

## **Module 4:**

# **The future of the European Social Model**

It is evident that the national economies of European states are facing huge challenges resulting in part from globalisation, i.e. the market economy being extended to large parts of the world. Goods, capital, ideas and information travel fast and cross borders; they are readily available everywhere and create worldwide competition. To a company in France it is not only of importance anymore what competitors offer in France or alongside the Rhine in Germany. Its managers also have to take into consideration what companies in the U.S.A., China and India produce at what price. Companies that what to keep their competitive edge, has to ride the tiger. Those who don't ride the tiger will be swallowed. This of course, is putting it rather casually, but it brings about the point.

On the other hand our living conditions have changed for reasons that are not connected to globalisation. People have a longer life expectancy and societies become demographically old. The first point mentioned is fine, because it means that we live longer. But it also means that health care costs increase and that pensions have be paid out over a longer period of time. At the same time – and this is less pleasing – the number of babies has gone down. Over the past decades many people have opted for having smaller families or decided not to have any children at all. This does not only bring about a loss of happiness and meaning in people's life but it also accounts for an economic problem: Fewer and fewer young people have to provide for an increasing number of old people.

Our well-being for the decades to come will considerably depend on our ability to take on these challenges. This is common knowledge. But how do we go about it? Which is the best way? What role can the European Union play? These are the questions that this module will deal with.

### **1. The view of the European Commission**

#### **Globalisation and Europe**

Read the following text and start a discussion taking into account the statement that is given below and the opinions suggested.

The following text was published in 2005 and refers to the European Union consisting of 25 member states (before the accession of Romania and Bulgaria in 2007). The findings from this text can be applied to the enlarged Union of 27 member states.

„[...]In shaping the international response to globalisation the impact of individual Member States acting alone is minimal. But Europe – 25 countries with shared values and strong institutions acting together – has a real chance to shape globalisation, in areas like trade, international labour rules or tackling global health or security threats. Europe has much to offer – the world’s biggest trading block, the most important aid donor giving leverage in terms of social justice and human rights around the world, and the leading proponent of multi-lateral solutions to environmental and the other challenges of sustainable development. No other country or region has this tremendous advantage.

The Union provides a crucial intermediate level – between the national action and international rules. It is a successful example of “globalisation” on a regional scale. It offers the right space for effective regulation and solidarity in which the benefits of regional integration give a better chance to benefit from globalisation. Our single market of 450 million people offer new opportunities for growth, jobs and investment, while flanking policies means that we can help Member States to cushion the impacts of change.

[...]”

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS**  
**European values in the globalised world**

**Contribution of the Commission to the October Meeting of Heads of State and Government**

Brussels, 03.11.2005

[http://ec.europa.eu/growthandjobs/pdf/COM2005\\_525\\_en.pdf](http://ec.europa.eu/growthandjobs/pdf/COM2005_525_en.pdf)

### **Statement:**

**The European Commission claims that the European Union offers the best protection against the negative consequences of globalisation.**

### Opinions:

- Eurocrats only say this to secure their own jobs.
- With regard to the process of globalisation the member states of the European Union compete with each other and are by no means partners. Therefore the statement is wrong.
- Yes, this is true. Only together will we be in a position to influence the process of globalisation.
- Whatever the EU member states do is of no relevance. What happens with globalisation is determined by China, India and the U.S.A.
- Others: .....

## **2. The View of the European Parliament**

Please read the following text and answer the questions below.

The European Parliament has its own way of wording texts: in the case of a decision, as a first step the reasons for consideration – i.e. why a topic is being addressed at all – are emphasised. This is also behind the rather bombastic expressions, such, for example

"The European Parliament stresses / emphasises / refers emphatically to the fact that / is fully aware, ... etc."

The European Parliament ,

[...]

### **Reform of the European Social Model**

1. Stresses the necessity of preserving and enhancing the values associated with the European social model: equality, solidarity, individual rights and responsibilities, non-discrimination and redistribution with access for all citizens to high-quality public services, and the high social standards already achieved;
2. Insists that only an EU based on economic and social cohesion that defends its common values can be strong enough to protect its interests;
3. Is convinced that there is no alternative to urgently reforming economic and social systems where they fail to meet the criteria of efficiency and socially sustainable development, and where they are inadequate to tackle the challenges of demographic change, globalisation and the IT revolution;
4. Expresses its deep disappointment at the present growth rate in the EU which makes structural reform extremely difficult;
5. Is aware of the widespread concerns among EU citizens regarding unemployment – especially unemployment among young people – exclusion, poverty, insecurity on the job market, and the potential failure of social security systems;
6. Believes that where demographic changes and unemployment affect certain groups disproportionately the European Union must aim to ensure equal access to high-quality jobs;
7. Views the need to renew the EU's commitment to a social Europe as of paramount importance in restoring citizens' confidence in the EU project, which provides jobs, growth and prosperity;
8. Is fully aware that employment and social policy remain broadly within national competence, but stresses that the EU also has competences in this field, as set out in the Treaties, and that there is a need for the EU to create a stronger economic and social framework, in order to allow Member States to implement reforms as necessary at national level, according to their own economic, social and political circumstances;

[...]

#### **Texts adopted by the Parliament**

**Wednesday, 06 September 2006 – Strasbourg**

**European Parliament resolution on a European Social Model for the future (2005/2248(INI))**

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2006-0340+0+DOC+XML+V0//EN>

- a) What is the central statement of the text?
- b) What are the problems identified by the European Parliament with regard to European social politics?
- c) What are the challenges the European Parliament is faced with?
- d) Do you agree with what is stated by the European Parliament? Give reasons for your opinion.

### 3. Flexicurity – the cure-all for the problems?

Please read the following text and answer the questions below.

Press information: Flexicurity - Flexibility through Security

The Austrian EU Presidency (01.01.-30.06.2006)

#### **Flexicurity and the European social model**

Globalisation, accelerated technological progress and the demographic change are exposing European economies to major challenges. These new realities are also producing changes in employment relations. Companies are under continuous pressure to open up new markets. The requirements for adjusting production technologies and forms of organisation are increasing. This also means higher demands on employees as regards their readiness and capacity for change. Increasingly, lifelong learning and mobility are becoming fundamental conditions for success in the workplace. At the same time, there is evidence of increasing pressure on salaries and the employment of low-skilled workers in the context of continuous specialisation processes.

In parallel to these developments, awareness of a shared "European social model" has become established in Europe. Its fundamental characteristics are:

- A basic commitment to social cohesion and solidarity and combating social deprivation and discrimination;
- Securing general access to healthcare and education systems;
- Guaranteeing a broad social security network;
- A significant role for the public sector in the provision of the necessary infrastructure.
- The need for social security has deep roots in Europe and is therefore one of the constants in the development of reform initiatives.

The thinking behind "Flexicurity - Flexibility through Security" addresses the question of how maintaining European competitiveness can be squared with securing the European social model. These two requirements are interdependent. The elements of the social model are a critical productive factor for maintaining competitiveness. Social security in Europe can and must be regarded as a major location advantage as against the USA and Asia.

#### **Concept of Flexicurity - Flexibility through Security**

- Flexicurity should in essence be regarded as a combination of flexible labour markets and a high level of social security.
- These two elements, flexibility and social security, need to be brought into a

balanced relationship.

- Because you cannot demand world-class flexibility unless you provide employees with world-class social security.

This deliberately broad definition covers action in a number of areas which must be regarded as fundamentally interdependent and brought together under the key concept of "Flexicurity":

- Employment contract parameters
- Security of finding a job in the event of job loss and/or return to work
- Income replacement payments during unemployment
- Insurance in the event of illness, accident in the workplace, age, etc.
- Measures for active employment market policy, education and training
- Salary negotiation systems

### **Examples of practical Flexicurity measures in Austrian employment law**

The company employee provision scheme, which has been in force since 1 July 2002, increases employee mobility and also enables each employee to save for an additional pension. Under the old system of severance payments, rights were often lost on losing or changing jobs. Fewer than 20% of all employees have ever received a severance payment. The new company provision scheme enables every employee to take his or her personal "pension rucksack" from one employer to the next - that is flexibility through security!

In order to undergo flexible and individual further training, each employee can agree training leave of at least three months up to one year with his employer. A precondition is that the employment relationship has already lasted for at least three years. During the training leave, the salary will no longer be paid, but financial support will be provided from the unemployment insurance fund at the level of child benefit payments.

So-called sabbaticals, without financial support, can also be taken. The collective agreement may allow the normal working hours to be spread over several years, if time off is taken in connected periods of several weeks. Accordingly, the following model would be possible: 2.5 years with 48 normal working hours per week, then 6 months off.

Flexibility in conjunction with security for the employee is also promoted in Austria through company pensions.

In the event of a change of job, for example, claims to company pensions are transferred to the new employer's pension fund at the request of the employee, irrespective of whether it is inside or outside the country.

New provisions on (parental) part-time employment are also intended to help employees achieve greater flexibility in balancing their professional and family lives.

[http://www.eu2006.at/de/News/Background\\_Information/2001bartensteinbeso2.html](http://www.eu2006.at/de/News/Background_Information/2001bartensteinbeso2.html)  
last updated June 2006

- a) What are the challenges that European national economies are faced with?
- b) What is the meaning of the term flexicurity? Describe the compound.
- c) How can the idea of flexicurity be put into practice? What examples for flexicurity are given in the text?
- d) Do you believe that the underlying principle of flexicurity can help to meet the challenges in a reasonable way?

#### 4. Minimum wages

An important German daily newspaper, *Frankfurter Allgemeine Zeitung*, published an article dealing with the issue of minimum wages on 6 March 2007.

Currently this topic is being debated intensely in Germany. So far German employment law does not foresee an agreement on minimum wages. This means that employers and employees are free to negotiate wages. In collective bargaining between trade unions and employers' associations the amount of certain wages to be paid can be made binding for all the companies belonging to one sector of industry – subject to the condition of membership in an employers' association. Employers who don't engage in these negotiations are free to decide how much they want to pay – and it is true that more and more employers cancel membership in employers' associations. Commitment to minimum wages aims at drawing line below a minimum level.

Please read the following excerpt from the article and discuss it.

Minimum wages – Down in the dumps  
Lisa Nienhaus and Wiebke Schröder, Paderborn

06 March 2007

If there were a minimum wage of 7.50 euros paid per hour, as is demanded by the trade unions, Ahmed Fallah would probably not have been dismissed. The butcher from Sierra Leone, who has been living in Germany for 13 years, worked for 5 years at the band conveyor of *Westfleisch* company in Paderborn.

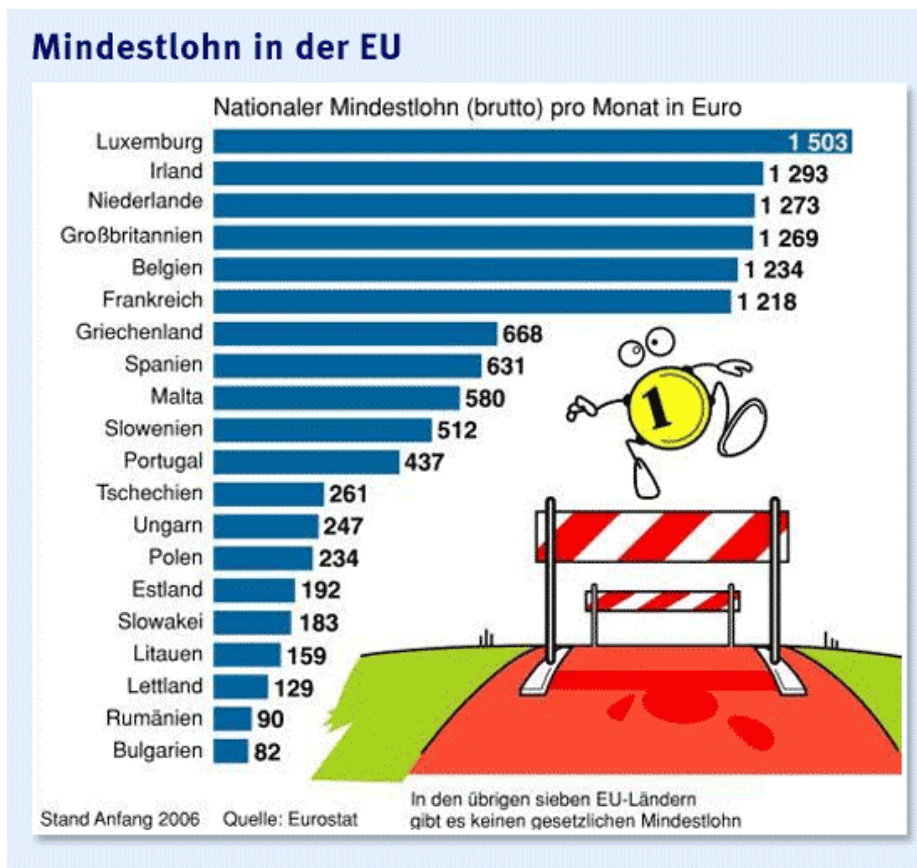
Fallah's job was to carve out cutlets, ham and other pieces of meat from pigs as a piece worker, working as fast as he could. He earned 7.20 euros per hour before tax. This came up to 1,528 euros per month he earned from working for different subcontractors always doing the same job, having the same work place.

After tax, social contributions and regular deductions made by the company for working equipment, clothing and laundry all that was left for him, his wife and three children were 1,100 euros. On weekends he worked as a cleaner at *Burger King's* to make ends meet. By signing on to *Hartz IV* (unemployment benefit) he would have received more, but as he puts it "I was hopeful for things to turn to the better".

But it went downhill. The subcontractor who had an agreement with *Westfleisch* dismissed Fallah and his more than 20 colleagues. Instead they employed Romanian workers. Nobody knows exactly how much they earn. They don't talk to Michael Pipper from the workers' council of *Westfleisch* who wants to help Fallah. Rumour has it that they are paid 4.50 euros per hour, 1,000 euros before tax. Pipper

reckons that "wages were agreed upon in the Czech Republic". There is a go-between who brought the Romanians to the country. Ahmed Fallah puts it this way: "You can't live on 1,000 euros before tax in Germany – at least not if you plan to stay here".  
..."

As can be seen from the following chart there are many countries in Europe where minimum wages have been fixed:



There is a discussion among European citizens about minimum wages in the EU. Different opinions are expressed. Just listen in:

**Markus:** The fixing of minimum wages is an obstacle to the free movement of labour. If people are prepared to work for less money then they should be given the chance. This is particularly true for people from the new member states of the EU, for young people and for those who are so super fit.

**Lena:** This is completely wrong. The fixing of minimum wages helps to create equal opportunities and is good for immigrants from other countries. It prevents them being exploited.

**Violetta:** According to my opinion the state should not interfere with economy at all. If somebody thinks that the job is not paid well enough then he or she doesn't have to do this job.

**Pierre:** Minimum wages are a good thing ensuring that people can live on what they earn. It is not on that people labour all day long and still have to claim social benefits.

**Weronika:** No way! In reality the minimum wages will drive people into working illegally. Then employees no longer have social and legal protection and the state loses out on taxes and social insurance contributions. This doesn't benefit either side.

**Jaroslav:** Minimum wages make markets transparent and create equal opportunities for the companies. It is not the company that treats its employees worst that makes the most profit. That makes sense, doesn't it?.

Which opinion comes closest to your own? Who according to your opinion is completely wrong?



"Europe has achieved a great deal in the last 50 years. Today we are living in peace. The member states of the European Union have been founded on the basic principles of democracy, of social protection, of freedom and of affluence. However, at this time Europe is confronted by major challenges. Hence, in particular, globalisation is affecting the market for goods and for capital and thus also social security systems. Equally, these systems are affected by demographic change – that is, by increased life expectation and at the same time a reduced birth rate.

So that we will be able to live in the future as we have become accustomed to do now, we need to find common European answers.

"If in the next 10 years we do not succeed in creating, out of this extremely successful economic policy construction which Europe represents, in addition a European Union which is successful in social policy terms, including reducing mass unemployment in Europe, then Europe will fail.

[...]

If we would like for Europe not to fall by the wayside, then we need to fill European employees [...] once again with enthusiasm for the European Union.

[...]

If we do not further European integration by means of progressive integration policy measures, and the Europe Union by more intensifying steps, then we will end up with a free trade zone.

And a free trade zone is far too simple a concept for an eminently complicated continent such as the European Union. And the European Union must be political, it cannot be seen merely in economic terms. The market on its own cannot produce solidarity, not solidarity amongst its people nor solidarity amongst nations. And this is what we need, we need solidarity amongst European nations."

These quotations are from the speech given on 25 May 2006 by Jean-Claude Juncker (Prime Minister of Luxemburg), recipient of the Karlspreis awarded by the City of Aachen in 2006

The full German text can be found at:

<http://www.karlspreis.de/index.php?id=13&doc=48&r=5>, accessed on: 24.04.07

## Background for teachers

The first two tasks refer to official texts concerning the future of European social models and are intended to illustrate how all European institutions are aware of the challenges. The third and the fourth tasks deal with concrete ideas. Their aim is concretise the EU's plans and make them more clear.

on 1. Here is a longer extract from the Communication.

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**European values in the globalised world**  
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The Union provides a crucial intermediate level – between the national action and international rules. It is a successful example of “globalisation” on a regional scale. It offers the right space for effective regulation and solidarity in which the benefits of regional integration give a better chance to benefit from globalisation. Our single market of 450 million people offer new opportunities for growth, jobs and investment, while flanking policies means that we can help Member States to cushion the impacts of change.

Enlargement reinforces the effectiveness of our international action, just as it strengthens the case for more – not less – integration across the Union. It has made a decisive contribution to the economies of the acceding countries and opened the door to new opportunities for growth, investment and employment.

Moreover the European Union has a unique set of instruments at its disposal.

– **Legislation**, both to drive economic change, for example by making the single market a reality, and to ensure that it is accompanied by the establishment of standards safeguarding our values and quality of life.

– **Executive powers**, for example to enable the EU to make its weight felt in the trade talks in a way which no Member State on its own could do; and the **enforcement powers and judicial system** necessary to ensure that our legislative objectives are turned into reality, for the benefit of all Europeans.

– **Competition and state aid powers**, which have further improved as a result of

recent reforms under this Commission, ensure a level playing field between European businesses, small and large, helping to improve their competitiveness, stimulate innovation and growth, and guarantee consumers a wide choice of goods and services at affordable prices.

- **A budget**, essential to support European economic, social and territorial cohesion, European IT, energy and transport networks, education and European research and innovative industrial projects such as the GALILEO satellite system.
- An **area of freedom security and justice**, which contributes to creating the conditions for competitiveness in Europe, for example, through the better management of legal migration at EU level in order to unleash the full potential of European economies.
- **External instruments** from enlargement and the European Neighbourhood Policy to development policy, which enable us to stimulate growth and project our values beyond our borders. The economic benefits of recent enlargements have been felt by new and existing member states alike.
- **EU level surveillance and co-ordinating powers within our economic and monetary union**, which ensure that in macro-economic policies all Member States move in the same direction, even if at different speeds.
- A role, with the Commission at the centre, as a **catalyst** for new ideas and reform, working in partnership with member states to encourage new approaches to change..

[...]

#### 4.2.3. *The new partnership of the EU and member states*

It is clear that neither the EU nor member states can deliver change on their own. What follows are specific suggestions for a more coordinated approach between the national and supranational level, in new areas for action both for economic and social policy. The Commission is open to exploring the development of new partnerships to enhance European action in these areas. These are

- **Create an environment that champions innovation.** Knowledge, research, skills and education will be the currency of success in the face of globalisation. They are also at the core of efforts to help people adapt to a changing world throughout their lives. We must look at how to develop effective European projects in this area, building on the success and experience of Airbus or the Galileo. These should be assisted by **support for excellence in our universities, and a closer relationship between universities and business.**
- **Spell out a long-term and coherent energy policy.** A new policy approach which considers the issue as a whole, in terms of both use of energy and the security and diversity of supply; linking energy to other policies such as research, agriculture and the environment, for example, bio-energy. This is an essential component of ensuring environmentally sustainable economic growth.
- **Direct more resources (both public and private) to education, training and skills;** new approaches to job “security” which focus on giving people the skills they need to remain adaptable throughout their working life, rather than protecting particular jobs.
- Promote a **renewal of the social dialogue** at all levels. It should be play a full role in mobilising broad support and a common understanding of the challenges we face and the solutions proposed. Given the close linkage between action at EU and national level, the Social Partners should better articulate what they do at each level.

– **Support efforts to deal with the social consequences of economic restructuring.** Internal market reforms, the modernisation of labour markets and the adaptation of social systems are all essential elements in managing globalisation and creating growth and jobs. The full range of EU policies and programmes need to support national efforts, to make the case for change and mobilise support, for example, through Social Dialogue.

– **Increase cooperation between Member States** to strengthen the efficiency and sustainability of tax systems helping to ensure more revenue is collected, simplifying life for taxpayers and improve the performance of economy. This means modernising and simplifying current systems. All this must be done within a context of maintaining sound macro-economic policies offering stability, sound public finances and low inflation. Such policies create the right conditions for growth, jobs and investment; by keeping inflation under control they help social cohesion and by lowering the overall level of government debt over time, they leave Member States in a better position to meet the future costs of ageing.

### **5. CONCLUSION**

The need for reform and modernisation is clear. All Member States will face increased demand for social services and challenges in financing them. We must modernise to ensure continued high quality education and health care, satisfactory jobs for all and adequate pensions. Modernisation will give us the confidence to reap the benefits of globalisation. Europe has a central role to play and the Commission will ensure that this will be the case. It will take the initiative, not least within its "Plan D" for dialogue with citizens, to explain why Europe is more relevant than ever in providing solutions to the challenges we face. The Commission stands ready to work with the Member States and other actors to construct a road map which describes the path to a modern Europe which delivers economic prosperity and social justice. Through modernisation, we will preserve our values.

[http://ec.europa.eu/prelex/detail\\_dossier\\_real.cfm?CL=de&DosId=193448](http://ec.europa.eu/prelex/detail_dossier_real.cfm?CL=de&DosId=193448)

on 3.

question b): flexicurity is a compound word formed from combining together the two words 'flexibility' and 'security'.