

REDEFINING EUROPEAN UNION SOCIAL MODEL

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Abstract: The small progress made in the direction of implementing the strategy of the European model – the Lisbon Strategy led the social analysts to talk about the necessity of reinventing the European social model. This paper points to the pressures which led to the manifestation of the crisis of the European social model and presents the new European social model having as basic principles the solidarity and social cohesion and as objectives the achievement of equal opportunities, social involvement and social integration/inclusion.

At the level of social policy, the European Union faces two major challenges: on one hand the fear that the globalization process will affect the capacity of providing for social security for individuals, and on the other, the fear that the social policy itself threatens the ability of the EU to adapt to changes caused by globalization and by international competition. The lack of flexibility of the labour market, correlated with the excessive costs for the social protection is considered an obstacle for economic efficiency and fundamental reforms.

A series of exogenetic and endogenetic factors are exerting pressures on the European social model and have been systematized in the following table.

In the area of railway connection, during 1869-1915 there were built 2554 km of simple railway route, with 404 stations and 39 flag stations, 1497 of railway carriers and 25736 freight railway carriers.

Naval and maritime transportation experienced significant progresses. In 1905, Romanian maritime fleet was composed of nine big ships, with 30000CP, out of which five ships cover Braila-Rotterdam, and four were used for people and cargo transportation between Constanta and Constantinopol, a route which got recently extended to Smirna and Alexandria.

Therefore, the pressures on the European social model are exerted in different directions, causing major difficulties in the process of its reformation. In fact, for the present social model, the EU does not accept as an alternative the American neo-liberal model, but one that focuses on development, for which the welfare state has an important role. The European politic leaders mention a European social model, based on economic achievements, on a high level of social protection, on education and social dialogue. The paradigm of the European social model resides in the fact that the economic policy, the employment policy, and the social one form a triangle, and they must stimulate each other. These positive interactions must create a virtuous and sustainable circle for the economic and social progress.

Table 1

Contemporary pressures on the European social model

	PRESSURES FOR LIMITATION OF THE WELFARE STATE	PRESSURES FOR DEVELOPMENT OF WELFARE STATE
World-wide factors	-the cost of capital flight out -economic competitiveness (considered by contrast with the welfare state)	- the necessity for protection of the labour market and the social area in general, against the negative effects of the competition -the investors' trust – depending on the social stability
European factors	-the right to veto of member countries of the EU in the negotiations regarding the legislation in the social field; -pressures exerted towards the monetary deregulation and stability imposed by the Monetary Union -the monetary policy at European level affecting the national system of wages negotiation	-the single European market requires comprehensive social regulations -the appearance and imposition of a new European, transnational social model -the development of the European Union and the existing regional differences, requiring actions of redistribution at European level
National factors	-the increase in social inequities develops the risk of a “mutiny” of tax payers -the eviction effect of the taxes -the perception of economic inefficiency of the social policy	-potential contribution in the creation of the human capital -contribution to social stability, against the insecurity of the labour market -demographic problems -increase of costs for the protection in the medical domain

The causes of the European social model are diverse, yet converging towards sustaining that the model is actuated from inside as well as threatened from outside. Its frailty is caused by: reduced capacity of adaptation at economic changes, incapacity to efficiently meet the new social expectations, the ageing process of the population, promoting inadequate policies for the environment protection, European people mistrust. The following diagram presents the crisis of the European model, analyzed as a group of vicious relations, affecting its own institutional structure.

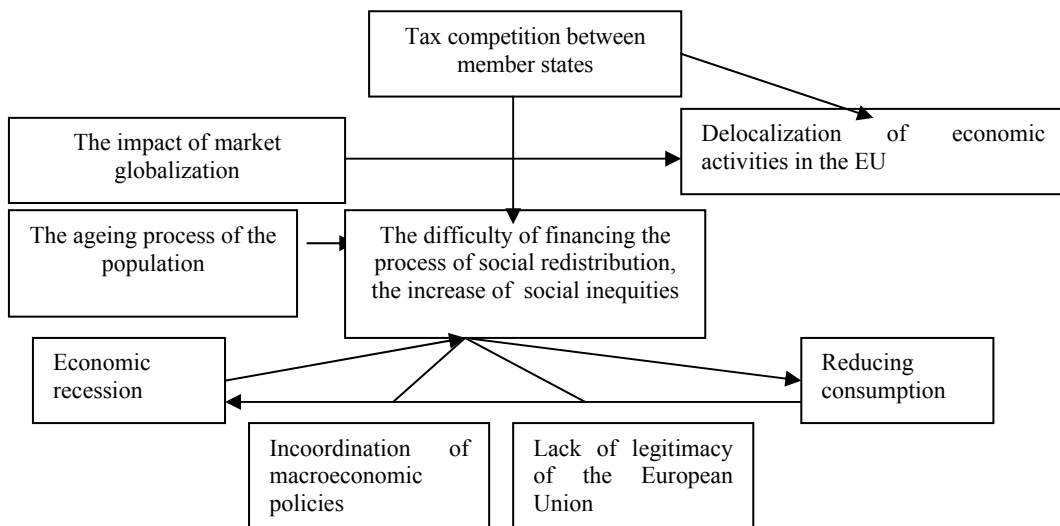


Fig. 1. The crisis of the European model

Source: Moraru L.C., Staicu G., *The European model between the descriptive and the counter-factual, Theoretical and applied economy*, pag.99

In Western Europe there are presently many statements doubting the possibilities of maintaining systems of social protection at national level and even such expensive governmental instruments. Although some of the members are still managing, the EU, in general, is no longer situated on a top position, in the key domains of the economic growth, such as the capacity of innovation, IT development or the enterprising spirit, in comparison with such competitors as the U.S.A., Japan, or, recently, China and India. The latter openly attack the Western-European economic systems, stating that the former western social model led to economic failure, and that it must undergo radical restrictions, for the creation of new workplaces (the number of unemployed in the EU is presently close to 20 million persons, of which 10 million have not worked for over one year. Among them there are many young people – the European average (EU) of the unemployed aged between 16 and 24 years has reached the level of 18,7%, with alarming peaks in Slovakia (32%) and Poland (40%), while Italy has a rate of 23,6%).

Many politicians and social analysts are even talking about the necessity for *reinventing the European social model*. The reports of the European Commission repeatedly mention the fact that France, Germany, Italy, Poland and Spain have not found the most adequate policy to determine the citizens of the respective countries to prefer the employment to the unemployment benefit. The economic growth alone will not suffice to help create new workplaces. It's necessary to have explicit social policies to stimulate people to have initiatives and become more productive, inclusively by reducing the differences of the wages paid for the same type of activity and the diminution of the number of employees with small wages, by making the social model more flexible without affecting the social solidarity. The objectives of the Lisbon strategy are still difficult to achieve, especially as far as employing more women and a more significant number of persons close to the retirement age. Austria, which took over the presidency of the EU in January 2006, announced that it will continue the debates on this subject and that it will involve the euro-citizens more actively in the solution of the social problems.

In the undeclared competition for social protection in Europe, it seems that the Northern countries – Denmark, Finland, Sweden and The Netherlands, which offer a higher level of social protection and active policies on the labour market, are the most well positioned. The Mediterranean countries – Greece, Italy, Portugal and Spain - are situated on the lowest positions of the classification because they intervene socially especially in the pensions domain and the wages regulations, through collective negotiations.

The structural defects of the labour market in the EU-25 seem to be the main reason for which the Commission of Bruxelles determines that the employed labour in this area (in 2004), was, on an average, of 63,3% (as opposed to 71,2% in the U.S.A. or to 68,7% in Japan), while the rate of the average increase in the Gross Internal Product was of only 0,6%. At the same time, the unemployment in the U.S.A. was of 5,5%, that is much lower than in the EU-25 (9%), while in Japan, it was of 4,8%. This is one of the main reasons why it seems that the average and highly qualified labour in the Eastern Europe or on other continents has been orientated in the last years mainly towards the North American area.

On one side, there are those who want free and flexible, less legislative labour markets, marked by a greater competitiveness. On the other side, there are those who want a higher standard of living, markets governed by regulations, protection of the labour market and more rights for the workers.

Despite the differences of opinions, in the European Union there were and still are many comments referring to the social problems. The international Convention which the Union is based on stipulates, among its central objectives, the achievement of a high level of using labour in the domain of social protection also, as well as promoting a better living level and better working conditions.

The European Commission's duty is to coordinate the variety of policies regarding pensions, using the labour, social insertion, eliminating poverty in all 25 member states of the EU and to conclude which practice is the best.

Despite the relative heterogeneousness of the existing systems of social protection in different European countries, undoubtedly at North-Western continental level a marked social model has appeared, as an expression of a clear will to achieve a decent level of social welfare for all the residents. *The basic principles of this social model are the solidarity and social cohesion and its objectives target the achievement of equal chances, social participation and social integration/inclusion.*

The systems of social protection and the legislation for working relations in Europe are clear examples of policies belonging to the European social model. It's important to mention the fact that (currently) the main intervention of the European (superstate) organizations is limited only to the relations on the labour market, while the so-called basis of the welfare state, the education, the health programs are still under the direct influence of national governments. It's interesting reminding the fact that sporadic attempts have been initiated at community level and at the level of social exclusion, proving to be incoherent and non-uniform, the main reason being the fact that each country had a somehow hostile position.

The marked competition inside Europe caused by the dissolution of the borders, by the free circulation of goods, services and persons exerts an enormous pressure on the systems of social protection as far as reducing social expenses. „The solution" proposed by the European organizations in order to eliminate the competition considered disloyal has proven to reside in „*accommodating the national social*

regimes", first of all regarding the working rights. Undoubtedly, after the accession of the group of the ten countries, the tax competition in the East has caused pressures regarding the lowering of the level of taxation for the countries in EU 15. Such a competition can also be considered as disloyal and, therefore, it's possible to witness a double scenario.

The first one is considered to be the tax accommodation at the level of direct taxes (mentioning that the majority of indirect taxes are already related to the common policy), so as to avoid the mobility of entrepreneurs from one region to another and, implicitly, the problems of employment in countries with no tax attractiveness.

A second scenario, which I consider to be necessary, would reside in the former members' adoption of a policy of tax diminution. Thus economic growth would receive an impulse from the aggregate offer. However, considering the signs so far, it seems that the first scenario is a more convenient method for the European structures. In the social Chart, the concrete decisions refer to the rights of employees under 18, to the equal rights of employees working in another state and the employees citizens of the country they are working in, to the right of integration of families of employees working in another state etc. the titles of some documents or institutions being considered as arguments of the mentioned decisions. For example, *The Chart of fundamental rights of workers* had as original title the community Chart of the social fundamental rights (which was not accepted by signatory states), while the 13th chapter of accession to the EU is called *Social and employment policy* [1].

A significant impact on the process of economic growth at the level of the EU will be caused by the ageing process of the population. The reason is the fact that the current system of social welfare of the European model exerts a marked pressure on the national budgets, preventing them from gathering any consistent budget surplus during periods of expansion.

Over 100 years ago, Bismark started the creation of the modern welfare state, with vast programs in the domains of pensions, unemployment, health insurances. So the welfare state has replaced the former contracts between generations applied within families with a social contract based on redistribution. In a first stage, the costs required for supporting this program were sufficiently low to be covered by the society as a whole. For example, the pensions needed to be payed to a small number of individuals (in the conditions of a low life expectation) could easily be supported by the young people continuously growing in numbers on the labour market. The age diagram had the ideal form, of a pyramid, with the people on top being sustained by a solid base.

The subsequent demographic evolution presented a marked tendency of ageing of the population in the European countries, especially after the Second World War. The increase in costs of redistribution has not led to a sudden failure of the system in the economies which implemented it also because the international migration of the labour and capitals was reduced.

The globalization phenomenon reveals „*Achilles' heel*” and the deficiencies of the current welfare state [3]. The jobs in the EU are lost in favour of countries with comparatively lower costs of wages (especially those in the Central and Eastern Europe); the increased number of pensioners in countries like Germany and France leads to taxations which substantially reduce the saving levels. We estimate that the ignorance of these aspects leads, as we will see further on, to prolongation and, maybe failures of the common European projects.

If we consider Germany as an example (which, together with France, represents the drive of the current European structure) we may observe that several empiric studies reveal the fact that the budget deficits of social insurances are greatly amplified by the recorded demographic evolution.

In 1950, there was still a population with a wide basis of individuals aged between 25 and 50 years, while the peak of the pyramid (individuals aged approximately 75) was represented by a small number. Half a century later, in 2002, there was an increase in the share of those who were still in the active period, but aged close to the limit of retirement; the number of pensioners has not increased substantially, but young people starting on the labour market are less numerous still. The forecasts for 2004 indicate an alarming situation: very few young people, a small population of average ages, and a substantial number of old people. The pyramid which Bismark based his redistribution system on will reverse its position by the first half of the XXIst century.

In conditions of economic recession, the budget deficits (which are not covered by the previous buget surplus) are increasing, because the taxes will probably be higher in order to cover a greater need for budget expenses. The effect will reside in the prolongation of the recession period, a characteristic of the European economy, which requires another 6 to 7 years to enter an ascending track of the Gross Internal Product.

Observing Ricardo's equivalence, these deficits will be covered by imposing higher taxes on a future aged generation (respectively with a smaller basis of taxation), which will only lead to maintaining a continuous recession in the evolution of the European economy. The effect of this tendency for ageing resides in a diminution of the global contribution of the European production from 18% to 10%in 2040, as well as in a diminution of the growth potential.

Looking from a perspective, pensions can not be financed by the system of the social contract between generations, meaning that those who are in the working field are paying the contributions and taxes for pensions, health insurances, unemployment etc. As a consequence, the strategy of each government must provide for the creation of budget surplus in order to face the future structural impacts.

A proof for the fact that the EU is looking for its own method of raising competitiveness and simultaneously maintaining a certain level of social protection is the concept of *flexecurity* which combines flexibility regarding the labour market, with a relatively high social protection for the unemployed and active employment policies. The concept is based on the idea that the flexibility and the security are not conflicting, but complementary and can even support each other. This involves a lower level of protection for labour against the risk of loosing workplaces (taking into consideration the regulations referring to personnel release), combined with high unemployment benefits and a labour market based on the right and obligation of the unemployed to professional training. The concept of *security of workplaces* is replaced by a broader one, of *security of employment*.

The EU is presently taking into consideration this concept as a basis for a future European social model, given the positive results of its implementation in Denmark, where the rate of unemployment dropped to less than 4%, with a still sufficiently important social protection.

Despite these positive results, there are still many questions related to its capacity of being transferred to other economies besides the Northern ones. The communication between employees and employers is an important part of this concept, but at the level of the entire EU, there are countries with a less important tradition from this point of

view (countries of Central and Eastern Europe), as well as countries where the relation between the employers and the unions has generally been quite tense over the years (the Mediterranean countries). On the other hand, the unpopular character of the necessary measures for the reform of the social protection requires the development of this communication, as a prerequisite for the success of the reform. It remains to be seen to what extent and how much time will it take for these countries to adopt the view of Northern states regarding social dialogue.

It is interesting to remark the EU's belief in the capacity to alter the existing relation between the objectives of the economic policy, of the employment policy and of the social policy, objectives which are generally considered as conflicting, within a relation of mutual support and stimulation. Behind the illusion created by of such a conception, the achievements of the EU in the accomplishment of the objectives of the Lisbon Agenda, there are numerous questions related to its realism.

The European officials consider that the decision to reform the European social model must take into account not only the problem of economic efficiency and competitiveness, while the EU faces important problems at the social level also – unemployment, ageing of the population, in addition to the economic problems – the globalization, the technological innovation. For this reason, the reform of the European social model is one of the most difficult problems which the EU must solve the sooner the better.

The modernization of the European social model aims at adapting to the new socio-economic demands and to the challenges the European economy is facing in the context of the two principles which the EU is not willing to give up to: the perspective according to which the social policy is considered a productive factor and the conviction that the lack of a “proper” social policy will generate an economic, social and human cost which will exceed the social expenses and the financial redistribution. Therefore, within the European social model, the economic achievements and the social progress are considered indissolubly related, thus tracing clearly enough the future orientation of the EU regarding the social policy. There are pressures for the social model to get closer to the one existing in the U.S.A., especially for reasons concerning the demographic decline and because the immigrants working in the member states of the EU exert pressures on the model of the welfare state. The EU can not adopt on average term the social model practiced in the U.S.A., but it can set the objective to reform the current social models in such a way that they have a higher level of trustworthiness.

If indeed the replacement of the European social model by an American-type, neo-liberal model, may not be accomplished and accepted by the population in a short period of time, given the deep influences of the social policy in Europe, this can not account for the incoherence of the European officials regarding the targeted objectives – maximum competitiveness, together with an extensive social policy. If there is an option to maintain a European social model with strong influences on the system of values cultivated for half a century, it must be accommodated with more realistic objectives at competitive level. Looking from the point of view of the sustainability of the social policy, we can understand the will of the EU to also maintain the objective of increasing the economic competitiveness. If the European social model is maintained, the economic growth and the increase of competitiveness are the only chances for its sustainability on a long term. The measure which makes the two objectives (economic and social) compatible is however arguable.

The social agenda of the EU still has as priorities the complete employment, the social integration, eliminating discrimination, an adequate system of social protection from the point of view of social demands. Since it covers the period until 2010, the agenda represents however a more provisional document rather than a group of concrete measures.

According to the most optimistic scenario possible, the EU will succeed in finding the method to eliminate the discordances between the social policy and the economic achievements. The theoretical model of social cohesion and stability, which stimulate economic growth, can be a valid one, but it proves to be harder to support in practice. The increasing costs of social cohesion are less accepted, threatening the social stability of the EU.

In conclusion, the European institutional model is presently undergoing great pressures for changing the welfare state with the system of order of private property and of economic prosperity. It is often acknowledged that the maintaining of the current order of the welfare state becomes more and more expensive for the European economies, for the national and community budgets. The dispute regarding the problems of redistribution – who wins, who supports? – is still a subject meant to delay the real measures of reform. We estimate that only by simultaneously considering the criterion of *efficiency and equity* we will be able to appreciate the opportunity of a reform.

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