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Balance-Sheet of European Social Policy

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ABSTRACT

Specific competence of the European Union in the field of social security and social protection has been quite limited, as the Member States consider these two items as core subjects of national policies and appeal earnestly to subsidiarity principle to avoid European regulation. Influence of the E.U. has nevertheless been gradually and considerably increasing through the implementation of the Community rules on the internal market and competition. European social model is the so called “social market economy”, which means, in short, an economy ruled by a market whose transparency and fairness are guaranteed and controlled by the public powers. There is the will, at European level, to be able to achieve high economic and productivity growth, necessary to fuel recovery from crisis damages, while at the same time minimising so-called social failures, such as unemployment, poverty and social exclusion. The European Union addresses these areas as a matter of common concern and has a role in facilitating the exchange of information, data, best practices and research. The balance of European policies is in overall terms rather positive from the social point of view.

Keywords: Subsidiarity, Competition, Social Market Economy, Social Failures, Common Concern, Best Practices.

Balance de la Política Social Europea

RESUMEN

Las competencias propias de la Unión Europea en materia de seguridad social y protección social son muy limitadas, porque los Estados Miembros consideran estas dos cuestiones como temas esenciales de la política nacional e invocan sin dudar el principio de subsidiariedad para evitar una reglamentación. Sin embargo, la influencia de la unión ha ido aumentando gradual y considerablemente mediante la aplicación de las normas comunitarias del mercado interior y la competencia. El modelo social europeo es el denominado “economía social de mercado”, que supone, en síntesis, una economía regida por el Mercado siempre que su transparencia y equidad estén garantizadas y controladas por los poderes públicos. A nivel europeo el objetivo es ser capaces de conseguir un alto crecimiento de la economía y la productividad, indispensable para remontar la crisis, minimizando al mismo tiempo las fracturas sociales: paro, pobreza y exclusión social. La Unión Europea considera estas cuestiones como asuntos de interés común, y juega un papel en facilitar el intercambio de información, datos, buenas prácticas e investigaciones. El balance de las políticas europeas es, en términos generales, bastante positivo desde el punto de vista social.

Palabras clave: Subsidiariedad, competencia, economía social de Mercado, buenas practicas, fracturas sociales, interés común.

Clasificación JEL: F15, F02, E61.

1. INTRODUCTION

The competence of the European Union to produce legislation depends on the competence given to it by the Member States in its Treaties. Specific competence in the field of social security and social protection has been quite limited, as the Member States consider these two items as core subjects of national policies and appeal earnestly to subsidiarity principle to avoid European regulations in these fields. Furthermore, social security and social protection organisation and funding differ widely between the different Member States. Therefore there is a strong fear in the most advanced countries to any kind of harmonization, trade unions been in the first battle line of the struggle to avoid downgrading the best statuses to improve the worst.

Influence of European Community, first, European Union afterwards, has nevertheless been gradually and considerably increasing. This has happened mostly indirectly through the implementation of the Community rules on the internal market and competition.

On the one hand the competence of the European Union can be seen as having grown through the decades of practice whereby the Court of European Communities has been interpreting the Union legislation concerning the coordination of the social security of the Member States¹ aimed at ensuring the free movement of workers. On the other hand, the Community Rules are increasingly directly applicable to social and health services through the so called modernisation of these services, whereby a growing proportion of them-previously managed by public authorities—are privatised and opened to competition.

The “modernisation” of social services has been a feature of the strong influence of thatcherist policies and U.S.A social model; fuelled by strong allegations of more competitiveness the battle between this liberal view of economy and the renan “socialmarktwissenschaft” (social market economy) has been raging at least in the last twenty five years.

An example is the Lisbon strategy, which is to enhance the competitiveness of the European Union in the global market. Whereas the initial programme of year 2000 emphasized equal and mutually enhancing economic, employment and social policies, the revised strategy now mainly concentrates on the economic growth and employment. In this manner the social Europe should become the social dimension of the economic growth.

Consequently, a widespread concern arose that, by a nearly exclusive focus of the Lisbon strategy on economic considerations, the European Union was in reality discarding the goals that the strategy was to serve, namely social protection and social inclusion. While a successful economy and a high level of social protection are obviously interdependent phenomena, it is essential to acknowledge that an effort to fully integrate the social policy into the policies on internal market,

¹ Notably regulations No. 1408/71 and 574/72 on the application of social security schemes to employed persons and their families moving between community.

industry, competition and trade is problematic, because these different policy areas inevitably have also contradicting goals. Prioritising between them requires political, value based decisions.

The Lisbon Strategy has not been —from my point of view— a success, and the present, word crisis is putting it aside —if not putting it to death— as priority is know to recover previous level of prosperity. And U.S.A. model is losing a great deal of attractive. European Union must remain attached to his model of social market economy.

2. EUROPEAN SOCIAL MODEL IN THE CONSTITUTIONAL PROCESS

European social model is the so called “social market economy”, which means, in short, an economy ruled by the market, but not a market only ruled by itself’s developments; a market whose transparency and fairness are guaranteed and controlled by the public powers. It’s essential characteristics are found in article 3 of the Treaty of European Union (Treaty of Lisbon wording). We quote the principal parts:

“1. The Union’s aim is to promote peace, its values and the well-being of its peoples.

3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.

It shall promote economic, social and territorial cohesion, and solidarity among Member “States””.

So it is clear that European social model is not a model aiming above all to the maximum economic individual benefit, but a system that considers social justice an essential feature to be promoted.

The *Charter of Fundamental Rights of the European Union* develops the model focusing on the following rights:

- Right to education (Art. 14).
- Freedom to choose an occupation and right to engage in work (Art. 15).
- Freedom to conduct a business (Art. 16).
- Right to property (Art. 17).
- Non-discrimination (Art. 21).

- Equality between women and men (Art. 23).
- Rights to the child (Art. 24).
- Rights of the elderly (Art. 25).
- Integration of persons with disabilities.
- Workers right to information (Art. 26) and consultation within the undertaking (Art. 27).
- Right to collective bargaining and action (Art. 28).
- Right of access to placement services (Art. 29).
- Protection in the event of unjustified dismissal.
- Fair and right working conditions (Art. 31).
- Prohibition of child labour and protection of young people at work (Art. 32).
- Family and professional life (Art. 33).
- Social security and social assistance (Art. 34).
- Health care (Art. 35).
- Access to services of general economic interest (Art. 36).

3. THE COST OF NON-SOCIAL POLICY

What I have said concerning social model means that there is the will, at European level, to be able to achieve high economic and productivity growth, necessary in the present state of affairs to fuel recovery from crisis damages. While at the same time minimising so-called social failures such as unemployment, poverty and social exclusion. This is perceived as a challenge because the objective of attaining better social outcomes could be counter to that of high economic performance. Or, to put it another way, social policy is often believed to thwart economic and employment policy. However this is far from necessarily true.

The debate on economic relevance of social protection was launched by the conference on “social policy and economic performance” that was organised under the Dutch EU-presidency in 1997. This triggered a comprehensive effort by the European Commission to show that social policy is not by definition and primarily an impediment to economic performance but rather a productive factor². This is an item that surely will be dealt with in this special issue. Therefore I have chosen to concentrate the last part of this contribution on the social and economic costs of non social policy³.

² See Berghman, J.D. Fouarge & K. Govaerts: *Social protection as a productive factor. Collecting evidence of trends and cases in the E.U.* Report at the demand of the Commission of the E.U. – DGV – Leuven: European Institute of Social Security (1998).

³ I will follow essentially the excellent report of D. Fouarge: *Cost of non social policy: towards an economic framework of quality social policies – and the cost of non having them.* Report for the Employment and Social Affairs DG (2003).

3.1. Social cost of non-social policy

- a) Although the market produces wealth, it distributes it unequally. As such, market mechanisms potentially lead to unequal outcomes and even poverty.

One of the problems with standard micro-economic theory is that it leaves no room for the notion of minimum necessary standard, deeply rooted in the prevailing concept of equity in European society. For Adam Smith, one's subsistence would depend on wages, which he referred to as the natural price of labour. This natural wage should be enough for the labourer to support himself and his family. For those unable to generate enough income to secure a decent living for themselves, he believed that the innate moral sentiment of others would induce spontaneous private charity.

Nineteen liberals thought of poverty as a short-term problem. They believed that spontaneous processes, though the labour market, would provide one with the opportunity to improve one's own situation. However experience has shown that it does not work like that, and minimum wage regulations and the welfare state are instruments that a large majority of Europeans consider unavoidable to correct such inequitable market outcomes.

Non social policies would therefore have an important cost in terms of social justice. A cost that Europeans refuse to pay.

3.2. Economic cost of non-social policy

- a) In some instances the market is inefficient. Then corrective action by the public powers is to be considered. There instances have to do with market failures and imperfect information. Market failures refer to imperfect competition, external effects, the production of public goods and merit wants, the non existence of a full set of markets (for all dates in future at all risks), failures to attain full equilibrium (under utilisation of resources). Informational problems include imperfect consumer information, adverse selection, moral hazard and the fact that the probabilities of social risks might be unpredictable, interdependent of close to unity.

Let us look to an example: the benefit of the very successful system established by the Union to avoid cartels, dominant positions or forbidden subsidies is very difficult to evaluate, but there is not any doubt that the cost of its non existence would be enormous in terms of economic efficiency.

- b) There is also an efficiency argument to be made for the stabilisation of social protection. To begin with, the social protection systems can be viewed as a form of institutional saving. Through compulsory old-age and unemployment insurance, for example, workers operate an intergenerational or intertemporal income transfer. They trade of consumption today for consumption when retired or unemployed, and therefore also limit volatility of aggregate demand.

This anti-cyclical effect of the benefit system comes into play because expenditure tends to rise when there is a downturn in the business cycle and fall when there is an upturn.

- c) Solidaristic or “dense” social relationships, according to Coleman⁴ are attractive not only from a pure sociological point of view, but also from an economic one. Dense social relationships enhance social trust and reciprocity and, therefore, increase the chance that people will engage in economic exchange. Putman⁵ also shows that is a key element of economic development. Moreover, to the extent that the welfare state contributes to social inclusion, it contributes to the supply of labour and, in the longer term, to an improvement of its quality⁶.
- d) There is an opportunity cost of not having (or having an insufficient level of) social protection. For example, in the absence of socialised health care, health insurance would have to be provided privately. This can turn out to be very costly and still leave many unprotected, as it’s clearly the case in the U.S. It can be noted that social transfers enhance social cohesion and, therefore, reduce the risk of production disruption due to social conflicts. Because social conflicts disrupt employment, destroy infrastructure and deter investment, their prevention —through the benefit system— is beneficial for investments and productivity. Social cohesion is expected to have a positive effect on the creation of prosperity.

At least, this is the European experience until now and I see no reason to expect it another way.

4. THE ROLE OF THE EUROPEAN UNION

At this time, the European Union has a limited role to play in the delivery of social protection or the combat about exclusion, as I have underlined before. It addresses these areas as a matter of common concern and has a role in facilitating the exchange of information, data, best practices and research. In the wake of the European Employment Strategy, the Union is taking part in the development of the employment policy of the Member States through soft laws, the introduction of national and action plans and a peer reviews monitoring system. The EU does not have any formal competencies in that area, but it plays a stimulating role which it takes seriously. It is until a certain point effective, since, in that exchange of

⁴ Coleman, J. *Individual interests and collective action*, Cambridge: Cambridge University Press (1986).

⁵ Putnam, R. (with R. Leonard & R. Nannetti). *Making democracy work: civic tradition in modern Italy*. Princeton NJ: Princeton University Press (1993).

⁶ Pedrosa, P. *Achieving integration of all within society* (in Bulletin Luxembourgeois des Questions Sociales. Report of the conference of Modernising and Improving Social Protection in Europe, pp. 59-61) (1997).

information no Member State wants to be at the bottom of the class, and there is a potential for policy practice.

Is it enough? Personally I would answer “no”. However it is clear that no alternative scheme has been able to carry enough support, and the present crisis will not make things easier.

From a broker point of view it is clear that European Union policies have strong social dimension and positive social impact: The Lisbon strategy has contributed to the creation of more and better jobs. European Monetary Union and the euro have ensured price stability, facilitating job creation and stable growth. Cohesion policies have helped less developed European Union regions and disadvantaged groups. The single market has created opportunities taking account of and responding to the social impact of market opening. European Union employment and social policies have improved employment conditions, including health and safety at work, promoted equal opportunities and social inclusion and fought discrimination, racism and xenophobia.

Successive waves of enlargement to embrace new Member States have been hugely successful in consolidating democracy and fundamental rights and boosting the prosperity of the whole European Union. The European story has been a successful process of social convergence as the economies of acceding Member States have strengthened, even if this process is still underway. In this process, European norms and European Union rules and guidelines have played a part. This record of convergence is a testament to the strength of Europe’s shared social values and the European Union’s ability to support their development. In short, enlargement has been successful in spreading equal opportunities across the continent.

The balance of European policies is therefore in overall terms rather positive from the social point of view.

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