



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.10.2005  
COM(2005) 525 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**European values in the globalised world**

**Contribution of the Commission to the October Meeting of Heads of State and  
Government**

## Table of Contents

1.	Introduction.....	3
2.	Unity and diversity in shaping economic and social policies .....	4
3.	Completing the transformation – today’s performance, today’s and tomorrow’s challenges.....	5
3.1.	Current policies have not delivered social justice for everyone .....	5
3.2.	Globalisation .....	6
3.3.	Ageing.....	9
4.	Responding to the Challenge .....	9
4.1.	Who should do what? The role of Europe .....	9
4.2.	Ideas for change .....	9
4.2.1.	The EU level .....	9
4.2.2.	The national level.....	9
4.2.3.	The new partnership of the EU and member states.....	9
5.	Conclusion.....	9

## 1. INTRODUCTION

Europe must reform and modernise its policies to preserve its values. Modernisation is essential to continue keep Europe's historically high levels of prosperity, social cohesion, environmental protection and quality of life.

Today, the Europe of dynamism, innovation and openness, of 3G mobile communications or the World Wide Web, sits side by side with the Europe of 19 million unemployed, child poverty and stagnant growth, where too many are excluded from opportunity and prosperity. This is an uncomfortable duality which undermines the many achievements of the European Union and its Member States after a half century of peace and improved living standards.

For several decades after the creation of the European Community, the existing structures helped to deliver outcomes which matched the ambitions of the Community as it was. But this is increasingly no longer the case.

Growth is slowing, structural unemployment remains high, inequalities are rising. Unless we are able to change, the forces of global competition, the impact of new technologies and our ageing population will increase the gap between the two Europes, and between Europe and the world. Our economic success and the financial viability of our social systems – pensions, welfare, health – is called into question.

This is not simply a matter of economics or public finances; this is first and foremost a question of social justice. This is about the kind of Europe we want our children to live in – and how we pay for it.

The status quo is not an option. With growth, and more Europeans in more productive jobs, we can achieve the outcomes which meet Europeans' expectations and values. By acting in the areas that matter most, we can advance European integration. Growth and jobs is a truly European agenda.

The need for change is widely recognised; for example in the reform process launched in Lisbon in March 2000. But this analysis has not yet been fully translated into action. Europe can no longer afford to wait; because what is different five years on is the added sense of urgency<sup>1</sup>. Global competition, particularly from Asia, has intensified. Cutting-edge knowledge is no longer confined to Europe or North America. Indian universities are turning out more than a quarter of million engineers every year. Research spending in China is set to catch that in the EU by 2010.

The good news is that we are not starting from scratch. Important reforms have already been launched in many Member States. These build on the stability offered by the euro and economic and monetary union. All have committed themselves to going further and faster. And we have the new Lisbon strategy for growth and jobs, launched this year. Furthermore, the European Union is uniquely well placed to help this transformation. Economic and monetary union and the euro offer a backdrop of stability and low inflation. Now Europe can use its scale, as the biggest trading block in the world, to help deliver ambitious and balanced solutions to international problems from climate change to trade. EU funding and programmes

---

<sup>1</sup> *Jobs, Jobs, Jobs, Creating more employment in Europe*, High Level Employment Task Force, November 2003 and *Facing the Challenge*, High Level Task Force, November 2004.

can play a significant role in supporting national action, which makes the need for an agreement on the future financial perspectives before the end of the year all the more important. Our external instruments, from enlargement to development policy, can spread prosperity and security beyond Europe's existing borders.

There can be no partial solutions. No single country can meet these challenges alone. Acting together at a European and national level, we can give Europe a future. We can have a strong voice, projecting European vision and European values among our partners around the world

## 2. UNITY AND DIVERSITY IN SHAPING ECONOMIC AND SOCIAL POLICIES

Common European values underpin each of our social models. They are the foundations of our specific European approach to economic and social policies.

The EU's Member States have developed its own approach reflecting its history and collective choices. Each has blended together common elements such as public pensions, health and long-term care, social protection, education, labour market regulation and redistribution through tax policies. Member States are responsible for shaping and delivering these different services.

The variations within the EU are considerable. For example, Lithuania, Latvia and Ireland spend 14 to 15% of GDP on social protection systems, the UK and Belgium 27% and France and Sweden 30%. The level of public pensions under such systems varies considerably in the EU from between 31 and 37% of average earnings in Ireland, the UK and Belgium to over 70% in Austria, Finland, Hungary, Italy, Luxembourg, Portugal and Spain.

This report does not attempt to single out particular "models", but rather recognises (i) that no country has yet found all the answers and (ii) that each system has distinctly European characteristics on which we should build:

- First, national **economic and social policies are built on shared values** such as solidarity and cohesion, equal opportunities and the fight against all forms of discrimination, adequate health and safety in the workplace, universal access to education and healthcare, quality of life and quality in work, sustainable development and the involvement of civil society. These values represent a European choice in favour of a **social market economy**. They are reflected in the EU treaties, its action and legislation, as well as in the European Convention of Human Rights and our Charter of fundamental rights.
- Second, European citizens have greater expectations of the state than their equivalents in the Asia or America. The **public sector tends to play a big role, either through regulation or government spending, in the organisation and financing of national systems**. In addition, all Member States have played a strong role in the delivery of **high quality services of general interest** which have been a key feature of economic and social development. On average, the 25 EU Member States devote 27% of GDP to public spending on social protection, compared to 15% in the United States and 17% in Japan.
- Third, a strong **"European dimension" reinforces national systems**. In contrast to other regions of the world, national systems here are reinforced by European level policies (such as the stability offered by macro-economic policy, the dynamism

created by the internal market and the social agenda, and the cohesion promoted by EU Structural Funding).

- Fourth, there is a **strong tradition of social dialogue and partnership** between governments, industry and trade unions – even if the detailed mechanisms vary considerably between Member States. At a European level, this has been reflected in the EU Treaties and, for example, the regular Tripartite Social Summits.

But do the existing approaches provide answers to current challenges?

### **3. COMPLETING THE TRANSFORMATION – TODAY’S PERFORMANCE, TODAY’S AND TOMORROW’S CHALLENGES.**

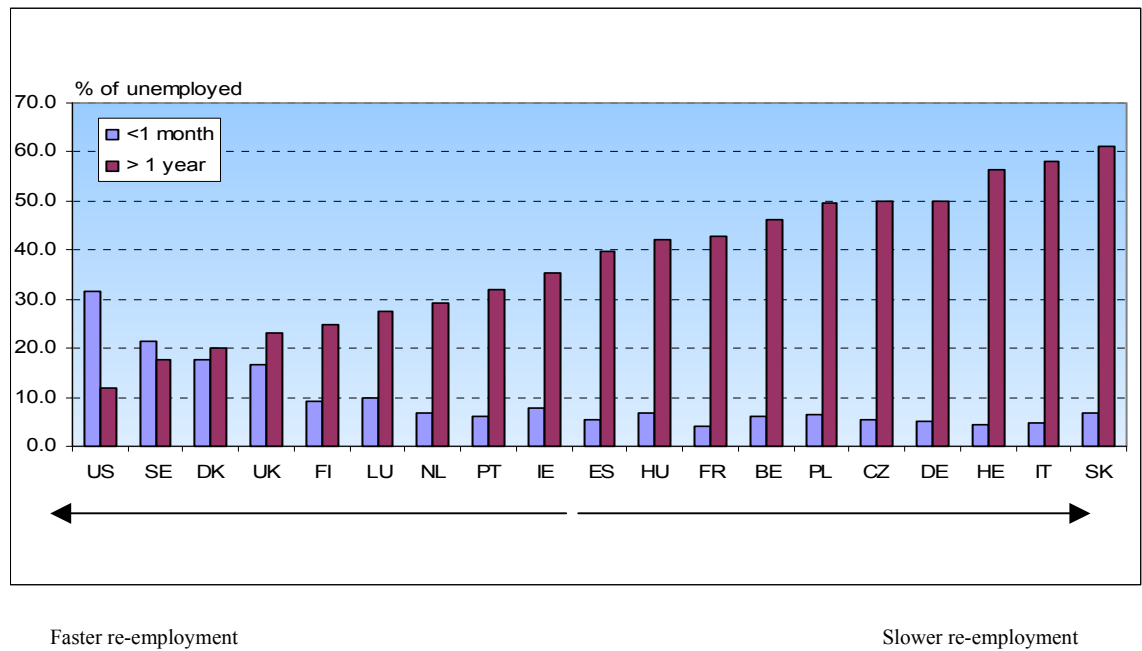
Today’s policies are challenged by new technologies, ageing and globalisation. Ageing offers longer lives in better health, globalisation creates opportunities for both consumers and businesses. Yet ageing challenges the financial sustainability of current systems, and globalisation challenges our ability to compete. Is Europe ready to change?

#### **3.1. Current policies have not delivered social justice for everyone**

Even without new challenges, poor economic performance is already today making it difficult for governments to meet people’s expectations.

- *19 million unemployed is unacceptable.* The combination of low employment rates and unacceptably high and persistent levels of unemployment in many Member States is the number one social problem we face. Young people, women, migrants and older workers (between 55-64) are the hardest hit – the employment rate for women, for example, is on average 13% lower than the rate for men. Despite reforms of pension systems and early retirement schemes, in 2003 only 40.2% of older workers (aged 55-64) were still in employment; the rate was 60% in the US and 62% in Japan.

**Graph 1: Duration of unemployment in 19 OECD countries (2003)**



Source: OECD (2004). Labour Force statistics 1983-2003

- *Weakness in education, research, innovation and productivity are holding back labour markets and economic performance in some Member States. People do not have the skills that business need. Knowledge and technology matter; yet although we have boosted the numbers of maths and science graduates, too few of them choose to pursue scientific careers and those that do often move to the US to do so. Two thirds of differences in standards of living between the US and the EU result from poor productivity performance here. Research investment in China is growing by 20% per year.*
- *The barriers to entry and exit on the job market are too high. Employment regulation and social institutions must help give those outside the job market and those on the first rung of employment more opportunity to progress to better, more secure employment.*
- *The gap between the rich and the poor in the EU is considerable, both within Member States and between them. Over 25% of EU citizens live in regions whose output is below 75% of the EU average. For Europe as a whole, the gap between the richest fifth and the poorest fifth of the population is growing. One in five children live at risk of poverty and the risks are higher for the children of lone mothers and households where parents are unemployed.*

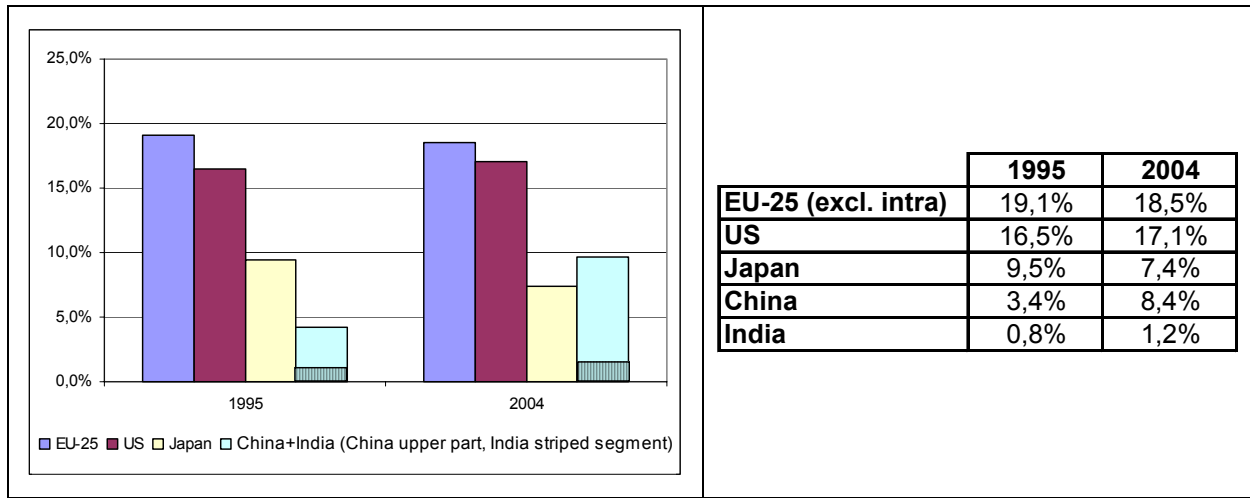
### 3.2. Globalisation

Globalisation is not new. But the speed at which it is now happening is extraordinary. We feel every day the impact of the emergence of new economic giants such as China, India and other nations. And the EU is not closing the gap with the United States.

- *World trade has grown by more than 8% annually in the decade from 1992 and new trading giants have emerged. Twenty years ago just 10 per cent of manufactured*

goods came from developing and emerging countries. By 2020 China's and India share alone could be 50%. The share of China and India in world trade in goods has increased. The data shows that in 2004, China's share of global merchandise trade surpassed that of Japan.

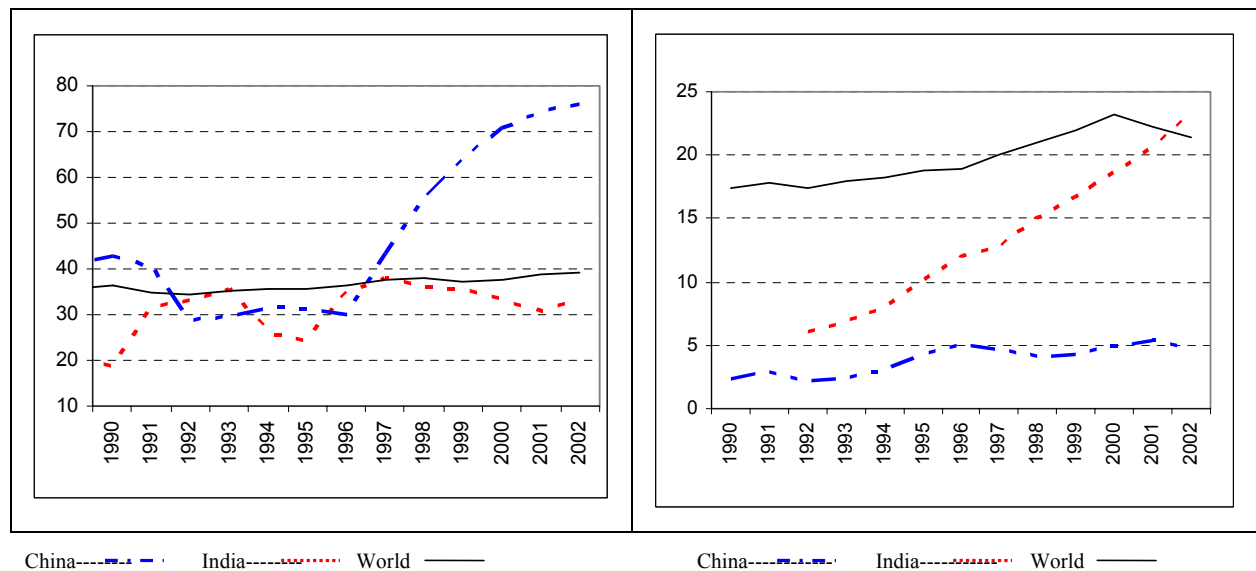
**Graph 2: Shares of world trade in Goods (excl. intra EU-25 trade)**



Source: WTO statistical database and IMF (DOTS).

- *China and India are attracting research investment and rapidly shedding their image as “low cost, low value” economies.* While China has relied heavily on the strength of its manufacturing exports as a key driver for growth, India's success has been more visible in services. In both cases, the key export sector records an increasing technological content as shown by the share of high tech goods and services of China and India in their total exports.

**Graph 3: Share of high-tech exports**-----**Graph 4: Share of ICT related services exports**  
 (% of country's manufactured exports)----- (% of country's commercial service exports)

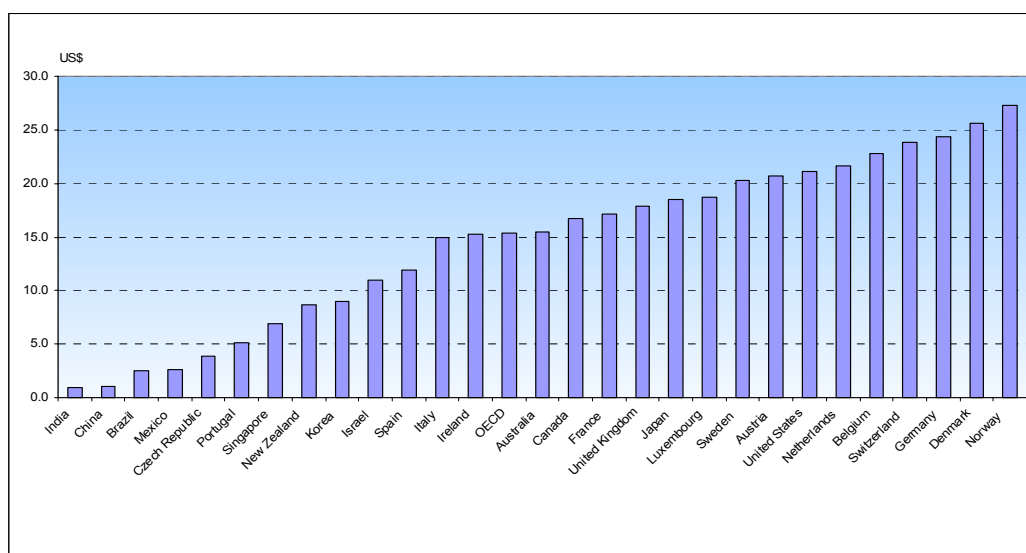


Source: WB Global Development Indicators

Note: ICT commercial services exports include computer, information, communication services and services other than transport, travel, insurance and financial.

- *The performance gap with the US has not narrowed. This applies not only in terms of living standards, growth and employment, but also in key areas – like investment in R&D and new technologies, the numbers of patents issued and the percentage of the population with a tertiary education. Europe is also lagging in the take up of new technologies important for improving productivity.*
- *Financial markets have led the way in globalisation. Trade and investment have gone hand in hand, spurring financial market integration along the way. Foreign direct investment rose from 5% of global GDP in 1985 to over 15% in the late 1990s. China, who as recently as 1990 received little - around 1.4% of FDI, was the largest recipient in 2003, followed by France and the US. As a further sign of internationalisation, the world's 100 biggest international companies employ almost half of their workforce outside their home country.*
- *Technology and market opening both in Europe and globally has helped fuel this rapid growth. More trade, drawing on cheaper communication costs and transport, has made it easier for businesses to source goods and services from other parts of the world – opening opportunities for exporters here, but also presenting new competitive pressures. The broadband revolution, (as well as language and technology skills in places like India), have allowed an increasingly wide range of services to be traded – encouraging outsourcing of a range of service activities by EU businesses, but also attracting additional trade and investment into the EU.*
- *Marked differences in labour costs are one factor in the success of new economic players. Such stark differences reflect to a large extent very diverse labour productivity levels. This means that Europe cannot expect to compete on costs alone – but rather must increase productivity and quality drawing on its technological strengths and ability to compete in products and services with a higher knowledge content.*

**Graph 5: Total labour costs (2002)**



Average hourly compensations in US dollars- evaluated at market exchange rates for production workers in manufacturing in 2002.

Source: OECD (2005), which quotes the following sources: OECD STAN database and U.S> Department of Labor, Bureau of Labor Statistics, Foreign Labor Statistics, November 2004, except that wage data for India are estimates based on 2001 and 2003 data from Oxford Economic forecasting.



- *Global demand for energy is growing while supply remains very tight.* Oil and gas prices have increased two fold compared to their level five years ago. Growth in China and India has boosted global energy use there at the same time that US consumption has increased. Within twenty five years, the EU is likely to import up to 90% of its oil and gas needs. The combination of high prices and reliance on external supply risks slowing even further prospects for future growth.

There is a disconnect between our perception of globalisation and our behaviour. It is a source of anxiety, particularly in those EU countries with high unemployment, but most jobs are created and lost within a country's economy, not as a result of shifting production to another part of the world. We must remember that globalisation is driven by a very human desire – the desire of billions of people to create a better life for themselves and their families.

Globalisation is being led by all of us, by the choices we make and the opportunities it offers us to experience new things. And globalisation does not mean that if others get richer, we must get poorer. Prosperity is a dynamic concept. Globalisation is the chance to increase the size of the whole cake, so that everybody gets a slice.

At the same time, the anxieties about globalisation are real and must be addressed, not ignored. And globalisation shines a spotlight on existing weaknesses. It confirms the need for well-functioning markets and policies that mitigate the negative impacts that global competitive pressures bring. It highlights as well the need for structural reforms to ensure that the EU can remain an attractive place to invest, particularly for research and innovation activities in high value products and services, where our businesses excel.

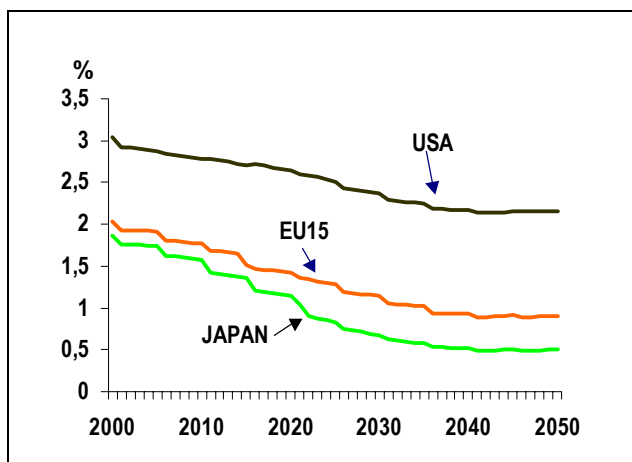
### **3.3. Ageing**

Under current trends the population of the current European Union will be both smaller and older in 2050, partly due to low birth rates. At the same time, the upward trend in life expectancy at birth will continue; by 2050 life expectancy will have risen to 81 for men and 86 for women. While migration to the Union has been significant in recent years, it does not, however, on its own provide a long-term solution to falling birth rates and our ageing population.

- *Europeans will get older.* By 2050 there may be 48 million fewer 15-64 year olds and 58 million more people over 65. Over the coming decades, Europe will change from having four people of working-age for every elderly citizen in 2004 to a ratio of 2 to 1. Fertility rates are declining in most member states and without more family friendly policies any turnaround in this trend is likely to be slow.
- *A smaller workforce will drag down growth.* From 2015 a shrinking workforce will act as a brake on potential growth in the Union, reducing it from 2 to 2.5% today to just 1.25% by 2040. The impact will be even more marked in the ten Member States that have recently joined the EU.
- *Lower growth will come at a time just when the costs of an ageing population start to peak.* Under current policies, projections suggest spending, for example, for age related spending on pensions, health and long-term care will increase by between 4 and 8 % of GDP in coming decades. Some EU countries may face even higher increases. More than half of all EU Member States, the majority of which are in the euro area, face significant risks to the sustainability of their public finances. For the

EU as a whole, this suggests unsustainable increases in public debt or unacceptable increases in taxation and/or cuts in the services or benefits provided.

**Graph 6: Impact of ageing on potential growth rates**



Source: European Commission

Member States and the EU institutions have been taking steps to respond to the ageing challenge. At national level, important reforms of pension systems and of early retirement arrangements have been launched in several Member States. At EU level, macro-economic policies offer a path towards stability and sound public finances which should put Member States in a better position to meet future spending increases. Delivery of agreed reforms (within the Lisbon agenda) should improve long-term economic performance, while an important debate is also underway on the right policies, for governments and for the Social Partners, to support “active ageing” and better reconcile work and private lives.

#### 4. RESPONDING TO THE CHALLENGE

Before considering ways to respond to the challenges described above, it is essential to accept that they can only be tackled if improved economic performance and effective social systems support each other. There are many examples of these mutually reinforcing links:

- *Ageing populations.* We want more people to work, productively for longer. But to do that they need the skills to enable them to take full advantage of new technologies. And we must both create the jobs and give people the chance to take them. This is particularly true for those who cannot work without affordable child care, but it also means, for example, reviewing tax and benefit systems to make sure that it pays people to work.
- *Globalisation and change.* Our firms benefit from more open markets and technological innovation, inside and outside the EU. But we also need to help individuals, by getting the right policies to support people whose jobs disappear; helping them to find new jobs, quickly. That is especially important for people who have missed out on school and need new skills later in life.
- *Mobility.* In a globalised world with an ageing population, greater mobility within the European Union (both within and between Member States) will be essential, not least to improve people’s chances of finding work and learning and using new skills. The

same is true for non EU workers as well. That means breaking down barriers to opportunity. But that must be accompanied by measures to eliminate discrimination and promote integration.

**The bottom line is that we will only meet the new challenge if people have a new attitude to work and our social systems have a new attitude towards people. This can be achieved when modernisation of social systems accompanies economic reform.**

#### **The long-term sustainability of our social systems**

The European Council of 22 and 23 March 2005 requested the Commission "to reflect on the issues arising about how to ensure sustainable funding of our social model".

Member States finance social systems through different combinations of direct taxes, indirect taxation, and social security contributions. Responsibility for determining most aspects of taxation policy and setting tax rates remains firmly with Member States. How can they adapt to the new circumstances?

They could increase taxes. However, given the size of the budgetary challenges that national systems will be facing, this does not always offer a viable solution for the future and their freedom to adjust rates on their own may be constrained by globalisation. Cutting expenditure is an option, but in other cases could undermine our commitment to investment in knowledge, networks and people.

Whatever combination of solutions is chosen, there is a need to look closely at making current tax systems perform better across the EU. A more co-ordinated approach at the EU level and more effective administrative co-operation between Member States could significantly improve the performance of tax systems. This could help to keep economic activity and "mobile" assets (capital, companies) in the EU, while avoiding the risk of concentrating tax on less mobile bases like labour. Work has already been launched with the Member States on a common consolidated corporate tax base, simpler and more uniform tax rules for cross-border activity and a better system to exchange information.

The mix of taxes chosen by Member States may also impact the sustainable financing of our social systems. During the period 1970-1999, effective taxation on labour has increased while taxes on both capital and consumption have remained broadly stable. This heavier taxation on labour appears to have been a disincentive to the creation of additional jobs, especially low skilled jobs; but broadening the tax base by getting more people in work is still the most effective way for governments to raise revenues without raising tax rates. A shift of taxation from labour to consumption and/or pollution taxes could also help as part of a broader strategy to increase employment levels.

#### **4.1. Who should do what? The role of Europe**

Today we have a more or less clear division of responsibilities. Member States are primarily responsible for designing and delivering their social systems. The Union has broad responsibilities for the internal market, but also in contributing to a wider set of goals from employment and cohesion to research and innovation; policies that influence the success of national systems. Economic policies and the welfare state cannot live without the other, but not all decisions need to be made at the same level.

We should not underestimate the **potential for the European Union to help the process of modernisation**.

In shaping the international response to globalisation the impact of individual Member States acting alone is minimal. But Europe – 25 countries with shared values and strong institutions

acting together – has a real chance to shape globalisation, in areas like trade, international labour rules or tackling global health or security threats. Europe has much to offer – the world’s biggest trading block, the most important aid donor giving leverage in terms of social justice and human rights around the world, and the leading proponent of multi-lateral solutions to environmental and the other challenges of sustainable development. No other country or region has this tremendous advantage.

The Union provides a crucial intermediate level – between the national action and international rules. It is a successful example of “globalisation” on a regional scale. It offers the right space for effective regulation and solidarity in which the benefits of regional integration give a better chance to benefit from globalisation. Our single market of 450 million people offer new opportunities for growth, jobs and investment, while flanking policies means that we can help Member States to cushion the impacts of change.

Enlargement reinforces the effectiveness of our international action, just as it strengthens the case for more – not less – integration across the Union. It has made a decisive contribution to the economies of the acceding countries and opened the door to new opportunities for growth, investment and employment.

Moreover the European Union has a unique set of instruments at its disposal.

- **Legislation**, both to drive economic change, for example by making the single market a reality, and to ensure that it is accompanied by the establishment of standards safeguarding our values and quality of life.
- **Executive powers**, for example to enable the EU to make its weight felt in the trade talks in a way which no Member State on its own could do; and the **enforcement powers and judicial system** necessary to ensure that our legislative objectives are turned into reality, for the benefit of all Europeans.
- **Competition and state aid powers**, which have further improved as a result of recent reforms under this Commission, ensure a level playing field between European businesses, small and large, helping to improve their competitiveness, stimulate innovation and growth, and guarantee consumers a wide choice of goods and services at affordable prices.
- **A budget**, essential to support European economic, social and territorial cohesion, European IT, energy and transport networks, education and European research and innovative industrial projects such as the GALILEO satellite system.
- **An area of freedom security and justice**, which contributes to creating the conditions for competitiveness in Europe, for example, through the better management of legal migration at EU level in order to unleash the full potential of European economies.
- **External instruments** from enlargement and the European Neighbourhood Policy to development policy, which enable us to stimulate growth and project our values beyond our borders. The economic benefits of recent enlargements have been felt by new and existing member states alike.

- **EU level surveillance and co-ordinating powers within our economic and monetary union**, which ensure that in macro-economic policies all Member States move in the same direction, even if at different speeds.
- A role, with the Commission at the centre, as a **catalyst** for new ideas and reform, working in partnership with member states to encourage new approaches to change.

## 4.2. Ideas for change

So what can we do, both at national and European level? Economic, labour market and social modernisation is both challenging and necessary, but the starting point for action must be greater coherence and coordination both between the different decision makers and between economic and social policies. On policies, it is essential to recognise that the pursuit of economic or labour market reforms is the pursuit of social justice; they are two sides of the same coin. On decision makers, many decisions are and should be taken and implemented at a national or sub-national level, whilst some are clearly for the EU, respecting the powers set out in the European Treaties. What follows focuses on what needs to be done and at what level.

### 4.2.1. The EU level

- **Complete the internal market, including for services, telecoms, energy, and financial services.** The internal market adds greater dynamism and choice to the European economy. The challenge today is to extend its many benefits to the services sector in order to inject greater competition and to continue to improve our strong tradition of affordable and high quality services of general interest. Progress must also be made on the Community patent.
- **Deliver more open and fairer markets** within the EU through the continued implementation of competition and state aid rules.
- **Encourage enterprise**, through conditions which allow European businesses, particularly small and medium-sized businesses, to be set up and thrive.
- **Improve the regulatory environment at the EU level**, as well as at the national level, to free businesses and citizens from unnecessary costs and red tape, focusing EU legislation where it can be most effective and adds value.
- **Open third country markets for European producers**, in particular through the completion of an ambitious and balanced agreement in the Doha round. We must promote free and fair trade which will benefit not just Europe but the poorest countries as well.
- **Agree the Financial Perspectives by the end of the year**, to secure, for example, multi-annual programmes for cohesion, rural development, education, research, innovation, mobility and security; and to agree a **new Globalisation Adjustment Fund** which can complement the structural funds, and notably the European Social Fund, by providing a swift response, focused on people, to urgent problems which result from globalisation.
- **Assure the proper functioning of EMU as a key precondition to creating growth and jobs.**

- **Improve European economic governance and strengthen the co-ordination of economic and social policies.** For example, by strengthening instruments like the EU’s integrated guidelines for growth and jobs and reinforcing their interaction with more effective EU level co-ordination in the area of social protection. The aim must be to be in better position to monitor progress in Member States and offer support where it is needed.

#### 4.2.2. *The national level*

- **Implement the agreed structural reforms and policies within the renewed Lisbon Strategy for growth and jobs.**
- **Raise employment rates and reduce unemployment,** particularly through active labour market policies and promoting flexibility and adaptability designed to protect people rather than jobs; we must think as much about the jobholder as about the job.
- **Adapting pension, health and long-term care to meet changing needs** and offer adequate protection and universal access to quality care and updating the way risks and responsibilities are shared between the State and its citizens. National protection systems should deal with new realities such as single parenthood and relationship breakdown. They should also offer family friendly policies which address the low birth rates in the EU and offer **affordable care for children**, to increase the possibility for women and single parents to enter and stay in the labour market.
- **Offering innovative solutions for the low paid,** for example: to “top up” the earnings to a living wage; increase workers’ productive potential so that they can earn more – this means giving the State an even more active responsibility to promote employability and bring down both long-term and youth unemployment.

#### 4.2.3. *The new partnership of the EU and member states*

It is clear that neither the EU nor member states can deliver change on their own. What follows are specific suggestions for a more coordinated approach between the national and supranational level, in new areas for action both for economic and social policy. The Commission is open to exploring the development of new partnerships to enhance European action in these areas. These are

- **Create an environment that champions innovation.** Knowledge, research, skills and education will be the currency of success in the face of globalisation. They are also at the core of efforts to help people adapt to a changing world throughout their lives. We must look at how to develop effective European projects in this area, building on the success and experience of Airbus or the Galileo. These should be assisted by **support for excellence in our universities, and a closer relationship between universities and business.**
- **Spell out a long-term and coherent energy policy.** A new policy approach which considers the issue as a whole, in terms of both use of energy and the security and diversity of supply; linking energy to other policies such as research, agriculture and the environment, for example, bio-energy. This is an essential component of ensuring environmentally sustainable economic growth.

- **Direct more resources (both public and private) to education, training and skills;** new approaches to job “security” which focus on giving people the skills they need to remain adaptable throughout their working life, rather than protecting particular jobs.
- Promote a **renewal of the social dialogue** at all levels. It should play a full role in mobilising broad support and a common understanding of the challenges we face and the solutions proposed. Given the close linkage between action at EU and national level, the Social Partners should better articulate what they do at each level.
- **Support efforts to deal with the social consequences of economic restructuring.** Internal market reforms, the modernisation of labour markets and the adaptation of social systems are all essential elements in managing globalisation and creating growth and jobs. The full range of EU policies and programmes need to support national efforts, to make the case for change and mobilise support, for example, through Social Dialogue.
- **Increase cooperation between Member States** to strengthen the efficiency and sustainability of tax systems helping to ensure more revenue is collected, simplifying life for taxpayers and improve the performance of economy. This means modernising and simplifying current systems.

All this must be done within a context of maintaining sound macro-economic policies offering stability, sound public finances and low inflation. Such policies create the right conditions for growth, jobs and investment; by keeping inflation under control they help social cohesion and by lowering the overall level of government debt over time, they leave Member States in a better position to meet the future costs of ageing.

## 5. CONCLUSION

The need for reform and modernisation is clear. All Member States will face increased demand for social services and challenges in financing them. We must modernise to ensure continued high quality education and health care, satisfactory jobs for all and adequate pensions. Modernisation will give us the confidence to reap the benefits of globalisation. Europe has a central role to play and the Commission will ensure that this will be the case. It will take the initiative, not least within its “Plan D” for dialogue with citizens, to explain why Europe is more relevant than ever in providing solutions to the challenges we face. The Commission stands ready to work with the Member States and other actors to construct a road map which describes the path to a modern Europe which delivers economic prosperity and social justice. Through modernisation, we will preserve our values.