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Dirk Meyer\*

# The Social Charter as a Counterpart to the Single European Market?

*The debate over the completion of the single European market is increasingly centering on its so-called social dimension. Does it make sense to streamline social security in the member states as a safety net against the adverse consequences of the single market?*

The date set for the completion of the single market is the end of 1992. It is however already clear that only a part of the programme targets set out in the EC Commission's so-called White Paper can be achieved by then. Major, and at the same time controversial, issues have still not been settled or have not yet even been addressed. A specified goal of the single market is to benefit from the advantages of integration via an improved division of labour and larger markets. The Cecchini Report for example forecasts a boost in growth from higher incomes and new jobs.

On the other hand, widespread liberalization will call the protection of national goods and labour markets into question. Transport and communication, banking and insurance, the self-employed and the public utilities and procurement in particular are sectors that fear the dismantling of protection from competition and the resultant loss of rents, which represent income unrelated to performance. Up to now both investors and those employed in these sectors have been able to glean such income at the expense of others, namely consumers and taxpayers.

Parallel to the resistance to liberalization and its embodiment in national legislation there is therefore a growing demand that the so-called social dimension be taken into account. The key component is the Community Charter of Basic Social Rights, the unanimous adoption of which by the Council of Ministers in December 1989 was prevented by Great Britain's opposition. Nevertheless, the Social Charter is the foundation on which the EC Commission has devised an Action Programme relating to the Implementation of the Community Charter of Basic Social Rights which will find practical expression in EC

directives and legal entitlements at national level in the coming years.

To rid the Community of national compartmentalisation and gain the benefits of the free movement of goods and factors of production, i. e. to lower the costs of covering distance, the general conditions must be created for an integration of the, in some cases, quite disparate economic and social areas. This can be effected in two ways.

Harmonization by means of ordinances streamlines existing differences immediately, as it were. This seemingly very elegant and swift approach, however, has serious shortcomings. The more divergent the individual levels are the more difficult and time-consuming it will be to reach a compromise. Compromises in political processes are often connected with package deals, whose economic rationality must appear at least questionable. Possible dissatisfaction will be reflected in ex post amendments or half-hearted national implementation.

The immediate entering into force of uniform standards can mean high adjustment costs and frictional losses for the economic units (businesses, employees, consumers) required to adapt abruptly. Harmonization according to a common norm also presupposes information on the optimum level, knowledge that simply cannot exist in view of different national goals, alternatives and overall conditions. Furthermore, future unforeseen developments cannot be accounted for. Especially in the case of mistaken decisions the risk borne is obviously one-sided. With uniform standards, all activities and innovations by individual countries, which always entail a departure from the current norms, would be impossible. This may well be one of the underlying objectives of a corresponding political cartel which wants to effectively prevent alternatives and hence political competition.

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A quite different method of harmonization is offered by the concept of system competition. Here, national differences persist in the apparent disorder of competition. A more or less gradual, often imperfect harmonization emerges in the process of competition. This enables the market contenders to adjust more smoothly over time and allows scope for national autonomy and outsiders. This decentralized harmonization from below allows and fosters a dynamic development and innovative initiatives. Decentralization also implies a diversification of risks.

The steps taken so far towards completing the single European market have been largely in line with the competition concept. The so-called *Crème de Cassis* ruling of the European Court of Justice and the decision on the German purity regulation for beer have demonstrated that the principle of the country of origin obtains. According to the notion of integration via competition, the regulations of the country of origin apply for recognition as a good which is allowed to be imported. This facilitates trade and counters anti-competitive, regulative practices through external competition. The same holds for private, autonomous, anti-competitive agreements on goods and factor markets, which are rendered ineffective by outsider competition.

### **Offsetting Competitive Disadvantages**

Unlike the concept of the single market which is aimed at obtaining the overall economic benefits of integration, the thrust of the Social Charter is directed at preventing the anticipated or eliminating the existing microeconomic drawbacks of keener international competition. Accounting for the social dimension is thus intended to ensure that social achievements are not impaired by the single market. Key notions such as "mitigating the impacts of certain Community policies" – meaning the necessary market adjustments in coal and steel, shipbuilding, textiles and agriculture – or the "avoidance of distortions of competition" or even the fear of "unfair competition by exploiting labour", illustrate the intent of the related programmes.

The "standard scenario" that increased international competition will call into question the adjustments and the positions of established suppliers is correct. At the same time the chances of a more efficient, i.e. cheaper or more closely geared to demand provision of goods and services will improve. Thus, the demand for flanking social measures to supplement the process of integration is by no means a logical necessity or even a precondition of integration. Social standards will only be endangered if the costs involved are not offset by a corresponding rise in productivity. Under these circumstances the introduction

of a social dimension, however, would be highly questionable as it would constitute an artificial shield against competition and a passing on of internal costs to consumers, taxpayers, shareholders and the unemployed.

### **Social Dumping**

The rationale for government intervention for the alleged protection of competition is often so-called cut-throat competition. The charge of social dumping is accordingly levelled in the main at EC countries with low wages and nonwage labour costs (Greece, Portugal, Spain), which would in the medium term lead to a deterioration of social welfare in the high-wage countries (Germany, France, Benelux countries, Denmark). Trade unions and employers associations, too, therefore call for a Social Charter with minimum standards on employee protection.

From the standpoint of economics, the concept of social dumping must itself be criticized. Irrespective of the competition policy side, dumping denotes supplying goods and services at different locations (e.g. at home and abroad) where price differentials do not reflect cost differentials. As the maintenance of social benefits in employment costs money the differences manifest themselves in labour costs, especially in nonwage labour costs (in Germany, some 84%). Different working conditions and employment protection regulations are thus competition parameters and can be viewed as location factors, since labour is largely immobile. Also, the charge of social dumping ignores the ratio of labour productivity to labour costs. A comparison of the unit labour costs shows considerably lower international differences. Thus countries with high social standards can basically afford to finance them thanks to higher labour productivity.

### **The Social Charter**

So far, the social policy of the EC has focused on promoting the free movement of labour and facilitating its adjustment to the increasing integration of the goods markets, hence on mutual recognition of vocational qualifications and diplomas, the guaranteeing of equal social welfare rights for migrant workers from other member states and on retraining allowances. Measures on health and safety at work have also been drafted.

The Social Charter and its implementation in the Action Programme has a more far-reaching goal. The quite disparate social policy provisions of the individual member states are to be aligned and the system of social security standardized. The main points of the Programme are as follows:

☐ Freedom of movement: equal treatment of migrant workers in tax and social matters; harmonization of the conditions of residence, also for family members; mutual recognition of diplomas and certificates; transferability of claims to benefits.

☐ Social security: right to social security; right to a minimum income and appropriate social assistance; no harmonization of the social security systems (illness, age, unemployment).

☐ Equal treatment of men and women: establishment of formal and practical equality; support for working mothers.

☐ Freedom of association and free wage bargaining: freedom of association; proposal of EC wage agreements with the related dialogue between employers and labour at branch level.

☐ Employment and pay: free choice and exercise of occupation; fair pay; standardization of employment contracts; minimum standards for provisions regulating working conditions and social security.

☐ Improvement of the conditions of life and work: harmonization of maximum working hours and uniform regulations on flexible working hours; harmonization of permanent employment contracts, especially for part-time and loan employment; harmonization regarding regular overtime and shift work; standardization of procedure in the case of mass layoffs and bankruptcy.

☐ Employees' right to be informed, consulted and to participate: further development taking account of national legislation; particular attention to employees' opinions when new technologies are introduced, businesses are reorganized or merged and in the case of mass dismissals or bankruptcy; new regulations on workers' participation in firms with a "European dimension"; profitsharing or shareholding by employees.

☐ Right to vocational training: further and advanced training; appropriation of money from the structural fund.

☐ Health and safety at work: harmonization of national provisions; special directives for individual economic sectors (construction industry, shipping, mining, transport etc.).

Money is available to finance these proposed measures from the structural fund, made up of the regional, social and agricultural funds. These funds exercise a considerable influence on regional policy through their decisions as to how and to whom money will be granted. Between 1984 and 1989 the sum available to these funds was increased by 200%. Up to 1993, DM 29 billion per annum can be disbursed. The major regional beneficiaries

are Ireland, Portugal, Spain and Greece and the sectors earmarked for support are the problem areas of coalmining, shipbuilding, steel and agriculture.

### Impacts of High Social Standards

The Social Charter and its implementation will entail an increase in regulative mechanisms. The harmonization of working conditions (working hours, workers' participation rights, health and safety at work) will impinge on the autonomy of national legislation and wage bargaining. The scope of small and medium-sized businesses to determine their own contractual labour relations, so vital to their survival and therefore often utilised to its limit, will be narrowed even further.

EC-wide uniform minimum standards will mean a trend towards the centralization of social policy decision-making and will lead to the international coordination of the positions taken by employers and employees respectively. The level of the minimum social standards may not pose any serious problems to the German economy at present, but once the process has got underway, it could lead to more far-reaching developments.

The harmonization of major components of employment relations will level out competitive and locational factors and thus prevent the exploitation of comparative cost advantages via the international division of labour and trade. The enlargement of the internal market, the accession of countries with lower economic performance and the widening of regional differentials would seem, on the contrary, to argue for distinctions in social systems and the application of the principle of the country of origin. In addition, experience shows that social security can only be funded in economies at a higher level of development.

Further, the advocates of a Social Charter are prepared to accept the problems entailed in its implementation in less developed economies. Minimum social standards that exceed the present level and are not earned by means of a corresponding rise in labour productivity could have a detrimental effect on the international competitiveness of these countries and cause employment problems. This means that the establishment of the highest possible social standards would be in the interest of German workers and their trade unions. It would slow down net capital exports, enhance the relative competitiveness of Germany as a production location and a possible influx of labour would provide the unions with more members.

Minimum standards that are not in line with the market often necessitate follow-on interventions. The EC's structural fund has been enlarged accordingly, partly to

meet the costs ensuing from the Social Charter. The financing will be borne by the more wealthy EC countries, i.e. foremost Germany. Indirectly, then, the improvement of relative national competitiveness via the prescription of EC minimum standards will be paid for by taxpayers at home. In the end the endangered production branches of the less developed EC countries will call for protectionist measures which will run counter to the goals of the single market.

Another problem is the very vague wording of the Social Charter and the Action Programme. Either it will have to be embodied promptly in national law or the remaining legal uncertainties will have to be settled by the European Court of Justice. In the latter case the principle of equal treatment will mean that the highest standard will be applied as the yardstick.

### Conclusion

Nevertheless, two hopes remain for the critics of the Social Charter. One, provisions affecting the rights and interests of employees, vocational regulations and the mobility of labour still require the unanimous approval of the Council of Ministers. Only minimum social standards to improve working conditions, in particular safety and health at work, can be adopted with a qualified majority. In addition, the debate reveals a keen awareness on the part of the low-income countries of the consequences of high social norms and this will be reflected in the level and scope of future compromise agreements.

The alternative to the Social Charter is competition amongst the systems: international locational competition does not impair social policy as a whole; it only affects its irrational, i.e. protected component which is not covered by corresponding productivity. There is thus no need for uniform regulations. On the contrary, independent, national policymaking in social security, especially regarding the maintenance of the status quo in employer-employee relationships could lead to appropriate steps. This will be of special importance where labour mobility is comparatively low and exchange rates cannot be resorted to as a means of adjustment in a European Monetary System. Equality is thus not a prerequisite, but at best the outcome of a time-consuming integration.

Each country must achieve its social standards on its own, and these can only be raised by increasing the productivity of labour. This calls for efforts in qualification and capital intensification. So that jobs can be increasingly equipped with capital imports, locations must be made particularly attractive for potential investors. Increased nonwage labour costs due to minimum social standards, though, will produce the opposite effect.

In the long run, the preservation of competition by means of open national and international markets alone can assure the necessary freedom to innovate and lay a firm economic foundation for the "social dimension". Conversely, protecting market participants via equal minimum social standards, will engender cartelisation and impede economic development.

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