<u>Speech</u>

Ladies and gentlemen,

Our starting point today is this important study of public opinion in seven Member States on *New Sources of Cohesion in Europe*.

It includes many interesting and thought-provoking ideas on cohesion policy and the way it could be funded.

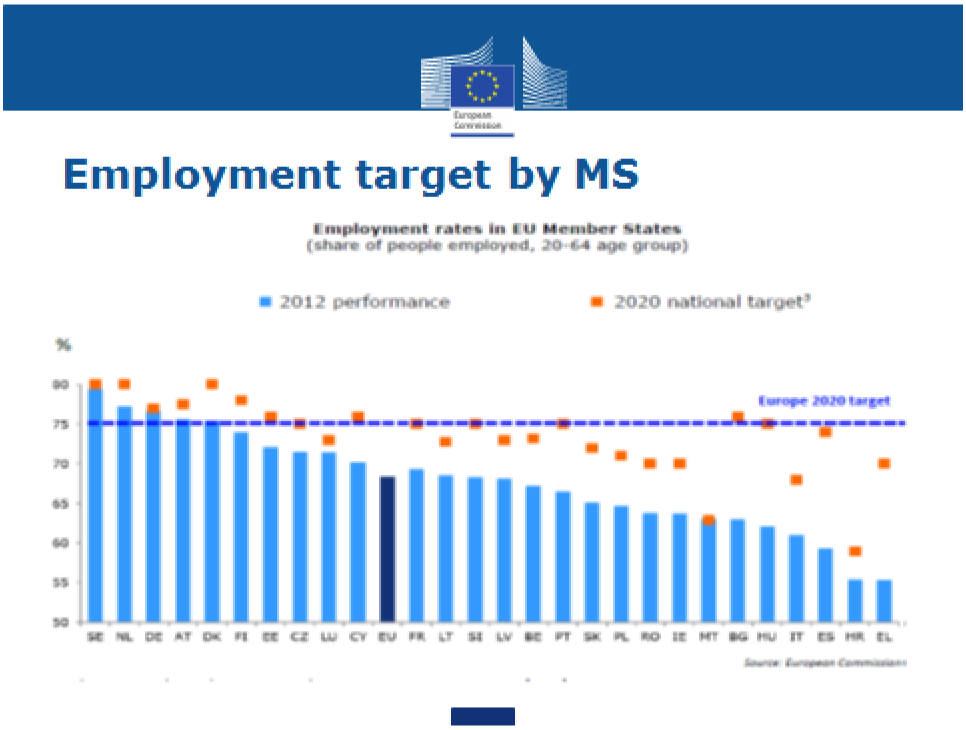
This year is a good time to air such ideas.

European Parliament elections will be held and a new Commission will take office.

And we are around halfway mark for the Europe 2020 Strategy.

A recent Commission communication takes stock of the results to date.

It shows we are on course towards meeting — or coming close to meeting — our headline target for education, but not those for employment or reducing poverty.

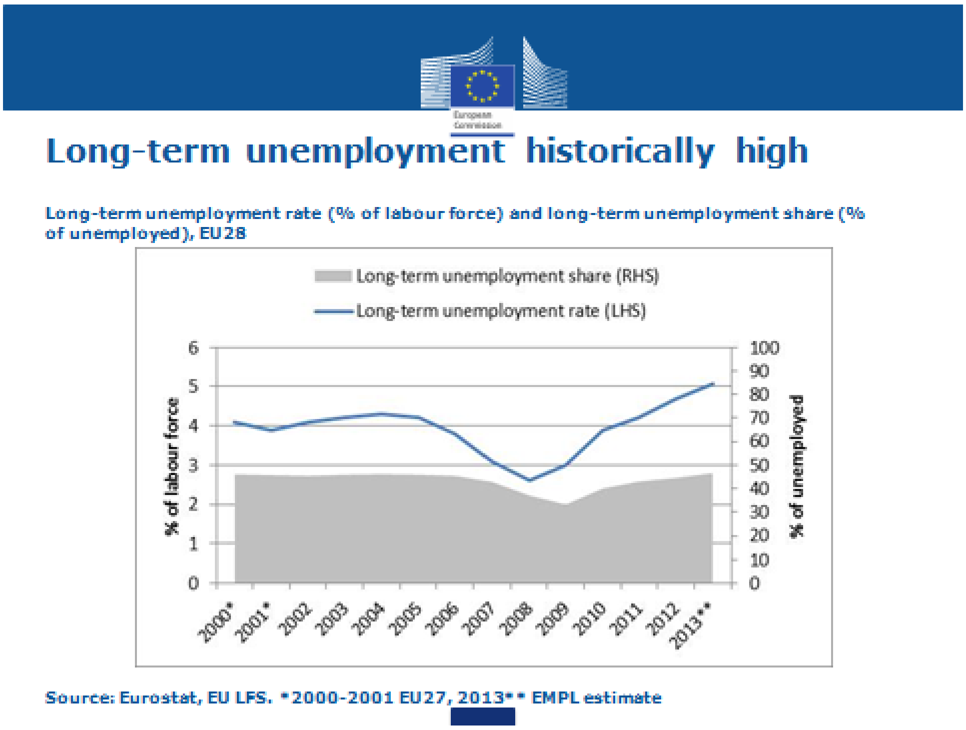


The gap is widening between the Member States, especially between those in the south or periphery of the euro area and those in its core.

On the economic front, there is a mild recovery, though the impact of the recession has been devastating, especially here in Greece.

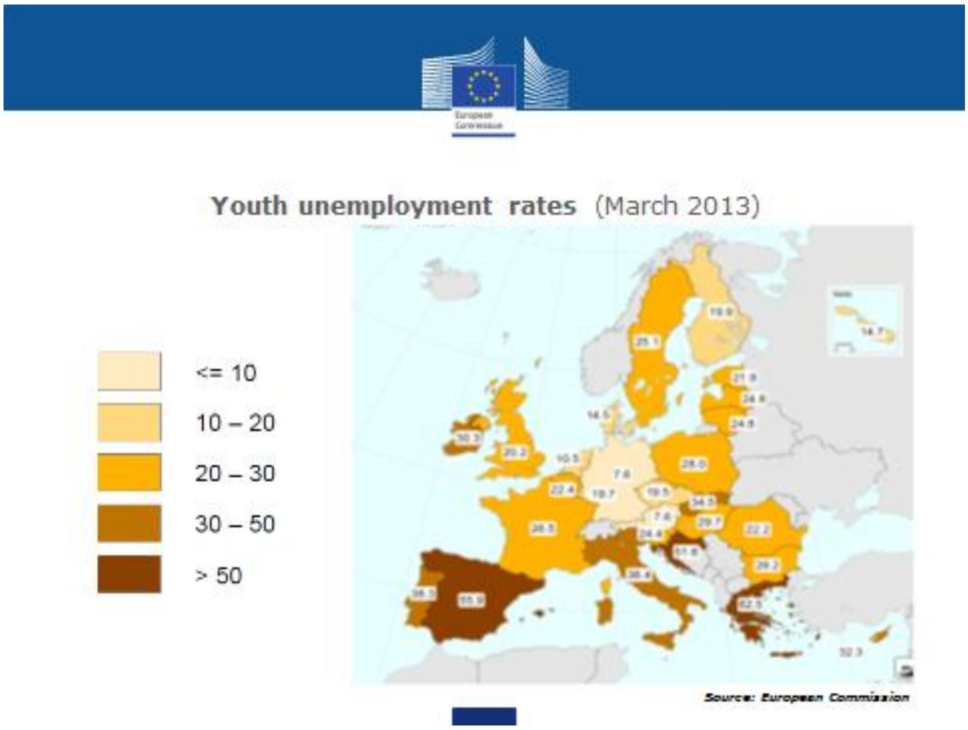
Unemployment is dramatically high. Nearly 26 million Europeans are jobless, and around 18 million of them are in the euro area.

Meanwhile, the percentage of long-term unemployed, who account for close to 50% of total unemployed, continues to rise.



Across the EU, jobless young people numbered over 5.6 million in January 2014, 3.5 million of whom are in the euro area.

Those figures also mask great differences across the Union, with youth unemployment ranging from 7.6% in Germany to around 55% in Spain and 59% here in Greece.



This divergence in the Member States' employment and social situations is the EU's biggest challenge.

We see young people without employment or trapped in precarious jobs, a gender pay gap, and a lack of gender equality in labour-market participation, along with increasing social exclusion and poverty.

Along with other member countries, Greece has made a huge effort to reform its economy, and I am mindful of the far-reaching short-term impact reforms here.

The study on *New Sources of Cohesion in Europe* indicates growing consensus on the introduction of a minimum income.

The Commission's Social Investment Package published in February 2013 proposes ways of modernising Europe's welfare systems.

Improving minimum income support is a key aspect of more efficient and effective social policies.

In line with the active inclusion strategy endorsed by the Member States, the Commission believes that the Member States' minimum income schemes should guarantee an adequate livelihood that is designed to meet people's real needs.

It should be supplemented by inclusive labour market policies and efficient, affordable and high-quality services to enable people to move out of poverty.

It is, of course, for the Member States to provide an adequate minimum income that allows people to come out of poverty and escape social exclusion.

It is a smart investment because supporting people at crucial time in life means the Member States can avoid paying a much higher financial and social price in the future.

There is evidence that the Member States with sound social welfare policies are the most competitive and prosperous in the long run.

The Commission conference on minimum income in Brussels earlier this month concluded that well-designed, adequate income support schemes are powerful tools in the fight against poverty and increasing labour market participation in line with the Europe 2020 targets.

That contribution will be all the greater in Greece, where the increase in the number of people at risk of poverty and social exclusion — which was 749 000 in the four years to 2012 — far exceeds the 450 000 by which that number had to be reduced in order to meet the target by 2020.

It is encouraging to see that Greece is introducing a minimum income guarantee programme this year on a pilot basis, and will phase it in across the country next year.

A social security safety net should be developed to minimise the impact of macroeconomic and fiscal adjustments on the poverty level in Greece.

It makes the successful design and implementation of the pilot minimum income scheme hugely important.

More generally, we need to look closely at the European approach to social cohesion through social welfare spending.

It has served us well to date, but it needs updating.

The European Welfare State has gone through various phases.

<u>The post-war consensus</u> achieved stable, sustained expansion during the first three post-war decades.

It was based on the belief that the Welfare State, combined with neo-Keynesian economic governance, supported economic progress and bolstered social stability.

<u>Starting in the 1970s</u>, monetarism inspired fresh approaches that viewed the Welfare State as a damaging economic burden and therefore more or less obsolete.

These approaches increasingly called the sustainability of the post-war consensus into question, given the challenges of globalisation, shifts on labour markets, population ageing, changes in household patterns and so on.

<u>The welfare settlement emerging currently</u> argues that a Welfare State centred on social investment can contribute to economic and social objectives in a virtuous spiral of growth and social justice.

Recent EU and OECD policy documents set out the combined <u>economic and social case for the social investment model</u>.

They stress the importance of improving employment opportunities on a more flexible and dynamic labour market.

The prevailing view has become that governments should intervene through education and a benefit system that encourages entry into the labour market and supports transitions.

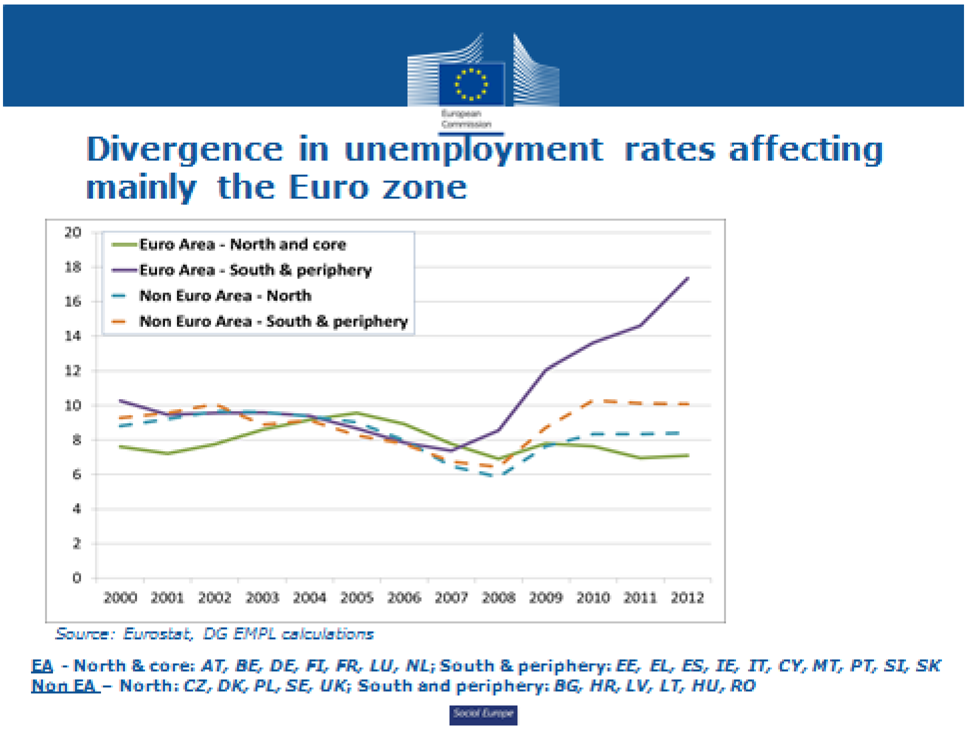
Within the Member States, variants of this approach are being put forward, in function of the particular Welfare State tradition and policy-making framework.

The crisis and the legacy it leaves should not throw this emerging welfare thinking off course.

On the contrary, if Europe's peoples are to support further EU integration, the EU institutions must be ready to facilitate these newly emerging welfare approaches.

Before the onset of the crisis, the Member States with less-developed regions were narrowing the unemployment gap with the more-developed regions.

But that gap has widened again, with 2012 witnessing the highest differential between the more-developed and the less-developed regions since 2006.



[Social dimension of EU budget]

Together with structural reforms, targeted investment supported by EU Cohesion Policy can help modernise the EU economy.

With a total budget of over EUR 450 billion — including national cofinancing — for 2014 to 2020, Cohesion Policy can help reduce social inequality and regional disparities by supporting growth-enhancing and job-creating investment, especially in the Member States and regions most in need.

To maximise the impact of this investment, Cohesion Policy has undergone a far-reaching reform.

The aim is to channel financial resources into key growth areas in line with the Europe 2020 Strategy for smart, sustainable and inclusive growth.

The European Social Fund will now account for at least 23.1% of Cohesion Policy funding, since a minimum percentage must be set aside for it.

Each Member State must earmark at least 20% of its European Social Fund allocation for social inclusion measures.

The Fund will be more results-oriented with clear-cut, detailed investment priorities, a performance framework and common output and result indicators.

Ex-ante conditions apply to ensure that the European Structural and Investment Funds support viable policies and bring added value.

But we are not starting from scratch. The European Social Fund did a huge amount over the last programming period and we must build on the results.

From 2007 and 2012, the European Social Fund supported measures in which 68 million people took part.

5.7 million job entries and almost 8.6 million qualifications were gained through European Social Fund support, along with more than 400 000 business start-ups or people becoming self-employment.

All this helped to limit the fall in GDP in many countries or increase growth.

Compared to 2000 to 2006, more money — amounting to EUR 1 billion — was spent on helping migrants and minorities to find work and another EUR 5 billion on other measures targeted at them.

EUR 10 billion was allocated to general measures for disadvantaged groups, including migrants and minorities.

Overall, around 10% of total cohesion funding — equalling EUR 35 billion — was allocated to education and training, while up to the end of 2010, an estimated 5 million young people, 5.5 million people with low skills, and 576 000 older people took part in cofinanced lifelong learning activities.

More emphasis will also be put on support to social innovation as part of the cohesion funds, but also directly managed by the Commission. On a yearly basis we will support individual social innovation projects for a total amount of almost EUR 10 million as part of our programme for employment and social innovation (EaSI).

Ladies and gentlemen,

With an eye to adjusting the Europe 2020 Strategy for the second half of the decade, we will be conducting a Europe-wide consultation of stakeholders and the public to collect input and suggestions for the future.

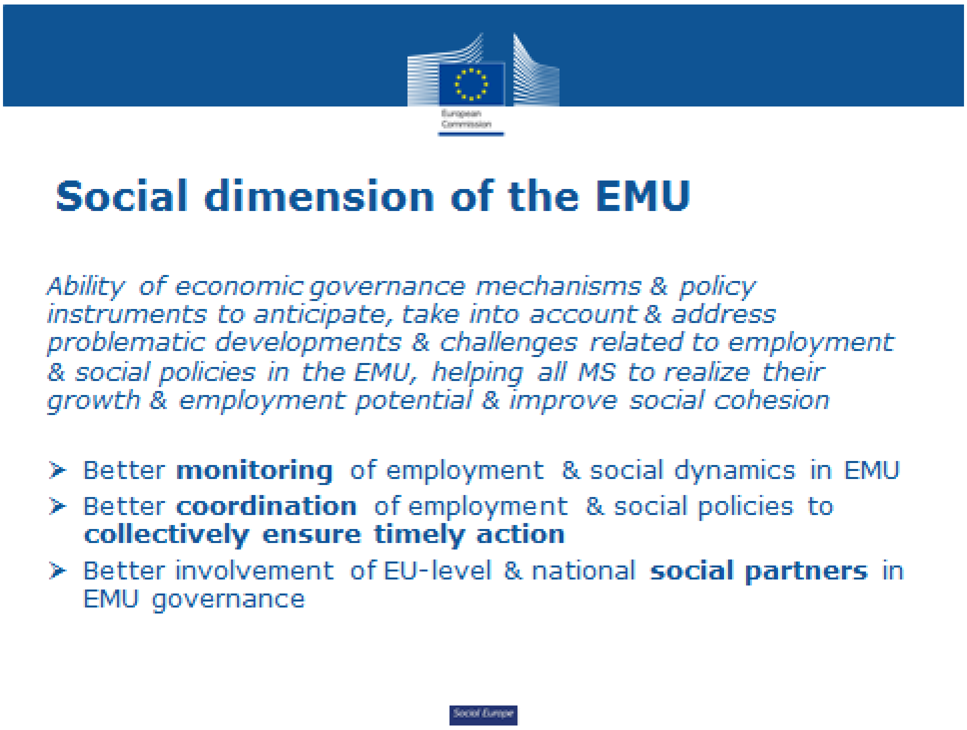
I encourage you all to take part.

We need to set the conditions for a more highly integrated EU labour market that functions better and a more balanced Economic and Monetary Union.

The currency union's systemic weaknesses are endangering the European social model and national welfare systems. We all know that the Greek financial and social situation is the most extreme within the EU, but Greece is not alone with these daunting problems.

A sustainable recovery can only come if the strategy includes major steps towards a new model of monetary Union.

That is why the Commission has sought to strengthen the social dimension of Economic and Monetary Union.



We must ensure it can work for both economic efficiency and social fairness.

Today's framework for EU economic governance incorporates some employment and social instruments and mechanisms to ensure euro-area governance reflects social and employment concerns to a greater extent.

It is in all our interests to prevent unemployment, inactivity among young people, poverty and inequality from spiralling out of control in any Member State.

First, deteriorating social problems need to be tackled before there is an excessive waste of human capital.

Secondly, there is a need for more **solidarity.**

This will involve the EU financing instruments, and in particular the European Social Fund, the European Globalisation Adjustment Fund, the Fund for European Aid to the Most Deprived, and the Youth Employment Initiative.

Thirdly, the **social partners** need to be more closely involved in economic governance at EU and national level.

In the longer term, genuine closer Economic and Monetary Union will call for more comprehensive mechanisms and stronger stabilisation instruments at European level.

Within a monetary Union, with single fiscal rules and other uniform policies, some of the welfare instruments can only be rebuilt on the level of the community. This very much applies to unemployment insurance.

We must do what it takes to give people, especially the younger generation, hope of a better future.

I am convinced that the European Union, the euro area and all the Member States <u>can</u> and <u>will</u> come out of this crisis stronger and more cohesive.

Thank you.