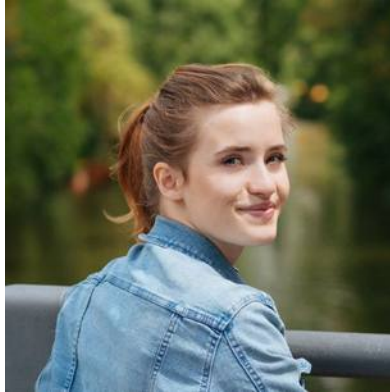


# THE FUTURE OF SOCIAL PROTECTION



AND OF THE  
WELFARE  
STATE  
IN THE EU

# Notes

1) This document includes the executive summary and recommendation section of the report of the High-Level group on the future of social protection and of the welfare state in the EU made available on this [webpage](#) on 6 February 2023.

2) The report has been prepared by the Group collegially at the invitation of the European Commission. The members of the High-Level Group produced their contribution to the report in a personal capacity and in full independence. The views expressed should not be attributed to the European Commission or its services. Parts of the report may not reflect the position of each individual member of the group. The European Commission is not liable for any consequence stemming from the re-use of this publication.

3) The High-Level group on the future of social protection and of the welfare state in the EU met between November 2021 and December 2022. It was chaired by **Anna Diamantopoulou**, former European Commissioner for Employment, Social Affairs and Equal Opportunities, former Minister in Greece and currently president of Athens-based think tank DIKTIO.

The group was composed of 11 members:

- **Agnieszka Chłoń-Domińczak**
- **Bernhard Ebbinghaus**
- **Elena Granaglia**
- **Anton Hemerijck**
- **Hans-Peter Klös**,
- **Catherine Mathieu**
- **Pasi Moisio**.
- **Jozef Pacolet**
- **Yves Stevens**
- **Dorottya Szikra**
- **Anu Toots**

The work was supported by the secretariat of the group (Unit Social Protection of DG EMPL, European Commission).

# Executive summary

In its report, the **High-Level Group on the Future of Social Protection and of the Welfare State in the EU** analyses the expected **impacts of key megatrends** on the social protection and on the welfare state. It describes their implications for the **design and scope of social protection systems and the financing of social protection**. Furthermore, it **develops key strategic recommendations** to both Member States and the EU. Beside longer-term trends, the report reflects on the lessons from the COVID-19 pandemic and from the Russia's war of aggression against Ukraine and its repercussions, such as the growing challenge of energy poverty.

The welfare state is affected by a number of global megatrends that shape our societies, economies and labour markets. **Demographic changes** include increasing longevity and lower fertility leading to population ageing, and changes to family structures, intra EU mobility and migration. Ageing of the population impacts the financial sustainability of social protection systems, requiring higher employment and reassessing the traditional 'borders' of economically active lives.

The **world of work is changing**. Higher employment in quality jobs is key to provide income to all households and secure sustainable financing of public expenditure. Although the employment rate has increased in recent decades, under-employment challenges remain for young people, women, older workers, people with disabilities, and those with a migrant background. Low quality jobs, in-work poverty and the high share of non-standard forms of employment associated with insecurity and lower wages are key risks that require some new forms of protection.

**Digitalisation and technological change** bring both risks and opportunities for labour markets and social protection. While they can generate some job losses and polarisation at least in the medium term, they can result in net employment growth overall in the long-term. Platform economy is characterised by a high share of precarious work, while gaps in skills and IT access bring the risk of increasing inequalities. At the same time, technological developments create opportunities for the organisation and efficiency of social protection, for example, health care services.

**Climate change** and the **green transition** are already affecting labour markets and social protection, yet they have so far not triggered a comprehensive social policy response. Although everyone is affected by climate change, the new challenges risk to aggravate already existing inequalities. The employment and social implications of the green transition need to be addressed. This includes reducing labour shortages in key occupations, supporting transitions for workers employed in sectors at risk and minimising energy poverty.

The report explores the impact of these megatrends on social and welfare policies in a **life-course perspective**, distinguishing three functions of the welfare state: **labour market regulation, social protection** and **social investment**.

**Family policies** have several aims, such as tackling child poverty, promoting child development and a strong start in life, ensuring a satisfactory living standard for families, and increasing women's employment. Welfare policy needs to reach beyond income protection and emphasise services provision to enable participation in social and economic life and boost employment.

**Youth** is becoming a longer period in life when teenagers and young adults move between education and employment, economic dependency and independency – and may also start a family. Non-standard employment, including apprenticeships and traineeships, low wages and fragmented work records often hinder access to adequate social protection for young people. A successful school to work transition remains key both for wage prospects and social security coverage and to avoid scarring effects of youth under-employment. Policy responses may include a combination of universal and targeted social protection benefits, scholarships and labour market insertion benefits.

During **working life**, collective bargaining plays a key role in achieving adequate minimum wage protection as well as ensuring a fair distribution of productivity gains. However, its protective ability has been eroded. Moreover, non-standard workers and the self-employed still experience challenges with respect to coverage by adequate, transparent and portable social protection benefits. To reconcile the flexibility needed in today's economy with adequate social guarantees, options include tax-subsidised social protection or boosting inclusion in contributory schemes. To ensure decent income for all, a key challenge for policymakers is to combine minimum income protection with incentives to work, and with fair wages, given the high levels of low pay and in-work poverty. Life-long upskilling and reskilling measures such as active labour market policies, education and life-long training are also crucial to support workers during transition periods. Job retention schemes play a key role during economic crises to limit unemployment. Furlough periods should be used as a training opportunity.

As people approach **old age**, the transition from employment into retirement evolves as pension ages go up and more flexible arrangements to combine work and pension become available. Meeting the increasing needs of an ageing population could involve additional contributions and/or extending working lives, which require nuanced policies for older workers, including prevention measures, workplace adaptation and differentiated retirement ages. Population ageing increases the need for long-term care, which can be costly for families, confirming the importance of social protection for long-term care that assumes the costs through contributory and/or tax-financed public provision. Recognising caring tasks is also important to ensure adequate pensions, in particular for women.

Catering for the increasing needs identified in the report requires adequate, fair and sustainable **financing of social protection**. The Group contends that **social investment measures can lead to a double dividend**, reducing future spending on income protection thanks to employment and health gains, while at the same time enlarging the tax base. Constraints on attempts to raise taxes include the existing fiscal burden and the debts and deficit targets, globalisation and technological change. Social security contributions and taxation are the two main sources of financing social protection; they however impact differently the progressivity of the tax and benefit system, the employment incentives and the willingness to contribute. The overall tax burden has been stable over the last 25 years, and labour remains the main source of financing for social protection, despite a growing role of tax financing.

The group explores the ongoing policy debates regarding **improving progressivity and fairness of the overall tax and benefit system as well as alternative sources of financing**, such as indirect taxation (consumption), corporate taxation, wealth taxation, switching to new forms of taxation for the intangible economy, green taxation etc., as well as on fighting tax avoidance, evasion and fraud. The report contends that the EU economic governance rules affect the Member States' room for manoeuvre in financing social investment and social protection.

The conclusions of the report underscore the importance of an **inclusive and fair welfare state to minimise social risks and mitigate economic hardship, while supporting economic output and individual well-being**. A modern welfare state should provide strong buffers against economic shocks and invest in 'steppingstones' that help people across critical life-course transitions. Recognising there are no one-size-fits-all solutions for the diverse European welfare states, the report puts forward a list of 21 recommendations to modernise and reinforce the welfare state. They include:

- **Protect and support families with children:** for instance, childcare for all children under 3 should be free or affordable. Also, people should have access to adequate financial support and early childhood education and care services to make it easier for them to start a family. For vulnerable families, these services should be free.
- **Equal opportunities for education and training:** welfare states should guarantee equal opportunities for young people from low-income families so they can continue education and training after compulsory school, for instance with scholarships.
- **Access to social protection for all:** irrespective of the contract or form of work, everyone should have access, and contribute, to social protection. Also, social protection should be adequate and accessible throughout people's lives.
- **Quality of work:** Member States and social partners should support job quality including decent and secure income, autonomy, physical and mental health, opportunities for career development and work-life balance.
- **Lifelong learning:** all people should have opportunities to improve their skills or learn new ones. This will enhance their chances to find a job, or change jobs, against the background of the green and digital transitions. It will also support them in taking up completely new occupations, for instance in new sectors.
- **Protecting income and jobs:** learning from the Great Recession and the COVID-19 crisis, job retention schemes should be accessible for all.
- **Longer careers, adequate pensions and long-term care:** social partners and Member States should seek to promote longer careers in good health, notably via flexible working-time arrangement, adjusted workplaces, and training.
- **Better financing of the welfare state:** to respond to the rising needs and challenges, Member States need to find new sources to sustainably finance social protection and welfare, for instance through broadening the tax basis and readjusting the revenue mix (expanding progressive taxation on income, consumption, capital, and wealth as well as carbon and energy).

- **A golden rule of public finances:** the future EU fiscal governance needs to secure social protection and especially social investments needs, and to allow borrowing to invest in social infrastructures.
- **Stepping up EU capacity to secure social protection:** the EU should consider legislative initiatives to fulfil all principles of the European Pillar of Social Rights, ensure consistent enforcement across the Union, and limit unfair competition on social protection standards.

The report concludes by noting the **decisive contribution of the welfare state** to overcoming the Great Recession and the economic and social effects of the COVID-19 pandemic. It welcomes the **move of the EU towards more fiscal flexibility** that facilitates social investment.

# Recommendations

## A. Starting strong: nurturing child development for all

1. All children under the age of 3 should have access to high-quality, full-day early childhood education and care services, thereby fostering early childhood development, while making it easier for people to reconcile work and family life and for women to be in employment. These services should be affordable for all families and free to all those with children in need.
2. Member States should provide targeted minimum income protection and capacitating services for vulnerable families with children to prevent child poverty (which is most common in households with single parents and large families).

## B. Creating a springboard for the young generation

3. Member States should have in place adequate financial support, services, and in-kind benefits to enable people – when they wish – to start a family and have children.
4. Member States should pursue the implementation of the reinforced Youth Guarantee, strengthen provision of high-quality education and training, and provide an environment that favours the creation of high-quality jobs and entrepreneurial opportunities for young people. Member States should provide an adequate allowance for young people from low-income families that enables them to pursue high-quality education and training after compulsory schooling.

## C. Ensuring inclusive social protection and lifelong learning

5. All people in employment, irrespective of their work status, should be able to access and contribute to adequate social protection and contributions should take account of all sources of income. Such social protection should be accessible throughout the life-course, maintain a decent standard of living, providing appropriate income replacement and reducing the need for means-tested minimum income, as well as avoiding unfair competition on social security contributions.
6. Member States, in co-operation with the social partners at all levels, should develop an approach to the quality of work that is sensitive to life-course issues, encompassing a decent and secure income; autonomy in work tasks; good physical and mental health; opportunities for career development; and a suitable work-life balance.
7. Member States, in co-operation with the social partners, should have effective lifelong learning systems that provide opportunities for upskilling and reskilling. These should enhance employability for all people of working age, and improve the skills base for care professions, the digitalisation of work and the green transition. They should also support economic restructuring in favour of new sectors and occupations, while promoting gender balance. Access to upskilling and reskilling can be boosted by collective bargaining, training levies on employer wage bills and the development of individual learning accounts.
8. Member States should pursue the inclusion of migrants through their social and labour market policies, ensuring early and equal access to the labour market,

supported by training; recognition of skills and qualifications; language learning; and civic orientation. Combatting discrimination and exploitation is essential to fostering the inclusion of migrants in society and enabling them to fully contribute to the economy.

9. Learning from the Great Recession and the COVID-19 crisis, Member States should have in place job-retention schemes (such as short-time working) that are accessible by people in all work statuses, to maintain incomes and to avoid the loss of skills during crises in the future. For employees, such schemes minimise lay-offs while preserving employer-employee links. Periods of furlough could be used to provide further training.

#### **D. Supporting longer careers in good health to safeguard adequate retirement incomes**

10. Social partners and/or Member States should support longer working lives by promoting flexible working-time arrangements, making suitable adjustments to workplaces and providing continuous training to meet the needs of older workers and use their potential. Member States should consider targeted incentives that make it easier for people to make a gradual transition to retirement, and at a later age.
11. Faced with population ageing, Member States should pro-actively tackle poverty and maintain adequate income in old age. Considerations of financial sustainability should take account of both the revenue and expenditure side of the government accounts and the effects of increased and longer employment. Minimum benefits in old age should be high enough to effectively contribute to poverty prevention. Member States (and where schemes are collectively negotiated also the social partners) should ensure that all people of working age are included in contributory pension schemes that adequately replace income from work.
12. Periods of care giving, such as looking after children and older people – that involve people having to give up employment or to work part time, should be credited for pension purposes, including through subsidies in the case of non-public schemes.

#### **E. Ensuring equitable and high-quality long-term care provision**

13. Given the increase in long-term care needs in ageing societies, Member States should reinforce the availability of high-quality care services, including ambulant, home-based and residential care, and ensure freedom of choice. Member States should ensure that services are accessible to all and are covered by social protection (contributory or tax-financed), with a reasonable ceiling on the co-payments that families need to make.

#### **F. Promoting inclusive and environment-friendly housing and transport**

14. Member States should foster housing that is affordable, energy-efficient, and based on 'universal design' principles, ensuring that it is accessible to all. Support should be provided to households with low incomes or savings (in particular young people and families with children), and people with disabilities or older people with special needs. Member States should support local authorities, housing associations, and social economy organisations in this process, and the EU funds should support pilot social innovation projects.



15. To foster social cohesion and a fair green transition Member States should ensure affordable and energy-efficient public transport, with reliable networks and green alternatives. Social inclusion and equal access to public transport should be part of urban and rural planning and supported by public subsidies, with particular attention being paid to deprived areas.

#### G. Ensuring inclusive service provision that enhances well-being and capabilities

16. To provide effective, high-quality and comprehensive social services, Member States need to improve service provision at local level, foster co-production and professionalisation, and make the most of digitalisation opportunities. Member States should have quality standards and quality-assurance mechanisms for social services and apply them to both public and private providers. Member States should increase the involvement of non-profit and social economy organisations in the design and delivery of social services. The EU should foster more research and exchange of information on good practice to support innovations in the governance and provision of social services.

#### H. Ensuring sustainable financing for a resilient welfare state

17. To address the increasing financial needs of the welfare state, Member States should consider broadening the tax basis and readjusting the revenue mix beyond social contributions that add to labour costs and to expand the revenue from progressive taxes on income, consumption, capital and wealth, as well as from carbon and energy taxes. To prevent harmful tax competition and social dumping, the EU should co-ordinate Member States' efforts to pursue a common policy on capital taxation and to counter tax evasion and tax avoidance.
18. The EU and Member States should consider a European agreement on minimum tax rates on capital and harmonised EU rules on capital taxation to strengthen the potential basis for funding social protection and to help to avoid competition on social protection standards.
19. In the context of the future EU fiscal governance, social protection and especially social investments need to be secured. A 'golden rule for public finances' should allow borrowing for social investment, in a starting phase at least, for investment in social infrastructures.

#### I. Stepping up EU capacity to secure social protection in the future

20. The EU should consider the adoption of additional legislative initiatives in respect of employment and social policy in order to fulfil all principles of the European Pillar of Social Rights, ensure consistent enforcement across the EU, and limit any unfair competition on social protection standards.
21. Member States should guarantee to all their residents a minimum package of social rights, based on the principles of the European Pillar of Social Rights, which need to be upheld at all times, including after external shocks.

