

SOCIAL COMPETITION IN THE EU: WORDS AND ACTIONS

FOREWORD

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Extract from:
Kristina Maslauskaitė,
“Social competition in the EU: myths and realities”,
Studies & Reports No 97,
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As Kristina Maslauskaitė points out in her Study, social convergence among the European countries was one of the first factors to be evoked at the wake of European construction. The Treaty of Rome states that member countries pledge to promote “equal access to progress” for working conditions and standards of living, and it adds that this “development will ensue not only from the functioning of the common market, which will favour the harmonisation of social systems, but also (...) from the approximation of provisions laid down by law, regulation or administrative action”. The debate on competition among the countries “united in diversity” including in the social sphere has been played out between these two dynamics, at once economic and legal. Thus the debate is certainly not new, but it has definitely witnessed a renewed interest since the countries of Central and Eastern Europe joined, as shown, for instance, by the “Polish plumber” row in the French referendum on the European Constitution back in May 2005.

Competition and social convergence in Europe

Salary and social protection levels in European countries logically echo the specific nature of each country’s economic and political history. Portugal, for instance, long governed by Salazar, experienced belated economic development and then a revolution with strong social aspirations; bogged down by a crisis in the 1970s, the United Kingdom experienced a marked deregulatory and free-marketeering drive under Margaret Thatcher; the countries of Central and Eastern Europe, for their part, lived under communism which penalised them from an economic and social standpoint; and so forth.

In view of this, we have been able to see how, as the Treaty of Rome stipulates, membership of a “common” then a “single” market has led to the gradual convergence of social standards in these different countries, all of which will have to be reassessed in the light of the current crisis. We may also observe how, despite their differences, the countries of the European Union all share more or less the same kind of “social model”, whose distinctive features become very clear when we compare them to the model in force in such countries as, for instance, the United States or China: this European model is distinguished in particular by relatively high average salary levels, a high level of public and welfare spending, and relatively strong labour law.

Just like social measures based on secondary Community law, these common features also have the effect of containing social competition among the European Union’s member states. Or, at any rate, they lead to a very different kind of competition from that coming from emerging or developing countries, where social and welfare standards are far weaker than those that we have developed in Europe.

Labour costs and labour law are, of course, only some of the factors among many determining a country’s level of competitiveness, and direct foreign investments more often reveal a search for additional demand rather than a search for less costly supply. Thus countries such as Portugal or Spain were able for a long time to benefit from a comparative advantage in terms of salary and thus to stay relatively competitive in certain sectors, while attracting investors who would otherwise have failed to show any spontaneous interest in countries situated beyond the Pyrenees and in the extreme Southeast of Europe. It is partly due to the Central and Eastern European countries’ membership of the European Union that the Southern countries have lost their competitive edge and are now facing the need to redefine their comprehensive economic strategy and their position both in Europe and within the globalisation process.

“Social Europe” midway between frustration and distortion

The much-debated Service Directive proposed by Frits Bolkestein naturally foresaw that it would be impossible to work in France or Germany under Polish or Estonian labour laws. Its primary aim was to foster growth and employment

in a sector that accounts for over $\frac{2}{3}$ of Europe's GDP but for less than $\frac{1}{4}$ of intra-EU trade. Even though the directive's aim was to reduce information disclosure requirements and administrative burden to be met before offering such services, it nevertheless raised or "revived" the fear of fostering "social dumping" within the European Union while also pushing forward the process of deregulation in Europe.

This episode has reminded everybody, if indeed there were any need to do so, of the extent to which raising the issue of social competition in Europe can spark a lively reaction throughout the European Union. Such reaction is *de facto* triggered not only in the countries where workers feel that they are the victims of unfair social competition and where they would quite legitimately like to maintain their salary or social welfare at existing levels; it is also to be found in countries which feel that they are being wrongly accused of practising such competition when in fact it merely reflects the current level of their economic and social development level.

In the end, this confrontation leads to frustration and a great deal of tension on both sides of the aisle. It can only hamper European projects for the legal harmonisation of social standards and practices, which is difficult already as the more advanced countries (for example in northern Europe) are reluctant to allow the European Union to intervene in these areas. It is, therefore, crucial to define the real impact of social competition within the European Union in as substantiated a manner as possible to facilitate constructive debate and initiatives in the field of social Europe. The great merit of Kristina Maslauskaitė's Study is precisely that it offers just such a description.

What is the real impact of intra-European social competition?

Putting words and figures to realities too often perceived on a symbolic or nominal basis is the crucial contribution of this Study, which seeks to analyse in accurate detail the principle elements of social competition among the member states of the European Union.

For example, Kristina Maslauskaitė provides an overview of salary differentials among European workers, distinguishing nominal costs from real costs, or, in other words, costs linked to worker productivity. Such a comparison

reveals that the maximum real salary differentials between member states are almost 8 times lower than the nominal ones, which shows that salary competition within the European Union is markedly less acute than is often described.

The other comparisons made by Kristina Maslauskaitė are just as enlightening, addressing respectively non-salary costs (basically linked to social protection), labour law (duration, degree of protection, health and security standards), and factors of an “institutional” nature (worker representation and the existence of a more or less strong parallel economy). All in all, these comparisons provide a rather nuanced picture of intra-European social competition, in which the countries of Central and Eastern Europe occasionally (but not always) show a somewhat setback position related to their “catching-up dynamic”, while other countries such as the United Kingdom, Ireland or even Luxembourg also occupy a specific place.

A social agenda based on realities

As stressed in the introduction, Kristina Maslauskaitė’s Study does not set out to provide an exhaustive picture of European social competition. Consequentially, the comprehensive overview that she provides does not rule out the existence of a particularly aggressive form of social competition. This, for instance, is the case in certain specific sectors such as farming or transportation, or when protective regulations governing workers’ postings are badly implemented or even deliberately circumvented. The comprehensive overview also talks relatively little about the development of differences in unemployment rates between member countries, which has an impact on salary levels and thus also on national economic competitiveness.

The purpose of the Study is not to offer recommendations designed to allay the tension caused by social competition within the European Union. Yet, if I had to formulate one, I would insist on the need to provide for European adjustment spending linked specifically to caring for the victims of intra-European relocation that social competition might cause, even in a limited yet unquestionably spectacular fashion. Portuguese membership of the European Union, for example, prompted the establishment of “Integrated Mediterranean Programmes” for territories and regions in countries that were already members (for instance, the South of France) likely to be impacted by the presence

of these new competitors in an excessively head-on fashion. It is a great pity, both from a social and from a political viewpoint, that such programmes are no longer in force today.

As Jacques Delors so often stresses, the promotion of a European political agenda combining “competition which stimulates, cooperation which strengthens and solidarity which unites” is more necessary than ever and it must lead to the development of the social dimension for both the European Union and the Economic and Monetary Union. Only if this dual challenge is going to be explored on the basis of a lucid and reasoned analysis of the real impact of social competition among European countries, will its promoters find it easier to get heard. Kristina Maslauskaitė’s Study will unquestionably offer a valuable contribution in this direction because it will allow the reader to think beyond the myths, and thus to be able to act in the real context.

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