EU-Communication

SOCIAL INVESTMENT

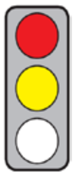
cep**PolicyBrief** No. 2013-20

Centrum für Europäische Politik

KEY ISSUES

Objective of the Communication: The Commission presents proposals for "modernising" national welfare systems. In particular, it wants to increase "social investment".

Parties affected: All citizens and Member States.



Pro: Gearing welfare systems towards social investment can permanently increase their effectiveness.

Contra: (1) "Supporting" the social policy of the Member States by way of EU funds means that the EU's idea of the "right" social policy will override that of the Member States.

(2) It is the task of the Member States and not of the Commission to define and monitor the "adequacy of social support", that is to say the level of welfare benefits.

CONTENT

Title

Communication COM(2013) 83 of 20 February 2013: **Towards Social Investment for Growth and Cohesion** – including implementing the European Social Fund 2014–2020

Brief Summary

- **General**
  – The Commission calls on the Member States to permanently modernise their welfare systems by increasing "social investment" (p. 2).
    - "Welfare systems" cover state benefits such as subsistence benefit, health insurance, long-term care insurance, unemployment and retirement insurance.
    - "Social investment" refers to all state benefits which increase people's capacities and qualifications.
  – The Commission recognises that welfare policy falls under the responsibility of the Member States and that the EU only has a supporting role to play.
  – According to the Commission, an ineffective welfare policy in one Member State has a negative impact on the other countries. Thus a lack of competitiveness in some Member States can also be explained by their poor welfare policy – in the form of insufficient investment in human capital.
  – The long-term financing of welfare systems in the Member States is threatened by
    - demographic development – low birth rates and increasing life expectancy – and
    - the current economic and debt crisis.
  – The Commission sees a great deal of unused potential for greater efficiency in the welfare policies of many of the Member States because Member States achieve varying outcomes "in terms of poverty, employment and health" despite similar levels of spending (p. 5).
  – It aims principally to achieve
    - an improvement in the financing and efficiency of welfare systems,
    - a welfare policy which promotes activity and competence, and
    - social investment which is adapted to all phases of life.

- **Improvement in the financing and adequacy of welfare systems**
  – The welfare policies of the Member States must be fiscally sustainable, adequate and well-targeted.
  – The Commission wants EU funds to "support" the Member States in their welfare policies.
  – From 2014 until 2020, at least 25% of cohesion policy funding (ESF, ERDF and Cohesion Fund) is to be allocated for social investment.
  – The Member States are to
    - use additional resources from the World Bank, the Council of Europe Development Bank and the European Investment Bank,
    - enable the non-governmental actors of the "social economy" – e.g. social enterprises and voluntary organisations - to take part in the planning and implementation of welfare measures thereby allowing them direct access to EU funds,
    - gear their welfare policy towards "social investment". In particular, they are to invest more in child care, education, training, care, rehabilitation, housing, active labour market policies and health services.
    - increase their public income by

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- more efficient collection of taxes,
- broadening tax bases, e.g. reduction of tax expenditure items, and
- making the tax structure more favourable to growth and employment,
- ensuring that government benefits only go to those who are actually in need of help,
- avoiding a "proliferation of different types of benefits for a single contingency" (p. 11) and
- setting up one-stop-shops for government benefits in order to reduce administrative burdens.

– The Commission will
- monitor the implementation of the proposed measures in the framework of the European Semester [COM(2011) 400; see cep**PolicyBrief**],
- evaluate the efficiency and effectiveness of social policy in terms of expenditure and revenue,
- set up, in 2013, an expert panel to advise the Commission and Member States on areas of health policy,
- submit, in 2013, detailed guidelines focussing on "social investment" for optimum use of the European Structural and Investment (ESI) Funds and
- establish, together with the Member States and the European Foundation for the Improvement of Living and Working Conditions (Eurofound), a database to enable the sharing of experiences with the ESI Funds.

– Jointly with the Member States, the Commission will establish "reference budgets" taking account of national and regional characteristics.
- Reference budgets are "a list of goods and services that a family of a specific size and composition needs to be able to live at a designated level of well-being, along with the estimated monthly or annual costs thereof" (p. 10).
- Together with the Social Protection Committee (Art. 160 TFEU) the Commission wants to develop a methodology for "reference budgets" in 2013. The Social Protection Committee fosters cooperation between the Member States and the Commission, in matters of social policy, particularly by way of open coordination.
- Using the reference budgets, the Commission will then monitor the "adequacy of income support" (p. 11 and 19) in the Member States.

– In order to ensure targeted support using ESF funds, the Commission will develop poverty maps (p. 18). These will identify regions with "multiple and/or severe disadvantage" (p. 18).

► **Pursuing activating and enabling social policies**

– Women's income is, "on average more than 40%" (p. 8) below that of men. This is principally due
- to the low activity rate (64.9% against 77.6% for men),
- to the lower weekly hours worked by women (33.7 hours compared to 40.6 hours by men),
- to the fact that women are concentrated in jobs that pay less and
- partly due to the fact that women earn lower pay for work of equal value.

– The Member States are to close the gender pay gap by way of labour market reforms, rules on parental leave and fiscal incentives.

– The Member States are to create incentives in their tax and welfare benefits systems for people to take up work - particularly those on low incomes and women.

– The Member States are to
- implement the Commission's recommendation on access to a basic payment account (2011/442/EU) in order to ensure that all citizens - irrespective of their financial position - have access to a "basic payment account",
- implement the Commission's recommendation on active inclusion of the unemployed in the labour market (2008/867/EC) using resources from the European Social Fund (ESF and the European Regional Development Fund (ERDF),
- combat homelessness by building social housing and reviewing the rules on eviction,
- make use of the Fund for European Aid to the Most Deprived and
- use alternative methods of financing - such as public private partnerships (PPP; on this see Communication COM(2009) 615, p. cep**PolicyBrief**) – for social investment.

– The Commission will
- submit a legislative proposal to "improve" access to a bank account and the transparency and comparability of bank charges,
- clarify to public authorities and service providers - by way of a Guide and regular exchanges of information - how the EU rules on state aid, internal market and public procurement apply to social services,
- support the Member States in the introduction of information services which provide information on pension rights,
- submit a report in 2013 on the implementation of the measures proposed in the Communication "Solidarity in Health" [COM(2009) 567; see cep**PolicyBrief**].

– The Commission has submitted a proposal which aims to improve the mobility of employees [COM(2013) 236].

- **Social Investment throughout the individual's life**
  - The Member States are to implement in full the Recommendation "Investing in Children: breaking the cycle of disadvantage" [C(2013) 778].
    - The recommendation proposes measures on health and welfare benefits as well as early childhood education and care.
    - The Member States can apply for funds for this from the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the European Agricultural Fund for Rural Development (EAFRD).
  - 13.5% of young people in the EU leave school prematurely. Cash provided by the ESF can be used for strategies to reduce the number of those leaving school early.
  - The Commission and the Social Protection Committee will issue a report in 2013 on long-term care in order to illustrate the opportunities for healthy ageing.

Statement on Subsidiarity by the Commission

Although social policies are "primarily the competence of the Member States" (p. 26) EU action is necessary to support and complement the activities of the Member States.

Policy Context

The Communication on Social Investment represents a socio-political extension of the employment package [COM(2012) 173; see. cep**PolicyBrief**], the White Paper on Pension Schemes [COM(2012) 55; see cep**PolicyBrief**] and the Youth Employment Guarantee [COM(2012) 729; see cep**PolicyBrief**].

Options for Influencing the Political Process

Leading Directorate General:	DG Employment and Social Affairs
Committees of the European Parliament:	Employment (leading), Rapporteur N.N.; Culture & Education; Gender Equality
Federal Ministries:	Family (leading)
Committees of the German Bundestag:	Labour (leading); Economy; Family

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The financing available to the welfare systems of the Member States is under threat from demographic development and the current economic and government debt crisis. Both factors will put pressure on public budgets and especially welfare systems in the future. Rapid and far-reaching reforms of the welfare systems are therefore required. **Gearing welfare systems towards "social investment"**, that is to say state benefits which strengthen people's abilities and qualifications, **can permanently increase their effectiveness.**

Social policy - as a central component of government action - is correctly the competence of the Member States as only there can it do justice to the democratically expressed preferences of the citizens and the cultural, historical and socio-economic differences between the Member States. Consequently, reforms relating to the long-term financing of welfare systems are a core responsibility of the Member States.

The use of EU funds to "support" the social policies of the Member States is an expensive undertaking and **will lead to the EU's idea of the "right" social policy overriding national ideas.** The subsidies will distort the decision on what to provide because the costs incurred by Member States for subsidised socio-political measures - i.e. those desired by the EU - will sink relative to the non-subsidised measures.

A more meaningful increase in government revenue can be achieved by efficient tax collection and a tax structure which favours growth and employment. Whether, on the other hand, it is correct to widen the basis for assessment - which without reducing the rate of tax will lead to an increase in the tax burden - cannot be answered in general terms. Basically, however, higher taxes damage growth in the economy and in employment so, to begin with, a more efficient use of budgetary resources is the correct approach when it comes to spending. Consequently, the Commission's requirement that only those who are really in need should gain from state benefits, is appropriate. A one-stop-shop for state benefits reduces administrative costs and makes it easier to find and combat benefit fraud. In addition, optimizing the plurality of various welfare benefits may lead to gains in efficiency.

The "adequacy of income support", i.e. the level of welfare benefits, including the choice of goods considered necessary for a reasonable standard of living, **must be defined by the Member States - without the involvement of the Commission in setting up "reference budgets".** This is because income support is a fundamental component of the social policy of the Member States and only there can it do justice to the various preferences of the citizens - which can vary significantly between the Member States. **There is** for the same reason **no justification for the "adequacy of income support" to be monitored in the Member States by the Commission.**

The lower "average level of income" of women results largely, as the Commission correctly states, from the choice of profession, the amount of work undertaken and the female employment rate. The individual choice of profession forms part of personal life-planning and cannot be regulated by government. The amount of work undertaken by women and the female employment rate are, however, materially determined by the family and tax policies of the Member States and thus politically intended - at least indirectly. In general, it is the case that: tax and benefit systems should - irrespective of gender - provide a general incentive to take up work because, due to the future decline in the number of people of employable age and the increasing number of retired people, a higher rate of employment will be essential in order to finance welfare systems in the long term.

A legislative proposal which focuses on the transparency and comparability of bank charges and does not give rise to additional costs for banks - such as in the form of subsidised accounts - may lead to increased employment because access to a bank account is essential for participation in working and economic life. An EU regulation introducing a legal right to a bank account is unnecessary, however, because, as part of the free competition between banks, accounts are offered as prices which cover the costs. If these prices are too high and prevent individuals from gaining access to a bank account, assistance should come from the policy on the redistribution of wealth - such as by way of subsistence benefits.

Legal Assessment

Legislative competence

The EU has no competence to impose the binding socio-political measures which it considers to be right. Although responsibility for social policy is divided between the EU and the Member States, the competence of the EU is limited to the aspects provided for in the TFEU (Art. 4 (2) b TFEU) and also in this respect to "initiatives to coordinate the social policy of the Member States" (Art. 5 (3) TFEU).

Compatibility with EU law

Unproblematic.

Conclusion

Gearing welfare systems towards "social investment" can permanently increase their effectiveness. The use of EU funds to "support" the social policies of the Member States will lead to the EU's ideas of the "right" social policy overriding national ideas. It is the task of the Member States, not the Commission, to define and monitor the "adequacy of income support", i.e. the level of welfare benefits.