

IS THE JUICE WORTH THE SQUEEZE?

Making the most of streamlining and the OMC for social inclusion and social protection in the EU



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Streamlining, a new start for the OMC in social inclusion and protection

After five years of implementation of the OMC* in the fields of social inclusion and pensions, the mid-term review of the Lisbon Strategy triggered new changes in one of the instruments of social policy at the EU level. There were initially, two separate processes, one for inclusion, aiming at intensifying the effort of poverty eradication, the other for pensions, promoting policy exchanges on pension reform. Recently, a so called 'streamlining' of social protection and social inclusion policies was introduced. This calls for greater efficiency and a more results-

oriented coordination in all on-going processes, through integrated action in inclusion, pensions, and health and long-term care policies. After a first joint report on social protection and social inclusion from the Commission for the 2006 Spring Council, member states are now invited to submit their new integrated national reports 2006-2008 by October 2006. A first evaluation will take place in early 2007, following the multilateral monitoring procedure of these earlier independent processes.

* The Open Method of Coordination (OMC), also known as the "convergence" method, has been applied to several areas of social policy at EU level, where common objectives are needed, and where legislation is undesirable, according to the principle of subsidiarity. The method requires a back and forth interaction between member states and the EU level in establishing objectives, monitoring progress through national plans, and sharing policy options and peer reviewing.

The mid-term review of the Lisbon strategy: what has changed in pensions and inclusion policy co-operation?

In March 2006, the Spring European Council defined the agenda for the new integrated process. Three levels of changes were introduced:

1. In the *common objectives* agreed, although they build on the objectives of Nice from 2000 and Laeken 2001. The streamlining now encompasses three broad objectives and the objectives specific to each of the three policy areas:

- Make a decisive impact on **poverty and exclusion eradication**, through active social inclusion, universal access to basic resources, and its mainstreaming;
- Provide **adequate and sustainable pensions**;
- Guarantee accessible **high-quality and sustainable health and long-term care**.

2. In the *procedure*, with a closer co-ordination with economic and employment policy. There is now a clearer alignment with the integrated guidelines for Jobs and Growth 2005-2008. It also applies to a better coordination of the timeframe between the different European policies, allowing for direct gains in efficiency and coordination between processes and sector policies at the national level. Hopefully, it will also improve the involvement of all levels of government and social actors across those processes.

3. And, a shift at EU level in policy orientation. While in the early 1990s the EU approach to social policy leaned towards greater convergence in national policy objectives – e.g. the recommendation for minimum income - there has been a drastic shift since 2000 towards greater convergence of policy outcomes. The streamlining approach is introducing a new combination between policy design, target setting and policy results. It may simplify the multiple EU initiatives in social protection, while overcoming one of the frailties of the OMC in social policy - its fragmentary nature.

The social situation in Europe

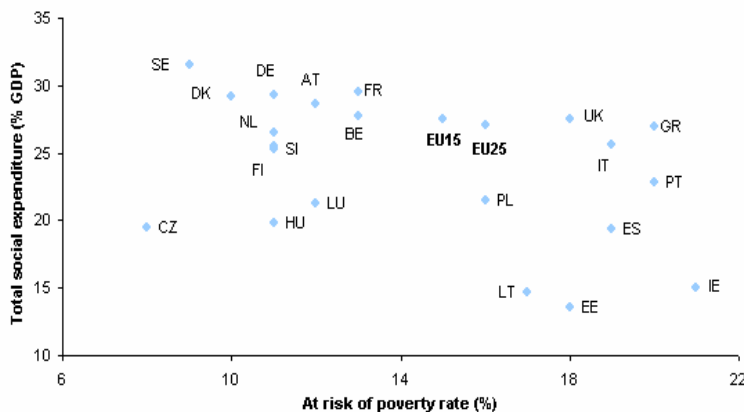
Several social indicators have been developed in Europe in order to monitor EU and national developments*. Overall, two major comments can be made:

Income poverty and inequality of income have not worsened on average in recent years in Europe. However,

has also remained relatively stable (13 percent of the population aged between 16 and 64). The dispersion of income between individuals follows the same trend, where the top 20 percent of recipients have over 4.5 times the disposable income of the bottom 20 percent. The diversity of the new enlargement has not increased the level of income poverty and income inequality, but the level of material deprivation has increased in Europe because of a higher diversity in living conditions in these countries.

There is a strong positive link between poverty incidence and social protection, even though a detailed assessment of its impact is not easy. Figure 1 shows that countries with higher poverty incidence are also those where redistributive policies are less developed and encompassing. Furthermore, social protection expenditure has increased in some countries, mainly due to an increase in pension expenditure, even though most national reforms have followed a strategy of retrenchment in the majority of social benefits, and respective replacement rates, during the 1990s and early 2000.

Figure 1 - Poverty and Social expenditure in the EU, 2001



Note: Data on poverty is not available for Cyprus, Latvia, Malta and Slovakia
Source: Eurostat (2006)

improvement has been slow and inconsistent. Poverty in Europe has been barely reduced since 1995. Approximately 16 percent of the European population was at risk of income poverty in 2001. The risk is higher for children (approximately 20 percent), while working-age poverty

Europe can play a role: a half-empty, or half-full glass?

Lumped with widespread criticism of the Lisbon Strategy, a common view is that the application of the OMC is a failure. For many, the problem lies in the soft nature of the method: the EU cannot impose strong recommendations, or strong incentives to attain the objectives.

The overall Lisbon strategy has been generally criticised for having serious problems of coordination between action in several policy areas and between member state and EU level, and is failing to meet the ambitious objectives defined in 2000. A closer look at this OMC shows however that it may not be as disap-

pointing as most dare to say today:

The two processes have effectively induced an organic integration process, both between EU level and member states, and between different levels of government at the national level. Although this is probably not true for all member states, it is the case for most of the EU15, and is progressing in new member states.

As EU social policy remains largely governed under the subsidiarity principle, let us not forget that the OMC, if used to its full extent, represents something of a halfway point between subsidiarity and social federalism in the development of a European Social dimension.

The OMC has had a significant impact where countries were isolated to design their policies and look about their relative performances.

Commonly agreed objectives play an important role in avoiding a European retrenchment policy, even though a greater effort may be necessary to sustain the significance of social redistribution and adequate minimum protection in Europe. National welfare systems are under strong pressure to reform, but Member States can no longer conduct these reforms in isolation. This pressure is moving national social systems away

from its redistributive function to one of tough reforms. Theoretically, if social policies were totally harmonised current differences in the development of national social arrangements would hardly lead to higher levels of social redistribution. Pressure would likely push to a decline in the level of social protection in the stronger welfare states.

All assessments start with a quantitative analysis, for which the quality of statistical information is essential. Most recent data available for inequalities of income and poverty refer to 2001, the year when the first of the two processes started. Replacement rates showing the evolution of the degree of income protection of pension systems, and how these can act as an efficient tool to combat income poverty among the elderly, are only made available for 2005 so far.

Even if the Lisbon Strategy as a whole defined 2010 as the reference timeframe, the time required for reforms to produce results varies significantly across policy areas. The fight against income poverty and exclusion is an example. The inclusion process and the pension strategy were already following a two-year period to take this into account. But, if this is the case for national reform policies, it is even more so for co-ordinated action.

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Proposals

Improving the effectiveness of the multi-level strategy

Enhancing the effectiveness of the OMC for inclusion and social protection: an extra effort must be made to improve the mix of the different methods and instruments of the European Social Model, of which the OMC is but one element. The required effort applies to the structural funds in their solidarity / cohesion component, whereby the imbalance between ends and means, ambitions and instruments of the OMC could be overcome more effectively. In addition, as

there are no financial sanctions in the framework of the OMC, such as in the stability and growth pact, EU budget financial incentives, should be more explicit in the national strategies. A stronger combination should also be envisaged with the Charter on social rights and the need to associate policies, social policy in particular, to human rights.

Furthermore, there should be clear evidence of the link between national social protection systems and the respective national

strategies, so that reforms of the first are reflected as national priorities in the second, and vice-versa.

Coordination starts at the national level: this should be a top priority, adapted to the national political tradition and in close dialogue with the national strategies for growth and jobs.

The management by objectives, targets and indicators often reflects what countries were able to agree upon, rather than elements perceived as important

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by citizens. Quantified output objectives are also difficult to operate by policymakers. Policy measures have a marginal impact on inequality and poverty, because of the broad range of causal factors at their origin. Thus, statistical capacity needs to be reinforced so that indicators to monitor social developments allow a more up-to-date and robust follow-up of the benefits of high average prosperity for the whole European population.

The qualitative dimension should be more visible, such as the quality of jobs or the quality of social protection, as the modernisation of European social protection systems usually refers to more flexibility and less generous social benefits.

Strengthening the legitimacy of the OMC for inclusion and social protection: as the OMC processes were seen primarily as a bureaucratic exercise, several efforts can be envisaged to strengthen the legitimacy of the instrument. Member states should start by improving publicity and reaching a stronger involvement at national level, through the promotion of a national debate within national parliaments. The social partners and regional bodies should be called to effectively participate not only in the

implementation but also in the definition of the national strategies and priorities. In addition, greater efforts should be made to give European citizens evidence that the strategy is bringing positive returns, such as better quality of life, effective freedom of choice, preservation of social protection.

Arriving at binding agreements regarding minimum social standards - enhanced cooperation:

there should be a stronger political link at EU level between output inclusion objectives and social protection. This would allow for an increase in the political impact of the European process. It would also prevent the undermining of the legitimacy of the OMC and, consequently, of the EU level, by addressing the implementation gap between ambitions and achievements. It implies the coupling of output objectives with common proportional (average wage and GDP) income floors (minimum income for out-of-work situations and minimum wage for in-work).

For less developed welfare states, such binding agreements can serve as a lever for the development of an adequate income protection. For the most developed, such agreements can help to prevent an erosion of minimum protection.

Personal redistribution continues to be organised within the different member states, though under binding guidelines about minimum protection standards.

Redistribution between countries can be achieved through structural funding of development policies in infrastructure, education, employment, and public services in poorer regions and nations. Structural funds can be used as incentives to promote political priorities and define the legislative means for the design of social minima.

Recent steps towards the streamlining of the OMC processes in social policy should not detract us from the fact that intergovernmental instruments, such as the OMC in social policies, do not replace a wider common project, which at the moment is missing from the European sphere.

The new streamlining remains one of the key EU instruments to reinforce a European social dimension, even though the renewed Lisbon strategy gives far less priority to social cohesion and environmental objectives than to employment and economic growth. It now has a chance to prove its effectiveness in preserving and strengthening Social Europe. ■