

Single Market and Social Protection: Friends or Foes?

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Economic integration and labor

- The impact of economic integration on labor broadly depends on 2 factors:
 - » The type of integration
 - ✓ Shallow integration
 - ✓ Deep integration
 - » The type of countries involved in integration
 - ✓ Homogeneous countries
 - ✓ Heterogeneous countries

Economic integration and labor: Type of integration

- Shallow integration (only free trade in goods)
 - » No (direct) labor mobility
 - » But obviously indirect labor mobility (via goods trade)

- Deep integration (single market)
 - » Trade in goods
 - » Trade in services (including via temporary labor movement)
 - » Factor movement: FDI and labor migration

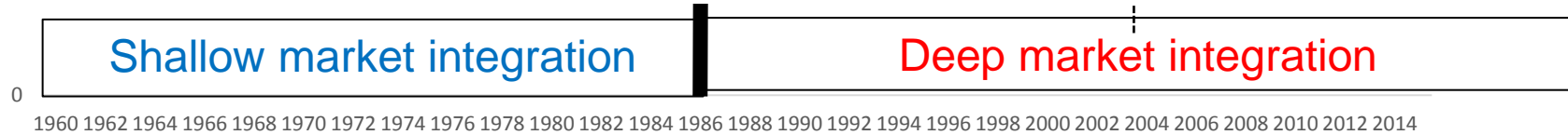
=> Labor mobility always present but in very different ways: direct vs. indirect, and if direct: temporary vs. permanent

Economic integration and labor: Type of countries

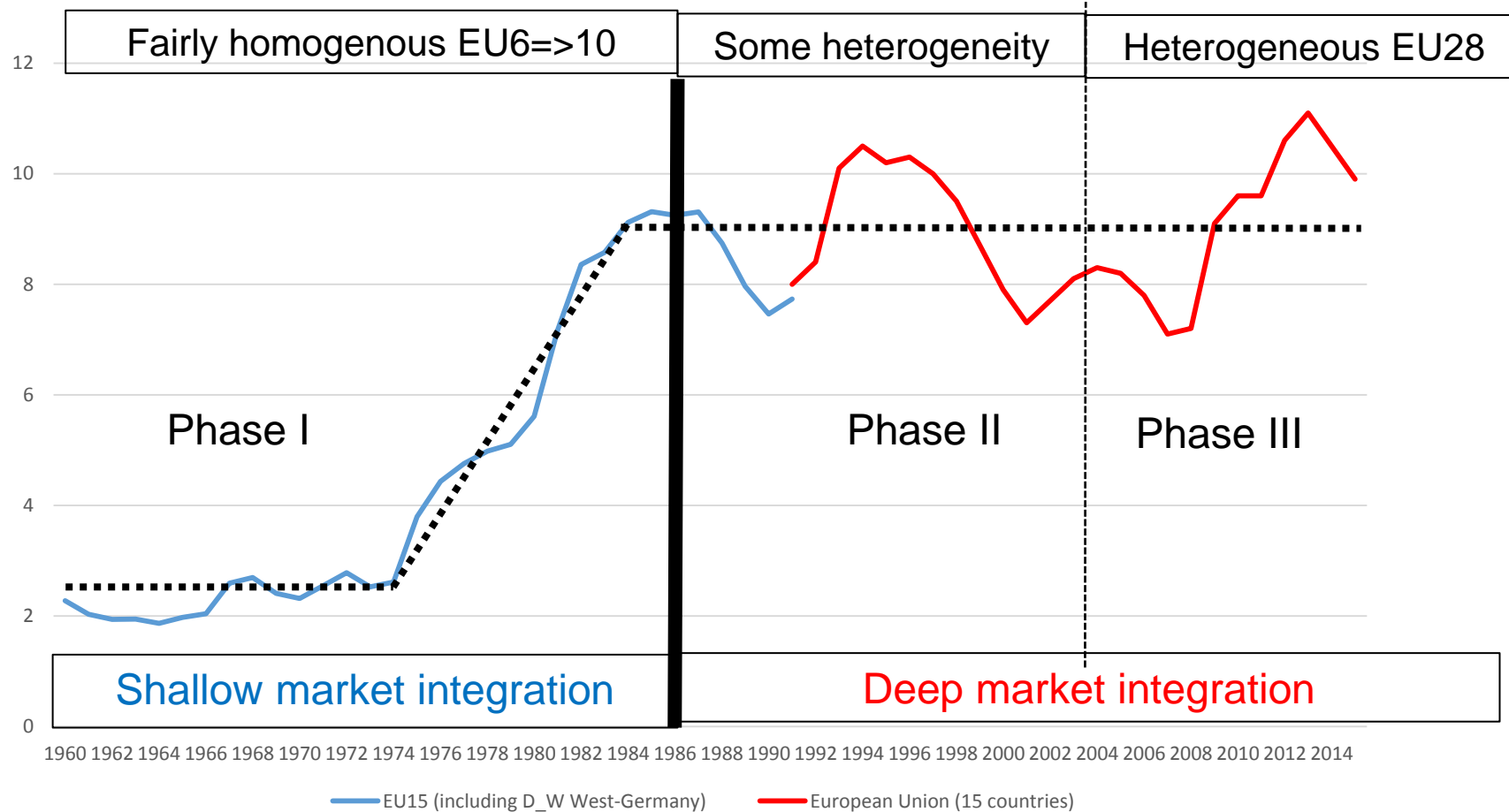
- Economic integration has two potentially opposite effects for workers in high wage countries
 - » Efficiency/productivity gains => wage gains = **positive effect**
 - » Effect due to increased competition in labor markets
 - ✓ **Little effect** if integration with other high wage countries
 - ✓ **Negative effect for competing workers, but positive for others**, if integration with low wage countries
 - » => Overall effect: >0 in general but <0 for *competing workers* if integration with low wage countries

- In low wage countries: efficiency gains always (?) dominate

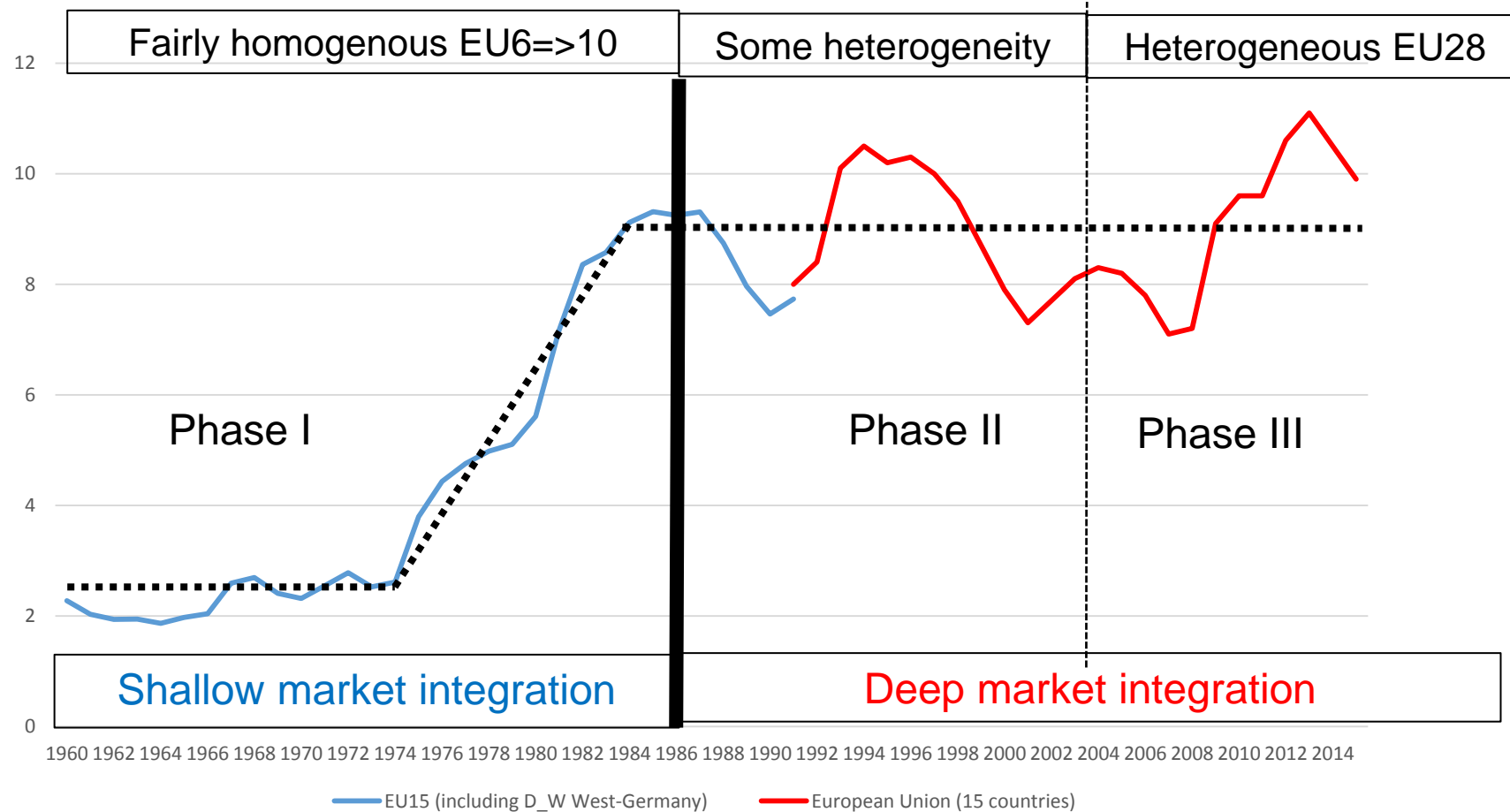
The 3 phases of EU integration



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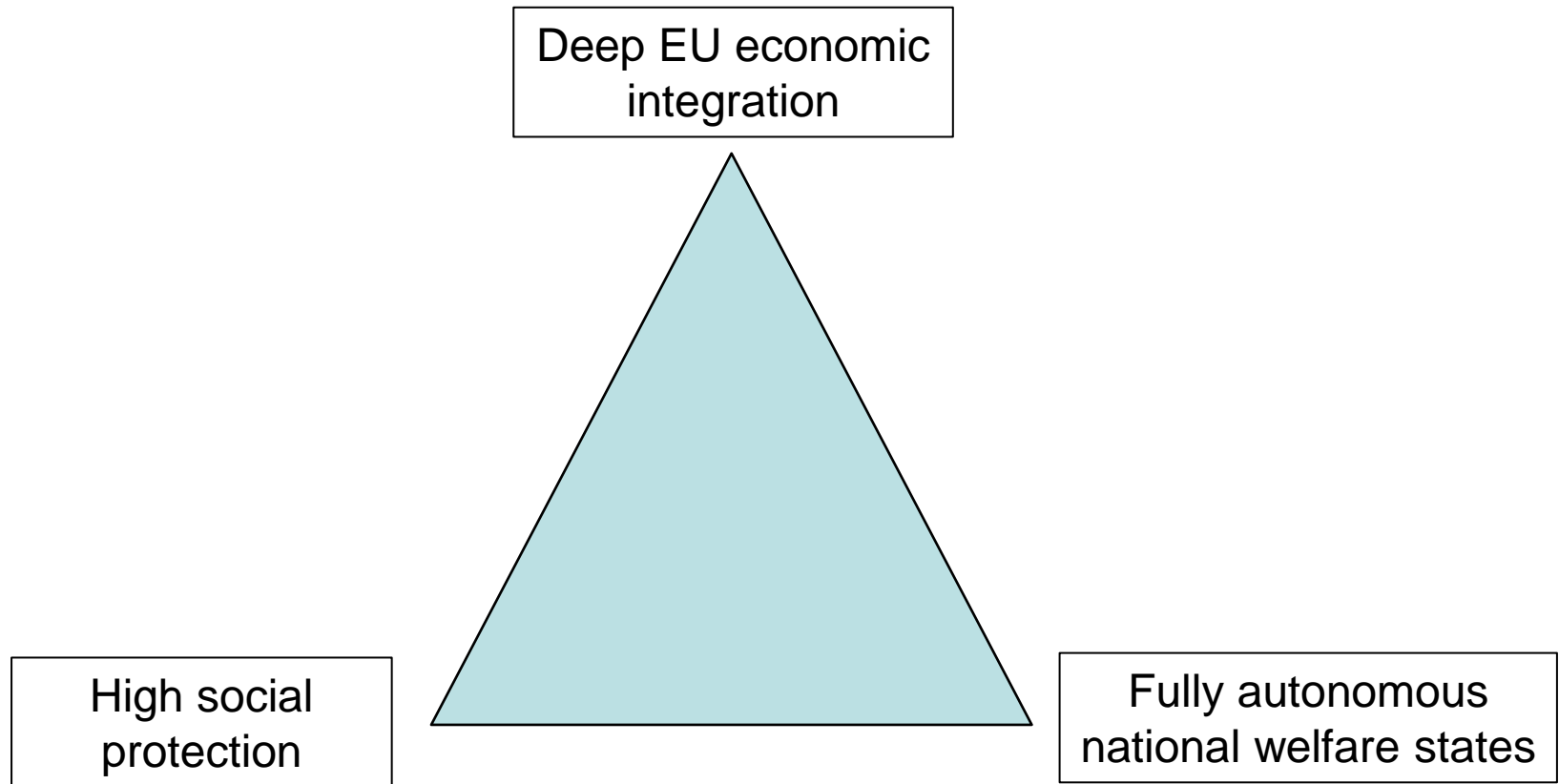


The 3 phases of EU integration

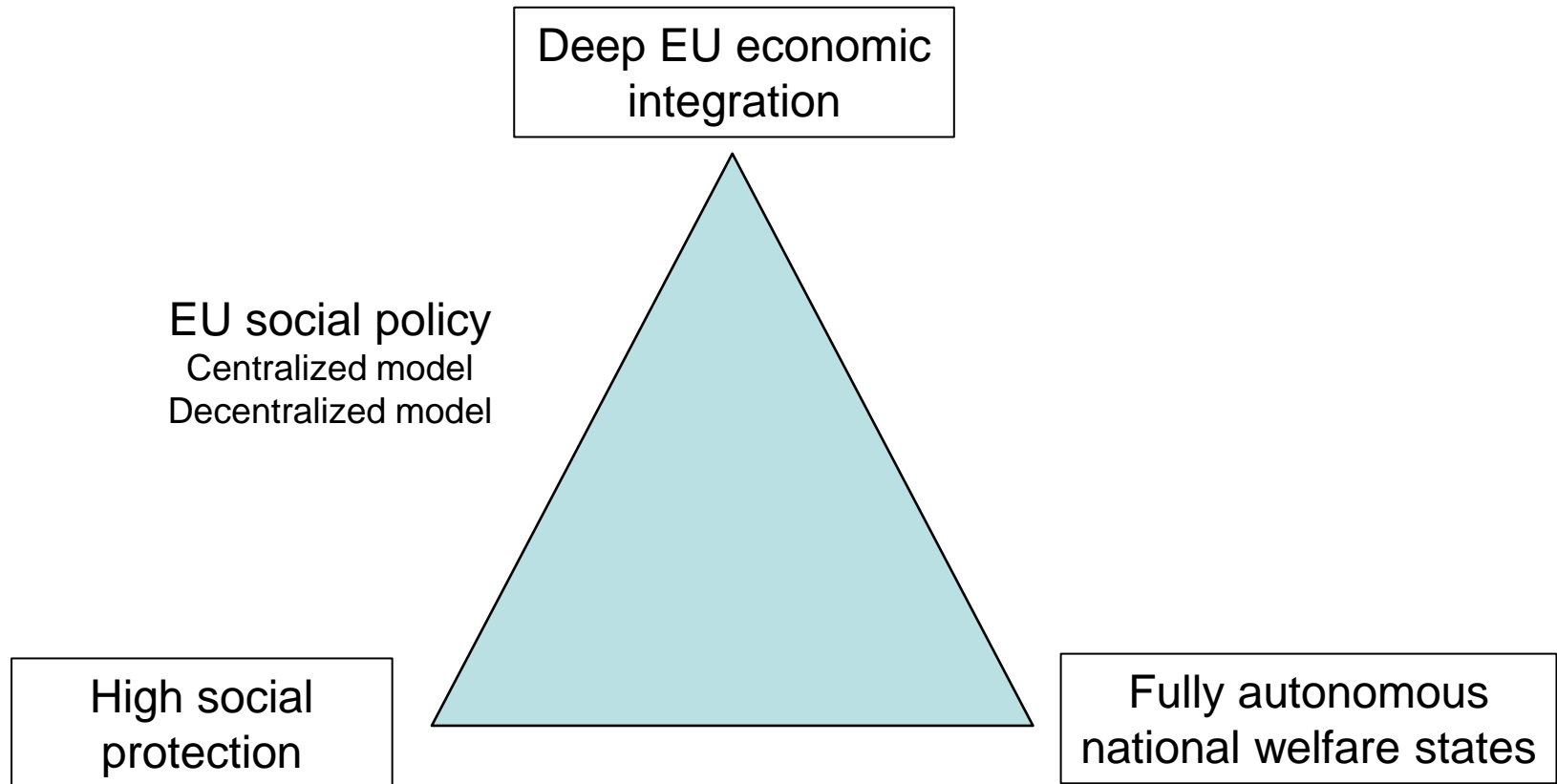


Deep market integration + (high) heterogeneity + high unemployment
 =
 Social trilemma

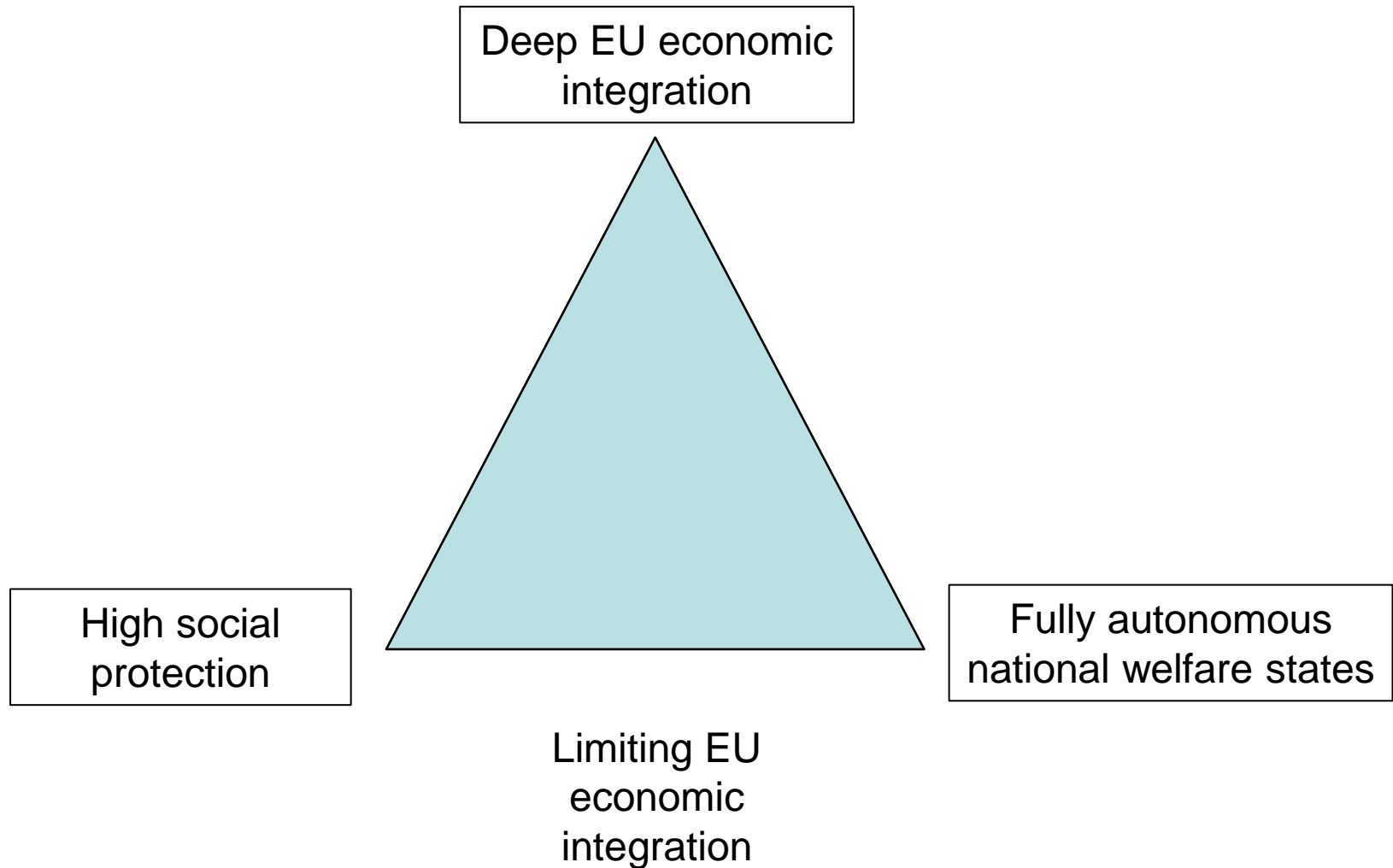
The Single Market & the Southern & Eastern enlargements have created a social trilemma



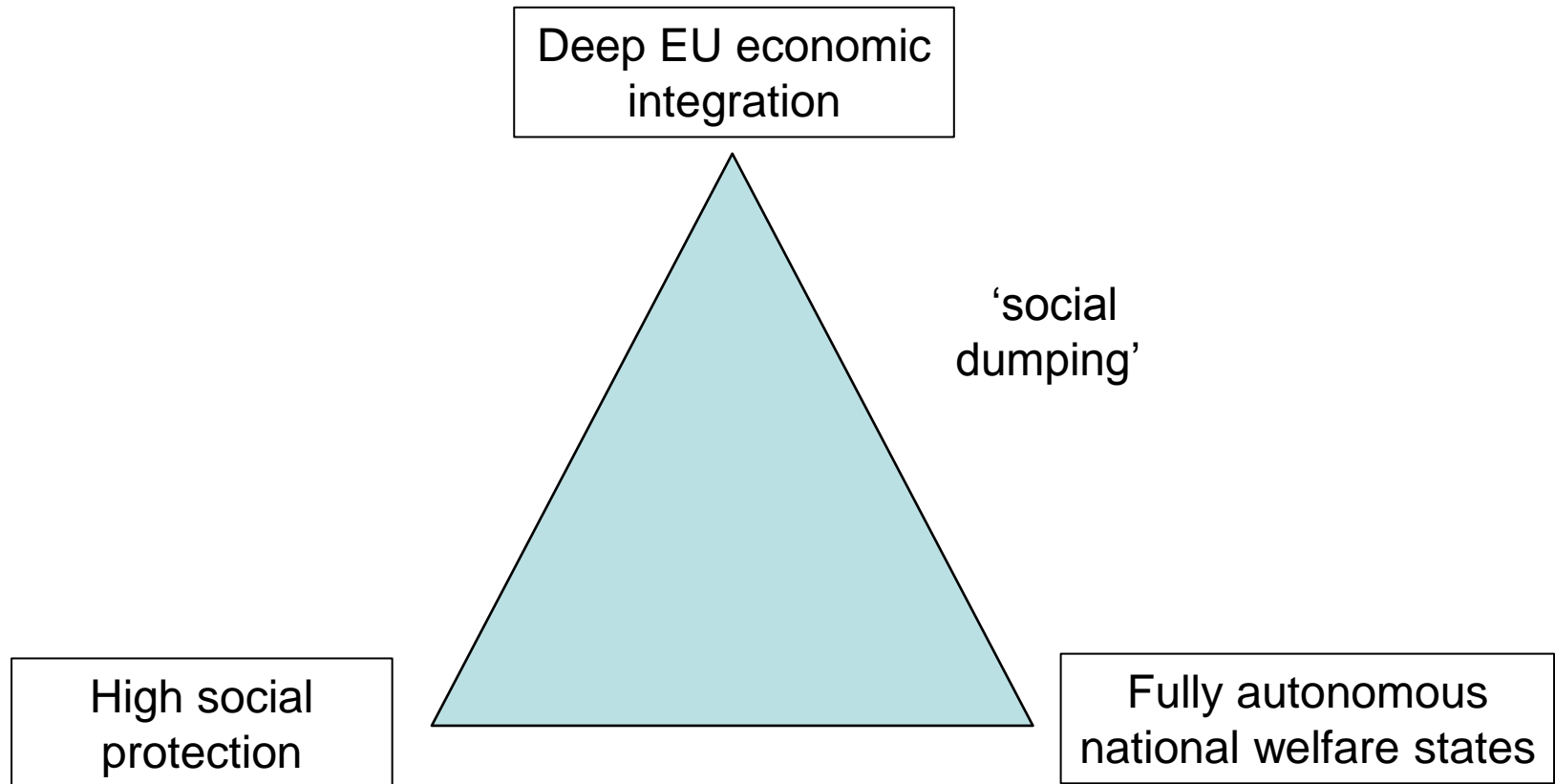
Potential solution to social trilemma: EU social policy



Potential solution to social trilemma: limiting mobility



Potential solution to social trilemma: 'Social dumping'



'Social dumping'

- Definition: “downward pressure on social conditions due to competition from countries with lower social conditions”

- 'Social dumping' can result from
 - » Imports of goods from low wage countries
 - » Imports of services involving **posted workers** from low wage countries
 - » Offshoring of production to low wage countries

- From a purely economic viewpoint, these 3 channels have basically the same effects: competition between domestic workers/social protection and foreign workers/social protection

Yet ≠ attitude towards low-wage competition through PW

- Three main reasons for this difference:
 - » Posted workers are more visible
 - » Negative attitude towards immigration in general
 - » Social (fairness) norms: “The same work at the same place should be remunerated in the same manner” (Jean-Claude Juncker)

- The issue of PW in perspective (figures for 2013)

- Mobile EU workers (i.e. working in another MS): 9.3 million
 - » Residing in foreign MS (i.e. migrant workers): 7 million
 - » Residing in home MS (i.e. non-migrant workers): 2.3 million
 - ✓ Frontier workers (i.e. commuters): 1.1 million
 - ✓ **Posted workers**: 1.2 million

How has the EU tried to resolve its social trilemma?

- By efforts to reduce disparities between national social systems
 - » Through some measures of social harmonization (**SH**)
 - » Through redistributive policies (**RP**) to foster economic convergence

= Decentralized rather than centralized EU social policy
- By measures limiting free circulation of posted workers (**PW**)
- By accepting some 'social dumping' resulting in ECJ cases (**SD**)

EU responses to fears of 'social dumping'

■ Phase II

- » 1987: Single European Act provisions on social harmonization **SH**
- » 1988: European Regional Development Fund increased for EL, ES, PT **RP**
- » 1989: Social Charter **SH**
- » 1990: ECJ judgement on *Rush Portuguesa* **SD**
- » 1992: Maastricht Social Chapter **SH**
- » 1993: Cohesion Fund set up for EL, ES, PT (and IE) **RP**
- » 1996: Posted Workers Directive (PWD) **PW**

Rush Portuguesa - ECJ judgement

- “Community law does not preclude a host member-State from applying its labour laws and collective labour agreements to any person employed, even temporarily, in its territory. That applies even where the employer is established abroad and the employee is moving temporarily in order to carry out work which the employer is providing as a service under Articles 59 and 60 EEC.”

EU responses to fears of 'social dumping'

■ Phase III

- » 2004: Regulation on the Coordination of Social Security Systems **SH**
- » 2007: ECJ judgements on *Laval* and *Viking* **SD**
- » 2012: Amended Regulation on the Coordination of SSS **SH**
- » 2014: Posted Workers Enforcement Directive **PW**
- » 2014: EC Proposal on prevention and deterrence of undeclared work **PW**

Laval – ECJ judgement

- “The right of trade unions of a MS to take collective action...liable to make it less attractive, or more difficult, for such undertakings to carry out construction work in Sweden, ...constitutes a restriction on the freedom to provide services.”
- “A restriction on the freedom to provide services may be justified only if it pursues a legitimate objective compatible with the Treaty and is justified by overriding reasons of public interest”
- “The right to take collective action for the protection of the workers of the host State against possible social dumping may constitute an overriding reason of public interest.”
- “However... the obstacle [in this particular case] cannot be justified with regard to such an objective.”

Which way forward?

- The EU will clearly continue to try and continue minimizing the extent of ‘social dumping’ by simultaneously
 - » Helping social systems to converge
 - » Limiting the free circulation of posted workers

- But these 2 approaches can and need to be improved

- They also need to be supplemented by efforts targeted at workers potentially hurt by ‘social dumping’

Limiting the free circulation of posted workers

- As long as EU social policy (including MS social systems) remains inadequate, there will be conflicts arising from the principle of free movement of services involving labor circulation
- Conflicts => pressure to limit the free circulation of posted workers in high wage countries
- But the interests of low wage countries, viewed in high wage countries as leading to 'social dumping', have to be factored in

Encouraging social systems to converge

- The issue should not just be about the convergence of social systems but about converging towards a system with the right features

- The EU and MS also need to take into account 3 further challenges besides EU integration and the risk of ‘social dumping’
 - » Globalization
 - » Technological change
 - » Ageing of population

- Dealing with the EU social trilemma and with these 3 additional challenges requires **flexi-security** social systems that include quality education and training systems

Helping the potential losers of 'social dumping'

- The potential losers of 'social dumping' need to be helped
 - » by national welfare states
 - » by EU programs – European Social Fund (€80 bn for 2014-20)