

## EXECUTIVE SUMMARY

Extract from:  
Kristina Masklauskaitė,  
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**T**he debate on social competition, or social dumping, is as old as the European Union itself, yet it has been getting louder in the recent years marked by economic turmoil and high levels of unemployment in many of the member states. Public opinion and politicians are worried that intense competition in the cost of labour between the member states might result to the “race to the bottom” in terms of social standards.

The aim of the Study is to shed some light on the usually politicised concept and practice of social competition. This Study critically examines the issues related to defining social dumping and provides an overview of existing legal labour standards on both European and global levels. It then proceeds to an in-depth discussion based on statistical data on whether the differences in wages and labour standards leave enough space for regime competition in the EU27. Due to size limitations this Study concentrates on national-level indicators and does not analyse sectorial problems.

The main finding of the Study suggests that, on the whole, social competition within the EU in general, and between the “new” and the “old” member states in particular, is unlikely.

First and foremost, statistical indices of productivity-adjusted labour costs suggest that commonly perceived truths in terms of labour costs might no longer hold. In terms of productivity-adjusted total labour cost, some of the new member states have not only lost their status of the cheap labour destination, but have also become more expensive than the European “core”. If ten years ago Central and Eastern European (CEE) member states have been real havens for cheap labour, nowadays the real labour cost in Slovenia and Estonia is in fact higher than in France or Germany. What is more, Ireland, Luxembourg and the UK make it to top five cheapest destinations.

Secondly, even though social policy is still considered a national prerogative, significant progress has been made in harmonising important number of labour standards, including basic health and safety requirements, non-discrimination and labour law relating to part-time work, fixed-term contracts, working hours, employment of young people, employee information and consultation at the European level. These principles set the minimal floor in labour law, which (if enforced) eliminates the possibility of using these rights as factors of labour cost reduction.

Thirdly, the data indicating the respect of various labour standards such as working hours, employment protection and occupational health across the EU does not point towards consistently poor performance by the CEE countries. If some of the countries score low on some of the indices, these differences can often be explained by the socio-economic context rather than governmental policy of labour cost reduction.

Finally, the new member states do have higher shares of “shadow” economy and weaker institutions, all of which could be used for the purposes of driving the labour cost down illegally. Yet, the analysis suggests that it is not obvious that unofficial economic activities can confer a real economic advantage for the new member states. For a producing firm, weak institutions, which often go hand in hand with “shadow” economy, might imply additional costs related to poor infrastructure or inadequate human capital.

Unexpectedly, three member states not belonging to the CEE club, namely the UK, Ireland and to some extent Luxembourg, seem to consistently outperform all the other countries in terms of real labour cost. That combined with low tax rates, flexible labour laws and relatively weak employee participation makes the British Isles the most realistic suspects of social dumping. It does not automatically follow that these countries do engage in social dumping though; it only implies that their economic model is the most efficient in terms of labour cost. As discussed in the Study, disloyal and genuine welfare-enhancing competition might sometimes be difficult to disentangle.