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Angelos Kotios, Manfred Schäfers\*

## The Social Dimension and Cohesion: Complementary or Contradictory?

*It is again being argued that the low labour costs and social standards in countries on the periphery of the EC – Greece, Ireland, Portugal and Spain – jeopardise employment in the northern EC countries and the social safety net they have constructed. A common social policy harmonising employment and social standards to safeguard the social status quo is therefore being advocated. How valid is this argument? What consequences would the implementation of such a “social action programme” have for the economies on the periphery? How are the Community’s objectives with regard to cohesion and social policy to be reconciled?*

No sooner had the objective of creating a single internal market found widespread acceptance within the Community as a market-oriented approach to integration than a sharp discussion began about its social consequences.<sup>1</sup> Disagreements on this issue are nothing new; a similar conflict developed during negotiation of the EEC Treaty.<sup>2</sup> At the time the French representatives perceived the need to standardise working conditions and social security arrangements in the future member states in order to prevent the competitive position of economies with a higher level of social benefits from being adversely affected. The Federal Republic of Germany, on the other hand, took the view that ex ante harmonisation in this field was not necessary, since it would happen almost of its own accord as economies developed. The outcome was a classic compromise that gave the Community powers over relatively narrow aspects of social policy.<sup>3</sup>

The current debate was initiated by trade union representatives and was soon taken up by members of the EC institutions, national governments and employers’ organisations.<sup>4</sup> The starting point was the demand for the EC Commission to be given greater powers over social policy. The multitude of national regulations on employment and social security would then be harmonised by the Commission to prevent a downward convergence of social standards in EC

countries. According to its advocates, only ex ante harmonisation of this kind can safeguard the social rights won by workers in the economically more advanced countries of the Community.<sup>5</sup> Opposing them is the group of countries that rely on market forces to bring about a convergence of social standards, as Germany argued in the past, and warn of the consequences of overhasty convergence.<sup>6</sup> In their view, the differences between social systems reflect differences in the capabilities of the various economies and cannot be eliminated without endangering other objectives of economic policy.

Despite many differences in the details of their proposals, the advocates of the EC “social area” demand that the Community’s limited responsibility for social policy be extended, on the grounds that the differences in regulations on working conditions and

<sup>1</sup> On this issue, see the following papers: W. Meier: Diskussion um die soziale Dimension der EG, in: Neue Zürcher Zeitung, 25/26th June 1989; K.-H. Paqué: Die soziale Dimension des Binnenmarktes – Theorie, Bestandsaufnahme und Kritik, in: Die Weltwirtschaft, 1989, No. 1, pp. 112 ff.; H. Rentmeister: Die “soziale Dimension” des Binnenmarktes, in: Europa-Archiv, No. 20/1989, pp. 627 ff.

<sup>2</sup> See B. Jensen: Die Grundlagen der Sozialpolitik im Vertragstext der EG, in: H. Lichtenberg (ed.): Sozialpolitik in der EG, papers of the Arbeitskreis Europäische Integration, Vol. 23, Baden-Baden 1986, pp. 10 f.

<sup>3</sup> On the development of EC social policy, see Kommission der EG: Die Sozialpolitik der Europäischen Gemeinschaft, 3rd edition, Luxembourg 1983; K.-H. Narjes: Sozialpolitik in den Europäischen Gemeinschaften, in: B. von Maydell, W. Kannengießer (eds.): Handbuch Sozialpolitik, Pfullingen 1988, pp. 376 ff., and the collection of essays edited by H. Lichtenberg, op. cit.

<sup>4</sup> On the various positions adopted, see W. Adamy: Soziale Grundrechte in der Europäischen Gemeinschaft, in: WSI-Mitteilungen, Vol. 42, No. 10/1989, pp. 552 ff.

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workers' social rights in the various member countries influenced intra-Community trade and companies' choice of location as a result of their effect on production costs. Owing to liberalisation of the internal market, cost differences would have a far greater impact than in the past. Countries with low social standards would gain an "unfair" competitive advantage that would lead to an increase in their exports and a simultaneous fall in their imports and would also divert direct investment into these countries. Workers in countries with higher social standards would therefore be faced with a dilemma: either they maintained their social standards, which would entail a loss of jobs, or they maintained the level of employment, at the loss of hard-won social rights. It is argued that this dilemma can be resolved only by harmonising the social rights of all workers in the EC, and naturally at the highest possible level. Only the EC would be capable of achieving this.

### Avoidance of Trade Disadvantages

As regards ex ante harmonisation, it is argued that a convergence of working conditions and levels of social security is necessary to strengthen the foreign trade position of the "high standard countries" in the EC heartland in view of the planned liberalisation of the internal market. One fundamental counterargument is the fact that national differences in labour costs (i.e. wages and ancillary social costs) are the result of differences in productivity and exchange rates. It is only the sum of these interdependent factors that determines an economy's price competitiveness.

This also applies to the economies of the Community. Intra-Community trade already reflects differences in social standards to a significant extent. Exports of industrial goods from peripheral countries to the "core" countries of the EC have encountered no significant trade barriers for many years. Given the present structure of production and exports in the peripheral

economies, completion of the internal market is expected to produce hardly any change in imports by member countries in the north of the EC.<sup>7</sup> Quite the contrary: further liberalisation within the Community is likely to lead to an increase in imports by the peripheral economies. As in the period following the accession of these new member states, the removal of remaining restrictions on access to the markets of peripheral countries as part of the liberalisation of the internal market is likely to lead to a deterioration in their current accounts, given the traditional overvaluation of their currencies,<sup>8</sup> since trade barriers of this kind are more prevalent here than in the "old member states".

### Loss of Competitiveness

Too much importance should not be attached either to the higher social security contributions as a percentage of total labour costs in the more developed member states; it will not necessarily impair their competitiveness.<sup>9</sup> The composition of labour costs depends on wage trends and employee preferences. Higher labour productivity and higher income in the more developed economies of the Community cause workers in these countries to prefer improved social benefits to improvements in pay. This does not necessarily increase companies' total labour costs.<sup>10</sup> In peripheral countries, on the other hand, it is fair to assume that workers (still) prefer higher wage increases rather than improvements in the social safety net. To harmonise these preferences at an average level or even at the highest possible level (as is often demanded) would mean increasing production costs in peripheral countries. The consequence for these economies would be a loss in competitiveness.

Another basic weakness in the demand for harmonisation lies in the emphasis laid on the impact of labour and social costs on competitiveness in international trade.<sup>11</sup> Modern trade theory shows that international trade is influenced by many factors, of which relative prices are but one; only in the case of homogeneous and easily substitutable goods is price the deciding factor. Labour costs and social security charges are, in turn, only one of many determinants of

<sup>5</sup> On the position of the trade unions, see Europäischer Gewerkschaftsbund: EG-Charta für soziale Grundrechte, Brussels 1988; DGB-Bundesvorstand (ed.): 1992. Soziales Europa, in three parts, Düsseldorf 1989.

<sup>6</sup> Cf. D. Grimm et al.: EG-1992: Strategien, Hindernisse, Erfolgsaussichten, Kieler Diskussionsbeiträge No. 151, Kiel 1989, pp. 20 ff.; Europa-Gruppe des Frankfurter Instituts für wirtschaftliche Forschung: Die Sozialcharta ist ein Irrweg, in: Frankfurter Allgemeine Zeitung, 2nd December 1989; K.-H. Paqué, op. cit.; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: Jahresgutachten 1989/90, Bonn 1989, sections 454 ff.; Federal German Government: Jahreswirtschaftsbericht 1989, para. 21.

<sup>7</sup> The liberalisation measures planned in the EC by the end of 1992 will affect traditional industrial trade less than trade in services (financial services, transport, telecommunications, consultancy). The northern member countries have clear comparative advantages in these knowhow-intensive and capital-intensive services.

<sup>8</sup> Cf. Eurostat: Statistisches Jahrbuch, Außenhandel, Thema 6 – Serie A, 1987, pp. 60 f.

<sup>9</sup> With regard to the composition of labour costs in the EC countries, see Statistisches Jahrbuch der Bundesrepublik Deutschland, Stuttgart 1989, p. 650, table 11, and with regard to the level, structure and financing of social security benefits see Eurostat: Schnellberichte: Bevölkerung und soziale Bedingungen, 1989/2, Luxembourg.

<sup>10</sup> Cf. Europa-Gruppe, op. cit.

<sup>11</sup> Cf. W. Jungk: Integrationspolitische Grundlage der Sozialpolitik der EG, in: H. Lichtenberg (ed.), op. cit., pp. 41 ff.

the behaviour of relative prices, which also depend in part on productivity and exchange rates.

The harmonisation of social standards to protect the "high standard countries" is therefore not necessary from the point of view of trade. Indeed, an increase in exports by peripheral economies appears desirable, given their chronic current account deficits.<sup>12</sup> Moderate wage and social security policies can make an important contribution in this regard, as well as a restrictive macro-economic policy combined with a real devaluation of the national currency. An increase in labour and social security costs as a result of harmonisation would run counter to this. Finally, experience has shown "... that economic integration by no means necessitates the standardisation of national welfare systems on grounds of efficiency".<sup>13</sup> Even without an ex ante harmonisation of working and social standards, specialisation has steadily intensified in the world economy and in the EC since the second world war. Further liberalisation within the EC, which permits a better allocation of resources in

both static and dynamic terms, benefits all the economies concerned. This welfare gain can be expected to lead to a permanent increase in incomes and social standards in all EC countries, not to reduce them.

The second argument<sup>14</sup> put forward in favour of a Community-wide harmonisation of social security systems is based on the reasons for which companies choose to locate their plant in particular countries. Advocates of harmonisation in the central member states of the Community see increasing capital mobility as a threat to their employment and social standards: labour-intensive, technically simple lines of production would migrate increasingly to the peripheral member states, it is argued, for goods can be produced more cheaply there.

#### Avoidance of Locational Disadvantages

Although the creation of conditions in the EC comparable to those obtaining in an internal market will undoubtedly increase the importance of national working conditions and social standards, there are a number of arguments against non-differentiation in terms of location:

□ First, the various locational factors must be assessed as a whole. Even if opinions differ as to the

<sup>12</sup> Cf. Commission of the European Communities: Annual Economic Review 1988-89, in: European Economy, No. 38 (1988), pp. 118 ff.

<sup>13</sup> K.-H. Paqué, op. cit., p. 116.

<sup>14</sup> For the location debate, see G. Volkman: EG-Binnenmarkt 1992 – Standortdiskussion, Europastrategien der Unternehmen und Arbeitnehmerinteressen, in: WSI-Mitteilungen, Vol. 42, No. 10/1989, pp. 543 ff.

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Christine Borrmann  
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## LEBENSMITTEL IM EUROPÄISCHEN BINNENMARKT

Zwischen Verbraucherschutz und Wettbewerb

The admission of foreign foodstuffs which do not comply to the strict German legislation does not lead to the feared reduction of the quality standard to the lowest common denominator in the European internal foodstuffs market. On the contrary, there is a growing diversity of products and high quality is increasingly demanded. The main beneficiary of this trend will thus be the consumer. This is one of the surprising conclusions of this study, which was conducted by the HWWA-Institute for the Federal Ministry of Economics. (Only available in German.)

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precise importance of particular factors, it is unanimously agreed that the Northern EC countries have a considerable advantage in many important determinants, such as human resources, infrastructure, market size and proximity, quality and stability of general economic policy, the national research environment and company taxation. This also explains why the lion's share of direct investment by more developed Community countries goes to other developed economies.

□ Secondly, differences in labour and social security costs must be seen in the context of productivity and the entire economic environment. In recent years Spain, Portugal and Ireland have witnessed a decline in investment profitability, and consequently also in investment ratios, despite a fall in real unit labour costs.<sup>15</sup> Even relatively low wage costs have clearly been insufficient to outweigh these countries' other disadvantages.

□ Thirdly, the overall advantages of an increase in direct investment in peripheral countries are being overlooked. Everyone would gain: peripheral countries could boost their growth, the other countries could export more capital goods and EC companies could achieve better resource allocation. The peripheral countries' economic performance would therefore be improved, causing their wages and social benefits to rise in accordance with the market over the medium term.

Clearly, it is not to be expected that social standards will fall in the core EC countries as a result of increasing competition on locational grounds.<sup>16</sup>

### **"Social Dumping" – a Myth**

It remains to be asked how tenable is the claim that the peripheral countries are guilty of "social dumping". The term implies that peripheral countries deliberately avoid paying market wages and dispense with costly social regulations. When attempting to judge whether there is truth in this, it must be borne in mind that it is not consistent to single out particular regulations, "from which false conclusions are drawn about the competitive effects of the entire labour and social security system".<sup>17</sup> For example, low wage and social security costs in peripheral countries are to be set

<sup>15</sup> Cf. Commission of the European Communities: Annual Economic Review 1988-89, op. cit., pp. 122 f., table B3.

<sup>16</sup> Even temporary moderation in the income and social policies of peripheral countries does nothing to change this finding, given their many locational disadvantages.

<sup>17</sup> Sachverständigenrat, op. cit., section 461.

against worker-friendly arrangements with regard to lock-outs<sup>18</sup> and far higher losses of working time through strikes; in the words of the German Sachverständigenrat (Council of Economic Advisers), "the relative attractiveness of a country as a business location and its competitiveness depend not on individual regulations but on the entire system of employment and social security arrangements, in which competitive advantages and disadvantages counterbalance one another".<sup>19</sup>

Political considerations also militate against such social dumping. In free countries with independent trade unions it would be virtually impossible to uphold such a policy for long; no political party would remain unpunished for long if it disregarded the interests of the largest group of electors, namely wage and salary earners. Moreover, an authoritarian reduction in working and social security standards could prove to be counterproductive by destroying social harmony. In the southern peripheral countries at least, socialist ideology was the dominant political force after the overthrow of authoritarian regimes.

As a general rule, the lower working and social security standards in the peripheral countries are not the result of "underhand" action on their part; they reflect instead the different levels of productivity and income in the EC economies. There is no evidence that export prices have been artificially reduced to a level below domestic selling prices. The trade deficits of the peripheral economies suggest the opposite: in setting their employment and social security standards they need to pay greater heed to their international competitiveness.

### **The Social Charter**

On 8th and 9th December 1989 the Community Charter of Workers' Fundamental Social Rights was accepted by the European Council at its meeting in Paris, against opposition from the British.<sup>20</sup> The Community had developed several initiatives in the social field since the mid-eighties, but these had been confined to existing elements of Community social policy: measures to promote occupational training and labour mobility, to combat unemployment and not least to protect the health and safety of workers.

<sup>18</sup> Cf. W. A d a m y, op. cit., p. 551; for further examples see Das Märchen vom sozialen Dumping, in: EG-Magazin, No. 9, September 1989, p. VIII.

<sup>19</sup> Sachverständigenrat, op. cit., section 461.

<sup>20</sup> See the conclusions of the Presidency of the European Council in Strasbourg in: Schlußfolgerungen des Vorsitzes, in: EG-Magazin, No. 12, December 1989, p. V.

Increasing pressure from trade unions, the European Parliament, the Economic and Social Committee and some governments persuaded the Commission that it should develop a more comprehensive social strategy, which led to the drafting of the declaration on workers' fundamental social rights, known as the Social Charter for short. However, differences in member states' ideas about the content of the Charter and the associated issue of competence meant that the Charter became an eclectic assortment of extremely vague pronouncements on a wide variety of aspects of labour market and social policy. Moreover, the clarification of objectives and the division of powers between Community institutions and national governments had to be postponed until later. The Community Charter of fundamental social rights therefore remained no more than a political declaration, rather than representing a binding supranational act of social policy.

Despite this, the programmatic nature of the Charter must not be overlooked. For example, the Heads of State and Government of the Community declared that they regarded the Charter as the point of reference that ensured that greater heed would be paid in future to the social dimension in the development of the Community.<sup>21</sup> In that spirit they adopted the action programme on social policy simultaneously submitted by the Commission.<sup>22</sup>

### Elements of European Social Policy

The action programme serves to implement the principles set out in the Charter. As the Commission itself emphasises, it feels committed to the principle of subsidiarity. This explains why the forty-seven initiatives mentioned in the programme have little binding force. Furthermore, unlike the Social Charter, the action programme contains no concrete pronouncements on Community regulation of collective bargaining rights or the harmonisation of social security benefits in member countries. The greatest space is taken up by traditional areas of EC social policy, such as protection of the health and safety of workers, their freedom of movement, occupational training, sexual equality and the transparency of the labour market.

These have already become classical elements of European social policy and are largely unobjectionable as far as the competitiveness of the peripheral states is

concerned. However, the action programme also sets out harmonisation objectives that, if implemented, could prove detrimental to the economic development of these countries. One is the intention to introduce uniform Community regulations on the maximum length of the working day, rest times and night work, holidays, the length of the working week and overtime. The same applies to the proposed harmonisation of contracts of employment and regulations governing mass dismissals. These points directly affect the competitive position of the peripheral countries. Equally disturbing is the Commission's intention to include a social clause in public sector contracts to prevent "social dumping".<sup>23</sup> This would enable member countries in the heart of the EC virtually at will to exclude suppliers in peripheral countries from tendering for public sector contracts.

At present it is impossible to make reliable forecasts of the future shape and development of labour market and social policy in the Community. However, it is clear that the Community is planning measures which, while not fully meeting the demands associated with the notion of "the social dimension", do nevertheless contain proposals that could have an adverse effect on the further economic development of peripheral countries. Critical appraisal of the future social policy measures of the EC therefore remains an urgent necessity. In particular, after the introduction of the Community cohesion policy the aims and priorities of both policies need to be co-ordinated and their instruments made compatible where possible.

### Cohesion Policy

By means of the policy of cohesion, the Community is pursuing a strategy aimed at economic convergence between member states and between the various regions of the Community. The background to this is that the Community has moved away from the notion that the peripheral economies can carry out their economic adjustment measures in the run-up to liberalisation of the internal market without financial assistance from Brussels.<sup>24</sup> In connection with the aim of completing the internal market, Articles 130 A to E were therefore inserted in the Treaty of Rome. These instruct the Community

□ actively to pursue a policy that promotes the economic and social development of the periphery, and

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<sup>21</sup> Ibid.

<sup>22</sup> Cf. EG-Kommission: Mitteilung der Kommission über ihr Aktionsprogramm zur Anwendung der Gemeinschaftscharta der sozialen Grundrechte, Dokumente, KOM(89)568 endg.

<sup>23</sup> Cf. EG-Kommission: Mitteilung ..., op. cit., pp. 25 f.

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<sup>24</sup> This view is often to be found in the literature, such as T. P a d o a - S c h i o p p a et al.: Efficiency, Stability and Equity. A strategy for the evolution of the economic system of the European Community, Paris 1987, passim; M. F r e n k e l: Integrationsprobleme und ökonomische Wirkungen der europäischen Binnenmarktliberalisierung, in: Europa-Archiv, Vol. 44, 1989, No. 8, p. 249.

□ to examine all Community policies to ensure that they do not conflict with the objective of cohesion.

These arrangements are to be found under the heading "Economic and social cohesion" in the EEC Treaty. It is no accident that the economic aspect comes first, for the instruments are designed primarily to strengthen the periphery economically. These include transfers, low-interest loans and a system of revenues that can be regarded as one of indirect fiscal equalisation.<sup>25</sup> Among the Community policies subject to scrutiny from the point of view of cohesion, technology policy can be regarded as exemplary.<sup>26</sup>

The most important instrument of economic and social cohesion is financial aid from the three structural funds (the European Regional Development Fund, the European Social Fund and the European Agricultural Guidance and Guarantee Fund, Guidance Section). Actions by the three Funds are co-ordinated by means of "Community support frameworks".<sup>27</sup> The bulk of the funds of around ECU 60 billion for the period 1989-1993 will go to the periphery of the EC, in other words Greece, Ireland, Portugal and Spain, but southern Italy will continue to benefit on a substantial scale. Fund activities concentrate on the promotion of national infrastructure programmes, business investment and innovation. Occupational training programmes and measures for the recruitment of young people or the long-term unemployed are also financed and special attention is paid to promoting structural adjustment in agriculture and fisheries. The Community's credit policy supports the aims of EC structural policy, their common objective being to promote investment in problem regions or sectors. Loans totalling around ECU 10 billion were granted for that purpose in 1988, divided almost equally between trade and industry, infrastructure projects and the energy sector.<sup>28</sup>

The peripheral economies of the EC also benefit from the new arrangements regarding the Community's own resources.<sup>29</sup> A new GNP-linked source of revenue was

introduced when the structural funds were reformed, thus reducing the burden on the Community's VAT revenues, which would otherwise have had to be increased to finance the Community's increased expenditure. But for the new proportional revenues, the regressive nature of the EC's share of VAT would have bitten more severely owing to the significantly higher component of final demand in the national product of the peripheral economies of the EC. The new arrangements leave greater latitude for national fiscal policy, which can be used to boost domestic growth.

### Implications of Technology Policy

The EC Commission is reflecting more deeply on the implications of technology policy for cohesion. Peripheral countries are demanding that greater heed be paid to their interests. To some extent this is undoubtedly sabre rattling in order to achieve their "juste retour" within this policy area, even where participation by companies and research establishments from peripheral countries would not otherwise be warranted on purely qualitative grounds.

In addition there is growing recognition that technical progress is of central importance for a country's economic development. It is feared that if peripheral countries are not sufficiently involved in Community technology programmes the technological and hence economic divide within the EC will become ever wider. For that reason it is thought necessary to adopt a new strategy to replace or at least complement the one-sided concentration on "sophisticated technologies", which require considerable technological knowhow and yield commercial returns only in the long term.<sup>30</sup> This means that assistance would have to be extended to more market-oriented technologies that make small demands on technological expertise and to measures to disseminate technologies.

The cohesion policy can therefore be seen as the counterpart to faster harmonisation of social standards. Although it contains elements of social policy, it requires action in a different direction.<sup>31</sup> The financial latitude that peripheral economies have as a result of lower social policy costs must be used to benefit private investment

<sup>25</sup> For a comprehensive analysis of the instruments of cohesion policy, see M. Schäfers and J. Starbatty: *Das Instrumentarium der Europäischen Gemeinschaft zur Förderung innergemeinschaftlicher Kohäsion*, to be published in: *Aus Politik und Zeitgeschichte*, Vol. 28/90 (6th July 1990).

<sup>26</sup> On the demand for inclusion of the periphery in technology policy, see T. Padoa-Schioppa et al., op. cit.

<sup>27</sup> See Regulation 2052/88 in OJ 185 of 15th July 1988 and the guidelines on reform of the Community's structural funds, published by the Commission in 1989, which are an excellent guide through the jungle of European structural policy. On the distribution of funds, see *ibid.*, p. 18.

<sup>28</sup> See Commission of the European Communities: *Report to the Council and to Parliament on the borrowing and lending activities of the Community in 1988*, in: *European Economy*, No. 41, July 1989, pp. 6-66 and especially tables 8-10.

<sup>29</sup> On this issue, see R. Messal: *EG-Finanzierung und Lastenverteilung – Die Reform des EG-Finanzierungssystems 1988*, in: *Schriftenreihe des BMF*, No. 42, Bonn 1989.

<sup>30</sup> Cf. J. Starbatty and U. Vetterlein: *Spitzentechnologie oder innere Kohäsion. Ein technologiepolitischer Zielkonflikt in der Europäischen Gemeinschaft*, in: *Europa-Archiv*, Vol. 44, 1989, pp. 145 ff.

<sup>31</sup> The Federal German Ministry for Economic Affairs also advocates such a strategy in: *Die soziale Dimension der Europäischen Gemeinschaft*, supplement to *Monatsbericht* 12/88, p. 5 and *passim*.

if the economic gap within the EC is to narrow.<sup>32</sup> If cohesion is to be achieved, certain principles must be observed. For example, it must be ensured that

- the periphery does not lose the competitive advantage resulting from lower social production costs;<sup>33</sup>
- costly national programmes of additional social security spending are not introduced and that fiscal policy is aimed instead at permanently strengthening private investment; a reduction in government budget deficits can make a contribution in this respect, for then it will be easier for the capital markets and the private corporate sector to raise external finance for investment projects;<sup>34</sup>
- public infrastructure and public administrative practices are better in tune with the needs of firms operating internationally.<sup>35</sup> Many (complementary) private domestic or foreign investment projects then become feasible or are prompted by improved profitability;
- the often inadequate educational and training systems in the peripheral member countries are brought up to international requirements.<sup>36</sup>

### Convergence of Social Standards

The internal market does not need the overhasty formulation of minimum Community social standards, and economic and social cohesion could not withstand it. Dirigistic upward harmonisation of social standards would not improve the functioning of the Common Market. Quite the opposite. The initial conflict over the level at which to pitch the minimum standard would be followed by conflict over the necessary transfer of income or non-tariff trade barriers to protect "poor" members of the EC, since their competitiveness would decline. The latter would of course conflict with the objectives of the internal market.

It should not be forgotten that the internal market itself has a social dimension, since it gives the peripheral economies an opportunity to exploit their comparative advantages, which now consist primarily of lower wage and social security costs. Free competition between systems is essential to their economic development. If an alliance of employers and trade unions in the north of the EC defends itself against lower labour costs in the

south of the Community by means of harmonisation at a high level, by the same token a corresponding coalition in the south could take up arms against "technological dumping" and fall back on infant industry protectionism. The result would be the break-up of the internal market. All regions of the EC can benefit from a free division of labour, provided they are allowed to exploit their comparative advantages.

A properly defined social policy can undoubtedly contribute to the smooth operation of the internal market. However, this need not apply to entire economies but to persons unable to keep pace with keener competition. Measures in the employment and social security fields can make an important contribution to overcoming adjustment problems with little social conflict. This can improve the acceptability of the single European market, which ultimately also promotes progress in the periphery. However, the productive forces of the internal market can be released in the peripheral states only if the principle of competition extends to all areas of the economy, including the labour markets, which are heavily regulated in all member states.

A general improvement in working conditions and in the social protection of workers in the peripheral member states of the EC is certainly universally desired. However, this cannot be imposed from above by decree or by means of a programme of social measures, but must be the result of the economic development of individual member states. Ex ante harmonisation of social standards within the EC would impede the economic development of the periphery and would therefore conflict with the objective of cohesion. It therefore seems more sensible for the Community to invest in the economic catching-up process by peripheral countries – leaving aside the question of the efficiency of existing instruments. From this point of view a gradual convergence of social standards within the EC would be the crowning piece of a successful policy of cohesion.

<sup>33</sup> The same view is expressed in Europa-Gruppe, op. cit., and by the UNICE, the umbrella organisation of European employers' and industrialists' associations; see *Unternehmer kritisieren die Sozialcharta*, in: *Frankfurter Allgemeine Zeitung*, 29th January 1990.

<sup>34</sup> Similar to the views of the EC Commission in: *Economic convergence in the Community: a greater effort is needed*, in: *European Economy*, No. 41, July 1989, pp. 92 f.; see also *European Economy*, No. 38, op. cit., pp. 124 f.

<sup>35</sup> See also the study on the less favoured regions of the Community, which estimates the necessary infrastructure expenditure in the peripheral countries (including Italy) at more than ECU 153 billion over the next ten years, in: *T. P a d o a - S c h i o p p a et al.*, op. cit., Annex E, p. 178.

<sup>36</sup> See also Federal German Ministry for Economic Affairs, op. cit., pp. 11 ff.

<sup>32</sup> The volume of investment and the marginal productivity of capital are the main determinants of the growth rate in the peripheral economies. Indications of the rates of growth the periphery needs to achieve over and above the EC average in order to reduce the intra-Community prosperity gap to less than 90% are contained in Study B: *Einige gesamtwirtschaftliche Überlegungen über die Chancen und Bedingungen für den Aufholprozeß der ärmeren Länder der Gemeinschaft*, in: *Europäische Wirtschaft*, No. 38, op. cit., pp. 124 f.