot of middle-aged people stuck in long-term unemployment, in Denmark the vast majority of the unemployed

return to work within six months and the number of long-term unemployed is vanishingly small incl. middle-aged people.

The income security guaranteed by the Danish state, as well as the good prospects for reemployment, enables wage-earner to take risks with new jobs.

Our labour-market programmes spend 4.5 percent of GDP. In US this would correspond to 600 bn \$ a year! US current spending on similar activities incl. very limited unemployment compensation is 0.3 percent of GDP, less than 50 bn \$

Wages in Denmark are about 70 percent above the OECD average, but are based on the high productivity of the Danish work force. And because the Danish welfare state is financed primarily by income taxes and not payroll charges, overall labour costs to employers are moderated.

The Danish unemployment benefit for a median-income family of four can be 95 percent of the prior wage. In the United States, it is about 30-35 percent, and many workers do not qualify. Danish wage-earners can draw benefits for four years, the typical U.S. limit is six months. In Denmark it is the combination of the active labour market policy with exclusive changes in business and updated learning programmes that is the secret. It is about "working smarter, not harder".

So what is the main lesson I took from my years as Prime minister?

We must renew our vision of the social model; providing security in conditions of permanent globalised change. I want to underline that this reflection should be done according to one major principle: Strong competitiveness and social security as part of a coherent system: they are not contradictions but pre-conditions for each other. **Economic efficiency is fair distribution and a strong, active social state!**

As the progressive centre-left, we should clearly say that we are not opposed to reform our welfare systems and our labour market. On the contrary, we want reforms because maintaining the status quo will condemn these systems in the longer run. Public mechanisms will always be needed to provide redistribution between poor and rich people, between poor and rich regions, between poor and rich states. Not only because this is socially just. But also because in the longer run this is economically effective.

We refuse a model of society imposing flexibility without offering security; where the poorest could not have proper access to decent public services; where unemployed people are stigmatised for their conditions and leaving the most fragile people to become marginalised and excluded.

We can no longer be accused in Denmark of being a nanny state. We have become an *enabling* state. One in which individuals have **duties as well as rights** as one of the fundamental values from the beginning of the history of our parties. Above all, a

right to a minimum level of security in an increasingly open, flexible labour market; and a duty to refuse welfare dependency in favour of adapting to change and integrating the labour market.

A road map for change

For the past two years, the Party of European Social Democrats has been forging a new agenda for Europe. A new agenda for coherence, for connecting to people.

We call it the **New Social Europe**.

We developed a roadmap that will serve as a common agenda in each of the four democratic houses: the local, the regional, the national and the European.

We insist that Europe is social – that we, together, have more in common in our welfare states than we have differences. **Common ideas of universality in access to education, in social protection, in health care and in housing. A group of social states that can ensure a new social security and better efficiency.** That is what we call a New Social Europe.

Now we live an age of constant change, of rapid developments. How can the welfare state remain relevant to people in these conditions? How can the welfare state deliver security in conditions of permanent economic change?

What I think we must promote is a positive, rewarding flexibility that fits in better with changing competitive conditions and lifestyles. Greater mobility in the workforce must be coupled with security in order to combine low unemployment and high productivity.

We must recognise that although we have varied social and economic models – based on national and political diversities and different stages of development – we must strengthen the social dimension of the EU as such. This is the condition under which we are completing the Internal Market and avoiding social dumping. The EU is a crucial, additional platform for political action in building our national social democracies. The European Social Model is not only characterised by common values, but also by common policies, practices and institutions.

Our only chance is to create a New Social Europe in which the market is not the master of ordinary people, but our servant.

We've got to make clear that Europe's strength in a globalised world is its inclusive and cohesive society. We are the only continent to be pursuing social justice and competitiveness as mutually-supporting goals rather than trade-offs.

It's about ensuring the basis of cohesion in our societies. The renewal of our welfare states. Ensuring that everyone – from the building worker to the hedge funds CEO – has the same rights and duties.

Different reforms are needed in each Member State within a European framework. And we need a European response to globalisation.

The New Social Europe roadmap

Managing this new financial capitalism is part of our struggle to ensure the future of the European social model.

In all parts of the European Union, governments and political parties are faced with **choices of reforms and overall strategy**.

For me, it is not a question of reforms or not. But what type of reforms and realised in which context. It's about direction and common actions. It's about how to do it and how to act jointly.

The PES has set out its own roadmap for the New Social Europe. **Guiding our roadmap is a set of common principles.**

1. Rights and duties

For everyone. From the workers to the CEOs and hedge fund executives.

2. Full employment

No full employment without a modern social state – and no sustainable state without full employment.

3. Investing in people

Investing in their capacities and potential.

4. Inclusive societies

Because that's the way our society and economy work best.

5. Universal childcare

That's our PES campaign right now. Childcare for all who need it.

6. Equal rights for women and men

Because it's not only the right thing to do. It's the fastest way to achieve social justice and positive change in society.

7. Social dialogue

Anticipating and managing change, creating an inclusive labour market.

8. Making diversity and integration our strength

Integrating all people in our societies

9. Sustainable societies – tackling climate change

Making environmental innovation a motor of our economies.

10. An active Europe for people

Making sure that Europe focuses on people's concerns.

Certain reform choices must be made in the Nordic countries, others in the UK, others still in the central and eastern European new Member States, and the Northern and southern parts of the continent.

The fundamental idea is that the direction of the reform choices and investment initiatives must be coordinated and that we are not making decisions that contradict one another. That is what we understand by our **roadmap**.

Creating an Active society, based on social dialogue, will be an important part of how we tackle the economy and ensure that all have access to decent work:

- ✓ **Investing in active labour market policies in an intensive way**
- ✓ **Making the travel from the old to the new job as short and intensive as possible** in terms of re-skilling and support for job-seeking – chances of re-employment narrow every month
- ✓ **Minimising the risk of income loss**
- ✓ **Maximising the development of competences and qualifications.** Europe simply cannot afford to keep education and training opportunities in the hands of an elite. Today, the people who need education and training the most get it the least: the unemployed, the low-skilled, older workers.
- ✓ **Creating closer links between employment services, educational institutions, employers and the Social Partners.**

There need to be supportive policies to provide economic security and to facilitate the transition from one job to another, based on a clear framework of **rights and duties**.

Flexicurity cannot be transposed from one country to another. But the principles of flexicurity can guide reforms. Modernising our labour market policy is about providing security in change, within a clear framework of rights and responsibilities for all actors:

- An active growth-promoting state;

- Income replacement linked with active labour market policies to re-skill and get into work as fast as possible in a new deal between the unemployed and the state;
- Lifelong learning and training for all;
- The interplay between employers, educational institutions, the social partners and employment services.

If we act together, taking the measures set out in the New Social Europe report, we will create *10 million new jobs* in the coming years. On top of what we'll do if we just follow conventional policies.

But we have to relaunch European cooperation to achieve it.

Smart green growth not “old” growth to unlock the potential of our welfare societies

The pre-condition for achieving New Social Europe will be higher growth. But it must be smart growth based on the best use of new sustainable technologies, not old growth based on old technologies and old methods of production.

We need this growth to carry through an ambitious new investment programme to fund the new functions of the welfare state and boost the sustainability and innovation of our economies.

Full employment is the key objective that helps achieve many of our aims for the New Social Europe: for social inclusion, financing the welfare state, and an upwards convergence of living and working standards in an enlarged Europe. Working smarter, not harder.

We have to start shifting the investment curve – more in children, in education and training and green growth; and using the EU's tools better to achieve our goals.

The New Social Europe is also about replacing the current EU growth, with a new smart green growth concept. That means investing in the medium and long term, putting jobs into sustainability. It means taxing jobs less and taxing polluters more to promote green growth and job creation.

We have the money to do it if we shift our investments from the old to the new:

- One example: In the last 25 years, out of all money spent on R&D in energy in OECD countries, 75% went into nuclear and fossil fuels, and only 1% into wind power, although wind power alone could supply over a third of the world's electricity by 2050, and one-fifth by 2025.

That would correspond to an employment of nearly 3 million people in the OECD. **If Europe can become the world's main supplier of wind energy, then we could get the major share of that employment!** And, that's only

one type of renewable energy: solar, biofuels are other technologies that will generate jobs, growth and sustainability in a mutually reinforcing way.

Europe invests about 1.9 percent in R&D, while US spends 2.8 per cent and Japan 3.1 per cent of GDP on production of new knowledge and on transforming of knowledge into innovation and production. The links between universities and business – key to innovation - are much weaker in Europe than in the US. We need to reverse this, so that innovation can translate into high quality, highly skilled jobs.

Can the New Social Europe be built in the current political context?

What I think that the European Union desperately needs at this moment is **POLITICAL LEADERSHIP**.

The New Social Europe plan I've outlined would be hard for any economy to implement at a growth rate of only 2.5% GDP, as it is in the EU-25. Euro-zone unemployment even went up slightly this past month.

What I ask of the European Commission is not the politically impossible - all I ask is for them to make a scenario:

- ✓ **What would happen if we actually started doing things together?** If Member States made the right investments in key priorities in a given period.
- ✓ **What would happen if we radically shifted the investment curve** towards child care, research, education, training and green growth - in terms of employment and the medium to long-term sustainability of public finances?

I hear people say, "But how are we going to pay for it?"

Here are three ideas:

1. By acting together for higher growth, we will be able to use the extra growth for new investments – instituting a virtuous circle;
2. We can change the composition of public spending towards active-oriented policies;
3. Higher employment – in the active society – will bring higher public revenues.

The New Social Europe is a coherent progressive political programme for reform:

- ✓ Smart growth through massive investment in new green technologies and R&D;
- ✓ A new understanding of the role of child care policy
- ✓ A revolution in adult education and skills

- ✓ Progressive labour market and welfare reform
- ✓ A quality leap in economic policy coordination at European level.

The financial crisis - and looming recession - is a defining moment and a huge challenge for all progressives in Europe and the United States.

Hard-working families are worried about their pensions, their savings, their homes and their jobs. It is not the rich who are at risk but the hard-living of ordinary families. We must act decisively to protect ordinary citizens, now and in the longer-term. This is our task and we must be fully focused on it. It is a task which needs to be tackled in three major phases:

- **stabilizing the immediate crisis**
- **taking action to ensure that as financial crisis turns to economic recession does not bring large-scale unemployment**
- **reforming the financial markets, with new and better regulation to reduce the risk of further financial crisis.**

In any case, there are multiple benefits from investing in green growth - renewable energies and energy efficiency. Insulating homes and other buildings is labour intensive (and so create jobs), contributes to the fight against climate change, saves money wasted on lost energy, and reduces heating bills for the poor. Other investments in public transport, education, new technology, and public services such as childcare and provision for the elderly would all make our societies better for all as well as contributing to economic growth. Investments would be more effective if they were coordinated across Europe, and carried out, where possible, simultaneously. Greater economic policy coordination - within the Euro-zone and beyond would have strong add-value. Planning all things in a new smart green growth strategy for Europe could bring millions of new jobs in the coming years.

A similar strategy for the U.S. could be the decisive step for changes to a new perspective for green jobs, better climate protection, social cohesion and a reformed financial market to serve long-term financing of our long-term investments.

The financial crisis and the risk of an economic recession have fundamentally changed the global agenda.

I see the design for a New Social Market Economy - instead of a Market Society.

I hope this could be the beginning for a new progressive transatlantic alliance between the US and Europe.

Too optimistic? Well, we're here for change, aren't we?

END