

The European Social Model: Reconstruction or Destruction?

A View from a Newcomer

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Preface

The title of the book “The European Social Model – Today and tomorrow” lies at the heart of the European discussion and will be at the top of the European Agenda for the next years to come. The content of this book aims to enrich this dialogue that started during the recent years.

I believe we are at a turning point in producing new ideas, implementing policies and actions defining new short-term and long-term objectives. The main challenges facing Europe today is to update these ideas, these policies, these institutions and practices. A new redistribution system seems inevitable.

In the last thirty years we have seen a remarkable change in the way people live and work. New models of work have emerged and our society is driven by globalization and technological and social changes. The potential benefits of these changes should be harnessed.

We need labour market policies that respond to the needs created by the knowledge based economy and take into account the diversity of the workforce that differs by race and gender includes handicapped people and immigrants – to mention but a few.

We need economic policies that may make some short-term sacrifices of economic growth but manage to ensure long-term prosperity for all. No doubt, financial and human investments have a very crucial role to play in the years to come.

We also need education and training policies that go beyond the simple entry in the labour market. A new model of adult education is needed to support lifelong learning.

The answer to all these could be found in the 3Ps: a new model of Public Private Partnership between the State, Companies and Individual based on a social network.

We need to see international institutions playing a new role and a new generation of Unions.

We need to implement the notion of sustainability across the board from policies to partnerships.

The proposals that have been set out in the Social Agenda are based on the following principles:

- Social policy is central to both our economic and our social welfare. Raising the living standards of all EU citizens is a fundamental objective.
- Full employment and better quality of jobs, social spending and industrial relations are of paramount significance.

In order to make these principles reality at a European level, the following tools and instruments are necessary: open method of co-ordination of Member States' policies, social dialogue, programs, funding and appropriate legal framework.

We need to strengthen the effectiveness of the European social model as a key factor for a greater social cohesion. We recognize that Europe's social support system is among the finest in the world. Yet, we need to further consolidate it and enhance its capacity to deliver quality results.

We need to do far more if we want to reduce the regional imbalances, the social inequalities and the social exclusion.

We need to ensure the supply of skills needed by the knowledge-economy of the future. The importance of human resource investment and social capital is becoming increasingly recognized.

Our ambition is high.

We intend or inspire to "raise our game" in Europe by investing in better quality policies. By pursuing higher quality objectives we aim at improving significantly the pace at which quality of life can be ameliorated.

As a Commissioner for employment and social affairs, I pursued policies so as to raise the new European social model in the European agenda. Actions leading to a new knowledge based society and to social cohesion of the European society characterized by full employment and equal opportunities for all citizens with a safety network in the working environment and personal life were promoted.

I wish this work of Ms. Brigita Schmögnerova will further stimulate this debate and open new horizons to promote and adopt policies in the Slovak society and member States for the benefit of the European citizen at large.

Anna Diamantopoulou

Member of the Greek Parliament

Former European Commissioner for employment
and Social affairs

Introduction

The discussions held prior to the “unprecedented EU enlargement” will continue, although they will disappear from the front pages. Views – as we can already witness today – will diverge. According to the Eurobarometer of December 2003, candidate countries had positive expectations of their EU accession: 52 % of respondents thought that EU accession was a “good thing”, and 40 % believed that they would benefit personally from EU accession. On the contrary, low expectations prevailed in the old EU Member States. According to a survey conducted by the Leipziger Volkszeitung daily, almost 84 % of the German population expected a mass departure of companies and investors to Central and Eastern Europe. As many as 82 % of the respondents thought that cheap labour from the accession countries would move to the German labour market, while 68 % stated that the result would be a rise in unemployment and crime.

In spite of differing assessments and differing expectations, I think there is one point we can agree on: 1 May 2004 will remain a milestone in the European and Slovak history.

One of the addresses delivered in Bratislava’s Slovak National Theatre on the eve of Slovakia’s EU accession expressed the hope that no new divides would be created in the enlarged EU – between the new and old Member States, between the large and small countries, etc. Still, I missed any mention of no broad “dividing lines” in the social status of people living in the enlarged EU, or the wish that the EU would become more socially fair after the enlargement. But notions like *social justice*, *solidarity*, and so on have faded away from our current, official vocabulary. Shortly before and soon after the accession, we heard strong statements made by domestic politicians about “fundamentally rejecting any efforts of harmonisation either in the area of taxation or social affairs”. Be-

hind this statement there is a fear that enforcing European social values would rock the boat at home, where the values currently enforced differ from the European social values, and where the interests of a small group of people dominate.

This book, on the contrary, aims to raise awareness of the European social values, which are the basis of the social model of the EU, and the European social model itself. The European social model has been shaped for a long time, and it has not been finished once and for all. The European social model was not born in the heads of professors (although they also think a lot about it) but is the result of political fights, conflicting interests, differing views, and adjustments to new conditions and “new challenges”. In a democratic Europe, it should, ideally, be what the majority wants. So, do we know what we want? And if so, is it achievable?

Germany, France, and Italy, the three strongest economies of the Euro-zone, have received a yellow and red card from the Commission for failing to observe one of the Maastricht criteria: keeping the state budget deficit below 3 % of GDP. There is widespread belief that the reason for exceeding the budget deficit is the result of a costly welfare state. And from there it is only a small step to headlines like “The Dusk of the Welfare State”.

There are many such stereotypes. For instance, it is presumed that the welfare state is the reason for “the EU’s sclerosis”, i.e. its lagging behind the US in competitiveness. This is interpreted as an inflexible labour market, the harmfulness of trade unions that “prevent progress, and the prodigality of social protection that makes people lazy”. The cure for this diagnosis is: higher labour market flexibility (i.e., lower wages and less employee protection), weakening of the trade unions, private protection against old age and sickness (i.e., individual payment of health care and individual saving in pension funds, for example). The response to this “chemotherapy” is vehement: protest demonstrations and strikes organised by trade unions, and the proliferation of populism and left and right extremism in the EU Member States.

The European Union is not isolated from changes – neither against external ones (globalisation, the development of ICT and

knowledge-based economies, etc.) nor against internal ones (demographic changes, EU enlargement, etc.). “Change management” in a socially responsible way is the main challenge for the European Union. In other words: “yes” to changes – you can neither hide nor escape from them.

However, the question is – how should they be implemented? There is more than one answer, more than one “list of instructions”. On the one hand, the European social model cannot avoid these changes, and cannot simply be preserved in its current shape, either. On the other hand, it needs modernising and not americanising; i.e., we need to maintain its fundamental values and principles. The so-called Lisbon Social Agenda – an initiative, the goal of which is to achieve changes in the European social model that would be consistent with the goal of the Lisbon Strategy; i.e., to make the EU the most competitive part of the world economy by 2010, to have a knowledge-based economy founded on sustainable growth, and an orientation towards a socially cohesive society with “more and better” job opportunities – is about modernisation of the European social model. It is obvious that the goals are ambitious; however, their achievement is in the hands of EU Member States and therefore many politicians should rather look into a mirror instead of making fool of the Lisbon Strategy. (Other politicians from the new EU Member States, who are convinced they have found the key to the Lisbon Strategy, should read it once again and more carefully.)

Modernisation and no Americanisation of the European social model mean formulating a viable alternative solution. Let me give you an example: The European labour market does not function properly, or functions worse than the labour market in the US. The improvement of its functioning will be not helped by a sweeping reduction of social protection, employee protection in the workplace, or wage dumping. If we want to improve labour market flexibility and employee mobility, it is necessary to increase employees’ willingness to assume new risks, the willingness to retrain several times in a lifetime, the willingness to travel to find work, etc. This willingness and opportunities increase with better conditions – for

instance, social protection in the event of job loss, the possibility of lifelong learning, ensuring rights to social protection, sickness and old age protection, protection in the event of moving to another EU Member State in order to work (the so-called transfer of employee rights), recognition of qualifications, equal treatment and the prohibition of discrimination when moving within the EU, and so on. Labour market flexibility understood in this way also requires a minimum convergence of standards and rules in the system sphere that are subject to national competences. No properly functioning European labour market will ever be created without it.

This book is not a ready-made manual for the modernisation of the European social model, but I believe it indicates the direction that should be taken. This book is the result of a process, and most of its parts were progressively published in the Slovak weekly *Slovo*. The impetus for writing this book was a broad discussion on the issues it covers organised by the *Friedrich Ebert Stiftung* – which also made its publication possible – in Bratislava at the end of June 2003. I would like to thank the FES for this.

The book has also been written to encourage people to think about what kind of state and society we want to live in, and what kind of the European Union, which we have solemnly acceded to with high expectations, we want to have. I believe that a more socially just EU has been among these expectations.

The European social model consists of three components: (1) social protection, covered by chapters one to three, (2) industrial relations and particularly a social partnership, included in chapter four, and the services of general interest, covered in chapter five. The last chapter, chapter six, shows the ideological background of disputes concerning the European social model.

In conclusion, I would like to state that I – and not the organisation I currently represent – have sole responsibility for the views presented in this book.

Brigita Schmögnerová

Milestones of the development of the European social model

Does a European social model exist?

The answer to this question is rather complex and cannot be answered with a clear “yes” or “no”. Why? On the one hand, this is mainly because today, in the EU social policy belongs to policies under the competences of Member States (the so-called national policies); on the other hand, many processes that gradually result in a convergence of the social policy of individual EU Member States are accelerating. The education policy, cultural policy, consumer policy, employment policy, etc. also belong to national policies – in contrast to the so-called common policies (the 2nd group), which include for instance the agricultural policy, and the single policies (3rd group) that cover the trade policy, the single market policy; and the European monetary policy. In the latter type of policies, national governments have no competences (in the case of monetary policy, this applies to the Euro-zone Member States) and decisions are taken by the EU or its bodies instead of them. So if we were to answer this question only on the basis of the degree of the division of competence between the EU and its states, the answer would have to be negative.

Why is it that each state has its own social policy: social protection policy, pension policy, employment policy, etc.? Why is social policy not a part of the 2nd or the 3rd group of policies? The reason is that according to the “common wisdom” a well functioning single market does not need a common or single social policy. On the other hand it can be expected that the requirements of labour market development in the EU, the objectives of the Lisbon Strategy, etc., will gradually necessitate more convergence of social policies, too. However, it is difficult to predict whether and how long the social policy will remain the domain of individual Member States.

The result of negotiations on the new EU constitution, in which some countries (the UK and Ireland) strictly supported a national veto in social policy, was a compromise that will certainly prolong the period of convergence considerably.

Other reasons for different social policies include, e.g., cultural-historical differences, different possibilities of financing social policy costs, political and ideological differences, results achieved in agreements between social partners, etc. For instance, the model of a social market economy in Germany appeared after World War II, and was the result of a political effort by the Christian and Social Democrats. In the second half of the 20th century, several types of social models crystallised in the EU; like the Swedish social democratic model (the social models of north European countries, i.e. Norway, Finland, and Denmark are very much alike, the continental model – e.g. Germany, France, etc.), and the British conservative model (some analogy is an Irish social model). In addition to a different social policy, these models are also characterised by a different tax policy, different results in the social situation of society reflected in a different (un)employment rate, income differentiation, the percentage of poor people, and the like.

On the other hand, the competences of national governments in social policy do not exclude the role of the European Union. On the contrary, there is a clear trend towards the introduction of the so-called “soft legislation” in social policy and strengthening the role and responsibility of the EU. This direction of social policy (in a broader sense it includes social protection, employment policy, health policy, and consumer policy) can be observed since the 1990s. The Amsterdam Treaty (1997) has introduced the so-called open method of coordination for employment policy; the Nice, Stockholm (2001), and Barcelona (2002) Council meetings agreed on an open method of coordination for social inclusion policy, etc.

Moreover, the shared economic and institutional conditions lead the national governments to some convergence of their national policies. The labour market, for instance, requires the implementation of some minimum social rights guaranteed to employees

when migrating to work from one Member State to another. National social policies are also based on the same basic principles (defined for the first time in the 1957 Treaty of Rome), on the same *Social Charter* (1961) and the *Charter of Workers' Fundamental Social Rights* (1989), etc. The existing *acquis communautaire* generally prohibits discrimination on any grounds; it demands the principle of equal treatment regardless of gender in access to employment, training, working conditions, and the like. New EU initiatives include drafts of new regulatory measures (directives); e.g., on temporary work, the amendment of the company insolvency directive, the new working time regulations for road transport employees, etc.

Since the mid-90ies, the social policies has been affected by action programmes (the first one in the period 1995–1997), the so-called *Green Paper* and *White Paper* (1993–1995) recommending certain social “convergence”, the results of the Luxembourg Council meeting, the principles of employment and social cohesion laid down in the Amsterdam Treaty (1997). Finally, the 2000 Lisbon Council meeting decided on the *Social Policy Agenda*, and in subsequent years, on the open method of coordination for the area of social inclusion. All these facts indicate that despite national competences an European social model characterised by common goals and gradually converging instruments for their achievement is, *de facto*, being shaped. Since the 1990s, this process of shaping the social model has been accelerating. Why?

Firstly, it is the labour market itself that accelerates stimuli for social policy convergence.

Secondly, under the pressure of economic development, the existing national social models of individual countries have become outdated (approximately at the same time), and have raised common interest in their modernisation. The costly and inflexible German social model, which is generally considered as one of the hindrances to German economic development, can be given as one example.

And finally, social democratic or socialist parties that in mid 90ies ruled either in one-party or coalition governments in 15 EU

governments significantly contributed to the acceleration of the European social model. (The United Kingdom signed the Social Charter only after the Labour government came to power.)

Thus, the answer to the question as to whether there is an European social model, can be summed up as follows: At the beginning of the 21st century, there is an urgent need to shape an EU social model that is a result of objective processes in the EU. However, the European social model is only in the process of its formation; it is still in the process of change, and it is an object of political confrontation. The discussion about the EU constitution can be given as an example. It is based on the *Charter of Fundamental Rights* that (in Part II) also includes rights like human dignity, equality, and solidarity. Employment, social protection, economic, social, and geographic cohesion policies are included in Chapter III of the EU Constitution in Parts 1, 2, and 3. In Part III.1 *Employment*, emphasis is given to the joint commitment of the Union and Member States to continue in the development of a coordinated employment strategy and the commitment of the state to contribute through national employment policies to the achievement of common goals in employment so that they are consistent with the principles of Member States' employment policy (this will be elaborated on later). The Council is committed to adopt principles (recommendations) for employment policy on an annual basis, which the Member States should take into account in their national policies. The Member States should undergo an "examination", and the Council should evaluate the annual progress report. At the same time, however, the Constitution explicitly formulates the principle of non-existence of European legislative power in the employment policy. No harmonisation of laws and regulations of Member States within the EU are expected in the social protection policy either. There is one exception: setting the minimum requirements in the majority of the cited areas, while the rights of states to determine their national principles of social policy remain unrestricted. From the above facts, it is obvious that the proposed EU Constitution is in the social sector in no way revolutionary. Let us note that the UK and Ireland insisted on a national veto in the so-

cial policy and that some “new’ members associated with them. In the process of drafting the complexity and dissatisfaction with the preliminary results were reflected in the letter by Ms. Anne Van Lancker and other members of the *Social Europe* working group addressed to the Secretary General of the Convention on the Future of Europe responsible for the drafting of the EU Constitution, which *inter alia* indicated that the presented draft went below the existing *acquis* and also the obligations resulting from the Amsterdam Treaty in some direction. The final document signed by the heads of states and governments in October 2004 in Rome was a deeper disappointment: many commitments in social policy have been further watered down. This – so far – generated the biggest confrontation in the French Socialist Party in its modern history which culminated in Yes/No vote to the EU Constitution.

The EU Constitution – like any other constitution – is the result of the existing distribution of political powers in the EU and in its individual Member States. At a seminar on the European social model organised by the F. Ebert Foundation in Bratislava in 2003, Jan Marius Wiersma – Member of the European Parliament (EP) and its socialist caucus, who covered Slovakia in the previous European parliament – insisted that the left-wing parties in Slovakia do their utmost to perform well in the 2004 elections to the European Parliament. “We need you”, he said. For social democratic policy to be promoted in the EU, the voice of the new Member States is really needed. The fact that the EU Constitution envisages a strengthening of the European Parliament’s powers, thus making its involvement in matters of common interest more assertive, makes this need even more urgent.

Priorities of the European social policy and the instruments for their achievement

According to the May 2002 Eurobarometer, almost 90 % of the EU’s population was in favour of making the fight against unemployment, poverty, and social exclusion a priority of EU policy.

More than half thought that the current EU social policy is insufficient with respect to achieving social justice.

Today, the EU social policy considers full employment and a higher quality of work, the strengthening of social cohesion, and the fight against social exclusion to be its priorities. It is obvious that by changing priorities, the social policy responds to new conditions (e.g., the need to increase EU competitiveness in a globalising environment, the implications of ageing, and the relatively high unemployment rate in the EU), as well as the need for new approaches to achieve new targets. While the *Green Paper* and *White Paper* can be considered the first stage of developing the European social model, in the new social policy, the *Amsterdam Treaty* (1997) represents the second stage. The latter represents the beginning of an open method of coordination in the field of employment. Articles 136–137 of the Agreement put employment at the centre of attention, and defined the responsibility of EU Member States in securing employment growth.

The third stage, which started with formulating medium-term action programmes and the *Social Policy Agenda* (Lisbon, 2000), emphasises the building of the European labour market, education and increasing skills, equality for men and women, and social protection. In 2001–2002, the decision was taken to expand the open method of coordination so as to include combating social exclusion.

In Lisbon, the European Union set its goal of achieving a 70 % employment rate and 60 % employment rate for women by 2010. The 2001 Stockholm Social Summit laid down the following interim goals: to achieve a 67 % employment rate for men and a 57 % employment rate for women by 2005. The employment rate in the 55–64 age group should be around 50 % by 2010.

Employment takes a key position in the EU social policy. It should resolve such problems as social protection sustainability, which is becoming fiscally unacceptable in a situation where there is a high unemployment rate, the sustainability of pension insurance in a situation where there is an ageing population due to longer average human life spans and low birth rates. At the same

time, it must support the achievement of the goal set in Lisbon – to transform the EU into a part of the globe with the highest competitiveness, which will enable it to compete with the US and Japan (a goal it has failed to achieve so far).

The approach to employment stresses not only the quantitative objective, but also the quality of work: “*More and better jobs*”. *Better jobs* are interpreted as achieving a higher standard of health protection at work, dignity at work, etc.

Therefore, education, skills improvement, and lifelong learning are decisive on the supply side in a labour market oriented policy. Business sector in addition to the individual and the state, must be increasingly involved in ensuring them.

The 1997 Luxembourg Summit (the European Employment Strategy), the 2000 Lisbon Summit (the Social Agenda Policy), the 2001 Stockholm Summit (identification of more detailed and new goals in employment), and the 2002 Barcelona Summit (increasing employee mobility, identification of goals in reducing poverty, and eliminating social exclusion by the end of the decade) are milestones in building the European social model.

In the EU, more broadly defined social protection also includes health and consumer protection. Recently, health care has come to the fore (Barcelona, 2002). One of the results will be the introduction of a European Health Insurance Card as necessitated by the needs of the Single Market. This will undoubtedly contribute to a higher geographic mobility of employees between EU Member States.

As we have already stated, the EU wants to achieve its employment policy goals with more coordination. In the field of employment policy, it is building on the European Employment Strategy and includes recommendations and guidelines (all prepared by the EU), national action plans – NAP (under the competence of Member States), and then, finally, a common Employment Report (the EU’s responsibility). In order to achieve a higher consistency of employment and social policies with the economic policy – the instruments of all three policies will now be coordinated to a broader extent.

The former candidate countries had been involved in the EU employment and social policy in the process of preparation for EU accession through monitoring. Two joint reports evaluating the situation were drafted. In the *2002 Joint Report on Employment in the EU and in the candidate countries*, the European Commission proposed several recommendations: Firstly, to increase the employment rate, in particular the employment of higher age groups and of women. In 2001, the employment rate was 56.7 % in Slovakia, while in the EU 15 it was as high as 63.8 %. Secondly, to increase the labour demand. In 2001, the unemployment rate was 19.4 % in Slovakia, for example, while in the EU 15 it was only 7.6 %; long-term unemployment was 11.3 % in Slovakia and 3.2 % in the EU; youth unemployment reached a level of 38.9 % in Slovakia and 15.3 % in the EU. Thirdly, to increase the level of skills that will require higher investments into education, qualifications, and lifelong learning. For example, only 10.7 % of the population achieved higher tertiary education in Slovakia in 2001, while in the EU this figure was 21.6 %. Public spending on education expressed in % of GDP was 4 % in Slovakia; of the EU Member States, the highest level was achieved by Sweden 8.3 %, while the lowest level was in Greece 3.5 %. Furthermore, the report recommended the policy of wage increases in favour of employment, the reduction of labour taxation, a more effective active employment policy (in Slovakia, the active employment policy expenditures in % of GDP are at a level of 0.23 %, while the EU average is 0.92 %; the highest value of 1.4 % is in Denmark, and the lowest value 0.25 % is in Greece and Portugal). At the same time, it recommended more effective access to employment for ethnic minorities (in Slovakia, this is mainly the Roma minority), modernisation of the labour market and in matters of employment equal opportunities for women, the disabled, etc.

After EU accession, the new Member States have become a part of the open method of coordination in the employment policy, as well as in the policy of combating social exclusion. In addition, they are also obliged to comply with social and employment *acquis*. All the remaining aspects are within the competencies of the

individual governments and their national social policies. Due to this, in general the new Member States lag behind in the implementation of the fundamental principles and values of the European social model.

Box 1.1

The open method of coordination (OCM)

The mechanism for shaping national policies by means of determined goals and recommendations that include the exchange of experiences. It includes drafting a joint report assessing the progress achieved, and formulating further recommendations for individual states on the basis of a qualified majority. It is so called soft legislation, with no sanctions imposed for the failure to observe it.

Box 1.2

European Employment Strategy

The 1997 summit in Luxembourg decided on its drafting. It is built on 4 pillars: 1. *employability*, 2. *employer's professional adaptability*, 3. *entrepreneurship*, and 4. *equal opportunities*. It is prepared on an annual basis. Member states are obliged to draw up national action plans, which will become the basis for the Joint Employment Report. The 2003 European Employment Strategy formulates the following priorities: active unemployment reduction measures, support for small and medium sized enterprises, legalising or eliminating so called "black work", support for active ageing, the integration of emigrants, gender equality, and addressing regional disparities.

Box 1.3

The decision making mechanism in social policy

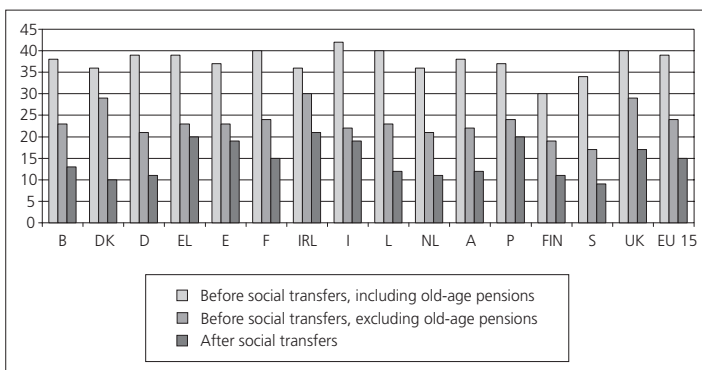
The decision-making is based either on the basis of a qualified majority (QM), or unanimity. The debate about the decision-making mechanism includes the majority principle, and the scope of decisions requiring a qualified majority or unanimity (national veto). A qualified majority is, for instance, used in issues concerning health protection and working conditions; unanimity is applied to issues of social security and social protection, and employee protection when terminating employment.

This does not mean that the EU – as we have indicated – will not take the initiative in other aspects of building the EU social model. The progress in the new Member States, will be much dependent on the willingness of their government and the social partners. Will they make use of their obligations resulting from the open method of coordination as an opportunity to respond to their internal challenges (in Slovakia these are, for instance, the high unemployment rate, a growing proportion of persons living in poverty, etc.) or will they approach them as a “necessary evil” that – according to some – only further increases administrative burden after EU accession.

The social situation in the European Union

Since the Lisbon Summit, the European Commission has regularly monitored the social situation in the EU. As already stated, this summit decided on the open method of coordination in the area of the fight against social exclusion, and the first *Joint Report on Social Inclusion* was drafted in 2002. According to this report, in the EU in the period from 1995 to 2000 the average GDP growth reached 2.6 %, 2 million new jobs were created, and the annual employment growth was 1.3 %. In this period, employment grew by 3.3 percentage points; the employment of women grew even faster from 49.7 % to 54 %. In spite of weaker economic growth in the following years while at the slower pace, unemployment was decreasing, and the share of long term unemployed was also going down. These indicators are more or less favourable; however, they do not suffice to characterise the social situation in the EU: a closer look at other indicators, like poverty, income distribution average wages, education and health is need.

Chart 1.1
**The poverty risk before and after social transfers
 in the EU15 in 2001 (%)**



According to: Joint Report on Social Inclusion. Brussels: EC 2004.

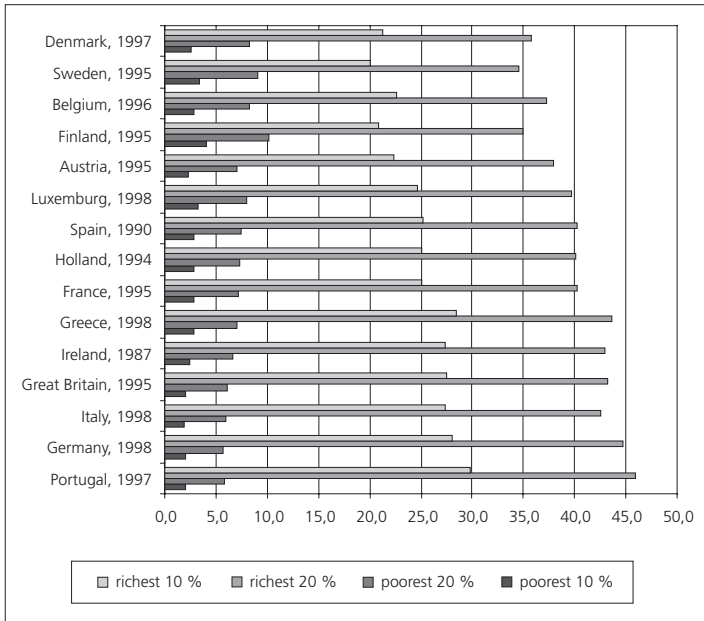
The Lisbon Summit has formulated the goal of eradicating poverty by 2010. The *Action programme to combat social exclusion* has been in effect since January 2002. When defining the poverty limit as an income equal to 60 % of the national median income, 18 % of the population lived at risk of poverty in the EU in 1997. This means 60 million people. The latest data collected by Eurostat in 1999 and published in December 2002 showed that the number of people living in poverty had dropped to 15 %; i.e., 56 million people. However, these data are still alarming – even more so that the number of those living in poverty for a period of at least two years out of the last three, has basically remained unchanged. In addition, if there were no social protection; i.e., no social transfers (such as various social benefits and unemployment benefits), 24 % of people would live at risk of poverty. If we deducted pensions, then it would be as much as 40 % of the EU’s population. At the same time, this also indicates the necessity of an effective national social policy *with, inter alia, the task of reducing and/or eliminating poverty.*

States with a social democratic social model traditionally show the lowest number of poor people, or those living at risk of poverty (e.g., in 1997, the number of persons living at risk of poverty was 8 % in Denmark), while on the other hand, the worst indicators are seen in the United Kingdom (22 %), Greece (22 %), and Portugal (23 %).

Unemployment is given as the most frequent reason for poverty – however, the 2002 Joint Report on Social Inclusion also indicates other reasons: low wages, deteriorated health, old age, inferior education, etc.

Chart 1.2

**Income inequalities in the old European Union Member States
(share of the overall income in %)**



According to: *Human Development Report. UNDP 2003.*

Recently, the Bloomsbury Publishing House in London published a book written by the 55-year old Guardian journalist, Polly P. Toynbee, called *Hard Work. Life in Low-Pay Britain*. The short assessment by W. Hutton on its cover page reads: “*Every member of the cabinet should be required to read it, apologise, and then act.*”

The book builds on experience gained by the journalist in a short period of time when she voluntarily decided to live on the minimum wage in a home for those in social need. The book provoked a significant discussion that shows that the British society has still not lost its sense of solidarity completely. It destroys many dogmas from the Thatcherist era; however, it also criticises some starting points and measures taken by “New Labour” (i.e., the reformed Labour Party). It is evidence of the fact that many people who work hard, do demanding and important work, and work longer than average are paid badly and therefore find themselves at risk of poverty. According to the author, they count for as much as one third of the population. In other words, not merely those who do not want to work, whose performance is low, who are incapable, etc., are poor.

The author also points to the fact that the historic process of reducing social disparities after World War II halted at the end of 1970s with Margaret Thatcher’s government, despite the fact that the national income has doubled since then. In other words, it was the governmental anti-distribution policy that allowed the differences in income distributions to deepen. Eventually, it resulted in a significant slow down of social mobility, made escaping from the poverty trap increasingly more difficult, and also caused poverty to become a multigenerational phenomenon.

In her book “New Labour”, P. Toynbee points out that the ruling party mainly focuses on “more work”, and pays insufficient attention to other issues: for instance, a low minimum wage (it was only introduced during Tony Blair’s government; however, it is set so low that 3.5 million poor people come from employed households), low state social expenditures (in the last 10 years, in the UK, their share of GDP grew from 23 % to 26.9 %; as compared, to

29.6 % in Denmark or 32.9 % in Sweden in 1999), as well as an insufficient programme for the lowest income groups (however Tony Blair's government introduced a few programmes for low income groups, e.g., the governmental saving programme for adults with low income; child birth benefit paid to an account).

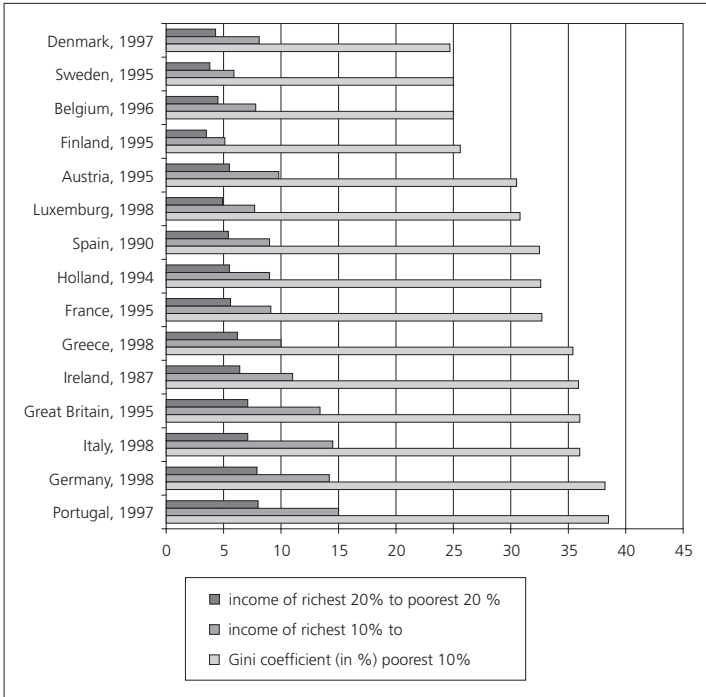
Although it differs from country to country, in the EU significant differences in the distribution of income have remained, in addition in many countries, these differences even have a tendency to grow. In 1998, the share of the top 20 % of persons with the highest income in total revenues was 5.4 times greater as compared to the bottom 20 % of persons i.e. with the lowest income. The smallest difference among income groups is in Denmark, where the share of group with the highest income is 2.7 times greater as compared to the group with the lowest income; in Finland it is 3.0 times (according to the World Bank, 2.02 times in 2000), while in Sweden the multiplier is 3.4. On the contrary, the highest differences are in the United Kingdom (5.7) and Ireland (5.9), and also in the southern EU Member States; i.e., Greece, Spain and Portugal (7.2).

Gini coefficient, which measures inequalities in income distribution (the higher the value on a scale of 0 to 100, the larger the inequality), is the highest – with the exception of the southern EU Member States – in the United Kingdom (34.5 in 1999) and Ireland, and it is the lowest in Denmark (25.7 in 1997) and Finland (24.7). Although no dramatic changes have occurred in the development of Gini coefficient in the EU over the last ten to fifteen years, in many countries the situation is deteriorating (however a two-way development can be observed). The United Kingdom registered the most unfavourable long-term trend – whereas in 1979, Gini coefficient was only at a level of 27.0, by 1999 it had reached 34.5. These data confirm the empiric findings by the cited British journalist.

According to Eurobarometer 1999, the highest satisfaction with life at the existing level of income distribution was observed in Denmark (63 %). In 1997, as many as 80 % of Europeans thought that the differences in income are too high, and that such big differences are not good for society.

Chart 1.3

Income inequalities in the old European Union Member States.



According to: Human Development Report. UNDP 2003.

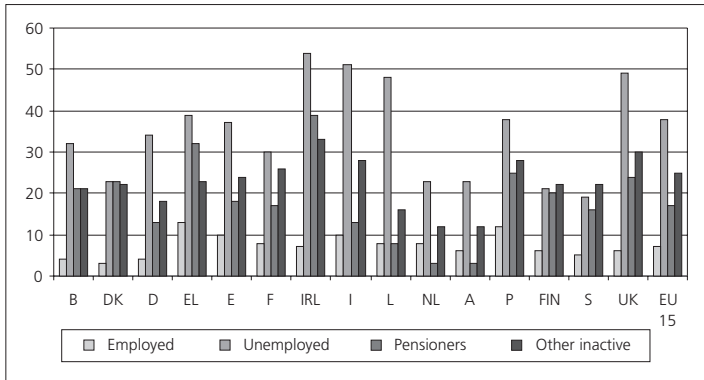
In 2002, the London based Institute for Public Policy Research published a study mapping the differences in the distribution of wealth in the United Kingdom, which are more important from the viewpoint of equal opportunities than the differences in the distribution of income. The wealth included deposit accounts, shares and other securities, and various non-financial forms of wealth, including apartments and houses. The Institute made a similar conclusion as the one mentioned in the case of income inequalities: in the UK the declining trend stopped in the 1980s followed

by the opposite direction later. While in 1985, 5 % of the richest people possessed 36 % of the national wealth, by 1999, this figure had already risen to as much as 43 %. The growing concentration of wealth measured with Gini coefficient was manifested in a rise in the coefficient by 4 points in the same period, reaching 69. At the same time the number of those who own no assets, including no savings, has increased.

The growth of wealth inequality has negative consequences for social mobility, deepens the poverty trap, and is contradictory to the principle of equal opportunities. To give an example, it is obvious that children from poor families can achieve higher education only with difficulty, and therefore they have no chance to get high income jobs, just like their parents.

Chart 1.4

Poverty risk according to job position in the old European Union Member States in 2001 (in %)



According to: Joint Report on Social Inclusion. Brussels: EC 2004.

According to the 2001 Report on the Social Situation in the European Union, the level of education has increased in the last decade. Differences among countries still remain substantial, though they show a declining tendency: Scandinavian countries achieve

the best results (the highest proportion of the population with secondary and university education is in Sweden). These countries also achieve the most favourable results in lifelong learning (in Denmark as much as 52 % of the population participates in lifelong learning, while in Greece it is only 12 %), and in the level of education (e.g. quality of education, preparedness for the *knowledge based economy*, etc.).

And finally, Europeans live longer and healthier lives today than yesterday. The differences among the states are smaller than the differences among income groups inside the individual states; however, they still remain quite large. For instance, the average life expectancy of men in the UK differs by as much as 6 years, depending on income (the higher the income, the longer the life).

The social situation in Europe reflects the differences in the economic development of individual states (in most of the indicators, the southern EU Member States achieve worse results), and also differences in the social models of its members. In parameters like income differentiation, the share of persons living at risk of poverty, etc., the United Kingdom and Ireland are approximately at the level of the least developed EU Member States. It is the result of that kind of social and tax policy, which has no intention to correct the sharp market differences in income and wealth.

In 2003, European society was still more differentiated and less homogenous than the society most Europeans would like to have in 2010. The accession of new Member States to the EU will make achieving this goal even more difficult. Differentiation among the individual countries will increase. Furthermore, there will also be more states with a higher internal differentiation. In addition to the three Central European countries, which are rather socially homogeneous (Gini coefficient achieved 25.4 in the Czech Republic in 1996, 24.4 in Hungary in 1998, and 24.1 in Slovakia in 1996, which represents a significant increase from 1992, when it was at a level of 19)¹⁾, among the new EU accession countries are the Baltic

1) In 2004 the situation will, undoubtedly, be diametrically different in the Slovak Republic. The following data confirm it: while 7% of the popula-

countries, which are more socially heterogeneous. Estonia with a Gini coefficient of 37.6 (1998) holds the first place.

According to the *Social Cohesion Report*, which had already monitored the candidate countries, the differences in the EU after accession in terms of GDP per capita will at least double but may increase by as much as 4.5 times. The number of the so-called first and second poorest regions will significantly increase in the EU.²⁾ 21 regions from Central European countries will be added to the first group of the poorest regions: 14 from Poland, 4 from Hungary, and 3 from Slovakia, (i.e., the regions of Eastern Slovakia, Central Slovakia, and Western Slovakia, excluding Bratislava).

This analysis of the social situation in the EU before and after its enlargement clearly shows that the road to a more socially cohesive and just Europe is still a long one. And it is also up to the politicians of the new Member States whether this road will be longer or shorter ...

tion of Slovakia lived at the poverty line in Slovakia in 1996 according to the Statistical Office of the Slovak Republic in 2004 their share increased almost to 21% according to published data.

2) The so-called first poorest regions are those where the achieved level is 29% to 47% of the average EU GDP per capita, the second poorest regions are those with 47% to 74% of the average GDP per capita.

Modernisation of the European social model

In Lisbon in 2000, in addition to formulating the basic strategic objectives of EU development, the *Lisbon Social Agenda* – a programme of modernisation of the European social model – was adopted. The Lisbon Social Agenda is a road map, which the modernisation of the European social model should follow. Its basic principles include investing in people and building a more active and efficient welfare state. Its objective is to create a “modern, innovative and sustainable European social model: more and better work, a society not excluding anyone, and offering equal opportunities to everyone”. In other words, its objective is to strengthen a role of social policy as a factor of development and, at the same time, to strengthen solidarity and social justice. The Lisbon Social Agenda includes: 1. the political decision to modernise the social protection system; 2. an orientation towards a knowledge based economy; 3. linking economic and social policies with the objective of achieving greater effectiveness. It should result in modern social and employment policies, and preserve the basic values of social justice and solidarity.

The Lisbon Social Agenda is important for several reasons:

- It expresses the intention of preserving the European social model. Attempts to radically reduce, minimise if not eliminate, the European social model are characteristic for neo-conservative governments, and are based on an ultraliberal approach to market and society. The most striking examples are Margaret Thatcher’s governments from the end of the 1970s, until and the beginning of the 1990s. Maintaining the European social model in the 21st century contradicts forecasts like “the dusk of the welfare state” or “the end of the welfare state”, which have prevailed in Europe since the end of the 1970s.

- It expresses the necessity of changes in the European social model, which should respond to the needs and challenges of development of society and the world economy.
- Here, the European Social Agenda is given the task of supporting the achievement of the EU objective – to become the most competitive part of the world by the end of 2010. In this context, the social policy is not reduced to “tax and spend policy”, but it is considered as “a productive factor”. Therefore, the expenditures linked with this kind of social policy cannot be considered non-productive either. This is “breaking news”! Clearly, modern social policy which represents a new productive factor – will allow the essential strategic goal of the EU to be achieved more quickly. As this interpretation is in contradiction with neo-liberal ideology, it deserves to be dealt with in more detail (see Table 2.1).

The Lisbon Social Agenda emphasises employment, education, the modernisation of social protection, and the support of modern industrial relations based on social partnership and social dialogue. The modernisation of the European social model assumes achieving full employment and high quality of work. It can only be achieved under the new conditions: if equilibrium between labour flexibility and the labour market is achieved, and if employee protection and conditions for higher geographic and professional labour mobility are attained. The key to the last point is education. Education – in contrast to our traditional approach – is considered to be one of the decisive elements in the modernisation of the social model (see Chart 2.1).

The modernisation of social protection is based on the principle of *making work pay*. At the same time, the sustainability of old age pensions, the social inclusion of each citizen, and the high standard and sustainability of health care must be ensured. It should be implemented through the will of the individual EU Member States and under their competences. Although the urgency of social model modernisation is different in individual Member States, it will be necessary to gradually implement it in all EU Member States. It can be expected that on the basis of deepening interdependence,

Table 2.1

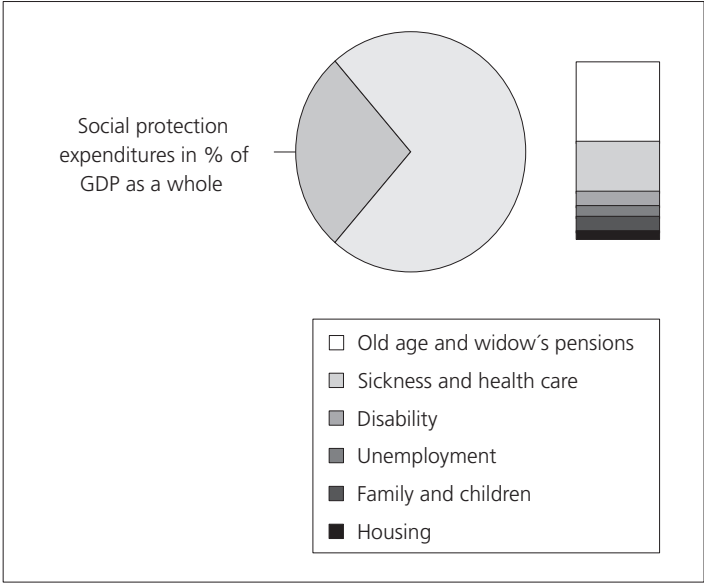
**2001 expenditures on social protection in the individual
European Union Member States**

	EU 15	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
Social protection expenditures in % of GDP as a whole	27.5	27.5	30.3	27.6	21.2	22.4	29.3	20.3	26.2	22.5	31.9	27.8	18.4	33.6	37.1	27.9
Of these:																
Old age and widow's pensions	46.1	43.7	38	42.5	51.3	45.3	43.7	24.8	62.3	39.4	41.8	49.5	45.7	36.6	39	46.5
Sickness and health care	28.2	25	20.3	28.8	25.8	30	29.2	43.4	26.1	25.4	30.4	24.7	31.3	24.5	29.2	28.1
Disability	8	9	12.5	7.7	5	7.6	6	5.2	5.7	14.2	11.6	8.1	12.3	13.7	12.4	9.4
Unemployment	6.2	11.7	10	8.2	6	12.9	7.1	8.3	1.6	2.5	5	5	3.6	9.8	5.6	2.9
Family and children	8	8.9	13.3	10.4	6.9	2.6	9.5	12.5	4	16.8	4.4	10.6	5.6	12.1	9.6	6.8
Housing	3.6	1.6	6	2.5	5.1	1.7	4.5	5.7	0.3	1.7	6.7	2.2	1.3	3.3	4.3	6.3

According to: Joint Report on Social Inclusion. Brussels: EC 2004.

jointly adopted objectives, and a policy of coordination, its main characteristics will be identical or very similar.

Chart 2.1
Social protection expenditures in the EU 15 in 2001



According to: *Joint Report on Social Inclusion. Brussels: EC 2004.*

Why is the old social model unsustainable?

Why is the modernisation of the European social model necessary? The modernised European social model is to respond to new challenges such as

- a) Globalisation and increased competitiveness;
- b) New trends, such as the emergence of a *knowledge based economy*;

- c) Demographic changes in society;
- d) Disproportionately rising costs of the social model;
- e) Existing economic difficulties in the EU, such as the high unemployment rates, high fiscal deficits, and the growth of state indebtedness of some member states.

Globalisation based on market liberalisation and growing market interdependence produces more competition. Is the neo-liberal argument in this context, which emphasizes the contradiction between the social model and competitiveness, true?

Although the opposition of many NGOs to globalisation is not shared by “mainstream economists”, their concerns about its implications as well as their discontents can be understood. Their warning that “uncontrolled” globalisation could have catastrophic results should not be neglected. In order to avoid such unwanted consequences, the recognition of the social dimension of globalisation is necessary. The positive side of globalisation is that it contributes to “the wealth of nations” in an extraordinary way. However, if uncontrolled, the distribution of wealth is such that it further deepens the gap between rich and poor nations. It should be noted that sometimes it is harder to break the hostility of some governments or political parties in power to the social dimension of globalisation than to break the hostility of anti-globalists to globalisation. Despite the fact that underestimation of the social dimension of globalisation can generate or lead to such evils as terrorism, AIDS, illegal migration, as well as the growth of social unrest – threats that also represent a great risk to democracy. On the other side, the argument that the social model has direct implications for the competitiveness of a country cannot be overlooked. Therefore we touch upon this issue in more details.

One of the factors of globalisation is the “information revolution”, generated by ICT development. New IC-technologies are responsible for the emergence and development of the *new economy* and/or the development of a knowledge based economy. They form a basis for the emergence and development of the information society. New ICTs and new knowledge enter into every sec-

tor of the economy; in fact, into every human activity. E-applications (ICT applications like *e-business*, *e-commerce*, and *e-banking*) reduce costs in business in financial transactions and in trade and they provide new opportunities for attracting of new customers and suppliers, etc.; they allow new methods in, and approaches to, education (*e-education*), health (*e-health care*), the development of democracy and improvement of the public administration (*e-democracy* and *e-government*), etc. It is of a great interest to us that this revolution formulates new requirements for education, employment, adaptability, etc. and that the old social model does not respond to the new requirements adequately.

The societies in the European Union Member States are ageing. The ageing of society is linked to two trends: longer life expectancy and lower birth rates. "Controlled" (legal) migration could partially mitigate ageing in the EU Member States; however, it is not a panacea. The trend of ageing should be addressed through significant changes in several policies at the same time: in the pension policy, health policy, employment policy, in education, etc. Changes needed in pension policy include, for instance, measures like extension of the retirement age, significant restriction of early retirement, reform of pension scheme, and so on. Employment policy should include programmes for elderly workers, lifelong learning, and the like.

Social costs (which in the broader sense include unemployment benefits, pensions, benefits to families and children allowances, and health care costs) are rapidly growing, affecting negatively the fiscal deficit in the public sector and government's debt. For instance, between 1980 and 1995, the costs of the social sector in this broader sense grew by 4.5 % in the 24 OECD countries, and achieved an average of 24 % of GDP. It is no surprise that the highest costs are in the countries with a social-democratic social model. However, in contrast to this, Sweden, Finland, and Denmark – the countries with the highest social expenditures – have their public finances in order, while the situation is diametrically different, for instance, in Portugal and Greece, which have the lowest expenditures; but exceed the Maastricht criteria of fiscal deficit.

The risk of breaking fiscal discipline is an important impetus for reforms particularly for the members of the Euro-zone. Nevertheless reforms differ in both methods and intensity. Countries with high social expenditures include Germany and France, the two most important Euro-zone states, which were confronted for the first time in history with the threat of sanctions being imposed on them for their repeated failures to keep the 3 % fiscal deficit limit. Both states are confronted with the high growth of nominal social expenditures. In France, these are mainly expenditures on health, and to a certain extent, on pensions. In Germany, all three key components – pensions, health care, and unemployment – are involved.

The three largest European economies (with the exception of the UK) – Germany, France, and Italy – are struggling with sluggish economic growth. The way out of economic difficulties cannot only be stimulation of domestic demand by increasing state indebtedness. The chances for improving economic growth, as well as the performance of economy depend on the implementation of the measures contained in the Lisbon conclusions of 2000. In his well-known speech to the German Bundestag of 14 March 2003, Chancellor Gerhard Schröder formulated it as a dilemma – “to modernise or to die”; i.e., to lose competitiveness and – as a consequence chances to build a society that is more just, and ensures stronger social cohesion. At the same time, he warned that if Germany does not have the courage to modernise, the market would force other solutions much less desirable. He said: “... if we fail to modernise ourselves ... uncontrolled market forces will modernise us, and freedom will be reduced to a luxury enjoyed by the few, not the many.”

In *Agenda 2010* – a proposal for the modernisation of the German social market economy – the modernisation of the German social model is a key.

Thus, we have only two options: (1) either to modernise the existing social model while keeping the basic values of them, or (2) to be confronted with the “modernisation” carried by neo-conservative governments, the result of which would be a loss of funda-

mental values of the European social model, like social cohesion, solidarity, and social justice.

Is the European social model a barrier to competitiveness?

Globalisation increases competition in the products, services, and investment markets. Domestic producers are exposed to competition by imports from markets with low wages and/or low social and health contributions, or low employee protection, etc. Foreign and domestic investors prefer to invest in a country in which they can achieve lower costs – in particular wage costs – and where they pay lower taxes, allowing them to enjoy higher profits. Therefore it is suggested that to withstand competition in an increasingly globalised world low wages, low taxes and low social contributions are indispensable. This implies reduced social expenditures and the fundamental “reform” of the social model.

Is this scheme, which is the basis of neo-conservative policy and one of the reasons for growing opposition to globalisation, relevant?

Are social expenditures non-productive in general? Are states with low social expenditures more competitive?

In January 2003 the European Commission (DG Employment and Social Affairs) commissioned a report on the impacts of social policy on total costs and effects on society, incl. the impacts on economic growth, stability, and competitiveness. Its conclusions – like those of many other analyses – can be summarised as follows:

1. Social policy through corrections of the market failures helps to keep employment at a closed to target level, grants protection to low income groups (e.g., in case of sickness, loss of job, and the like), ensures adequate education and training. Social policy therefore contributes to higher domestic demand and helps to overcome barriers to economic growth.
2. Social policy promotes market flexibility. The existence of an adequate social protection in the case of loss of employment in-

creases the willingness to take higher risks (e.g., in case of self-employment), to conclude more flexible employment contracts, etc. The report quotes the results of comparisons between the willingness to take risks and social expenditures, which clearly show that there is a direct correlation. In countries with high social expenditures, the willingness to move or to become self-employed is even higher, and is directly dependent upon social expenditures on unemployment, etc. Low unemployment benefits may, however, motivate people more to search for work, but it also enhances resistance to dismissal, make collective bargaining more difficult, encourage illegal employment, increase the possibility of strikes, etc.

3. Costs of retraining and the upgrading of skills (as a part of social costs) are usually offset by higher work productivity and higher employee adaptability.

To summarise: a modern social policy need not be a hindrance to higher effectiveness; on the contrary, it can be a factor of growth that contributes to greater dynamism and economic stability.

So what, then, is the contradiction – or under what prerequisites – will social policy contribute to increased effectiveness and competitiveness? What sort of “competitiveness” are we speaking about?

It is necessary to distinguish between the short-term and long-term effects of social policy (the cost aspect is mainly emphasised in the short-term). Short-sighted government and short-sighted entrepreneurs consider social expenditures to be a mere financial expenditure. They neglect that expenditures on human capital will have a positive impact on the capacity of worker to innovate; expenditures on social protection increase social cohesion and reduce the risk of social unrest (e.g. strikes) and the risk of a deterioration in the security situation (e.g. a rise in criminality), and the like. The report shows that a positive attitude to the redistributing function of the state, which contributes to mitigating social differences and fostering social cohesion, prevails in the EU. The percentage of those who agree with the positive impacts of this government’s function varies between 50 % and 90 %. The percentage is inverse-

ly correlated to the level of social cohesion achieved; for instance, in Germany it is 53 %, in the UK 69 %, and in Portugal 90 %.

Competitiveness at the end of the 20th and beginning of the 21st century is based on a new growth paradigm. According to this paradigm, the winners of the competition are not those who compete with low prices (price competition) but those who innovate, produce new products, high quality, new technologies, and the like. Economic growth at the end of the 20th and beginning of the 21st century depends mainly on the development of the *knowledge-based economy* and investments into the development of such an economy. The human factor is the decisive factor behind its development. Therefore, all the expenditures contributing to the development of the human factor, including social expenditures, are productive ones, such that boost competitiveness.

In order to avoid misunderstanding, it is necessary to add that this does not mean that price competition does not play a role any more. In the area of traditional production, prices still play an important role, consequently wage and social and environmental dumping – as important factors of price competition – still maintain their role. It should be no surprise that price dumping achieved through either artificially maintained low prices in a short run, or through state subsidies (as is the case, for example, in US and EU agricultural products, which is rightfully criticised by developing countries in the framework of the development round of the World Trade Organisation (WTO) negotiations) are in general not well received. Different measures are used to fight it on the national and international level – like anti-dumping legislation, retaliatory procedures in the framework of the WTO, etc. Unfortunately, social dumping (the failure to ensure worker's basic working rights, which is covered, inter alia, by the essential International Labour Organisation (ILO) standards), and environmental dumping (the non-inclusion of environmental costs into the price, etc.), are not treated in an similar way. No effective procedures against social or environmental dumping have been agreed at the international level. So far, some measures have only been adopted sporadically at the national level. It is up to the national government and the

strength of civil society in the country whether they will encourage entrepreneurs to seek other solutions (to innovate, to diversify their production, etc.) or will continue to follow the easiest way: to profit from social or environmental dumping.

The competitiveness of the state, which we interpret as the capacity to make use of new factors of growth, is more or less directly dependent on the social expenditures. This is also confirmed by empirical comparisons of social expenditures spent on employment, health, pension and family allowances and the competitiveness index. Countries with (the) high(est) social expenditures (Finland, the Netherlands, Sweden) are on the high end of the competitiveness scale; in contrast, the countries with the lowest social expenditures among the OECD states (Greece, Portugal) are on the low end of the scale. Two countries – the US and Ireland – are listed as “the exception to the rule”.

Comparing the EU and US social models

The speed at which the EU is catching up with the US is a measure of the success/failure of the EU growth and competitiveness policy. From the 1960s until the mid-1970s, the catching-up process accelerated. Since the mid-1970s, the GDP per capita gap between the EU and the USA has been widening to the disadvantage of the EU. From the mid-1990s until today, the European economy has been characterised by lower growth dynamism, lower work productivity, and a lower employment growth rate. If this trend continues, it will be impossible to achieve the Lisbon goal.

Is the key factor of the widening gap between the EU and the US economy, the existence of the European social model?

Neo-liberal reformers of the European social model point to the lower social expenditures in the US. They argue that the US labour market is more flexible, there is higher motivation to look for work and protect one's health, etc.

It is obvious that the differences between the European and American social models are remarkable. They are particularly

striking with respect to the impacts on the social situation of society. Total expenditures (public and private together) in both social models are, however, comparable. In 1997, the expenditures on social protection in case of unemployment, sickness, and old age expressed together (as a percentage of GDP) were around 23.4 % in the USA. They lagged behind the highest social expenditures in the EU Member States (i.e., the countries with the highest social expenditures) by some 7 points. However, even in the USA, these expenditures are rising. This has resulted in the indebtedness of the country's social and health insurance (Medicare, Social Security) to such an extent that today, this indebtedness is considered a time bomb that may soon undermine the country's finances (according to the Financial Times of 9 September 2003, the indebtedness increased up to \$US 1,600 billion, although officially, "a mere" \$US 400 billion are stated). However, the main difference lies in the share of social expenditures paid collectively (public expenditures) and individually (private expenditures). This ratio is 70 %:30 % in the US, while in Sweden, for instance, it is 93 %:7 % (according to data from the end of the 1990s). In other words, the US social model is adjusted to higher income groups that can afford to finance their social protection increasingly from private resources, and are therefore not affected by the low social protection funded from public resources. In practice, this means that the basic support in retirement paid from State funds is low (amounting to \$US 899 on average); health insurance does not cover the health care expenditures of several dozens of millions of people, and there are no such social advantages as paid maternity leave, child benefits, or sickness benefits. In the USA, a significant share of employed persons cannot pay private pension insurance (55 % of the total number of employed people), 33 % are not saving for a pension in any way, and the State pension is the only source of income for 20 % of the elderly. The American social model characterised in this way results in a growing number of those who live in poverty. According to the American authorities, not including persons over 65 years of age in the category of the poor, the number of poor people increased by 1.4 million to 34.8 million persons in year 2002.

The arguments of higher labour market flexibility in the USA in comparison to many EU Member States are to some extent justified. Achieving higher labour market flexibility is, however, also one of the objectives of the labour market reform in Germany. On the other hand, examples from the Netherlands and Scandinavian countries show that the labour market is more flexible if there is basic social protection of the worker and of his or her family in case of changing a job, in a period of training or re-training, in case of looking for a new job, or shifting to different working regimes, or moving, etc. – i.e., when social protection makes adaptation to various new situations on the side of both work supply and demand easier.

Motivation to work – and this is an important lesson – should not be reduced to negative motivation only, but also include positive motivation (*better jobs*), like appropriate conditions at work, higher wages, sufficient protection against dismissal, and the like. After all, in the EU until 2003, the level of employment grew (10 million new jobs were created from 1997 to 2001), while the unemployment rate, long-term unemployment, etc. decreased, in spite of sluggish economic growth.

From the abovementioned, it is clear that the basic reasons why the European economy lags behind that of the US are hidden elsewhere – in such decisive factors of growth as investments into research and development and education and into information technologies. The EU economy lags behind in entrepreneurship due to high administrative barriers, lack of adequate resources such as venture capital, etc. Another factor is the share of the *knowledge based economy* which is higher in the US than in the EU in many sectors of industry and services. Considering the existing differences, the lack of investments into the *knowledge based economy* in the EU is alarming, and it signals that if there is no essential shift in public and private investment policy, the gap will continue to grow. Let us add that lagging behind the US in the level of GDP per capita in the EU also reflects the fact that people in the USA work approximately one third more than in the EU. Whether we call the European society an easy-going society or not, the fact is

that in the EU, people retire earlier, the working week is shorter, the number of bank holidays is higher – and the employment rate is lower than in the USA.

The Lisbon Social Agenda in practice

Let us remind the basic principles of the modernisation of the European social model. The agenda of modernisation of the social model (the European Social Agenda) is a part of the Lisbon *European Strategy to Improve Competitiveness*, adopted in 2000. The strategic goal is not only to achieve primacy in competitiveness, but also to achieve higher social cohesion, and more and better jobs. The Lisbon strategy also formulates instruments and ways to achieve this goal. One of these is the modernisation of the European social model. As long as social policy remains under the competences of national governments; i.e., as long as differences in the national social models persist, it is mainly the open method of coordination that can be a useful instrument of modernisation on the EU scale. Recommendations how to combat unemployment or social exclusion – drafted on the basis of monitoring national plans – can help. The exchange of information, experience and best practices on how to modernise individual parts of the European social model, how to make use of social dialogue, etc. are also important.

Germany has chosen a rather comprehensive approach to modernisation of the social market model, the effects of which can only be assessed after a certain time lag. Agenda 2010 includes a set of measures focused on the reform of employment, the social system (including pensions and health care), and how to promote economic growth particularly focused on small and medium sized enterprises and financing investments into research and education. The process of modernisation of the German social model did not start on the day Agenda 2010 was announced (14 March 2003). Several measures preceded it like: creating legislative and other institutional conditions for the founding of the second pillar of pension

scheme (the so-called Riester Reform, which resulted from the work of a commission with the same name in 2001) and the labour market reform proposed on the basis of conclusions reached by the so-called Hartz Commission. By reforming employment, Agenda 2010 wants to enhance labour demand – for instance it assumes relaxing conditions for small businesses – employers – when releasing employees, but it also includes new elements for the protection of workers when being released on grounds stated by the enterprise. In principle, it assumes the reduction of unemployment benefit entitlements – in the case of men and women over 55 years of age, from a maximum of 32 months to 18 months, and for others to a maximum of one year. The long-term unemployed, who have until now received a reduced unemployment benefit and social benefits should have a new unemployment benefit introduced. This benefit will be received by all who are capable of working but do not work, and have until now have received social benefits. Social benefits shall be abolished for this group. The intention is not to support the payment of social benefits, but to increase employment. The benefit will therefore be paid through new “employment centres”, which the local employment offices will be transformed into. These will mainly offer advisory services to the unemployed, and organise recruitment and similar services linked with job seeking. Assistance in job seeking should also be improved for the long-term unemployed, and their number reduced in this way. Thus, employment reform also includes the reform of the Federal Labour Office; as a provider of services in employment, this office should be “customer oriented” as a priority, with the objective of increasing the effectiveness of job seeking.

According to UN data, by 2030, the number of inhabitants over 60 years age will represent 35 % of German population. While today, the number of persons working per pensioner is 2.3, by 2030, this figure will be a mere 1.2. For these reasons, and also due to the unsatisfactory results of the Riester Reform, additional proposals prepared by the so-called Rürup Commission are needed. The pension reform proposals include a gradual increasing of the retirement age by one month from 2011 on, which means that in

2035 the retirement age will have risen from 65 to 67. A certain slow down of pension growth is also anticipated, in order to be able to keep the social contributions at a level below 22 % of wages until 2030. Current pensions, amounting on average to 70 % of the wage, would therefore not have to drop below 68 % in 2030.

Germany expects to maintain an active employment policy in the so-called new Bundesländer (the former GDR) and for some sensitive groups (e.g., for the employment of men and women above a certain age limit). This should also help to address the demand side of employment in higher age groups.

Reform of the health care involves maintaining the provision of health services at the highest level, together with the principle of solidarity. As Chancellor Schröder stated: "Everyone should receive health care regardless of his/her age and income." The reform focuses on enhancing competitiveness, greater effectiveness, and a wider range of choice for the patient; however, it also assumes higher patient participation in some health care services – fees paid when visiting a doctor and when undergoing residential treatment. Measures like introducing an electronic patient's card by 2006, introducing accounts informing patients about the costs of treatment, and implementing standard treatment procedures for the most important diseases in society should contribute to cost reduction and a higher level of control.

Prevention, also called the fourth pillar of reform, is an important part of the reform. Patients who engage in various prevention initiatives will profit, for instance, from bonuses (deductions from contributions, etc.). However, this is not enough. Focusing on sickness prevention should bring about a fundamental change in the approach of society to health, and should include health promotion, starting with pre-school and school education, all the way up to prevention for adults and in the workplace. The comprehensive law on prevention should come into effect in autumn 2004. Measures in health care could help to reduce average health insurance contributions to below 13 % of the wage.

The basic characteristic of the proposed modernisation of the German social model can be summarised as follows: maintaining

solidarity whilst strengthening personal responsibility, negative and positive motivations, and the more effective role of the state in the social model. All steps of the reform have been thoroughly prepared with the most qualified experts, and have been widely discussed by the public at large.

Modernising the social model and social dialogue

Although it is generally accepted that the old social model cannot be fiscally sustainable, that it de-motivates individuals to take responsibility, that it deteriorates competitiveness, and the like, the incorporation of new elements in the model faces opposition from the trade unions. When assessing this opposition, it is important to differentiate the proposed measures: whether they liquidate the essential values of the European social model or envisage a new balance between the principle of solidarity and the principle of personal responsibility. This issue is also about the readiness of trade union headquarters to changes.

Social dialogue is the important prerequisite for achieving an agreement on reforms. Social dialogue makes the preparation of reform measures more complicated and time consuming; however, if it is successful, it eliminates opposition to reforms and accelerates their implementation. Social partners of the government (trade unions and employers, and possibly non-governmental organisations) should therefore not merely be invited to comment on finished laws, but also be involved in the process of their preparation from the very beginning.

As already indicated, this formula does not automatically guarantee the success of social dialogue. For instance, after repeated attempts to achieve social agreement, German Chancellor Schröder has decided to continue without it. The German trade unions stepped up the pressure exerted on the Chancellor not to support the opposition's interest in giving employers the possibility of not observing the conclusions of collective bargaining achieved at the sectoral level in enterprises' collective agreements. They threat-

ened mass protests in coming months if the government agreed to such a proposal. This approach was considered to be a lacmus test of trade union power, but it failed to prevent the government from implementing Agenda 2010. It was also the first step of the radical IG Metall trade union leader, who was elected despite the fact that he initiated a massive action in the Bundesländern of the former GDR, which ended in a debacle.

Resistance by organised trade unions can be a reason for postponing or correcting reform measures, which is not always beneficial. In spite of the pressure by Confindustria (an employers' association in Italy), Silvio Berlusconi's centre-right government made a concession from its original intention to penalise early retirement. The Italian Prime Minister originally supported the idea of increasing the average retirement age to 60 until 2010, and then later to 62 years of age.³⁾ Reducing pensions in the event of early retirement, in order to discourage this practice, was not agreed upon by his political partners. The proposal of how to partially reduce pension costs (around 14 % of GDP) was reached in Italy after difficult political negotiations with social partners in summer 2004.

The French government, under Jean-Pierre Raffarin, decided to set the length of service necessary for a pension entitlement at the same level in both the public and private sectors. In spite of trade union opposition, it has decided to accomplish this plan. Both chambers of the French parliament, in which the centre-right coalition enjoys a majority, adopted the law on 24 June 2003. However, Raffarin drew conclusions from the organisation of resistance, which paralysed the French economy with strikes for several months. At a press conference held on the same day, he first called social dialogue a "national priority" and spoke about the two main trade unions – the CFDT and CGC (but not the CGT, which is considered to be radical) in a polite way; secondly, he announced the

3) In Italy, the average retirement age is 57, in spite of the fact that the official limit is 65 years for men and 60 years for women. However, frequent use of the early retirement option reduces the average age in reality.

Agenda 2006 reform programme, to be spread over three years. Spreading the reforms over this period, together with the announced priorities like social cohesion and social dialogue, knowledge based wealth generation, and European integration shows that the French Prime Minister pushes the reforms that the French society is ready to undergo. It also indicates that he realizes the importance of not putting the basic values of the French social model, like social cohesion, social dialogue, etc. at risk. Time will show to what extent Jean-Pierre Raffarin will be able to achieve his plans. However, it sends a signal that openness to dialogue and understanding the need for modernisation are obvious at least to one of the two main trade unions (CFDT). François Chérèque, Secretary General of the CFDT, recently told the daily *Le Monde*: "Our companies, which profit from massive progress, are also exposed to changes that jeopardise our social cohesion, impose new disparities, and arise a strong feeling of injustice. In order to deal with this situation, the unavoidability of reforms must be admitted ..."

The European social model: the challenges and risks of the European Union enlargement

The European Union's Constitution and the social model

The ratification "road map" for the EU Constitution shows that in the 2nd quarter of 2004 we are about half-way on our journey towards the completion of the ratification process by the end of 2006 or the beginning of 2007. The December 2001 Laeken Summit decided to establish the European Convention for the drafting of the EU Constitution. Silvio Berlusconi would have liked to conclude the negotiations on the constitution in Brussels by 13 December 2003, in order to present the final version of the EU Constitution during the Italian Presidency. He failed. No differences greater than 5 % between the draft presented by V. Giscard d'Estaing and the final version were originally expected. However, the Summit noted, "that it was not possible to reach overall agreement on a draft constitutional treaty at this stage" and negotiations on the new Constitution continued until the end of the first half of 2004.

The EU Constitution is a compromise, reached in difficult and protracted negotiations fashion. It should therefore be no surprise that the Constitution has been and will be criticised by various parties and from various sides – from the Left and Right, by small and large countries, by the United Kingdom and Ireland, Spain and Poland, and so on.

The EU Constitution is built on the *EU Charter of Fundamental Rights*, solemnly declared by the European Parliament, European Council, and European Commission in Nice on 7 December 2000. In no way is the Charter conflict-free; not long time ago – when discussing the EU Constitution – it also gave rise to a furious debate of the Slovak cabinet in which some cabinet mem-

bers called the Charter “socialist”. Firstly, its Preamble proclaims shared fundamental EU values that the Union is founded on: “in-divisible, universal values of human dignity, freedom, equality and solidarity”, principles of democracy, and the rule of law. Secondly, the Constitution confirms that these values are, *inter alia*, based on the *Treaty on European Union*, the *European Convention for the Protection of Human Rights and Fundamental Freedoms*, and Social Charters adopted by the Community and by the Council of Europe. Chapter Four, called *Solidarity*, is an object of scolding for some. Article 28 sets the right of collective bargaining and collective actions, including strike actions, Article 34 stipulates the right to social protection and social assistance, and Article 35 lays down the right to health care. (To complete the picture: The EU has ratified the Council of Europe’s 1961 European Social Charter, but it has not yet ratified the 1966 Revised European Social Charter, as it has proved impossible to reach a political agreement on it.)

The EU Constitution envisages narrowing the space for national vetoes, and devolves several powers to the European Parliament. It foresees a so-called deeper union; i.e., a mechanism to gradually remove the national veto in all remaining instances. As we know, the United Kingdom and Ireland supported the national veto in the area of tax and social policy (particularly in issues concerning the social security of migrants). New Member States were already involved in the final stages of the process, and their opinion was therefore relevant. The Government of the Slovak Republic expressed its “determined” position in favour of maintaining the national veto in tax and social policy. At the plenary session of the international scientific conference, which was held on the occasion of the 50th anniversary of the founding of the School of Economics in Bratislava, Ivan Mikloš, finance minister, emphasised that the Slovak Republic must keep its autonomy in the areas of direct taxation and social policy, as the reform of these two areas “are the key to structural reforms that determine the competitiveness of each individual country and the European economy!” (*Sme*, 9 October 2003). The position of Ivan Mikloš and the Slovak Government is obviously (not surprisingly) based on an ideology

that is characteristic for the non-European or rather non-Continental right-wing.

The EU Constitution formulates combating social exclusion and poverty as one of its explicit goals. In the Solidarity Chapter of the Charter of Fundamental Rights, Article 34 sets out the right to social assistance and housing assistance, so as to ensure a “decent existence” for all those who lack sufficient resources, in compliance with EC law and national legislation.

The EU Constitution envisages supporting the coordination of the EU social policy with the EU economic policy and employment policy. This is not a new direction; it is a part of the Lisbon Strategy. At the ECOFIN session in Luxembourg on 7 October 2003, ministers stressed on the one hand that the social agenda of the Lisbon Strategy could only benefit if its integration into other, existing processes is achieved. On the other hand, increasing competitiveness and modernising the European economy necessitates the compatibility of social protection with the Broad Economic Policy Guidelines (BEPG) and the European Employment Strategy (EES). In the opinion of the Economic Policy Committee (EPC), the economic, financial, and social aspects of pension security, health care, and social protection must be mutually supportive.

The EU Constitution defines basic elements and steps of the open method of coordination (OMC) for the social sphere; however, it does not explicitly establish the OMC as an institution. This can undoubtedly be considered to be a drawback. We can only hope that it will not weaken the practical application of the OMC; so far, there is no evidence of this.

How well are the new Member States prepared?

The candidate countries started to participate in the open method of coordination for employment during their preparation for EU accession. They drafted their first national action plans (NAPs); for instance, the Slovak Government adopted a second NAP on 21 May 2003. At the stage of candidate countries, together with the

European Commission, they started to prepare joint assessments of employment priorities. The 2002 Joint Assessment of Employment Priorities in the Slovak Republic was adopted by the Government of the Slovak Republic on 5 June 2002.

Less progress was achieved in candidate countries' participation in the OMC for social inclusion. With the assistance of the EC, candidate countries started to participate in their preparation of the so-called Joint Memoranda on Social Inclusion, which should facilitate the identification of weaknesses, the formulation of policy in the framework of European objectives, and the like. Candidate countries could also participate voluntarily in the Community Action Plan.

In the EC's view, the candidate countries managed their participation in the open method of coordination well in terms of capacity, and no significant administrative difficulties were anticipated after their EU accession.

However, another question is decisive: Will the open method of coordination ensures policies aimed at achieving the goals of the European social model in employment, social inclusion, etc.?

"After EU accession, governments will not be able to conduct irresponsible policy; they will have to avoid irrational steps," say some.

We do not share this opinion – the EU accession is not a solution to the internal political situation, which is currently characterised by growing dissatisfaction with the government(s) in several new EU members. As a matter of fact the justification of such expectations depends on the kind of policy to which they are related, as well as on the mechanisms that are intended to be used for the enforcement of EU goals – i.e., for their achievement through pressure. The degree of pressure will be different and depend on different policies; it will be different in the area of common policy, and again different in the area of national policy.

As we have already stated, social policy is a national policy, whereby basic, common goals of the EU are achieved through the open method of coordination. The legislation in this field mostly represents "soft legislation"; its implementation is monitored and

assessed, and recommendations are formulated accordingly. However, failure to implement recommendations it is not penalised in the same way as in the case of budgetary policy, where under the existing rules exceeding the 3 % budgetary deficit threshold entails a fine for members of the Euro-zone. Although in the case of Germany and France – as we have witnessed – this rule was not applied. There is a risk that the application of the open method of coordination will only be a formality – an additional administrative burden “forced upon new members” by EU membership. It could, however, also represent a positive motivation for governments to achieve the goals formulated by the EU, subject to the governments’ wishes to comply with them.

In other words, the effectiveness of the open method of coordination will depend on whether the government will really adopt it in the assumed way. It will depend on the “political colour” of the government, government’s priorities, etc. This, of course, means that adopting documents such as National Action Plans, the Common Assessment of Priorities, and so on, neither provides a guarantee of their implementation, nor a guarantee of maintaining continuity in the event of fundamental political changes. This is evidently one of the most significant deficiencies of the “soft legislation”.

On this basis, can we conclude that there is no obligation for the new Member States to develop the EU social model in the future? Will everything depend merely on the (un)willingness of the acceding country?

No. This conclusion does not correspond to reality. By signing the EU Accession Treaty and the EU Constitution, national governments undertake to adopt and respect common fundamental EU values, which – in the social sphere – respect, for instance, workers’ fundamental rights, as well as the Charter of Fundamental Rights, etc.. After ratification, the EU Constitution will be binding for all Member States; its abidance will be enforceable and any violations punishable.

The open method of coordination, building on the fundamental social values respected in the EU, formulates common objectives and

principles, obliges countries to incorporate them into their NAPs, and allows the monitoring and evaluation of results achieved by means of indicators. In this way, fundamental agreements and treaties, “hard” and “soft” legislation, become instruments for enforcing the EU social model. At the same time, they also become instruments ensuring at least – some convergence of national social policies.

Financing the social model in the new European Union Member States

Government sectors that are responsible for the implementation of social policy are considered by tradition to be “spending sectors” – sectors that “demand” funds from the state budget or public budget. It is no surprise that in the traditional model, there is a continual conflict between the Ministry of Finance on one hand and the Ministry of Social Affairs and Ministry of Health on the other hand. In a situation where the state budget deficit or public finance deficit is growing, and the requirements for social benefits, pensions, health expenditures, housing expenditures, and the like, are also growing, this conflict may intensify exponentially.

The solution to this conflict requires a change in the approach to the social model both of the government as a whole, as well as of the Ministry of Finance, and of the “spending” sectors. The basis of the new approach should be an understanding that social policy can be a productive factor, and that it is possible to measure not only its costs, but also its effects on the economy, albeit in a more difficult way.

The effectiveness of social policy should be measured in two ways: firstly, as contribution to the increase of competitiveness and the stabilisation of economic growth; secondly, as contribution to the fostering of social cohesion (which, after all, is an important factor for a stable society).

What does the effectiveness reflect from the aspect of achieved social cohesion?

- The extent to which the risk of poverty has been reduced through social transfers, like unemployment benefits, social benefits ensuring a minimum income, and old age and other pensions. For instance as we already noted, in 2000, 15 % of the EU population lived at risk of poverty; if there had been no social transfer, this figure would have been 23.4 %. If we also exclude pensions, it would have reached 40 %;
- The availability of education (i.e., how the education of children from lower income families is ensured; do these children suffer from discrimination?);
- The availability of housing (e.g., does social housing cover demand?);
- The availability of health care (e.g., the percentage of health insurance coverage, etc.);
- Care for “vulnerable” groups (the disabled, incomplete families, and the like).

When evaluating (measuring) the effects of social policy (in the broader sense) on economic growth and competitiveness, attention is paid to the extent to which it contributes to employment growth and a reduction in the unemployment rate, how it ensures (in addition to the availability of education) a sufficient standard and scope of education, how it balances worker protection and labour market flexibility, and how, through the minimum wage and minimum income, it ensures – in addition to a life in dignity and the motivation to work – an adequate purchasing demand, which is one of the driving forces behind the economic growth and particularly the development of small and medium sized enterprises.

Competitiveness is not increased through reducing social expenditures, but through the meaningful targeting of expenditures and their effective and efficient use. Benefits from such use are confirmed by the results achieved in some small European countries with above-average social expenditures, which, as we have already pointed out, have the highest competitiveness “grades”: Finland – 1, the Netherlands – 4, Denmark – 6, and Sweden – 11. Ireland, with the lowest social expenditures in proportion to GDP, has a “grade” of 10 (according to the results of competitiveness

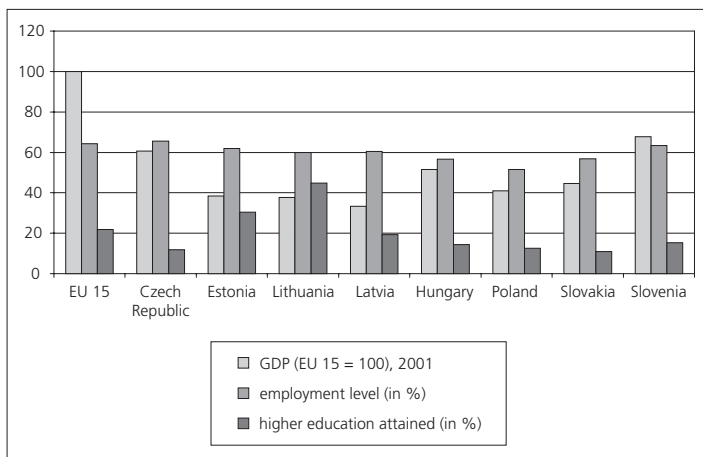
measurements conducted by the well-known World Economic Forum – WEF – in 2003).

The expensiveness of the social model is caused not only by its generosity (e.g., the number and scope of various types of social benefits, the scope and participation of the state in the coverage of the costs for health care services, and the like) but also by the effectiveness or ineffectiveness of its “administration”. The latter may be changed (increased or decreased) without changing the functions and objectives of the social model. Administration costs include the costs of managing institutions like social and health care insurance, labour offices, pension funds, etc. pointing to the efficiency of the institutions. Costs pointing to the effectiveness of the institutions reflect predominantly the ability of the institutions to properly target the most needed and to avoid abuse of the system. Any discussion on the expensiveness or inexpensiveness of the social model should not avoid considering all the cited aspects. In the Slovak Republic, for instance, the issues of targeted expenditures and of a mechanism preventing the abuse of social benefits, unemployment benefits, and sickness benefits were almost completely ignored. It is obvious that this approach is complex, requires some initial costs and time. Therefore, flat reduction of social cost through reduced entitlements of social allowances, regardless of the consequences, was chosen.

Measures improving the administrative costs of the social model must also be a part of the improvement of the administrative capacity in acceding countries. It is an important component of their reform process, especially in view of the fact that inadequate amounts spent on the social system due to inefficient administration lead to an increase in tax and social contribution rates in individual states. Acceding countries, however, have still not yet given adequate emphasis to improving public administration.

Social expenditures comprising social benefits, unemployment benefits, pensions, health care expenditures in percentage of GDP are lower than the EU average (27.7 % in 1998) in new EU members. In the European Union, Ireland has the lowest GDP share (16.1 %) and Denmark the highest (over 30 %). In 2000, social

Chart 3.1
**Selected indicators, average for the EU 15 and in the new
 EU Member States in 2002**



According to: *A New Partnership for Cohesion*. Brussels: EC 2004.

expenditures in acceding countries varied from 15.2 % in Estonia to 26.1 % in Slovenia (in 1998). In other countries, they reached 24 % in Poland, 23.2 % in Hungary, and 21.7 % in Slovakia. The expenditures on individual components differ significantly; for instance, in Slovenia, pensions accounted for 14.5 %, in Lithuania for 7.3 %, in Estonia 7.6 %, and in Slovakia 7.9 %. Health care expenditures (if private expenditures are also included) reached 7.1 % in Slovakia and 3.5 % in Latvia, while in the Czech Republic, the Baltic States, and Hungary this figure was around 6.6 % to 6.8 %. By comparison, we should also state that in the EU (in 1998) the average expenditures (in % of GDP) reached 8.6 % on health care and from 8 % to 14 % on pensions (except Ireland and the UK, where they reached a level of 3 % and 5.3 % respectively).

With respect to competitiveness and growth, expenditures on education (traditionally not included in social expenditures) are of

key importance. According to Eurostat, in 1999, Slovakia and the Czech Republic spent the least on education compared to the other candidate countries: 4.5 % and 4.3 % of GDP respectively. On the other hand, Estonia (7.4 %), and Lithuania and Latvia (6.2 % and 6.3 % respectively) are leaders in education expenditures.

If we consider that with the exception of Estonia and Slovenia, other countries must cope with a medium high to high budget deficit (in ascending order: Lithuania, Latvia, Hungary, Poland, Slovakia, the Czech Republic) and at the same time, apart from the Baltic states and Slovenia, with a medium high (Slovakia) to high (Poland and Hungary) level of state indebtedness, it can hardly be assumed that social expenditures will increase in the coming years. However, it is necessary to warn against the drastic cuts of social expenditures regardless of priorities, effectiveness, and costs on the one hand, and also against "idleness" on the other. Let us take Poland as an example. The Standard & Poors rating agency estimated that Poland's debt will reach 50.5 % of GDP in 2003 and will have even grow to a level of 60 % by 2006. This is the upper indebtedness limit for members of the Euro-zone, and at the same time, the maximum allowed by the Polish Constitution. It states that when debt exceeds 60 %, the next year's budget must be balanced. This would mean a radical reduction of expenditures from the state budget, including social expenditures.

In addition to the need to reduce state indebtedness and high budget deficit, reduction of high taxes and social contributions is used as an argument in favour of reduction of social expenditures. In the EU Member States the average social contributions as a percentage of total revenues from taxes and social contributions of general government are at the level of 27.5 % while they reach 34.1 % in acceding countries. The level of social contributions in the EU Member States differs substantially for instance, depending on whether social expenditures are financed primarily from taxes (as is the case of Denmark) or depending on the total tax and social contribution rate (it is low in the UK and Ireland). According to the Gesellschaft für Versicherungswissenschaft und -Gestaltung (GVG), a German research institution, (total) social contri-

butions in then acceding countries (in descending order) in 2002 (in % of gross wages) were as follows: Slovakia, Poland, the Czech Republic, Hungary, they were the lowest in Lithuania, Estonia, and Latvia. The order according the total tax and contribution rate is different. Of the OECD Member States, it is the highest in Denmark. The Slovak Republic (again, of the OECD Member States) has an average rate (i.e., it has a relatively lower tax burden and a higher social contribution burden expressed in % of GDP).

European funds such as *the European Social Fund (ESF)*, *the European Regional Development Fund (ERDF)*, and others can also help to avoid endangering the key targets of new Member State’s social policy (without jeopardising their fiscal objectives, either). These are the so-called Structural Funds; that is, funds to ensure the three goals of structural policy (see Box 3.1).

Box 3.1	The objectives of structural policy
<p>Objective No. 1: Promotes the development of regions with GDP per capita below 75 % of the EU average.</p> <p>Objective No. 2: Supports areas facing structural difficulties (like adjusting to change in industrial and services sector, rural areas in decline, etc.).</p> <p>Objective No. 3: Supports the adaptation and modernisation of policies and systems of education, training, and employment.</p>	

The European Social Fund is designed to finance Objective 3, the achievement of which is assumed through promoting employment, entrepreneurship, equal opportunities, and human resources development. The European Regional Development Fund is designed to help achieve Objective 1 and 2.

In addition to the effectiveness of resources for the Common Agricultural Policy (CAP) – which has long been a subject of discussion – the European Commission has started to talk about the effectiveness of spending structural funds on structural policy objectives. The latest impetus is the Sapir Report, commissioned by Romano Prodi in 2003. The Sapir Report criticises the low effec-

tiveness of resources for achieving Objective 2. At the same time, it points out differences in the effectiveness of structural funds: for instance, in Ireland they are used for the effective development of human capital, and in Italy, for the non-effective development of infrastructure. It also deals with the effective use of funds in New Member States. It casts doubt on the ability of New Member States to use the funds wisely. It prefers to direct funds in particular towards the improvement of institutions and investments into human capital, and towards central governments rather than to regional governments.

Liberal commissioners in Prodi's Commission supported the results of the Sapir Report. Based on the report, Prodi preferred to direct regional resources to a "development fund", to promoting competitiveness regardless of location. The then Commissioner for Regional Policy, Michel Barnier, who did not want to "kill regional policy", strongly opposed it, although he did acknowledge the need for investment into competitiveness. This discussion will intensify during the preparation of the new EU budget, which begins in 2007.

Social reforms in the new European Union Member States

In some new EU Member States, neo-liberal reformers have expressed concerns that after EU accession, their reform efforts will be blocked by the existing "hard" or "soft" EU legislation. They therefore "rushed" to push through reforms before May 2004. In their view, the EU is old fashioned, anti-reformist, bureaucratic, etc. The European social model is also subject to criticism, and therefore some new Member States back the national veto in social policy. As an example worth following, they cite Ireland from the old Member States and Estonia from the new Member States, the tax and social policies of which are glorified.

This interpretation has several problematic points.

Firstly, it claims that only low (direct) taxes and low social expenditures are behind the "Irish miracle" and Estonia's prestige-

ious position on the competitiveness scale. However, Ireland and Estonia are countries known to have high expenditures on education, research, and information technologies, which are more important for competitiveness than low taxes. The negative consequences of tax and social policies – like the share of poverty and income disparities, which are the largest in these two countries of all the EU Member States – are intentionally ignored. This interpretation also ignores that Ireland compensated shortfalls in its budget revenues due to low taxes by European funds. While Ireland has the second highest GDP per capita it is still a net receiver of the European funds.

Secondly, the EU social agenda – i.e., the agenda of modernising the European social model with emphasis on competitiveness and social cohesion – is ignored.

This indicates that some values of the European social model, which will become binding for the new states, are probably “thorns in their eyes”.

These reformers consider the speed and vigorousness of reforms to be most important. It was confirmed by the Slovak Prime Minister, Mikuláš Dzurinda, in his 2003 government’s report, when he said: “It is a mistake that we cannot reform more quickly and more vigorously”. In the European Union, on the contrary, achieving a consensus among social partners on the basis of negotiations, even if it is time consuming, is considered far more important. It is obvious that if the reforms are not based on a broad, social contract (often even with the opposition!) they cannot last long, and would be revised with every change of political power. These are bad prospects!

Ultraliberal reformers do not consider the distribution of reform costs with respect to the time and their impact on various social groups to be important. The modernisation of the European social model makes stronger social cohesion its explicit goal. For instance, the OMC in pension policy defines the “appropriateness of pensions”; i.e., the task of Member States to ensure that the elderly do not fall to poverty risk and have a “decent” standard of living, as one of its common goals.

The European social model is put at peril for two reasons. First: the “hard” legislation of the European social model is limited only to the most necessary regulation linked to the free movement of workers (for instance, the coordination rules on social security No. 1408/71, 574/72). Second: the weaknesses of soft legislation; i.e., its dependence on the current political composition of social affairs ministers. Will the new Member States, in which the political pendulum often swung to the extreme Right in the post-communist period, champion the radical retraction of the achievements of the European social model? This risk should not be underestimated, although its materialization depends on the division of political power in the old EU Member States. Here, however, a mainstream political development towards the extreme Right is quite unlikely.

All former communist countries, which acceded to the EU in May 2004, started to implement social reforms after 1990. In principle, it can be stated that some of them were more inspired by Anglo-American model of social and health care, while others were inspired by the continental European model. Many factors played role: like political orientation of the government, political acceptance of the reforms, the pre-communist traditions and – also such seemingly negligible factor like origin of foreign advisors. As stated in the ILO study, advisors from the EU Member States like Germany, Sweden provided assistance at the preparation of the pension reform in the Czech Republic and Slovenia, while World Bank advisors were dominant in Poland and Hungary and recently in Slovakia. The first two countries decided to reform the first pillar and to introduce voluntary pension insurance (be it occupational – or private funded) while the other two countries started to build the second private funded pillar – according to the new World Bank’s pension orthodoxy. In the Czech Republic, the right-wing party – Union of Freedom, inspired by the example of Poland and Hungary, was in favour of the orthodox approach. However, strong opposition from trade unions, which preferred to reform the first pillar, as well as the estimated high costs of the transition to a private funded pillar, decided in favour of the first approach.

Similar reasons like opposition from trade unions and pensioners, and the criticism of high costs also played a role in decision-making in Slovenia in the mid 1990s.

After 2002, the Slovak Republic made a “new start”: the new right-wing government decided to discontinue the pension reform in progress. “The new start” was reflected in the lack of professionalism in the preparation of the pension reform. Only the intention to introduce the 2nd private funded pillar has been clear from the very beginning. No discussion has ever been opened about another solution. It is no surprise that Government’s views how to proceed in the reform were changing considerably. Views on key issues like complementarities of the first and second pillar, the fiscal sustainability of the first pillar, combination of the principle of merits and the principle of solidarity, etc. have changed fundamentally. As one observer said, “the proposals of pension reform were changing so quickly that even their authors did not know which alternative was the valid one”.

Pension reform, if not mastered in a high-quality expert way, may jeopardise the objectives defined in the OMC for this sphere (e.g. fiscal sustainability, pension adequacy, etc.). Minimising the risk of the funded pillar is no doubt important: for instance, the risk of the erosion of pension savings invested in securities caused by a sharp decline in their value. The recent breakdown in the value of company shares in the US resulted in the rapid growth of pension fund deficit and the collapse of several dozens of them. Risks also are due to inflation, high administration costs, unprofessional management, fraud risk, etc. The authors of the Slovak pension reform despite travelling to Chile to learn about the Chilean pension model on the spot – have not learned the lessons: in their reform they ignored to take note of shortcomings and failures of the Chilean model which the Chilean government has decided to reform. The Slovak pension reform puts “pay-as-you go” system at high risk. If additional measures are not taken, serious complication are inevitable.

The open method of coordination for health care is only just starting to develop. Financially sustainable health care, achieving a

high health status of the population, etc. is now being discussed. In former candidate countries, the health care situation is worse than in the field of social security. The undergoing reforms are also at a lower level of preparation or implementation. All countries have addressed similar issues: (1) the level of health insurance coverage: like universal coverage versus payments by patients, principles of limited coverage, and so on, (2) issues linked to health insurance companies (number, status, financing, administration, control), (3) ownership issues and profitability issues (health facilities owned by central or local governments or privately owned, etc. and profit or not-for-profit organisations), pharmaceuticals policy (prices, medicament directives, etc.), and control mechanisms (control of the provision of health care services, of health care facilities, of health insurance companies, and the like). According to the GVG study, the Bismarck health insurance model prevails among the post-communist countries; however, there exist many differences. In general, health care in the new EU member states is assessed as ineffective: an effective pharmaceuticals policy is absent, residential patient care is over-sized, there is a high level of evasion of health contributions, and inadequate expenditures in health sector are allocated.

It is difficult to make any evaluations of the Slovak health care reform according to the steps taken up to now (the first half of 2004). Until now, emphasis has been put on negative motivation. Positive motivation is minimal (certain preferences are given to prevention). For instance, the plan to transform health insurance companies into joint stock companies that can be subject to bankruptcy deserves much criticism. Other steps of the reform (with the exception of extending payments of costs by patients) are not well known yet. It is to the detriment of the cause that the reform is not implemented as a whole, and it is completely unacceptable that no broad expert debate and critical review preceded it.

Issues of poverty and extreme income disparities are not commonly present in the agenda of new Member States' governments. Several reasons are behind it, which differ in their significance according to the country concerned: (1) The issues might still not be

urgent enough: for instance, on average, the level of income disparities does not differ much from that of the EU); (2) Speaking about them is not considered politically “clever”: the policy of “keeping the issue under one’s hat” is preferred; (3) They are considered as an expected consequence of the transition to a market economy and as one of the indicators that “the market works”. Such an approach is common for right-wing governments implementing an ultra-liberal policy. It is characteristic that this approach has much more radical form in new EU members than in old EU Member States with right-wing governments are in power. We can admit that there is a pendulum effect: from egalitarianism in the past to the current widening income and disparities in income and wealth that is considered the consequence of, as well as the factor of the efficient functioning of the market mechanism. However, the emergence of poverty and extreme income disparities reflects one of the key market failures that will, in the end, require corrections by the state. In any event, extreme income differentiation results in a narrowing down of the domestic demand (with negative implication on economic growth), and at the same time it generates groups of “dependent persons” on social security. In general, their education and health and employment prospects deteriorate considerably. In a stage of development when the knowledge-based economy requires investments into human capital as the most important factor of growth, this is alarming. Not to mention new political failures that produce more social costs and inhibits competitiveness. In any case, it is an approach that is in contrast with the objectives of the social cohesion.

In the EU, the social protection reform – as one part of the social reform – envisages more emphasis being put on active measures (e.g., employment programmes), on the protection of the most vulnerable groups (social inclusion policy), on public services accessibility. In the new EU members reforms of social protection differ in accordance to a ruling government: in reform of labour law either greater worker protection or greater labour market flexibility is emphasised; in employment policy either fight against illegal work and reducing protection in unemployment, or em-

ployment policy and preventing unemployment benefit abuse is underlined, in case of sickness some suggest to reduce sickness allowances, others emphasise prevention, control mechanisms, and the like.

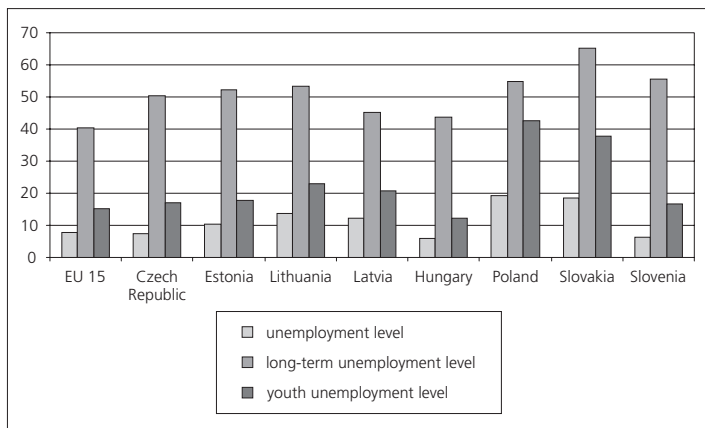
The results of reforms vary in the different levels of social cohesion, efficiency of social policy, and its fiscal sustainability, in a different efficiency and affordability of public services, and so on.

The social situation in the European Union will worsen after enlargement

The Gesellschaft für Versicherungswissenschaft und -Gestaltung e.V. (GVG) presented an extensive study on the social sphere in 13 candidate countries in November 2002. It elaborates in detail on the situation in the pension system and in health care, as well as on addressing poverty and social exclusion in the Central and Eastern European Countries, Malta, Turkey, and Cyprus. According to the study, these countries have the largest gaps in health care: mainly the lack of investments in health care and its insufficient administrative capacity. The study states that it is necessary for these countries to consistently incorporate into their national policies the EU objectives in the fields of social inclusion and employment and strengthen their preparation for the open method of coordination and for use of the European Social Fund (ESF) (see Chart 3.2).

The Central and Eastern European countries acceded to the EU as relatively poor states. Their catching up with the 75 % of the average GDP per capita in the EU will take from 1 to 30 years. While the countries of Central Europe already reached the GDP level per capita prior to 1989 a few years ago, of the Baltic states, only Estonia has achieved this level, and exceeded it by 5 % in 2002. The unemployment rate – which is on average considerably higher than in the EU 15 – characterises partly their social situation. In 2001, the unemployment rate in eight candidate CEECs ranged from the highest in the Slovak Republic (19,2 %) to the lowest in

Chart 3.2
Unemployment in new EU Member States in 2002 (in %)



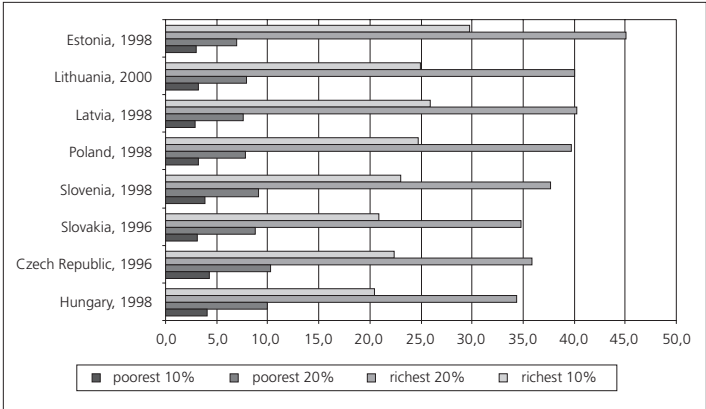
According to: *A New Partnership for Cohesion*. Brussels: EC 2004.

Slovenia and Hungary (5.9 % and 5.7 % respectively). Of that, the youth unemployment rate (15 to 24 years old) is doubles the national unemployment rate – the highest levels are in Poland (men 40.1 %, women 42.0 %) and in the Slovak Republic (men 38.4 %, women 35.7 %). Long-term unemployment (12 months and more) expressed as a percentage of total unemployment is critical in all 8 countries. It is the worst in Slovenia (65 %), Slovakia (56 %), Lithuania (59 %), and Latvia (55 %). Due to some improvement in recent years in the new EU member states (the average rate of unemployment decreased from 14.8 % in 2002 to 14.2 % in the 3rd quarter 2004) and some deterioration in EU15 (the rate of unemployment increased from 7.7 % to 8.1 % in the some period), the gap has slightly narrowed.

It is estimated that in 2000, some 15 % of the EU's population lived at risk of poverty – i.e., below 60 % of the median national income. The national poverty line, which is diametrically different in the eight new EU Member States from the poverty line in

Chart 3.3

**Income inequalities in the new European Union Member States
(share in the overall income in %)**



According to: *Human Development Report. UNDP 2003.*

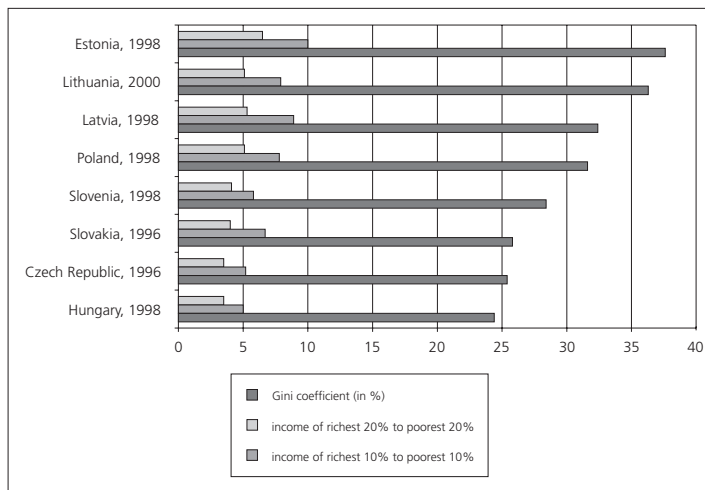
the EU 15, is not the most appropriate indicator for comparing individual states, as already stated – the national income median is different in every country. It is therefore necessary to complement this comparison with the measure of absolute poverty expressed in \$US per capita per day (e.g., in the UN or World Bank, \$US 1, 2, and 4 per day are used respectively) and inequality rates like Gini coefficient (see Charts 3.3 and 3.4).

According to the GVG, the order of countries expressed as a percentage of inhabitants living below the national poverty line is as follows: the Baltic countries: Latvia (16.8 %), Lithuania (16.4 %), Estonia (8.9 %),⁴⁾ Central Europe: Hungary (26 %), Poland (13.6 %), Slovakia (10.1 % in 1996),⁵⁾ and Slovenia (8 %

4) The figure for Estonia is not accurate; it is not taken from national sources.

5) The figure for the Slovak Republic is diametrically different in 2004: it is almost 21%.

Chart 3.4
**Income inequality rates in the new European Union
 Member States**



According to: *Human Development Report. UNDP 2003.*

in 1998). The worst results according to the absolute poverty (\$US 4.3 in purchasing power parity) are in Latvia (34.5 %), Lithuania (22.5 %), and Estonia (19.5 %).

In all eight countries, the income differences in society increased substantially, although on average they are not higher than in the EU. Of the countries acceding to the EU on 1 May, the highest income inequality measured with Gini coefficient can be found in the Baltic states. At the turn of the century, the value of the coefficient was 39 in Estonia, 35 in Lithuania, and 33 in Latvia. They are followed by Poland (Gini coefficient 31). According to another measurement of income distribution – the percentage of national income of the poorest 20 % (the higher the figure, the more even the distribution of income in society) – of the eight CEECs, the Czech Republic (10.3 %) and Slovenia (9.1 %) are the states

with the most even income distribution, while Estonia (7.0 %) is the state with the most uneven distribution. In all eight countries, the growth of income inequality and poverty is continuing. Poverty risk is highest amongst the unemployed, the poorly educated, those living in rural areas, and amongst young people. In some countries where the level of pensions is low, this also applies to pensioners. In most of eight CEECs, real wages have stayed below 75 % of the level reached before 1989, and they lag significantly behind the EU level. At the same time, the wage differentiation is considerable among the eight CEECs: for instance, in 2000, per hour wages in industry were the highest in Slovenia (€4.56) and the lowest in Slovakia (€1.51) and the Baltic countries (approximately the same as in Slovakia).

The former candidate CEECs also lagged behind the EU in employment expressed as a percentage of the population aged 15 to 64: of the eight CEECs, the Czech Republic and Slovenia achieved the highest employment rate, while the lowest rates are in Poland, Hungary, and Slovakia.

These unfavourable characteristics are at least to some extent neutralised by a positive trend in other areas – for instance, in education, in longer life expectancy – in some countries. Education is a key factor that has a decisive significance for (un)employment, achieved income, etc. A growth in the number of students is evident in all 8 CEECs; however, the dynamism of growth and the number of students in secondary and tertiary education differs among the countries significantly. The number of university level students is the highest in the Baltic states and Poland, and the lowest in the Czech Republic and Slovakia (27 % of the relevant age group). This indicator had the highest dynamism in Poland.

After the 2004 EU enlargement all EU social indicators – (un)employment, long-term unemployment, the percentage of those living in poverty, the level of acquired education, etc. will deteriorate. Therefore, EU enlargement is not without risks – to host countries that might be affected negatively by migration through unwanted pressures on the labour market, crime, etc. The old EU members are mainly afraid of migration among per-

sons belonging to ethnic groups (the Roma). However application of discriminatory measures like restricting freedom of movement in the labour market (according to the 3 + 2 + 2 model), will not *per se* remove the fundamental factors behind it. Migration is also a threat to countries of origin that may suffer from brain drain in a situation when their economies should increasingly be based on knowledge and youth drain in a situation of ageing population. This is predominantly a challenge to new member states. The main responsibility for minimising discrepancies in economic and social development lies with the nation states. The EU only provides some assistance in terms of programmes and limited resources (e.g., the ESF) that could accelerate the process of catching-up.

Social partnership today and tomorrow

Europeanising social partnership

We cannot start our explorations without a short explanation of the terminology involved. In order to avoid using the unknown or less common term “industrial relations” in the Slovak context, we shall use the term “social partnership”, although this term in principle denotes the same thing – the relationships and processes among various social partners. These can be bilateral and trilateral, at the level of enterprises, sectors, regions, or the nation as a whole. They include various forms of social dialogue, collective bargaining, consultations, negotiations, contracts, and the like.

Social partnership and its individual forms in the EU Member States developed originally at the level of national states; however, at the same time, they have adjusted to European standards in the course of a few decades – i.e., they have “Europeanised”.

What is the level of Europeanization in the social partnership today? Does it need further Europeanization in order to respond to “new challenges”? And if so, how is Europeanization in this context carried out?

Let us approach the answers to these questions in reverse order. Europeanization is carried out, in principle, on two or three levels: by applying European “hard” legislation (i.e., that part of the *acquis* that regulates industrial relations), the “soft” legislation (various recommendations, guidelines, and the like), and through political agreements and the exchange of national experience. The basic principles of social partnership are laid down in the EU Treaty, EU Charters, and also the EU Constitution through the Charter of Fundamental Rights (for instance, its Article 27 on workers’ right to information and consultation within the undertaking, Article 28 on the right of collective bargaining and action including strike action).

The European “hard” legislation (the *acquis*), for instance, institutionalises the principle of workers’ participation at a company level as one of the most important elements of the EU social model. The current practice of workers’ participation and workers’ right to information and consultation in the EU Member State is differentiated – it is either founded on a voluntary basis (the UK and Ireland), on the basis of a general agreement, or on a legal basis. Today, workers in companies are represented either through works’ councils and/or trade union organisations (shop stewards in Great Britain and Ireland). Under Directive 2002/14/EC, the principle of workers’ participation and information is binding for companies with at least 20 or 50 employees depending upon the country, with effect from March 2005. Great Britain and Ireland are exempted until March 2007. The participation principle applies to national and European (international) companies (undertakings). European Works Councils (EWC) have started to appear on the basis of directives from 1994 (94/45/EC) and 1997 (97/74/EC). Directive 2001/86/EC, complementing the Statute for a European Company with regard to worker’s participation, is the result of a difficult and long process that took 31 years to complete.

EU legislation regulates workers’ rights to information and consultation in such issues as company strategy, investment plans, the implementation of new technologies, the development of employment in a company, work and social issues, and the like. Company management must give information on time, at an appropriate level, etc.

However, similar harmonisation does not, for instance, take place in the regulation of the collective bargaining process. Here we witness a contradictory development – the transition from harmonisation to a softer form – the coordination of national policies in achieving common goals. But what is the reason? In this respect, the European legislation – as always – reflects political agreements and compromises reached between the governments of the Member States and agreements between social partners at the European level. It reflects different interests, different initial conditions, different ideological views, of participants, etc. The development

of legislation on collective bargaining at the same time is indicative of trends in the distribution of political power in the EU. Let us provide an example of “bargaining” in social partnership – the deal concluded between the British Prime Minister, Tony Blair, and Chancellor Schröder. Chancellor Schröder was willing to overlook the British Government’s failure to implement the 48 hours working week in exchange for support of legislation increasing workers’ information on developments at company level.

As already stated, negotiations on the EU Constitution gave rise to many controversies, tensions, and discrepancies. The inclusion of the 2000 Charter of Human Rights in the Constitution was also at stake.

Article 28 of the Charter of Fundamental Rights on the right of collective bargaining and actions, including strike actions, became the most controversial of them all (mainly for Tony Blair). Although the Charter as a whole represents the soft legislation, its incorporation in the EU Constitution will have significant legal implications.

Europeanising social partnership entails the introduction of minimum standards in this sphere. This kind of social dialogue and other forms of social partnership might represent an institutional guarantee for the implementation of minimum standard of the welfare state in all EU Member States. They might be involved in the implementation of new tasks – for instance, achieving progress in the Lisbon Strategy, effective management of necessary reforms, and the like. We can only agree that social dialogue is more than a mere “decoration” and that its Europeanization makes a great deal of sense.

The report on compliance with the social *acquis* in the EU Member States explicitly identifies social partnership in the process of EU enlargement as one of the new “challenges”: “The weakness of the independent structures of social dialogue – in particular, the sectoral social dialogue in the newly acceded countries – can weaken social partnership in Europe.” The “lack of initiative on the side of the European Commission” and the “manifesting opposition on the side of UNICE” (the Union of Industrial and Employ-

ers' Confederations of Europe) towards developing the European social dialogue, and furthering its Europeanization, were criticised in the resort.

UNICE traditionally (see more below) advances the national social model and is against the Europeanization of anything related to it. Therefore, it is also against the Europeanization of the social partnership. But are these UNICE arguments justified?

One can agree that the hard European legislation should not bind one's hands excessively – it should leave room for initiative, for national priorities, and for adaptability. At same time, the “degree of freedom” must not undermine the principles of developing social partnership. All rational, national elements should be applied; however, bringing the process of Europeanization to a halt is not a solution.

Catching up with the European *acquis* is also differentiated. It is therefore necessary to monitor its impementation – which is undoubtedly difficult and complex. Implementing more effective sanctioning mechanisms in cases where the law is not observed is also necessary. Some old EU Member States (e.g., the UK), and also the new Member States, are experiencing difficulties in catching up with the *acquis*. The involvement of workers from new EU Member States in works councils can be given as an example. Of 1,865 international companies to which the European Works Council Directive applies, 547 have at least one subsidiary in the new Member States. Of these, 323 have already established a European Works Council. However, the representation of workers from the new Member States is insufficient: in Poland, for instance, in only 50 of 206 works' councils, in the Czech Republic 26 of 127, and in Slovakia 16 of 57.

The exchange of experience – which does not necessarily mean the automatic imitation of foreign examples – is the last sphere of Europeanising social partnership. In the Slovak Republic in the period from 1993 to 1998 there existed general agreements concluded at the highest level. However, since then, social partners have discontinued this practice. This contrasts with the attitudes and experience of some countries that current government often

states as an example or an inspiration. One example is Ireland. In Ireland five social agreements or pacts with a distinctly neo-corporate nature – i.e., structured contracts with strict procedures linked to legislative processes between the social partners and the government, were adopted in the period of 1987 and 2000. Their intention was to support the economic and social reform of the Irish economy. These contracts were the key instruments of the “Irish miracle”, and covered a comprehensive approach to economic and social progress in Ireland.

What is the social dialogue at the European Union level about?

Motto:

“As a driving force for modernisation of the European economy and the European social model, the social dialogue holds a crucial, unique position in the democratic governance of Europe.”

The European social dialogue, a force for innovation and change.
The European Commission, Brussels 2002

The social dialogue at the European level has a shorter history than that of the European Union. Its history dates back only two decades: an independent dialogue between the social partners started in 1985. The previous President of the European Commission, Jacques Delors, was a pioneer of the social dialogue at the EU level. His initiative to introduce a social dialogue on a contract basis is well-known. The Maastricht Treaty, from the period of his presidency, defines the new role of social partners and the introduction of social dialogue in Articles 3 and 4. The Amsterdam Treaty (1997, Articles 137–139) stipulates the obligation of the European Commission to consult draft legislation on social issues with social partners prior to submitting it to the European Council and European legislators. It allows the social partners to arrive at decisions concerning them alone, without the participation of the EC. The European Commission shall step in only when bargaining among

social partners fails – as, for instance, in the case of fixed-term work. According to the Treaty the European Commission is responsible for social dialogue, which is considered the “driving force for economic and social reform”. According to Articles 138–139 of the Treaty, which regulate the legislative process, the European Commission is obliged to consult drafts in two stages: 1. when preparing concepts of laws, and 2. when drafting legislation proper. According to Article 128 of the Treaty, in the part concerning employment, social partners shall be invited to play an important role in the so-called Luxembourg Process (the open method of coordination in the employment policy) and in the preparation of the European Employment Strategy. At the same time, the 2001 White Paper on European Governance requires the strengthening of the active participation of social partners in the European decision-making process, and in European institutions.

The fundamental rights of social partners are guaranteed in the Charter of Fundamental Rights (2000), the integration of which into the EU Constitution is an important political decision. However, the European Trade Union Confederation (ETUC) expressed dissatisfaction with the insufficient definition of the role of trade unions at the European level in its May 2003 statement on the European Constitution. It objects to the absence of an unambiguous definition of the open method of coordination, and the definition of participation of social partners in the Constitution.

Social partners are also important for the institutionalisation of social dialogue at the EU level. Who are they? The structure of social partners at the European level is composed of several dozen organisations representing workers and employers, of which two – ETUC and UNICE – are the most important (see Box 4.5).

European Trade Union Confederation (ETUC), based in Brussels, associates 77 national trade union confederations from 35 member states – 15 from the old and 10 from the new EU Member States, while the others come from the states of South-Eastern Europe, Norway, Turkey, etc. The Confederation was established in 1973, and today represents 60 million workers. The European Union has recognised it as the only international trade

union organisation at the European level. It is headed by a Secretary General; the position is currently held by John Monks, a former General Secretary of the British the TUC (*Trades Union Congress*), who is a respected authority in the international trades union movement. Its supreme body is the congress, which meets once in four years. The jubilee 10th ETUC Congress, held in Prague in May 2003, was addressed by the then Czech Social Democrat Prime Minister Vladimír Špidla, President of the European Commission Romano Prodi, the then Commissioner for Social Policy and Employment Anna Diamantopoulou (who had to leave Brussels after PASOK – the Greek socialist party, lost the elections), the President of the European Convention Valéry Giscard d'Estaing, and Jacques Delors, former President of the European Commission and the “father” of the introduction of the social dialogue based on contracts.

The second key player is the *Union des Industries de la Communauté Européenne* (UNICE), which was established in 1958, although its roots go back to the *Conseil des Fédérations Industrielles d'Europe* (CIFE) of 1949. It was founded by eight employers' organisations from six European Community Member States. The task of UNICE is promoting solidarity among European employers' organisations, supporting European industrial policy, and playing the role of a “spokesperson” vis-à-vis European institutions.

At the beginning of 2004, UNICE was composed of 34 members from 27 countries and five observers from four countries. Its supreme body is the Council of Presidents, which defines UNICE's strategy. The current UNICE President is Dr. Jürgen Strube, and Philippe de Buch is Secretary General. The EC Industry Union focuses on supporting entrepreneurship, creating a business friendly environment, improving market flexibility, and supporting sustainable development. It has also the ambition to comment on broader, key issues of the European Union – it formulates its opinion and positions on EU enlargement, the Lisbon Process, the development of the so-called *new economy*, and so on.

UNICE's priorities include a well functioning market, support for competition rules, the continuation of trade and investment

liberalisation, EU enlargement on a mutually beneficial basis, and support for innovations. It prefers market solutions to state intervention, and self-regulation to regulation. One of UNICE's requirements is less and better legislation. Therefore, its working groups thoroughly elaborate positions concerning European legislation that could have effects on the European business environment. UNICE criticises excessive intervention of European institutions in business ("red tape"), and prefers national social and tax policy to European policy; in other words, it is against their harmonisation. It prefers autonomous social dialogue – i.e., dialogue "free of political pressure".

In addition to UNICE, two other important organisations represent the interests of the business sphere in the EU: CEEP – *the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest* and UEAPME – *The European Association of Craft, Small and Medium Sized-Enterprises*. What are the basic differences between ETUC and UNICE?

Mainly the fact that ETUC expresses the interests of employees and UNICE the interests of employers. This differentiation determines their differing positions to many basic issues. They include: (1) Preference given either to regulation or self-regulation. (2) The way how to match flexibility and workers' protection. (3) How to ensure development of services in the general interest? (4) How to reform pensions? (5) How can full employment be ensured? ETUC – in general – prefers legislative solutions and regulation to contractual solutions and self-regulation, while on the contrary, UNICE prefers the latter. UNICE gives priority to negotiations and contracts in industrial relations (the contractual model). Therefore, the negotiations on fixed term work between UNICE and ETUC failed in 2001. The difference is not accidental: ETUC defends itself against the potential misuse of, and discrimination against, employees in absence of any protection by law, while UNICE emphasises "flexibility", and therefore prioritises the contractual form of regulating fixed term work. Similar differences are seen in the approaches to "teleworking", lifelong learning, etc. ETUC makes full employment, and combating social exclusion, poverty, and social

disparities its basic objectives. Full employment is the basic macro-economic goal of ETUC. However, this is not enough. It supports the right to non-discrimination in the labour market, minimum working and social standards and the protection of workers against dismissal, as well as the right to their lifelong learning. The 10th ETUC Congress committed the organisation to campaigning in favour of the controversial 35-hour working week, which was only enacted by Jospin's Government in France, and is being subject to growing criticism.

The European Trade Union Confederation supports social protection based on financing from public funds and the principle of solidarity that is not in contradiction with improving competitiveness. Therefore, this must also include investing into education. In its efforts not to endanger the objective – achieving full employment – it advocates decreasing labour taxation and increasing the taxation of other production factors. It supports the universal availability of health care and considers the first pillar of pension insurance to be the primary one. Its demands also include the requirement to ensure a minimum income, guaranteeing a right to dignity for everyone. It supports the development of services in the general interest, their universal availability (including price availability) – as an important component of the European social model. In its position on the Constitution of the European Union, ETUC expresses its position to extend the principle of a qualified majority to issues that go beyond the borders of one country – like employment, social policy, environment, and tax policy.

When compared to the ETUC, the UNICE puts more emphasis on accelerating the market reforms, the liberalisation and privatisation of services in the general interest and the like. It prefers the implementation of the second and third pillars of pension system (“private and individual solutions to pension systems”) to the first pillar (state pension system), which is undoubtedly in their business interest. One of the key priorities of UNICE is the implementation of the Lisbon Strategy. In the UNICE message to the European institutions it calls on the European decision – makers: “You must consider the Lisbon Strategy as positive, because

it is the only one capable of maintaining the fundamentals of European social models”.

As already stated, UNICE is not the only, general employers' organisation at the cross-sectoral level. The second most important one is CEEP, which represents employers in public sector enterprises. What are the differences between them?

They are – due to the different membership of the organisations and different interests of their members in such areas as, for instance, services in the general interest, pension reform, regional development, etc. For instance, CEEP supports the right to access services in the general interest as laid down in the Charter of Fundamental Rights. It is no surprise as it represents the employers in the sectors of services in the general interest. The basic form of pension system supported by CEEP is the one provided for by the state (the first pillar). Occupational pension scheme and private pension funds are considered to be complementary. The reason given by CEEP is that pension systems should prevent social exclusion after retirement. It explicitly supports the modernisation of the European social model, combating social exclusion, and regional development, which ensures higher demand for the services in the general interest. In other words, CEEP promotes a social model, one component of which is services in the general interest, maintenance and development of which represent a vital interest of CEEP.

What is the social dialogue about, or rather, what was it about at the EU level, at cross-industry level, what is the tripartite concertation and bipartite dialogue about over the course of two – three decades?

In the sectoral social dialogue, it is about employment issues, working conditions, vocational training, industrial restructuring, etc. Cross-industry social dialogue at the European level is (was) about the development of the internal market, implementing the Charter of Fundamental Rights of Workers, the preparation for economic and monetary union, etc. In other words, the sectoral social dialogue focuses more on concrete issues of employment and work while social dialogue at cross-industry level more on general conditions of employment. UNICE and CEEP on behalf of

employers, and ETUC on behalf of employees, participate in social dialogue at cross-sectoral level that has existed since 1985.

The European social dialogue between the two key partners at the European level played a significant role in the legislative process – for instance, in legislation regulating working conditions (temporary work, fixed term work, part time work), workers protection (e.g., in the event of the insolvency of the employer), work safety, conditions of collective bargaining and right to information, activities of European Works Councils, etc.

While the European bipartite dialogue has a long tradition and a well developed institutional structure, the dialogue of social partners with European institutions (tripartite concertation) has no long tradition and – so far – it has not played an important role. However, it is probable that it will develop “hand in hand with progress in European integration”. We might witness an opposite process in the new Member States, where centralised tripartite set ups have developed but they have practically no sectoral bipartite dialogue. The emerging European tripartite concertation has a consultative role. The European social partners are, for the first time, being invited to participate, for instance, in the preparation of the European Employment Strategy (EES), in the coordination of Member State’s employment policies in the shape of employment guidelines and National Action Plans (the so-called Luxembourg Process), and in the macroeconomic dialogue (the so-called Cologne Process). This reflects the ambitions of social partners to also have a say in issues that go beyond the social framework.

Let us refer once again to the 10th ETUC Congress, which brought the organisation under obligation to:

- “encourage and support a reform of the economic, monetary and fiscal policy framework to meet the objectives of the Lisbon Summit”;
- seek changes to the Stability and Growth Pact to ensure that the growth aspect acquires the same status as the stability aspect;
- “encourage greater coordination and harmonisation of taxation policy” – to promote the minimum company tax rate in order to prevent harmful tax competition.

With respect to the European Central Bank (ECB), the ETUC supports the view that the ECB should target employment and economic growth in addition to inflation (which are also the three goals of the US central bank – the Federal Reserve).

So far, the ambitions of ETUC (and to some extent also of UNICE) to play a real role in the macroeconomic dialogue have only been implemented partially and insufficiently. The ETUC has made up its mind to set up an ECB advisory committee composed of social partners that would contribute to greater ECB policy transparency. It is hard to say whether annual negotiations with the ECB representatives can be considered to be a rudiment of such a committee. Incidentally, it is not necessary to immediately call this ambition of ETUC “a risk”, a threat to the Euro, and the like. The Austrian national bank has traditionally been controlled by a tripartite body; the Austrian currency – the Schilling – was a stable currency, inflation was low and the economy grew at the same time.

The tripartite social summit held before the spring summit of the European Council is a novelty. The objective of the tripartite summit is to ensure consultations between the European Council, European Commission, and social partners on the participation of social partners in achieving the goals of the Lisbon Strategy. UNICE, UEAPME, and CEEP represent the employers and ETUC the employees at the social partners’ summit.

How can the European social dialogue be modernised and made respondent to “new challenges” in a positive way? How to make it instrumental in the implementation of the Lisbon Strategy – in other words, make it a part of “managing change in a way that is socially just”, which – as stated in the 2002 Report on Industrial Relations and Industrial Change in Europe – “is the main challenge for the EU”?

Social partnership at the European level could benefit from the further development of the already existing forms of bilateral and trilateral cooperation. The importance of social partners’ participation in the open method of coordination will have to grow and trilateral partnership will have to strengthen.

One of the tasks is also the more active participation of new Member States in the European social dialogue. The new EU Member States are represented in ETUC and UNICE (full membership or observer status), as well as in other European organisations, which are considered social partners under Article 138 of the Treaty (e.g. Eurochambers). However, their weakness in the national social dialogue is reflected in their low authority at European level. This is also one of the reasons why strengthening the national social dialogue is an important requirement of future economic, social, and democratic development in the EU.

Box 4.1

Our vision of Europe. Section: Our objectives

Seek European Union built upon peace, freedom, democracy, fundamental rights, equal opportunities, and gender equality; sustainable development, solidarity and social justice, full employment, and quality jobs; economic, social, and territorial cohesion; a high level of physical and mental health, education; training and lifelong learning, well-being and prosperity; and the principles of the European social model, protection of minority, universal and equal access to services of general interest, of a high quality, and organised on the basis of solidarity and a social market economy.

According to: Make Europe Work for the People. 10th ETUC Congress. Prague, 26–29 May 2003.

The more complex the challenges the EU will face, the more important the role social partnership will play. The document prepared by the EC for the Council to decide upon in June 2002 states: “The better governance of an enlarged EU depends upon the involvement of all participants in the decision-making process, as well as in the implementation of decisions. Social partners are uniquely positioned in civil society, as they are most competent to be involved in employment issues, can negotiate agreements, in which they make their commitments.” Incidentally, this position of the EC is in sharp contrast to the now-fashionable view in the Slovak Republic, which degrades unions to “one of many”, and

they therefore do not see many reasons for maintaining tripartite concertation.

Box 4.2	Social partners structure at the European level
<ol style="list-style-type: none"><li data-bbox="132 274 594 301">1. General cross-industry organizations<ul style="list-style-type: none"><li data-bbox="163 309 674 337">• European Trade Union Confederation (ETUC)<li data-bbox="163 344 871 403">• Union of Industrial and Employers' Organizations of Europe (UNICE)<li data-bbox="163 411 871 469">• European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP)<li data-bbox="132 498 871 557">2. Cross-industry organizations representing some groups of workers or enterprises<ul style="list-style-type: none"><li data-bbox="163 565 726 592">• The European Confederation (<i>of managers</i>) (CEC)<li data-bbox="163 600 317 628">• <i>Eurocadres</i><li data-bbox="163 636 871 694">• European Association of Craft, Small and Medium Sized Enterprises (UEAPME)<li data-bbox="132 723 415 751">3. Special organizations<ul style="list-style-type: none"><li data-bbox="163 759 871 817">• <i>Eurochambres</i> (The Association of European Chambers of Commerce)<li data-bbox="132 847 684 874">4. Sectoral organizations representing workers<ul style="list-style-type: none"><li data-bbox="163 882 394 910">• 38 organizations<li data-bbox="132 933 871 991">5. European sectoral organizations representing workers from some sectors<ul style="list-style-type: none"><li data-bbox="163 999 394 1027">• 12 organizations	

The social dialogue at the EU level played an important role in European legislation: it facilitated the achievement of an agreement on parental leave (1995), on part time work (1997), on fixed term work (1999), and on teleworking (2002). The framework action plan on lifelong learning (2002), sectoral agreements (e.g. on working time on the railways), etc. is the result of social dialogue. From this brief enumeration it is clear that the social dialogue at the EU level is not an ornament, an unnecessary luxury, or a bar-

rier to EU development. On the contrary, it has the important role in managing change and in improving European governance.

Social partnership in the “new” Europe

Social partnership can play an important role: at central level it can have impacts on reforms and their acceptance, on social peace, on economic and political stability, etc. At sectoral and company level it impacts the level of wages, worker protection against dismissal, working conditions, etc. According to the European Foundation for the Improvement of Living and Working Conditions, the working week is longer in the new Member States than in the old EU Member States. In the new EU Member States, the average working week is 44.4 hours, against an average of 38.2 hours in the EU. In the new EU Member States, as many as 40 % of workers are exposed to health and safety risks at work – for instance, exposure to heat, cold, noise, inhaling harmful substances, etc. – while in the EU, this figure is 27 %. Wage conditions – after re-adjusting work productivity – are several times worse.

New EU Member States are at the end of the transformation of their economies from planned to market economies, and are entering a new “post-transition” period. EU accession and “new challenges”, like globalisation, transformation to a knowledge based economy, ageing and developing emerging market economies require, new reforms.

In this situation is it good to develop social partnership at various levels, or is it necessary to acknowledge the neo-liberal ideology that social partnership, social dialogue, collective bargaining, and the like are a “post-socialist” legacy, which slow down or even block reforms, discourage investors, the increase unemployment, etc.? What is the level of social partnership in the new Member States as compared with the old Member States? To what extent have industrial relations developed in the pre-accession process, or, in other words, to what extent has the social partnership in new Member States been Europeanized?

Available analyses allow us to make several conclusions on the situation in social partnership. As early as the beginning of the transformation process, i.e., at the beginning of the 1990s, the former candidate countries enacted some principles of social partnership (the possibility to express workers' interests through trade unions and the right to express employers' interests), and they aligned their labour codes with the requirements of the International Labour Organisation (in the issue of the right to strike and the right to collective bargaining). They amended their legislation according to the requirements of European legislation in the pre-accession process.

What have the results of these processes been at company, sectoral, national level?

1. *At company level:* Unionisation is lower in the new EU Member States (with the exception of Slovenia) than in the old Member States. The majority of workers are not unionised, and no one represents their interests in wage issues, industrial issues, and the like. Only a Labour Code ensures their "protection", which is very general. The situation in small and medium sized enterprises and the so-called informal sector is particularly critical. This applies mainly to services and seasonal jobs. This, *inter alia*, signals insufficient wage negotiations, which explain why wage growth is not commensurate with the growth of productivity and inflation. Where there are no trade unions (or works councils), there is also no mechanism to ensure workers right to information. Enterprises where a works council or double representation – a trade union and a works council – exist, are an exception. Enterprises in Hungary and Slovenia are a longer-term exception. These countries introduced double representation in the early 1990s, and in doing so they followed the German model. Collective bargaining legislation exists at company (and also sectoral) level in the new Member States; however, collective bargaining is poorly developed, except in countries where no other form of social partnership than collective bargaining at company level exists in practice (the Baltic countries). On the other hand, in the Slovak Republic, collective bargaining at company level has low significance, while sectoral collective bargaining plays

a dominant role – in spite of the fact that several thousand collective agreements at company level are concluded annually. Why? In enterprises, trade unions are weak; union leaders depend on employers, and they are permanently at risk in a situation where there is a high unemployment rate. New entrepreneurs do not want trade unions. They argue that democracy has no place in enterprises. “We do not need trade unions”, because “we ourselves give the workers what they need”, an important Slovak entrepreneur once said. According to EIRO (*The European Industrial Relations Observatory*) the majority of new employers in the new Member States are against trade unions and collective bargaining. In most of these states, there is no obligation to conclude collective agreements. This obligation does not exist in the EU, either; however, the practice in the old EU Member states is different. Collective agreements are concluded. As a reaction to the reluctance on the part of employers, such an obligation has recently been enacted by law in some new EU Member States (for instance, under the new Estonian 2000 Trade Union Act, employers have the obligation to commence collective bargaining if the trade unions so request).

2. *Autonomous social dialogue at the sectoral and regional level:* According to EIRO, the situation in bipartite social partnership is not diametrically different here. With the exception of some countries (Slovakia and Slovenia), social partnership at sectoral level and regional level compared with the company level – is even less developed, and its coverage is low. (The workers’ coverage is at a level of 25 %–30 %, while in Slovakia it is 50 %. Slovenia, where it is mandatory, is an exception and it may result in legally binding agreements; the number of collective agreements at the sectoral level is 55 in the Slovak Republic, but there are only a few in the Baltic states, for instance.) Thus, collective bargaining at the sectoral level is one of the weakest points in social partnership. For instance, sectoral collective agreements as higher-level agreements only formulate recommendations for lower level agreements; they do not go beyond the legislative framework, and they are not specific. This is also one of the reasons why bargaining at company level lacks coordination, is fragmented, and leads to growing dif-

ferences in wages and working conditions in the enterprises of the sector. This situation in the sectoral social partnership will be an obstacle to the application of some directives – e.g., Directive 2000/43/EC implementing the principle of equal treatment between persons irrespective of racial or ethnic origin, which envisages social dialogue at a sectoral level. Sectoral partnership with the state (the relevant ministries), i.e., the sectoral tripartite, only exists in some new Member States. Slovakia and Slovenia are two of these countries. Social partnership at the regional or local level does not, in fact, exist in the new Member States; certain attempts in this direction have been made in Poland.

The *Acquis communautaire*, i.e., European legislation, regulates social partnership at company level in a rather limited way. For instance, Directive 2002/14/EC is a general framework on workers' right to information and consultation, and Directive 94/45/EC on the establishment of European Works Councils makes it possible to exercise this right in European undertakings. The right to information is also contained in older European legislation that must be adopted by the new Member States. The Europeanization of social partnership will therefore be slower in the new Member states than it should be.

However, insufficient European legislation is not the main reason for the poor level of social partnership in general and collective bargaining particularly developed in the new EU Member States usually enjoys rather good national legislation. For instance, the Collective Bargaining Act in the Slovak Republic dates back to 1991, in Hungary to 1992, and collective bargaining was laid down in the Labour Code in Slovenia in 1989. In Poland, it was enacted as late as 2000, because it was devastated under the previous right-wing governments.

The roots lie elsewhere: in the formal process of applying law, in low quality of collective agreements reflecting the weakness of trade unions, and lack of experience and also in employers' reluctance to negotiate beyond the framework of the law. Collective agreements rarely include such important issues as workers protection in case of enterprise restructuring, the commitment of

employers to improving skills and retraining, dispute settlement, and the like.

European legislation speeded up changes concerning the enactment of works councils. In some countries, the practice of works councils has existed for several years (in Hungary and Slovenia, trade unions and works councils exist in parallel), while in others, trade unions and also employers have frequently protested against works councils for various reasons. In Slovak legislation, works councils have existed in the Labour Code since 2000 (the last amendment in effect since 1 July 2003 increased the threshold of the number of workers in companies in which works council are to be set up). Before 2000 trade unions in Slovakia had a prevailing negative attitude. A model of coexistence between trade unions and works councils, which have already existed in parallel for a longer period of time, with exactly defined division of labour, proved to be a success in Germany. Recently, new EU Member States have transposed provisions on representation in the European Works Councils (i.e., in the works councils of international European companies) into their legislation. However the participation of the workers of new Member States in European Works Councils is still – as already stated – low.

3. *At national level:* According to EIRO, tripartite social dialogue is a “valuable contribution” made by new Member States to the EU. Tripartite social dialogue (in addition to the national level, it can be implemented at the sectoral level) is a dialogue (concertation) whereby the state accedes to the two social partners: employers and trade unions. The tripartite concertation at the national level was applied in the new Member States immediately in the first years of transformation. There are several reasons given for this; the interest of the government that wanted to conclude agreements with social partners with a view to ensuring social peace at the time of implementing reforms; the interest of employers’ organisations that were set up as interest or lobbyist groups, with the ambition of fostering their visions in privatisation, in economic policy or in general in reforms, and in the integration process. Social dialogue was not the primary objective. The

interest of trade unions in strengthening their position in companies was often misused by these groups for their political and economic objectives. Nor trade unions did always see the enforcement of workers' new interests as their primary objective. The activities of these interest groups resulted in the adoption of the tripartite social dialogue at a central level. In some countries, legal regulations of tripartite partnership have been adopted. For instance, in the Slovak Republic, the Tripartite Act was adopted in 1999, while the Act on the Council of Social and Economic Agreement was enacted in the former Czechoslovakia, in October 1990. Tripartite bodies exist at the central level in all new Member States. The late-comers in this context were the Baltic States.

At the beginning of the 1990s, tripartite bodies discussed social agreements in many countries. These negotiations at the central level expressed the interest of the governments in making use of social agreements in the implementation of reforms. The first General Agreement was signed in the then Czech and Slovak Federal Republic as early as 1991. In the Slovak Republic, social partners concluded general agreements on a regular basis until 1997. It is generally assumed that they contributed to avoiding social conflicts in Slovakia. However, there was no "next generation" to replace the first generation of general agreements. We do not know of any case of a social agreement concluded in the context of EU accession.

In the last 15 years, role of tripartism has fluctuated in line with the "colour" of the government and the tasks that the government faced. Accordingly, the tripartite body was either an institution for bargaining – resulting in an agreement, contract, or pact, or it was only a consulting body, often formal, regardless of the existence or non-existence of legislation. The level of bargaining between the government and social partners also depended on the power of social partners vis-à-vis the power of the government. The power of individual social partners was usually indirectly proportional to the number of organisations representing workers and employers. For instance, in five new Member States, one "umbrella" trade union organisation has a dominant posi-

tion (in Slovakia, the KOZ – Confederation of Trade Unions), in Poland there are two major trade-union organisations (Solidarity and the OPZZ), and in Hungary, there are as many as six organisations. A more fragmented structure of organisations representing the interests of employers can be found in Hungary, where 8 out of 9 organisations decided to found an “umbrella” organisation, the CEHIC; until recently, there was only a single organisation, the AZZZ SR (Federation of Employers’ Associations) in Slovakia, while in Slovenia and Latvia, only one organisation has enjoyed a dominant position.

The Slovak tripartite system is not “pure corporativism”, as the representatives of the government or pro-governmental experts claim. No general agreement is legally binding, nor are the recommendations binding for social partners – for instance, when discussing laws (as is the case in some laws in France and elsewhere). The Slovak tripartite system is an “untapped opportunity” – its role has shifted from that of a bargaining role to a consultative one, which is considered “to be an unnecessary burden and an obstacle to the legislative process and reforms”. It is neither understood as an important instrument of democracy, based on partnership, sharing information, and transparency, nor as an instrument for implementing important changes in society.

In the “new” Europe, social partnership remains an untapped opportunity, although in different ways. The possibility of making use of social dialogue at the national level in the search for a consensus and compromise on basic economic and social, reforms, and on the model of society, is still to some extent neglected. It is an unused, or insufficiently used, tool of participatory democracy at all levels. At company and sectoral level, it represents an unexploited opportunity to make it a “production factor”.

It is obvious that social dialogue, collective bargaining, and social partnership must adjust to “new challenges”, as well as they reflect the concrete conditions under which applied. Therefore, it must either modernise, or implement radical reforms as “prevention”. This also applies to new Member States. However, modernising social partnership and social dialogue does not mean its

liquidation. We may assume that EU accession will be an impetus towards increasing the importance of social partnership in the new EU Member States, and that the importance of individual instruments of social dialogue at various levels – mainly where they will be most needed – will grow. In addition to pressure from the “grass roots” (e.g., from workers), and the existing and future European legislation, the “European environment” will also make a contribution. In the new Member States, social partnership will be shaped this way. Even today, the top trade union organisations of the new Member States are members of the European.

Trade Unions Confederation (ETUC); the employers’ organisations of these countries are gradually being incorporated into the Union of Industrial and Employers’ Confederations of Europe (UNICE – the Slovak AZZZ is a member of UNICE). During the pre-accession process, the European Commission emphasised that social dialogue is a basic element of European legislation, and assisted its development.

The future of social partnership will also depend on social partners. The Report of the High Level Group on Industrial Relations and Changes in the EU concludes: “We stress that strong, autonomous, democratic, and well-structured social partners are vital for economic and social progress.”

Social dialogue may delay important decision-making; however, it may also ensure the stability and irreversibility of social and economic changes. It may prevent strikes and other collective actions that would endanger the growth of the economy and political stability. In previous years, such threats only appeared sporadically in the new Member States (e.g., railway strikes in Poland, Hungary, the Czech Republic, Slovenia, and recently in Slovakia); however, with the deepening of economic difficulties, the insufficient use of social dialogue in dispute resolution could result in more frequent conflicts and have even more devastating consequences.

Risks of new difficulties and tensions are emerging also at the EU level – i.e., among the individual EU Member States. The most serious could be those resulting from the different economic levels of the new and old EU Member States. What are they like?

The risks of marked differences within the European Union – is there a threat of social dumping?

Outsourcing – one of the key issues in the 2004 US presidential campaign – has also entered the vocabulary of EU politicians. Chancellor Schröder has accused German companies looking for more advantageous conditions abroad of demonstrating “non-patriotic conduct”. The USA has adopted a law on American companies, which would lose the possibility of participating in government procurement if they transfer jobs abroad. But is *outsourcing* really the “hot issue”? Experts and politicians from developing countries who defend their interests argue that jobless growth of GDP in the USA, is not the result of *outsourcing*, but of a rise in productivity of labour. We can agree with them to a certain extent today, but what will be the situation tomorrow, and the day after tomorrow? The fear of *outsourcing* has its justifications, although it is not a new phenomenon. Globalisation and the measures that have accelerated it – the liberalisation of trade and capital movement – have generated conditions for more intensive growth in *outsourcing*. Therefore outsourcing is appearing on the front pages of the newspapers for the first time.

Presidential candidates and other politicians, trade union leaders, and also the “victims”, i.e., those who have lost their jobs, ask a question: “What to do?”

What is *outsourcing*? In this context, investing in countries with more attractive investment environment. What are the results? Mixed ones. The home countries of the investors – as is generally understood – lose, and the host countries profit. In the EU, the old Member States belong to the first group, and the new Member states – temporarily – to the latter one. “Temporarily” means until the moment investors find better investment opportunities for instance, further east in Europe, or in Asia (e.g., in China).

What motivates investors to “move”? Other conditions equal – like economic stability, market size, the development of infrastructure, skilled labour, and the like, the motives include lower

wages, higher unemployment rates, lower social protection, lower levels of unionisation, and less environmental protection. All this guarantees higher profits for investors and better position in competition with their rivals. Why should they behave in a “patriotic” way? The price paid for *outsourcing* by the home countries is obvious: higher unemployment and lower budget revenues. The “visible profit” for the host countries is also obvious: new jobs. Other aspects – higher tax revenues, higher wages, and greater prosperity – are more questionable.

No doubt, *outsourcing* is most profitable for the companies. Let us mention a typical example of *outsourcing*, based on the advantage of low wages. According to Eurostat, in Slovakia, the 2002 annual average wage in industry and services before taxation and health and social contributions in enterprises with more than 10 employees (undertakings with lower wages) was approximately one tenth of the average wage in Germany and one quarter of the average wage in Spain (in 2001). Productivity of labour in Slovakia was 57.5 % of the level in Germany, and 96.2 % of the European average. In other words, in Germany, in comparison to Slovakia, the wage is approximately 10 times higher, while productivity of labour is less than twice as high. According to the Institut für Wirtschaftsforschung (IFO), 60 % of German companies with less than 5,000 employees have opened businesses outside the EU, mainly in the new EU Member States. The largest trade union organisation in Germany – IG Metall – protested against Siemens’ recent project of exporting 10 thousand jobs to the new EU Member States and Asia; the Alcatel company decided to “export” 2,500 research, development and production jobs from their Rome factory to India and China, where one engineer costs on average €6,000 annually, and production costs can be reduced by 40 %.

The liberalisation of trade and capital movement and differences in investment climate and investment opportunities – as already stated – are enabling factors of *outsourcing*. The lower the investment and production costs abroad, the higher the motivation to invest abroad. If lower costs are reflected in lower prices,

both the host country and to some extent in the country of origin can benefit (consumers in a country of origin enjoy lower prices of imported products). In some cases, *outsourcing* may even result in the growth of jobs in the investor's home country; i.e., it can contribute to enlarging the "cake" that is being re-distributed.

So far, so good. But everything becomes more complicated when the governments of countries competing for investors start to undercut their "domestic price". These "tricks" include (1) fiscal dumping, i.e. reduction of tax rates disproportionate to public expenditures desperately needed in many areas like education, health, infrastructure, etc. or providing tax benefits (tax holidays and the like), or direct subsidies to investors; (2) environmental dumping, i.e. deliberate lowering the environmental protection standard either by softening or lack or low enforcement legislation; (3) social dumping, i.e. low wages, lower workers protection, etc. In their efforts to attract investors and to offer competitive advantages, the countries of Central and Eastern Europe have been primarily engaged in fierce fiscal competition.

In their competition for foreign investors, the governments of new EU Member States are willing to pay any price. The typical situation that occurs is the *race to bottom* – competition for lower taxes and social contributions, lower social protection, and lower unionisation. In this regard, a representative of the ETUC, Walter Cerféda, made this comment: "We are at a crossroads. The countries of Central and Eastern Europe prefer the Anglo-American social model to the traditional European model of social protection and cohesion."

The consequence of low unionisation and weak unions is that investors do not have to be afraid of too much pressure for wage increases. Due to low wages in the new EU Member States, 22 % of full time workers live under poverty line. In Poland and Lithuania, 70 % of poor people are workers, while this figure is 40 % on average in the new EU Member States, and will probably continue to be high for some time to come.

"The high social contribution rates" – qualified by the Slovak government as a barrier to investments – are not a nightmare for

foreign investors in case when the wage base is low. However, they may be a nightmare for local entrepreneurs with low productivity of labour.

Let us reiterate: fiscal dumping that would be applauded by every foreign and domestic entrepreneur – means lower public expenditures on education, health, social protection, and infrastructure. The criticism voiced by two leading social democratic politicians, Gerhard Schröder and Göran Persson, of tax competition by new EU Member States, hits the spot.

Is the price that new EU Member State will have to pay for *outsourcing* (lowering taxes, directly and indirectly subsidising foreign investors, decreasing social protection, keeping a minimum wage at a low level, etc.) offset by the “profits” from investments? How should the old EU Member States respond? Should they follow the advice, given in a self-confident manner by “new” politicians, to adhere to “their” reforms? Is the *race to bottom* the right answer?

In the discussion on the EU constitution, the French Socialist Party (PS) warned against “fiscal and social dumping”, and required “fiscal harmonisation” and the enacting a “social minimum” in the EU constitution. On the contrary the representatives of the UK and Aznar’s Spain argued against the inclusion of worker’s rights, social rights, and trade union rights in the constitution: According to Georges de Menil “... the adaptability of social systems has become even more important, in order to allow the Member States to maintain competitiveness and high employment levels.” Professor Georges de Menil holds the view that including a social chapter in the EU constitution “is a threat to the forces of liberalisation, which make the market competitive.”

Are there only two possibilities: either to agree with social and fiscal dumping, or to lose competitiveness? Is there no other solution? There is. An adequate answer is more complex, but there is one. It requires adequate policies and measures at various levels: national, regional, and global. The secret of success at the national level consists of policies promoting economic growth and employment, education and innovation, competition and good corporate

governance, modernisation of welfare state and dialogue between social partners.

The second and third levels of preventing social, fiscal, and environmental dumping are the regional and global levels. Many regional and global organisations are working in this direction like the OECD with its efforts to prevent harmful tax competition, and the discussions on tax competition in the European Union – which has not been particularly effective so far.

In the European Union, only a few elements directed against social dumping have been enacted so far; in labour issues, these are, for instance, the maximum length of the working week, the right to safe and healthy working conditions and equal rights for men and women at work. Not every EU Member State has acceded to the 1999 Charter of Fundamental Rights, which will become binding upon the adoption (and ratification) of the EU constitution.

At the global level, the example of Convention 102 of the International Labour Organisation, can be given. The Convention formulates fundamental work protection standards (like on child labour, forced labour, etc.). The UN Human Rights Commission's debates on human rights standards for businesses divide countries into those, which are against (e.g., the USA, the UK), and those, which are in favour of introducing such standards. This debate also antagonizes NGOs and businesses. International institutions have adopted many international, environmental "anti-dumping" conventions and initiatives. This issue – in addition to labour standards – is also being debated in the WTO. The resistance of developing countries in this context is no surprise. They protest against including the issues of labour and environmental standards into trade negotiations as they interpret them as discriminatory or as non-tariff barriers of developed countries to imports from developing countries.

The global fight against social and fiscal dumping has major risks: the difficult of finding a compromise, the complicated enforcement of law, the difficulties in monitoring, and the like.

The number of people from Eastern Slovakia in Polish shops has doubled; they only buy bread at home

The difference in the taxation of basic foods, which has been 12 percentage points since the beginning of 2004, has motivated the population living at the border to do their shopping almost exclusively in the shops of our northern neighbour. For instance, a kilo of sugar costs SKK 33 in Slovakia, while it is only SKK 17 in Poland.

However, the shopping fever of the Slovaks is causing headaches for traders on the Slovak side of the border. "It's a disaster, and if it continues, we'll lose our jobs," said one of the assistants working in a grocery shop in Svidník. "Here, people only buy bread, rolls, sometimes biscuits for the kids, and things that they've run out of at home. We work for the minimum wage, because our sales have dropped by two thirds in the last two years," her colleague added.

According to them, the grocery shops of Svidník are empty the whole week. Former customers are shopping in Poland, despite the fact that they may have to wait for as long as five hours at the border. "Look, if you had three kids, wouldn't you prefer to buy long life milk in a Tetrapak carton for 13 Crowns, knowing that you have to pay 30 Crowns here?" the shop assistant concluded.

The price of food in Slovakia and Poland

<i>Article</i>	<i>Svidník</i>	<i>Krosno</i>
1l long life milk	SKK 30	SKK 13
1kg granulated sugar	SKK 33	SKK 17
1kg chicken	SKK 68	SKK 40
1kg chicken legs	SKK 90	SKK 50
250g butter	SKK 33	SKK 20
1l fruit juice	SKK 28	SKK 15

According to: Národná obroda, 26 March 2004.

Box 4.4

**Vladimír Špidla:
the Czech Republic will not participate in the tax race**

The Czech Republic does not want to participate in the tax race in Europe, the Czech Prime Minister, Vladimír Špidla, announced. This race can only bring short-term and, in the end, temporary competitive advantages for a few countries that have started this race, he added.

“Such a race can result in nothing else but the destruction of public services and the social protection system. And after rash experiments, these countries simply will not have the money for it,” Vladimír Špidla said in the Chamber of Deputies when responding to questions of the opposition concerning tax dumping.

According to Špidla, rash tax cuts erode the social cohesion of society, deepen the income and wealth disparities in society, and lead to a growth in poverty.

He called as “indefensible” the theory that low taxes result in the development of “fantastic prosperity”. He associates this view with the opposition ODS Party.

The interpretation of low taxes as a general good is merely ideological; its objective is to provide advantages for a limited number of entrepreneurs and a limited number of members of society,” he said.

According to: Pravda, 14 May 2004.

Progress in this respect is slow; however, there is some progress, which we should not underestimate – in the fight against the *race to bottom* – a competition that mainly benefits transnational corporations.

Tax harmonisation that Germany and France are in favour does not boost economic growth or prevent companies from moving to the Eastern Europe. This was said by the Brussels-based organisation of UNICE, representing some 16 million small and medium-sized European enterprises.

According to UNICE, the introduction of a mandatory minimum corporate tax rate would be wrong for at least two reasons. Firstly, such a step would neglect the interdependence between different taxes the Member States collect; secondly, it would prevent tax competition among the Member States, which paralyses the increasing pressures on government expenditures.

Therefore, UNICE calls upon the Member States to implement a modern, effective, and innovative industrial policy, motivating investors to invest in Europe and thus open the road to product growth and the competitiveness of Europe instead of engaging in tax harmonisation.

UNICE, however, welcomes the efforts of the European Commission to remove tax barriers to cross-border economic activities, and thus to create a real common market. The fact that companies must deal with 25 various tax systems remains the main reason for many tax problems in the internal market, and the high costs of tax compliance.

According to UNICE, the most effective way of removing the remaining tax barriers over the long-term would therefore be the formation of a voluntary, common tax base.

According to: SME, 15 May 2004.

Does the bell toll for the trade unions?

In the EU 15, the level of unionisation is 30.4 %, and this figure has a downward trend. The most dramatic decline in unionisation can be found in the new EU Member States – except Cyprus (70 %) and Malta (65 %) – where it only reached an average of 21.9 %. Does the reduction in the level of unionisation – as a matter of

fact – reflect an objective process of the decline in the importance of trade unions in a new economic environment? Or should we search for other reasons, like, e.g., internal conflicts in the trade union movement, a hostile political environment, etc.?

Before giving an answer to the first question, we have to ask how the trade unions respond to the new environment, to the “new challenges”. Are the trade unions an obstacle to competitiveness, and condemned to liquidation in the environment of growing competition generated by globalisation? The transformation into a knowledge-based economy is changing the world of work: in the process of work individualisation, the authority of trade unions is declining, as interests are increasingly becoming heterogeneous and individualised. The model of the social state is gradually transforming into a social society, in which the position of the former key players until now – the government, trade unions, and the representatives of employers – is weakening, while other stakeholders like non-governmental organisations, church, etc. – are “joining the game”.

In the ultraliberal approach of “uncontrolled globalisation”, trade unions lose their *raison d'être*. The social democratic vision of globalisation counts on trade unions and their ability to adjust to new requirements in an appropriate manner. Trade unions can actively help to minimize “new social uncertainties”, like the loss of qualifications, mobility, ageing, and the like. On the other hand, the incapacity of trade unions to adapt may endanger their very existence.

The decrease in the level of unionisation also depends upon long-term structural changes in the economy. The share of industries with a traditionally high level of unionisation (processing industries) is declining in the national economy. The reduction of employment in these industries automatically results in a drop in the level of unionisation. Liberalisation and the privatisation of services in the general interest (rail transport, telecommunications, energy, and the like) are having similar effects.

Trade unions' internal conflicts and a hostile political environment are short/medium-term factors that may result in short/

medium-term fluctuations in the level of unionisation. The hostile attitude of the British Conservative government to trade unions was one of the factors causing a decline in the level of unionisation in the British trade unions in the 1970s and 1980s. The weakened unions did not guarantee the protection of interests of their members, and therefore lost their importance. After 19 years, the first increase in the total number of trade unionists in the UK was seen as late as 1998 – i.e., under the Labour government. Tony Blair's government went some way towards accommodating the trade unions; however, "New Labour" also tried to break the traditional relations between the Labour Party and the trade unions, in an attempt to achieve greater independence.

In the UK, part of the anti-trade-union legislation from the Conservative era has still remained valid; it includes restrictions on the organisation of trade unions, strike actions, and the like. In 1997 the Labour government enacted an act restricting employers' powers to forbid a trade union organisation or to dissolve trade unions, and laid down the rules for collective bargaining. It introduced a mandatory minimum wage, and signed the 1961 Council of Europe's Social Charter. It signalled its wish to take further measures in the labour market that the Conservative governments had blocked. However, in practical policies, it opposed European directives on a maximum 48-hour working week, on the rights of workers to part time work, and on parental leave. Moreover, it did not meet its obligation as concerns European Works Councils and the like. Tony Blair's government was heavily criticised by the Trades Union Congress (TUC) for increasing the role of the private sector in services in the general interest (like in health care). The failure to meet the commitment in the labour market, was also under attack by the TUC.

The definition of trade unions' rights in legislation is, as already stated, one of the factors of the growth or decline in the level of unionisation. According to European Industrial Relations Observatory (EIRO), unionisation in Slovakia is at a level of around 40 % (which is 2.5 times higher than in the Baltic states) and, indirectly, it undoubtedly reflects the existing legislation regulating trade

unions' rights – for instance, the 1991 Social Dialogue Act and the 1999 Tripartite Act. The current right-wing government, which definitely does not have a positive attitude towards trade unions organised under the Confederation of Trade Unions (KOZ), has, paradoxically, supported the growth of unionisation in the Slovak Republic as a by-product of some of their legislative measures. According to the Act of 30 October 2003 on sickness allowances which, *inter alia*, lays down exceptionally harsh conditions for the provision of sickness allowances and delegates this responsibility to companies, it is possible to negotiate higher than minimum allowances of up to 80 % of the daily wage base in a collective agreement. It is obvious that workers in companies where there is no trade union organisation and no collective agreement representing their interests will face more drastic reductions of sickness allowances in comparison to companies with trade unions, where bargaining could lead to higher sickness allowances. Alike, the importance of sectoral agreements will be more significant, as according to the law on collective bargaining, “a collective agreement at company level shall be invalid in the part that regulates workers right to a lesser extent than a higher level sectoral agreement does”.

The direction and extent of effects of the political environment on trade unions depend on several factors: on the pluralism of trade unions (the traditional division into “red” and “other colour” unions is maintained, e.g., in France), on the level of trade union centralisation (the corporatist model is based, *inter alia*, on the centralised power of trade unions; the contractual model, on the contrary, assumes decentralised trade unions), etc.

Relations between the governments or political parties and the trade unions usually depend on the “colour” of the political party. They are traditionally good between Social Democrat (Socialist) governments and trade unions. However, there are many exceptions to this rule, and their number grows when these governments start to implement reform measures for which they have failed to gain trade union support. For instance, the trade unions in Germany, the traditional partners of the German Social Democratic Party – the SPD – clashed fiercely with Chancellor Gerhard

Schröder in the debate on his *Agenda 2010*, which represented the largest reform package presented by any of the current EU governments. Schröder decided to continue without their “blessing” only after exhausting all the possibilities for achieving an agreement. However, the deterioration of relations did not mean the end of social dialogue. For instance, Chancellor Schröder offered to play the role of a mediator between the trade unions and employers in the issue of collective agreements at the company level and its links with the agreements at sectoral level.

“New challenges” are the key reasons for growing conflicts inside the trade union movement. Trade union headquarters are experiencing hard times: they cannot afford to ignore “new challenges” in the long run. They have to admit that the ageing of society generates tremendous pressures on social protection and health care expenditures. The need to prevent the growth of the already high state budget deficit in many EU Member States requires responses. Reforms still need to be completed in countries in transition that have recently joined the EU. How should the trade unions cope with the new pressures while not losing face – and members? One piece of good advice is to formulate the questions properly. If the questions within the trade union movement are formulated like: – “who is in favour” and “who is against” reforms – trade unions find themselves in a dead lock. The “pro-reform” camp is confronted with the flight of more radical “anti-reform” members and consequently the trade unions are weakened. The “anti-reform” camp may temporarily strengthen in numbers; however, over the long-term, it is doing its members a disservice. Discussions must be diverted from the dichotomy of “yes or no” to reforms to the key issue: “how” to reform.

Issues like pension reform, health care reform, and civil service reform are sowing the seeds of discord inside the trade unions which seek their own identity. The crisis in the CFDT, one of the three major trade union federations in France, was initiated by its leader, François Chérèque, who is considered a “pragmatic reformer” by his supporters. In May 2003, he signed an agreement with the government on pension reform with implications on the pub-

lic sector workers that had enjoyed privileges as compared to the private sector workers. As a sign of protest, several public sector unions left the CFDT. Trade unionists protesting against the policy of their trade union or federation either leave for more radical trade unions (e.g., from the CFDT to the CGT or SUD), or leave the trade union forever. Forecasts predict that as many as 8 % of members will leave the CFDT. Reforms are also the reason for tension between the trade unions or trade union federations; for instance, with respect to pension reform, a hostility emerged between the CFDT and CGT, two of the three largest French trade unions. However, the predicted mass exodus from the trade union movement, which would be reflected in a dramatic decline in the level of unionisation, has not occurred.

The German metal workers' trade union, IG Metall, also underwent a crisis recently, when it had to face its first unsuccessful strike in 50 years. A crisis in the trade unions is taking place between the traditional left-wing and the reformers. Peter Heesen, the head of the DBB – a public sector workers' union – was fiercely criticised for his statement, that a stricter mechanism of penalties should be introduced against lazy workers in public administration. Heesen then turned to other trade unions in Germany. He asked them to withdraw from their confrontational and anti-reform positions, and to come up with a proposal of reforms. With regard to the reform of the civil service, the DBB advocates higher flexibility and the better performance of civil servants. So far, it is questionable as to what extent the DBB is in favour of reduction of privileges of workers in this sector, like implementing more performance-based remuneration, or even such a radical measure like minimising the civil service status to for the police, judiciary, armed forces, diplomacy, and tax administration – which, incidentally, has been proposed by a SPD Member of Parliament, Christoph Matschie.

The disputes between the Slovak government and the KOZ aggravated in 2003, and resulted in the interruption of tripartite negotiations (later – as a retaliation – the Confederation of Trade Unions announced a petition for a referendum on early general elections). The Prime Minister named the incident “such a small

sad story". He accused the trade unions from a wish "to demolish all what we build at any costs". The petition for a referendum on early elections, he later commented as "an abuse of trade unions for political objectives". This illustrates, however, that when traditional actions for the enforcement of the interests of their members fail, trade union may use less standard instruments as a last resort. In the Slovak Republic, the conflicts between the government and trade unions escalated for the reasons that the government ignored the views of social partners on reforms and interrupted social dialogue. The government due to a structure of political power that does not require a broader political consensus – was not seeking consensus with social partners either.

The deep conflict with the trade unions may cost the government its "life". The right-wing government of Alain Juppé paid this price in 1977, and the first Berlusconi government fell because of a similar conflict with the trade unions. The current centre-right government under Berlusconi has learned a lesson from the past, and is now trying to prevent the collapse of social dialogue with the trade unions over pension reform. While the largest and most militant trade union, the CGIL, "was losing its patience" and threatened with more vigorous actions, the two smaller trade unions, the CISL and OIL, were willing to continue negotiations.

The inability to negotiate or "the loss of patience" to continue the social dialogue may cost the economy great losses. Let us give an example. On 6 May 2003, Austria faced the largest strike in the private and public sectors after 50 years of social peace. The Trade Union Confederation, the ÖGB, called for nationwide protests against the pension reform prepared by the government. Transport was paralysed, universities were closed, production in enterprises affected. In France, the strike movement against Raffarin's reforms is undoubtedly one of the factors of slowing down economic growth there.

When a Slovak Minister praised the advantages of Hyundai-Kia being situated in Slovakia rather than in Poland, he allegedly mentioned "the weak trade unions". We have already discussed whether weak unions are an advantage, or whether strong unions present

a barrier, for investors. However, what is the future of the trade unions in the EU? Will trade unions survive? Are the rights of trade unions defined in the EU Constitution? In other words: does the EU Constitution guarantee the survival of trade unions?

The answers to these questions are complex from the legal point of view; therefore, we shall draw upon an explanation by an expert who has analysed the part of the EU constitution dealing with the Charter of Fundamental Rights.

Box 4.6	The most important International Labour Organisation conventions on international work standards between 1980 and 2000
<p>Collective Bargaining Convention (1980)</p> <p>Occupational Safety and Health Convention (1980)</p> <p>Maintenance of Social Security Rights Convention (1982)</p> <p>Employment Promotion and Protection against Unemployment Convention (1988)</p> <p>Night Work Convention (1990)</p> <p>Protection of Workers' Claims (Employer's Insolvency) Convention (1992)</p> <p>Prevention of Major Industrial Accidents Convention (1993)</p> <p>Part-Time Work Convention (1994)</p> <p>Home Work Convention (1996)</p> <p>Worst Forms of Child Labour (1999)</p> <p>Maternity Protection Convention (2000)</p>	

The Charter of Fundamental Rights was formally adopted as a political declaration (Nice, 2000) and not as a “hard” law, which is enforceable. However, various analogies show that it may become a part of the EU basic treaty and become enforceable. Therefore, the European Court of Justice could refer to it in its decision-making. This would lead to the resulting enforceability of basic trade union rights included in the Charter (e.g., the right to join unions, the in-

dependence of trade union organisations, financial autonomy, and the like), which are so far set out in the legislation of only a few EU Member States, and are merely practised in others. In other words, the EU Constitution defines trade unions and their rights, and thus “opens up a new chapter in the enforcement of trade union rights at European and national levels”. It is important that trade unions use the rights in accordance with the new conditions.

The corporate social responsibility

Motto:

“Ethical, social and environmental considerations have to be part of strategic decisions to invest or do business, and of a company’s day-to-day management.”

From the UNICE Position on the
Green Paper on Corporate Social Responsibility

The model of *corporate social responsibility* (CSR) did not originate in the EU. It was “born” in the USA, and the first EU country beginning to enforce it was the United Kingdom. This was no coincidence: it was linked to the structure of corporate owners in the USA and the UK, which the experts call “Anglo-American” or “Anglo-Saxon”. In the USA and the UK, the majority of corporate owners are institutional investors, such as pension funds, investment funds, and the like, in which ordinary people invest, or which administer their savings. Institutional investors are interested in achieving short-term profits, and seeking growth in the price of company shares. Company managers are remunerated accordingly. They are rewarded handsomely – in cash and in shares, or in stock options of the companies they run. The general director (CEO) of a large corporation in the USA in 1973 earned on average 45 times more than a worker; by 2002, directors were earning 500 times more.

Remuneration in shares and stock options motivates managers to prefer short-term profit, to inflate the price of shares, and to ignore the long-term growth of the company and its future market

share; in other words, and – at the same time – to ignore the social and environmental consequences of doing business.

Investors thinking in a more strategic way are concerned about these approaches and the prospects of a decrease in profitability over the long term. This is often linked to the threats to existing profits – for instance, when the undertaking causes an environmental disaster, when the reaction to unethical behaviour on the part of the enterprise discourages its customers, and the like. The growing engagement of environmental non-government organisations, consumer protection organisations, etc. represents an external pressure forcing companies and investors to behave in a more responsible manner.

In the early 1990s, several circumstances gave rise to a discussion on corporate social responsibility, which resulted in the emergence of many initiatives, first in the US and the UK. In the beginning, the most active were NGOs including organised business interests.

Two events fuelled the debate: the events on September 11, 2001, and the corporate scandals in the USA like Enron, World Com, and others. The terrorist attacks on the WTC triggered interest in preventing terrorist funding and renewed discussions on issues as money laundering, unfair tax competition, and tax havens in the OECD, a discussion that almost came to a standstill in at the beginning of the first Bush administration.

The *Green Paper on Promoting a European Framework for Corporate Social Responsibility* initiated the debate on CSR in the EU. The European Commission opened it up to public discussion in July 2001; i.e., before the terrorist attacks on the World Trade Center, and before the corporate scandals emerged concerning some European companies, which shook the enterprise sector in the old EU Member States – like that of Vivendi Universal, Ahold, and the historically greatest corporate scandal, in the Italian dairy company, Parmalat.

Although the enterprise sector in the old EU Member States (excluding the UK) differs from the Anglo-American enterprise sector (in the structure of owners – for instance, three quarters of

Italian companies are controlled by one shareholder or a syndicate of investors in the different motivation of managers, and the like), the differences are not of such a magnitude as to guarantee that European companies would have greater social and environmental responsibility, and that they would behave differently from American companies. Therefore, the model of corporate social responsibility in the EU, which has started to be interpreted as one of the building blocks of the EU social model and as an instrument for realising the EU Lisbon Strategy and other European strategies (e.g., the sustainable development strategy) is needed to be implemented also in the European corporate environment. Based upon the initiative of EC commissioners Pascal Lamy (PS, France) and Anna Diamantopoulous (PASOK, Greece) the European Commission prepared a document called *Corporate Social Responsibility: A business contribution to sustainable development* for debate in the Council in 2002. The European Union decided that CSR should also be included in the prepared review of company law (the *Company Law Directive*).

The initiative supporting CSR in the EU is partly inspired by global initiatives aimed at supporting CSR at a transnational or global level. We should, for instance, mention the *Global Compact* (1999) – an initiative by the UN Secretary General, Kofi Annan, which is assumed to support the so-called *Global Corporate Citizenship*. Among others there are the *OECD Guidelines for Multi-national Enterprises* revised in 2000, the International Labour Organisation standards and its political Declaration on Fundamental Principles and Rights at Work (1998), and finally, the *Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights* of the UN Human Rights Commission (2003), although the business sector and some countries still consider them controversial.

We are interested in knowing whether CSR is “a social romanticism”, a latest fashion, an issue of P. R. that helps companies to improve their image – or a trend that cannot be avoided. The views differ, and as always, they depend upon the difference of interests and upon different ideologies.

Neo-liberal economists acknowledge only one duty of a company: to make a profit. In their opinion, the social and environmental responsibility of companies has nothing to do with business. In their words: "it is socialism." This extreme position implemented in practice is, however, one of the reasons for the mobilisation of anti-globalists. During the recent demonstration in Warsaw on the occasion of the European Economic Forum (April 2004), the banners of anti-globalists read: "People are more important than profit." In his opening speech, the President of the Polish Republic, Alexander Kwaśniewski, commented on this demonstration in this way: "We have the same goals as the anti-globalists and alter-globalists, but we use different means."

Can CSR be one of those means that help to achieve a more competitive economy, sustainable economic growth, and greater social cohesion in the EU? And why should undertakings deal with CSR?

Before we answer these questions, let us try to explain what corporate social responsibility is. It is a model of corporate behaviour in which undertakings also bear responsibility for the social and environmental impacts of their business – inside the company towards their workers, and outside it towards their suppliers, investors, the locality where they operate, etc.

An undertaking operating under the CSR model not only observes all national laws regulating the conduct of undertakings (e.g., with regard to labour law, safety and health at work, the environment), but also goes beyond their framework. Corporate social responsibility is neither reduced to sponsorship, nor to charity or philanthropy. It is more complex than that.

The behaviour of a socially responsible enterprise respects not only the interests of its owners (*shareholders*), but also of those who have a certain relation to the undertaking, i.e., of all the *stakeholders*. As already stated, these include the workers, consumers, suppliers and customers, investors, people living in the place where the enterprise is located, etc.

Corporate social responsibility is becoming the preferred form of mitigating – if not preventing – "the race to bottom"; i.e., a

weapon against social and environmental dumping. Therefore, the pressure by workers and their representatives, and also by governments, to make enterprises to respect social and environmental standards, even when they decide to invest in third countries, is growing in the EU as a whole. The failure to respect such rules increases the competitiveness of third countries. The old EU Member States interpret this as “unfair competition”, or as pressure aimed at lowering social and environmental standards at home.

Why should an undertaking adopt CSR? It represents additional effort, and entails additional expenditures – a short-term reduction of profits.

In the first place, an enterprise may improve its image through CSR. An undertaking with a good image is better respected, enjoys higher prestige, and also has easier access to bank resources. It also increases investors’ trust. According to a survey by the Geneva-based World Economic Forum in January 2004, as many as 70 % of general directors (CEOs) of large companies are convinced that decisive investors will be increasingly interested in the issues of *corporate citizenship*. The executive director of SEF, R. Samons, stated: “We are seeing greater interest in the social and environmental aspects of company performance from pension funds, insurance companies, and other shareholders, who are taking these issues more seriously than they were a few years ago.” Although the survey showed that some obstacles were preventing the increased interest of investors in CSR (e.g., problems with “measuring” CSR, measuring CSR’s effects on enterprise performance, and the like), it confirmed the growing interest of investors in CSR. A company with a good image is attractive for managers, and it motivates employees and jobseekers (of course, if there is a sufficient job supply). For instance, at the beginning of 2004, the Financial Times revealed that many prominent American universities have included CSR in their curricula, and that even the director of the MBA Programme at York University (Canada) calls CSR a “trend”. Professor J. Johnson of North Carolina University stated that “social and environmental entrepreneurship is the basic element of their MBA Programme” and expects that “when

the economy improves, graduates will increasingly seek jobs in a companies where CSR plays an important role”.

In addition to image, as already mentioned, CSR can help ensure the long-term growth of the company and long-term profit, because it respects the environment in which it does business and makes use of the positive motivation supported by the initiative of its workers.

Maintaining good relations with all the stakeholders of the undertaking is beneficial. Consumers satisfaction increases profit; avoiding antagonisation of strong NGOs means avoiding lengthy and often expensive disputes; adopting environmental commitments beyond the framework of the law may save funds spent on unforeseen environmental accidents, etc.

On the other hand, if there is no appropriate environment; i.e., not enough pressure by stakeholders (investors, employees, consumers, NGOs, and the like), CSR will be formal and ineffective, with no impact on the conduct of enterprises.

Instruments of corporate social responsibility include a code of conduct or code of ethics, quality management systems, socially responsible investments, social or environmental quality labels (e.g., *eco-labels*), etc.

Socially responsible investments (SRI) as an initiative emerged at the beginning of the 1990s. In some countries, legislation has been enacted: for instance, the law in the UK requires pension funds to report how they consider the social, ethical, and environmental aspects of their investments. Social investment forums exist in the UK, France, Germany, the Netherlands, and Italy, and there is even a Dow Jones Index for undertakings complying with the principles of SRI.

In order to avoid discrediting CSR, and making it only a fashion or label, it is necessary to agree upon the rules under which an undertaking may acquire such a “label”. Just like in a contest, criteria must be defined, and the results must be measured and disclosed. Monitoring, and informing the public of the results achieved are necessary prerequisites for CSR’s credibility. However, sufficient prerequisites are missing for several reasons, which may be illus-

trated by the Enron case. This American energy corporation regularly published, *inter alia*, a report on corporate responsibility; its administration included a commission responsible for the supervision of social and environmental issues, and it had its own code of ethics. It ranked among the top 100 US companies, and received many awards for the protection of the environment. The public was not informed that it did not pay a single cent of tax on declared profits, which totalled \$US2 billion between 1996 and 1999, thanks to consultants advising them on how to evade taxes. The fraud committed by this corporation – which is considered the biggest in American corporate history – resulted in the poverty of tens of thousands of Americans who saved for their pensions in a private fund linked to Enron (the Florida Retirement Fund), as well as the employees of the company after its collapse. This case, followed by the disclosing of similar cases (e.g., WorldCom), shook American capitalism and provoked the Bush administration to adopt the so-called Sarbanes-Oxley Act in order to prevent similar scandals. This strict law, which is today viewed as excessive, regulates, for instance, the reporting obligation of corporations, managers' responsibilities, and the like. Companies providing consulting in accounting and taxation and auditing companies have been heavily affected by it (one of the "Big Four" auditing companies, Arthur Andersen, collapsed). For instance, the consulting companies are obliged to inform tax authorities about new schemes aimed at reducing taxes and provide information on companies advised to use them.

The crisis in "corporate capitalism" – which as we have stated, also affected "old" Europe – resulted in calls for the tightening up of requirements for corporate conduct, for improved company disclosure, and for more regulation. New reporting rules will also gradually become a part of CSR. Today, many initiatives (e.g., the Global Reporting Initiative) are focusing on the globalisation of social standards, on the public access to information on, the development of social reporting, and the like.

Key European social partners – UNICE and ETUC – diverge in their views on the issues like the voluntary or binding charac-

ter of CSR, to what extent CSR should be Europeanised, and also in their view on CSR “standardisation”. For instance, UNICE as well as, e.g., the ICC – the Paris-based International Chamber of Commerce, support the voluntary principle. They do not want any national or European regulation of CSR (i.e. they are against the Europeanization of national legislation in this respect) and want to avoid the “standardisation” of CSR. The UNICE Position on the Green Paper states: “UNICE therefore strongly opposes any attempts to create a European approach to, or framework for, CSR, which it deems inappropriate and unjustified. Corporate social responsibility is and must remain business-driven.” It argues that there is no “one size fits all” solution; each undertaking must develop the CSR model from within, and enforced imposition from the outside may kill company initiative. This view does not go beyond the usual framework of interests advanced by UNICE. Furthermore, it also reflects the fear of over-regulation, which is undoubtedly justified to a certain extent (as it is, e.g., in the discussion on other EU standards and laws). Therefore, UNICE is also against defining any standards for the social audit and EU level monitoring. It urges the EC should support the exchange of experience and best practice among enterprises at the EU level.

At the August – September 2002 Johannesburg World Summit on Sustainable Development, some countries held the same view as organisations representing the interests of companies. However, the original text of the final document, the *World Summit on the Sustainable Development Plan of Implementation*, Part B – *Strengthening the institutional framework for sustainable development at the international level* (which initially required the creation of an international legislative framework for CSR, to support sustainable development) only became a general call to “Promote corporate social responsibility and accountability and the exchange of best practices in the context of sustainable development, including, as appropriate, such as through the Commission on Sustainable Development, and other” through multi-stakeholder dialogue.

On the other hand, ETUC advances CSR as mandatory on either a legal or a contractual basis. To support its view, it gives the argument of “three illusions”: 1. the illusion that CSR would mean the end of conflicting views within enterprises; 2. the illusion that all stakeholders are equal; 3. the illusion that voluntary commitment to CSR would be sufficient to generally improve the social and environmental responsibility of enterprises.

Box 4.7	Nine principles of the <i>Global Compact</i>
<p>Human rights</p> <p><i>Principle 1:</i> Businesses should support and respect the protection of internationally proclaimed human rights</p> <p><i>Principle 2:</i> Making sure that they are not complicit in human rights abuses</p> <p>Labour standards</p> <p><i>Principle 3:</i> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</p> <p><i>Principle 4:</i> The elimination of all forms of forced and compulsory labour</p> <p><i>Principle 5:</i> The effective abolition of child labour</p> <p><i>Principle 6:</i> The elimination of discrimination in respect of employment and occupation</p> <p>Environment</p> <p><i>Principle 7:</i> Businesses should support a precautionary approach to environmental challenges</p> <p><i>Principle 8:</i> To undertake initiatives to promote greater environmental responsibility</p> <p><i>Principle 9:</i> To encourage the development and diffusion of environmentally friendly technologies</p> <p><i>According to: What is the Global Compact?</i> www.unglobalcompact.org</p>	

It is necessary to add that the enactment of CSR – even on an international scale – is also favoured by some business representatives who point to the competitive edge of those companies that have not adopted the CSR model.

Thus, there are some arguments in favour and some against the regulation of CSR. The current, official EU position is in favour of voluntary CSR. The process of CSR Europeanization is, therefore, not taking place via “hard legislation” (there is no CSR *acquis*), but “soft legislation” – recommendations, exchange of experience, etc. A European forum called the *EU Multistakeholder Forum*, which was established in 2002, is aimed at drafting a CSR report on the basis of a discussion among all the stakeholders that will be evaluated at the highest level in November 2004, and on the basis of which conclusions and recommendations concerning CSR will be made.

This approach – i.e., using “soft” legislation, may be justified in the old EU Member States, but entails some risks in the case of new EU Member States. Corporate social responsibility is very new for domestic companies in the new EU Member States. So far, these countries do not enjoy an environment that is realistically capable of exerting effective pressure for socially and environmentally responsible behaviour on the part of companies, which would go beyond the framework of the law. Much also depends on governments – whether they will or will not promote the creation of such an environment. The European Union will undoubtedly try to help the new EU Member States through its support for, and the development of, CSR. It is already possible today to use the Social Fund for the training managers on the CSR model, its goals, and its successful implementation.

Services of general interest

The Central Slovak Power Works (SSE) announced a 19.1 % rise in the price of electricity effective 1 January 2004. Down payments for gas are set to increase by 33.4 % as of the same date. Water charges will increase by 40 %, and sewage by 30 % to 35 %. On 10 January 2004, the TA3 TV station revealed that due to the cancellation of a bus service, Zábudišová – a part of the Bošáca municipality – has been cut off from the rest of the world ... etc. It is obvious that news on services of general interest have an effect on our everyday lives ...

The third building block of the EU social model is represented by services of general interest (SGI). The European SGI policy, and its institutional framework, reflect the gradual building of the Single Market and EU strategic goals and priorities (e.g., the Lisbon Strategy), and it responds to new “challenges” – mainly to globalisation and EU enlargement. The service market, including financial services, is an area where the Single Market has developed much more slowly.

SGI policy is the result of a political compromise achieved between various controversial ideologies, theories, and often a variety of conflicting interests – and, of course, it is also learning from its own mistakes. In May 2003, the European Commission published the *Green Paper on Services of General Interest*, which was submitted for public discussion, with the end of the discussion envisaged for 15 September 2003. In it, the Commission set out 30 questions on the future directions of European policy of services of general interest.

Although the Green Paper explicitly points out that services of general interest (see Box 5.1) are not identical to the so-called public services, the two concepts do substantially overlap. In “old” Europe, SGI are so much a part of everyday life that any

innovation or change is met with suspicion or general resistance – strikes, demonstrations, or clashes with the police. European and non-European antiglobalists criticise the EC for liquidating this component of the EU social model through its policies, and believe that by enforcing the liberalisation of services of general interest in the World Trade Organisation, the EU jeopardises them on a global scale.

On the one hand the European policy on economic services of general interest and its legal framework (cross-sectoral and also sectoral) is based upon the rules of the Single Market, policies conducive to competition, and a policy of restricting state aid. SGI are understood “only as an exception to the rule”. From this aspect, an approach to SGI is an example of “liberal ideology” in the EU. On the other hand, the European SGI policy and legislation can hardly be assessed as “ultraliberal”, because it defines limitations and obligations that the operators of services of general interest must undertake, regardless of whether they are private or public companies. European legislation does not even specify whether the operators of services of general interest should be state-owned or private. Moreover, European legislation allows various exceptions to the rules of the market, competition, and state aid, in order to meet the general interest. It assumes the establishment of efficient regulators (regulating authorities), the task of which is to correct the mistakes of the market (e.g., if there is no sufficient competition), to monitor providers restrictions, and to enforce compliance with the responsibilities of operators of services of general interest.

The Green Paper considers services of general interest as “a part of the values shared by all European societies and forming an essential element of the European model of society ... Their role is essential for increasing quality of life for all citizens and for overcoming social exclusion and isolation.”

- 1. Services of general economic interest provided by large network industries** (such as telecommunications, postal services, electricity, gas, and transport). These industries have a clear Community-wide dimension, and present a strong case for developing a concept of European general interest. This is also recognised in Title XV of the Treaty, which gives the Community specific responsibility for trans-European networks in the areas of transport, telecommunications, and energy infrastructure. The Community has adopted a comprehensive regulatory framework for these sectors.
- 2. Other services of general economic interest** (such as waste management, water supply, or public service broadcasting). These services are not subject to a comprehensive regulatory regime; the provision and organisation of these services are subject to internal market, competition, and state aid rules.
- 3. Non-economic services and services without effect on trade** (such as health, education, and social services). These services are not subject to specific Community rules, nor are they covered by the internal market, competition, and state aid rules of the Treaty.

An instrument for overcoming social differences

Article 16 of the EC Treaty identifies the role of services of general interest in promoting social and territorial cohesion. Mainly two obligations imposed on the operators (providers) of SGI are key in achieving this goal: the universal access to SGI, and the affordability of SGI. It is up to the government to find a way to enforce the compliance with the obligations. The compliance must be monitored carefully when providing services to low-income groups at a market price that is not affordable, or when the costs of the universal accesses is too high (e.g., with respect to geographical distance).

The obligation of universal services applies, for instance, to network industries like telecommunications, power (electricity),

and postal services. The obligation is particularly important in the context of combating territorial differences in which the electrification or gasification of the territory, or telephone network coverage plays a key role.

The affordability of services of general interest is defined depending on the income, costs of living, the structure of the consumer basket, etc., in every individual country. The obligation of affordability for low income groups is ensured in different ways – through price control, targeted benefits, and the like. The principle of affordability may require the provision of some services for free to all, or to vulnerable groups. The state compensates the operators for losses.

The obligation of affordability plays an important role in combating social exclusion. The definition of affordability of individual services as well as the scope of services in which affordability is applied play a pivotal role in this respect. If not defined in the *acquis*, the scope of application of the affordability principle depends on the priorities of government. If, for instance, the increase of employment is a priority and low mobility is one of the barriers, then it is necessary to watch the affordability of public transport services. The definition of price affordability undoubtedly depends on the situation in the “state treasury”. However this cannot be the unique criterion. Increasing the electrification or gasification of the territory without ensuring affordability not only fails to improve the provision of these services (violation of the obligation of universal service), but it also means inefficient investments.

Recently, energy affordability – after introducing environmental taxes has been discussed. Affordability of the use of information technology like Internet, which is one of the key factors of the development of a knowledge-based economy – is also relevant for new EU members.

Eurobarometer 58 gives the results of a SGI consumer survey in the EU Member States in September – October 2002. There is no similar survey in the Slovak Republic; however, if it existed, its results would hardly be as encouraging as they were on average

in the EU. In the EU 15, the consumers' satisfaction with respect to prices of postal services reached in average 68 %, water supply 56 %, electricity supply 55 %, and 54 % with respect to gas. The survey showed the highest dissatisfaction with prices of mobile calls (11 %) and railway transport (9 %).

The increasing of the number of SGI that must be subjected to the principle of universality and affordability under European legislation will be one of the trends for strengthening the European social model. The European elections inevitably have and will have an impact on this trend.

When market rules must step back

The non-economic services of general interest (for instance health care, social protection, education, and culture) are not considered to be market services, as their definition clearly indicates. Therefore, no market rules can be applied to them. This is obvious in European policy and legislation on services of general interest. In the Slovak Republic, in contrast with the above, the need to modernise or reform the SGI is interpreted as "transformation into market services". This policy builds on two pillars: ultraliberal ideology and on a narrow group of individual interests which will profit from this transformation. This model is not a European model, it is more alike the American one. (Although it must be added that in the USA, the first reform of Medicare⁶⁾ according to which the payments for medicine for elderly and handicapped persons from Medicare have been expanded, is going apparently in the opposite direction.)

6) Medicare emerged in the 1960s. Its initiators – the Democrats – however, failed to realise the reforms, despite repeated attempts by the Clinton administration. The reform was only implemented by the Bush administration. Currently, the Democrats criticise it for being too accommodating to interest of private pharmaceutical companies.

The European *acquis* defines several exemptions from the market rules, which may be applied to services of general interest. Let us mention at least some:

- *price control* (a maximum or minimum price may be set; the averaging of prices and tariffs on a national level may be permitted despite different local costs; e.g., in Slovakia, in the case of the water supply);
- *state investments* (the market is not capable of providing many services of general interest, because it concentrates on short-term profit, and investments in these services only provide a long-term return);
- *state subsidies* (e.g., in Slovakia, Slovak Railways' services of general interest are subsidised);
- *other forms of financial support to providers* (for instance, exemption from import duties and taxes on air transport);
- *granting exclusive rights* (for instance, in Slovakia, for operating fixed line telephone services by Slovak Telecom with an exactly defined term of duration);
- *social benefits* (targeted benefits for low income groups), and the like.

The Green Paper identifies the gradual crystallisation of more preferred forms of exemptions: for instance, from the aspect of transparency, it is more appropriate to provide subsidies from the state budget than to grant tax exemptions. From the aspect of cost reduction, it is better to restrict the granting of exclusive rights and to promote competition. Granting targeted social benefits is more meaningful when the number of benefit recipients is not inappropriately high – in the opposite case, subsidies have proven to be better.

The EU rules for enforcing the obligations of providers of services of general interest, however, allow the compensation of losses generated in this way. This compensation is considered compatible with the rules of state aid (as long as it does not “over-compensate”). In addition, the EC is also considering drawing up criteria for solidarity financing that would be applied at the level of all EU Member States.

Modernisation, not Americanisation

One of the triumphs of Blair's second campaign was the promise to improve the quality of some services of general interest. These included mainly services in health care, transport, and the like. The long waiting periods for the provision of health care services in the UK are well known. Furthermore, Tony Blair's government inherited a disorganised railway system from the Conservative government. In the 1980s, Margaret Thatcher's government was convinced that by dividing up railway transport and selling the individual parts to private companies it would resolve all the shortcomings of this service. This conviction was not confirmed. At the July 2003 Progressive Governance Summit in London, Tony Blair expressed the necessity to reform the public service sector, so as to achieve "higher standards, greater choice, and better equality", and to "save them from the right-wing". He added: "Through reform and change, we deliver social justice in the modern world."

In this respect, we may have different views on the assessment of concrete steps by Blair's government. We can agree that many of them can be interpreted as neo-liberal, and a threat to the EU social model. However, we can also agree that services of general interest must adjust to new conditions: globalisation, which confronts us with the greater openness of markets; greater competition; more rapid innovation, which requires higher flexibility and adaptability; demographic changes; progress in science, and the like. The conservatives (on the left) who ignores this, plays into the hands of the ultraliberals. Their reforms represent a threat to fundamental European values in turn. Unfortunately, we are witnessing this in the Slovak republic.

Although there is no (and cannot be any) single formula for reforming the SGI, it is possible to learn both from the good and bad experience of others. As already stated, the basic principles of services of general interest do not yet apply to all kinds of services of general interest in the EU. However, one thing is certain: each reform must maintain at least basic European values, must respect the principles and requirements imposed on these services accord-

ing to existing European legislation (see Box 5.2), and should not endanger their provision in the future (for instance, the blackouts in California and the first experience with them in Italy in 2003 are alarming).

The most frequent measures taken in EU Member States include “market oriented initiatives”, the decentralisation of the provision of services based on the principle of subsidiarity, and new investment initiatives. Market oriented initiatives in services are nothing new – Margaret Thatcher’s government started to implement them in the middle of the 1980s. This included, for instance, the transfer of these services from the state to the private sector (*private provisioning*) and the privatisation of former state sectors providing these services (e.g., the privatisation of British Gas and British Telecom in the 1980s). These steps also included the creation of a firm regulatory framework, including regulatory authorities (for instance, OFTEL, OFGAS, etc.). The results of these initiatives were controversial. They were positive in cases where prices dropped and the level of services improved. They were disastrous (as already stated) in the area of railway transport. The liberalisation of these services, the opening up of the market to competition, and the necessary regulation (which today corresponds to the “conventional wisdom” in the EU) should result in price reduction and higher consumer satisfaction. In several areas, the opposite is achieved, and this, in turn, causes resistance to liberalisation. This comes not only from the antiglobalist, or trade union camps, as is claimed in an over-simplified way, but also frequently from the state and private providers of these services. On one side, they protect their own interest as the opening up to competition is a threat to their monopoly profits. On the other side they rightly identify, that once privatised the long-term development of SGI might be inhibited (see the quoted example of California).

It is true that many trade unions are afraid of “market initiatives”. Probably the French trade unions – where, for instance, the gas and power industries are traditionally at least partly state owned – are most against it; therefore, liberalisation is taking place

there at a slower pace than in any other EU Member State. However, we must add that this does not automatically imply that France is at the bottom of Europe regarding the modernisation and the standards of sectors providing services of general interest. Far from it. The situation in these sectors is a result of the policy of the French government, which puts great emphasis on these sectors. It is recognised that SGI are significant employers, and that they determine the competitiveness of the state (like telecommunications, transport, and energy). The fear of the decline of employment in these sectors in the event of “market initiatives” is one of the reasons for resistance. The following case confirms this: Brussels compelled the French government to commit itself to stop granting state guarantees to the French electric power company EdF before the end of 2004, which forces the government to change the status of the EdF from a “public industrial corporation” into an “ordinary” one. The five trade unions concerned protested – due to the fear that it would result in the privatisation of the corporations. (Furthermore, the then Commissioner for Competition, Mario Monti, declared the EdF tax break in 1986–1997, amounting to €888 million plus interest as state aid. In his view, it represented an unfair profit and therefore violation of the competition rules.) The trade unions also blocked the privatisation plans of EdF and GdF of the then Minister of the Economy, Finance, and Industry, Nicolas Sarkozy. However, this calls for other solutions how to expose both companies to greater competition.

When considering the trade unions’ actions, it is necessary to make difference between justified fears (for instance, of dismissal) and the fear of trade union leaders of losing their power: These sectors usually have the highest level of unionisation, and a decrease in the numbers of workers in them may also result in the decline of union membership. It is a legitimate fear, but still only of narrow group interest – of French trade union “bosses”.

It would be short-sighted if the reforms in these sectors were reduced to the question of how to save money! This is a part of spending reform, which is important; however, from the broader perspective of long-term economic and social development, it can-

not be dominant. Current government reform in Slovakia follows this narrow approach. In the short term, it saves governments expenditure on transport, education, and health care. On the other hand it will lead to deterioration in the education and health of society. The reduction of public transport will have negative implications on labour mobility and will be reflected in higher unemployment, etc. The positive effects of such reforms are questionable and – in any event – short sighted.

The modernisation of sectors of general interest requires new investments. The British government respected the view of its voters – whereby investments in public services should have preference over tax reduction – in its policy. In the second half of 2003, Jean-Pierre Raffarin's centre-right government submitted a long-term programme for modernising transport infrastructure, representing a €20 billion investment. At the same time, it froze the project for selling the motorway company ASF (which administers the motorway in the south of France) or any other state companies involved in road infrastructure. Therefore, in the dispute between the Minister of Finance and the Minister of Transport, it took the side of the latter. The project for modernising transport infrastructure anticipates the creation of 50,000 new jobs. The EU's New Growth Initiative equally anticipates extensive investments into services of general interest – financed from national budgets, European funds, and from credits and private resources. According to the programme, €62 billion should be invested in transport, energy, and science (it includes 56 priorities) by the year 2010. The so-called PPP – *Public Private Partnership* – is a new form of funding network industries, which should help to make up for insufficient public funds (first of all, in the area of transport). The UN Economic Commission for Europe (ECE) elaborated the first draft of the *Rules of Good Conduct* for PPP in the fourth quarter of 2003, which should promote the development of this unconventional manner of financing.

For financing non-economic services traditional solidarity financing based on the principle of solidarity is used. This ensures the provision of services to everyone, regardless of his/her finan-

cial situation for instance, in sickness, old age, and so on. It is based on the principle of redistribution of taxes paid to state funds, according to earnings. In the Slovak Republic, redistribution is provided by the state budget, the funds of health insurance companies, and the Social Insurance Agency. In reforming pension system a key issue is to find a proper equilibrium between solidarity and individual responsibility. Pensions according to merit which the current government prefers arguing by the principle of motivation and “justice”, is to be dominant and not a complement to pension based on solidarity financing. In general, a more extreme inclination in one or the other direction always depends upon the interests represented by a government. In Slovakia, the current government has considerably restricted solidarity financing in the first pillar, and eliminated it totally in the second pension pillar. This approach, if not changed or adjusted, will further increase poverty in the old age group of population. In contrast to the liberal approach, the left-wing conservative view takes the second extreme direction: it considers solidarity financing to be the only way of funding non-economic services of general interest.

In the EU, the principle of subsidiarity in providing services is applied at various levels of government, depending on where the best prerequisites exist. As the cross-border social services sectors are concerned, it is important that the “highest level” – central government – is involved in their development.

On the other hand, local transport, local waste management, local water management, is responsibility of local government. The proper division of powers and responsibilities – the decentralisation of responsibility when appropriate – is just one of the principles of modernising services of general interest.

Reforms and modernisation also include a regulatory framework: the laws and institutions (organisations) involved with regulation. One of the main criteria in the assessment of relevant legislation should be to what extent the key principles of SGI provision, have been transposed into it. From this aspect, the Slovak law on network industries cannot be assessed very positively. Fur-

thermore, Slovakia's experience to date indicates that the regulatory authorities are still not able of performing their functions appropriately. They share responsibility in the high prices in telecommunications, energy and other sectors. Their independence may be a subject of debate, but it is impossible to acknowledge a practice – which currently exists – of zero accountability to people.

How should the Europeanization of services of general interest progress?

The EC Treaty includes SGI in the shared values of the Union, and points out their role in promoting social and territorial cohesion (Article 16). The Charter of Fundamental Rights, which is included in the draft EU Constitution, states in Article 36: "The Union recognises and respects access to services of general economic interest as provided for in national laws and practices, in accordance with the Treaty establishing the European Community, in order to promote the social and territorial cohesion of the Union."

In both cases, economic SGI are concerned. It would be desirable for the EU constitution to explicitly include – as one of the EU's priorities – the formulation: "the development of all services of general interest – both economic and non-economic". And that their role – as set out in the Charter of Fundamental Rights – be underlined in the area of social development. The bodies of the EU and the EU Member States have assessed the economic SGI – despite the declarations in the Treaty – in a narrow, economic way; they are the priorities of line ministries or commissioners, and not of governments or the European Commission. Unless they acquire an appropriate position in all three components of sustainable development – economic, social, and environmental – they will not be able to perform all the tasks that they have been designed for.

Services of general interest – although this applies in different ways, depending on the type of services involved – are no longer the exclusive domain of national governments.

How will the process of Europeanising SGI continue?

Several directions can be assumed:

- expanding general and sectoral European legislation, which will be transposed into national legislation;
- creating European regulatory authorities;
- enlarging the European Commission's competencies, or combining both procedures.

Box 5.2

The obligations of providers of services of general interest

- 1. Universal service.** The obligation to ensure the provision of services to everyone, regardless of where he/she lives and his/her economic and social situation.
- 2. Continuity.** The requirement for the uninterrupted provision of services – is important, for instance, in the supply of electricity and the like.
- 3. Quality of services.** In some cases, quality standards are defined in European legislation.
- 4. Affordability.** The provision of services for an affordable price, or at a price the lowest income groups can afford to pay.
- 5. User and consumer protection.** Most often, this is ensured by means of European sectoral legislation – for instance, in the sectors of electronic communications, energy, postal services, transport services, etc. It includes consumer health protection, safety, the freedom of choice, etc.
- 6. Further specific obligations.** For instance, security and protection against terrorist attacks on aeroplanes, the safety (and continuity) of service provision, access to networks, media plurality, and the like.

As already stated, the Green Paper presented thirty questions on how to continue the Europeanization of SGI. From aspect of the European social model, defining the role of the EU in non-economic SGI, the harmonisation of obligations in providing eco-

conomic SGI in the EU like universality, affordability, and consumer protection; solidarity financing, and monitoring, can be considered key.

Naturally, governments with ultraliberal views prefer to see this programme minimised, and therefore oppose of Europeanization of SGI. However, if the process of Europeanization of SGI is stalled, and the EU competencies are limited only to the Single Market measures (for instance, by adopting measures against state aid), then the existing differences in the level of SGI provision between the EU Member States, and within them, will stagnate or even grow. This would set back the convergence processes in the EU, and postpone the implementation of the Lisbon Strategy's priorities. And even worse – it would undermine one of the components of the European social model.

Services of general interest in the “new Europe”

The Commission submitted the first report on economic SGI in the “old” EU Member States in December 2001. We are still waiting for a more detailed evaluation of the situation in the SGI sectors in the new EU Member States.

In the accession process, candidate countries have been requested to adopt the pertinent *acquis* and implement it within an agreed time horizon; i.e., to liberalise the sectors providing economic SGI, to create independent regulatory bodies and to ensure that they perform their regulatory tasks. If they failed to transpose some newer EU directives (e.g., the European Directive on Universal Service, as is the case in telecommunication services), they would have to do so quickly. In addition to preparing for EU accession, the candidate countries were also undergoing the final stage of transformation process. Their broad “market oriented initiative” in most of the network industries represented the privatisation of SGI sectors. But opening up their markets does not automatically result in more competition. The principle of competition has been successfully implemented, for instance, in the case of mobile op-

erators; however, it was not achieved so far in the case of fixed telephone lines, energy sectors, and so on.

For various reasons, in the new EU member states market oriented reforms have not achieved their objectives in many cases. On the contrary – with weak regulators on one side and strong – frequently foreign SGI providers – on the other side, the liberalisation of prices has led to their exponential increase, the abuse of companies' monopoly positions has escalated, the motivation to improve quality has declined, etc. The mixed experiences gained from SGI transformation to date indicate that if this sector is to play a positive role in the economic and social development of the new EU Member States, it must be attributed a higher level of importance in the policies of the governments.

The European social model: dogmas, myths, and disputes

Ideological stereotypes and their risks

These could be called “big lies”, or “fabricated dilemmas”. The term “big lies” is borrowed from the title of a book by the American author, Joe Conason, which has the subtitle *The Right-Wing Propaganda Machine and How it Distorts the Truth*, published in 2003. Some of the “big lies” or dilemmas are textbook cases. We can identify five ultraliberal, orthodox stereotypes used as standard arguments against the European social model:

1. We must choose between greater prosperity and greater social justice. The more social the state, the lower the economic growth, and the higher the level of unemployment.
2. Minimum state intervention is the basis of prosperity.
3. The state is a bad owner by definition. The only solution is to privatize!
4. Macro-economic stability and economic growth automatically generate growth of employment.
5. The less labour market regulation and the lower social protection against unemployment, the higher the level of employment.

Similar stereotypes and lies about the Left can be heard in every ideological offensive:

1. The Left only wants to spend; it is responsible for the budget deficit and state indebtedness. The policy of the Left is: tax and spend.
2. The Left wants to nationalise. It is against business and the private sector.
3. The Left is in favour of egalitarianism and against the successful and the rich.
4. The Left hinders growth, competitiveness and employment.

5. The Left is anti-reform and incompetent in the field of economic policy.

The last two stereotypes of the second group used in election campaign by the Right can damage the Left before and when taking over the power. This is true for the emerging democracies with still fragile political structure. It is well known that campaigns, either political or commercial, generate expectations, and to some extent, the behaviour of voters, consumers, etc. If the Left wins power in a situation when the stereotypes contaminated society, the economy as a consequence of negative expectations can be negatively affected by fluctuations in exchange rates, interest rates, share prices, and the like.

Political instability and uncertainties at the end of the political cycle may have the same effect as the consequences of such expectations. For instance, at the time of the presidential elections, and the adoption of power by left-wing President Lula in Brazil, Brazilian currency depreciated considerably. After the Left assumes power, the need to face unwanted consequences may lead to the implementation of tougher government measures than those implemented by a right-wing government. Again, let us give the example of Brazilian President Lula, who surprised the markets by his restrictive fiscal policy and therefore won applause from the markets and the IMF. On the one hand, he managed to achieve a gradual strengthening of the Brazilian currency, interest rates on Brazilian state debt started to decrease, etc. – however, on the other hand, economic growth at the beginning deteriorated. If expectations had been more favourable, his policy could have been less “orthodox”.

If the current right-wing government in Slovakia is campaigning vigorously – that any other government would implement an irresponsible fiscal and economic policy, and undermine market economy, it exposes the Slovak economy to risks that will damage it severely at the end of the election period. On the other hand, if trade unions and the political opposition cannot resist the temptation to make use of populist rhetoric in order to increase its popularity – as expressed, in opinion polls – they themselves

contribute to the unrealistic expectations, with dangerous consequences.

The first group of stereotypes, or big lies and fabricated dilemmas, becomes dangerous if applied in an orthodox way. The result is a growth in social inequality, poverty, and social exclusion.

Let us elaborate on some of the cited fabricated dilemmas and big lies.

“We must choose between greater prosperity and greater social justice.”

This is one of the main right-wing axioms. In his criticism of the policy of the British Tories at the *Progressive Governance Conference* (2003), Blair said: “They will fight on a platform that is ... anti the extra levels of spending, in order to give tax cuts to the few.” (This goes for Slovakia, too.) And he continued: “... the beneficiaries from their policies ... will not be actually hard-working families but the few at the top who can afford private health and education, etc.”

The basic paradigm of the right-wing is applied in tax and spending policy. The right-wing, favours low tax and in extreme cases – flat tax; it is against tax on dividends and inheritance tax, and shifts the tax burden from tax on income to tax on consumption. It argues that this encourages economic growth and general prosperity. The tax policy of the Bush administration or the right-wing government of Mikuláš Dzurinda in Slovakia – which even goes beyond the policy of the American President – are typical examples. Such policies cannot bring long-term economic growth; however, it is obvious that they generate sharp social differentiation in society. In its spending policy, the Right reduces expenditures in the social protection, health care, the education, etc. It reduces social and unemployment benefits, freezes the minimum wage, and the like. The Right is “convinced” that lower social benefits motivate the unemployed better to work and that a low minimum wage motivates employers not to dismiss workers. The overall effect will be increased employment. However, these theories ignore the fact that if the ratio between the number of unemployed

and the number of job opportunities is high, and if the possibilities of self-employment are at a minimum, the only effect of cutting benefits will be an increase in the number of socially excluded persons. The Slovak right-wing government's lack of faith in the success of its own policy was demonstrated in a forecast drawn up by the Slovak Ministry of Finance, which was published in the *Hospodárske noviny* daily newspaper of 23 March 2004, according to which the Slovak unemployment rate will drop below 14 % as late as 2010, and below 10 % as late as 2030!

In addition, as already mentioned, reduction of direct taxes annoyed some of the old EU Member States. According to ČTK (Czech Press Agency), the Scandinavian EU Member States will not tolerate low taxation of the rich in the new EU Member States. In a recent interview for the Finnish *Hufvudstadsbladet* daily, the Swedish Prime Minister said: "They probably believe that we are going to collect high taxes in Sweden, Finland and Denmark and send this money to Eastern Europe, so that they can have a class of rich people there who pay no taxes."

According to its basic paradigm, the Right champions the market economy "free of any attributes". This is also characteristic, for instance, for the approach of Slovak right-wing parties or the right-wing in other post-communist countries. However, this approach is diametrically different from the policy of the traditional West European right-wing, represented, for instance, by the Christian Democratic parties (in contrast to the Slovak Christian Democratic Movement!). Let us remind that after the World War II, the model of the German social market economy was shaped on the basis of cooperation between two mainstream political parties: the Christian Democrats and the Social Democrats.

"Minimum state intervention is the basis of prosperity"

Radical reduction of state spending on health care, social protection, education, housing and infrastructure, is the other side of the coin. According to this stereotype these expenditures should be increasingly covered from private resources; in other words, everyone should pay for him or herself. For post-communist coun-

tries, it is a radical transition from the collective responsibility to the individual responsibility. The Right argues that the individual responsibility ensures high efficiency and justice and after all, it is more advantageous for everyone. Both parts of this “argument” are misleading, as they do not lead to the promised results. Let us mention the US experience, where the expenditures for health care and social protection in old age are financed mainly from private resources. The total expenditures are not diametrically different from expenditures in the EU; however, tens of millions of Americans have no health security, and live only from a minimum state pension. In their working life they could not afford to pay pension funds or private health insurance. Private provision or privatization of social and health care has not become cheaper; nor has the standard of health care and social protection improved. Private financing has eliminated solidarity and favoured high-income groups.

The British liberal model – in contrast to the continental model in the EU – adjusts the ratio of individual to collective funding in such a way that the middle-income group also participates in individual funding. According to the British Labour Party, contemporary British society is a 20/60/20 society; i.e., a society in which 20 % live well, 60 % adequately, and 20 % in the vicious circle of poverty and deprivation. The challenge for the British Labour Party is this last 20 % of society. Therefore, for instance, the British Prime Minister pushed through an increase of fees for university education, which were introduced by the Labour Party in their first term shortly after assuming power, after 18 years of Tory rule. At the same time, he was confronted with a strong resistance inside his own party.

In the case of Slovak society, where the difference in income between the richest first group and the other two groups has increased disproportionately, and where a significantly smaller part of society lives adequately (i.e., the structure is different as compared to British society), this “cure” would result in the spread of poverty and the deepening of social exclusion.

“The best solution is that provided by the market”

The ultraliberals ignore the so-called failures of the market, or, in the best case, only admit the existence of some. They do not openly declare that they want social inequalities (criticism of egalitarianism would be justified!) and poverty, but they consider them a “fair reward”: “we get what we deserve”. They do not admit that market can fail here and therefore needs corrections. In their view, everything is in order. In the best case, they are ready to acknowledge facts, but they argue that any intervention by the state would make the situation even worse. According to them, the state policy of redistribution slows down economic growth, and only economic growth ensures the growth of prosperity for everyone. They do not ask questions like – “What scope of income differences is society ready to accept?” or “How can we prevent the income differentiation dictated by the market exceeding the extent acceptable for the public?” and so on. To this stereotype they adjust their tax and expenditure policy.

And again, we can identify some lies or half-truths in their statements:

Firstly, economic growth does not ensure prosperity for everyone. In countries with the highest dynamism of economic growth, in which everything is left to the market, poverty and income differentiation grow.

Consequently, as growth itself does not guarantee a more equal society, we need different state interventions; for example, those that restrict monopoly profit and support competition, as well as the redistribution policies.

The target of ultraliberal criticism is the traditional redistribution policy: “tax and redistribute policy”, that is the redistribution policy itself and not the redistribution rate. They ignore the fact that a modern approach to the “equality” also makes use of different measures like: targeted special policy, employment policy, investments into education, etc. The aim is to restore the redistribution rate to a certain equilibrium with individual responsibility.

The European social model defines employment, combating poverty, and social cohesion as its essential goals. It does not ex-

PLICITLY define the European threshold of income differences and the redistribution rate. However, it is understood that governments have the power to mitigate income and social differentiation rate. It is an issue of good governance to promote economic growth while social cohesion is maintained. Elsewhere we argued that poverty and social exclusion have a negative impact on economic growth. Therefore, it is in the interest of acceleration of the economic growth to eliminate poverty and prevent an inappropriate deepening of income differentiation. The issue of adequacy is certainly rather subjective; however, the difference between a worker's average wage and a general director's wage plus bonuses, which runs into much more than double digits, represents a failure of the market in any event.

"Left-wing policy is hindering growth and employment"

To convince people that this is true, is harder. After all, it is well known that Social Democrats consider employment and economic growth indispensable for achieving social justice and prosperity.

Complementing ideological stereotypes are therefore used, such as – the Left is in favour of maximum taxes, of an unacceptably high minimum wage, generous social protection, excessive employee protection, and the like. These are used to demonstrate why the left-wing is not able to reduce unemployment and ensure economic prosperity, despite the fact that they are its declared priorities.

It is true that the left-wing supports a social state, and its "armoury" includes taxes, the minimum wage, social protection, and workers protection. These tools of the social state remain part of the left-wing "arsenal". This, however, does not mean that the "weapons" of left-wing policy are always identical, that they do not adapt to new challenges in employment and economic growth. The progressive left-wing, for example, realises that excessive labour market regulation and employee overprotection is the detriment of market flexibility. It also understands, that high taxes and social contributions paid by the entrepreneurs, may force entrepreneurs to move from legal to illegal business, with minimum

employee protection and with no taxes paid at all. After all, the most widespread reforms in today's European Union – as already mentioned elsewhere – are being pushed through by the Social Democratic government of Gerhard Schröder, and not by the right-wing governments in France or Italy, despite the fact that there is an obvious need for them there.

The European social model: disputes between the European Right and Left

The European social model is the result of historic evolution, and is the product of various interactions: coexistence, cooperation, and competition (often even antagonistic) between the European Right and Left. The European Right (with the exception of the British Conservatives and the right-wing parties in Central and Eastern Europe) has never supported an ultraliberal policy and an (ultra)liberal social model. On the other hand – even if we only focused on the continental right- and left-wing parties (i.e., excluding the UK and Ireland) – we would have to state that the European right-wing, just like the European Left, is not homogenous. Its ideas of the European social model are not homogenous, either. There are substantial differences in the views of the European social model inside both the European Right and Left. For instance, the German (CSU) and Danish right-wing parties are the protectors of the social market economy model and the social model.⁷⁾ The British right-wing champions a neo-liberal market model and a neo-liberal social model. Right-wing parties in the new EU Member States are neo-liberal or ultraliberal.

The European left-wing parties or centre-left parties (European Socialists) are also heterogeneous (even when we ignore the in-

7) For instance, the right-wing government of A. F. Rasmussen, which took power from the Social Democratic government of P. N. Rasmussen, extended paid maternal leave as a reaction to criticism that his government was not sufficiently social in nature.

ternal differences within individual parties). With some simplification, we could even distinguish between the “old Leftists” of Lionel Jospin, the reform-minded SPD of Gerhard Schröder, and the “New Labour” of Tony Blair, whose “Third Way” policy is regarded as liberal by many (Tony Blair interprets it as “modernised Social Democracy”). It is probable that the policy of Zapatero’s Socialist Party (PSOE) in Spain, which he himself terms the “new way”, is a certain modification of the “Third Way”. The left-wing parties in the new EU Member States are even more heterogeneous than the “new right-wing” and – as we shall see later – they have their own identity problems.

It would be a mistake to think that the ideological differences in the policies of antagonistic political parties in “old Europe” are disappearing. However the differences are more pronounced in the ideology and the parties programmes than in practical terms. Ideological differences usually sharpen in times when a struggle for power escalates. For instance, before the March 2004 French regional elections, the French Socialist Party (PS) published two black papers: *The Black Paper on the Government’s Social Policy*, and *The Black Paper on the Attacks of the Right against the State and its Social Function*, with the sub-title: *Stop Dismantling the State ...* In their stock-taking of Raffarin’s government after 20 months (and in their “black papers”), the French Socialist party criticised its policy, which, according to the PS, has deepened social inequality, harmed the weaker social groups, strengthened the power of employers (the MEDEF), ignored trade unions, and weakened services of general interest, education, science and research, etc.

When distinguishing between right- and left-wing views of the European social model and concepts for its reform, we can apply the typology of “pure” right-wing and centre-left solutions, which are not implemented in this form in practice.

According to Robert Castelo, the difference between the left- and right-wing is manifested in the extent of social protection when assessing their approach to the European social model. Right-wing parties support minimising social protection a solu-

tion of last resort – this is characteristic mainly for the British Conservatives), while left-wing parties support a larger scope of social protection provided to broader social groups and guaranteed by the state. Right-wing ideology is built on the idea of the so-called market society, while in contrast, the left-wing bases its ideology on the social market economy and solidarity. The solutions offered by right-wing parties build on the dogmas of minimum state intervention, deregulation, and the glorification of the market and private ownership.

The right-wing reform of the European social model includes the following orthodoxy. It is necessary:

- to reduce workers protection, to reduce the minimum wage, and to lower the costs of labour;
- to reduce social benefits radically, to reduce unemployment benefits, and to shorten the period in which they are granted;
- to implement pension reform, so that a major part of old age pensions is financed privately;
- to increase the private (individual) share in the coverage of expenditures for health care services;
- to introduce tuition fees at universities;
- to transfer services of general interest rapidly from the public to the private sector;
- to minimize the power of trade unions and minimise social dialogue.

The deepening of social differentiation is ignored; redistribution and the principle of solidarity are opposed. According to these instructions, economic growth will ensure prosperity for everyone. Reform according to right-wing orthodoxy divides society into a narrow group of “winners” who profit from it, and the major part of “losers”.

In the reform of the European social model, European left-wing or centre-left parties emphasise:

- employment, which is their number one priority; the support of investments in education, re-training, and life-long learning, and in ensuring geographic mobility (the support of social and rented housing, affordable public transport, and the like);

- the general availability of social protection (in the event of unemployment, old age, and sickness) and health care, and also the prevention of the abuse of this protection (by improved targeting and control);
- appropriate employee protection and adequate remuneration for work (which cannot ignore certain economic links – for instance, the growth in work productivity);
- the development and increase of services of general interest, obligation of universal access and affordability
- dialogue with trade unionists and employers.

They support social justice and the principle of solidarity. According to left-wing parties, economic growth is a condition, but not the final goal. They are advocates of economic growth that generates employment and pro-poor growth. The Left advocates that the costs and profits of reforms are distributed uniformly, avoiding the division of society to “winners” and “losers”.

As we can see, the difference between European left- and right-wing parties does not lie in the fact that the first are anti-reform, and the latter pro-reform. The difference between reforms from the “right” and “left” is in the substance of reforms and their consequences; i.e., whether a majority or only a small part of the society profits from them. In the framework of this “typology”, the right-wing implements reforms that generate and deepen social differentiation. They advance such-and-such a tax reform, such-and-such a pension reform, etc., which benefit “the successful” (i.e. rich). In pension reform, the Right damages the equilibrium between solidarity and “merit” in favour of “merit”, at the expense of solidarity. In tax reform, they minimise the redistribution functions of taxes in favour of the highest income group. Right-wing reforms favour narrow, high-income groups, and large undertakings and corporations; the costs of reforms are borne by low- and middle-income groups and small entrepreneurs.

Both European right- and left-wing parties face identical “new challenges”: globalisation, the transformation into a knowledge economy, and an ageing society. However, European left-wing parties have a better understanding of the fact that there is also a need

to cope with *new social uncertainties*. If reforms do not take this factor into account, we should not wonder why resistance to reform is growing. In other words, individuals should not be blamed for everything: according to the right-wing individuals do not recognise that reforms are being implemented “for their benefit, even if they don’t realise it yet”.

New social uncertainties go hand in hand with new challenges – technological changes, the necessity to innovate, to be competitive. They include the loss of professional qualifications during their working life, the need for professional and geographic mobility, and the individualisation of work; they are accompanied by requirements for higher flexibility in the work status (e.g., a frequent switch between employment and unemployment and vice versa), the need to prepare for the prolongation of human life, the need to adapt in case of disability and the like. Left-wing reforms should therefore respond to the predicted, destructive effects of the “new challenges” that jeopardise social cohesion.

The situation is even more complex in the new post-communist EU member states in which the first stage of reforms: the transition from a planned economy to a market economy is coming to end, and a new stage has commenced: strengthening the *emerging market economy*. The exogenous conditions of them are identical with those of “old” Europe (globalisation, the need to transform to knowledge based economy, demographic pressures, etc.). However, the endogenous conditions are diametrically different – they include mainly the average GDP per capita at a level of 45 % of the EU15, the average unemployment rate almost double that of the EU15 rate, the unacceptable dynamism of income inequalities, poverty, and the growth of social exclusion. One can see that the initial conditions for social model reforms in new EU members differ considerably from the old EU members.

Different social and economic conditions are also reflected in the different shaping up of right- and left-wing parties in the “new” and “old” Europe. While in the left- and right-wing political parties of “old” Europe a more pragmatic approach – a lower level of dogmatization and certain equilibrium between the Right

and Left – can be observed, the situation in “new” Europe is different. We are witnessing the strong dogmatization of right-wing party policy, and their dominant position in the implementation of their – ultraliberal – concepts of the social model. In their ideology dominates the role of the market, minimising the role of the state: its transformation into a “policeman” performing repressive tasks with the help of the judiciary, police, and armed forces, and ignoring market failures. They refuse solidarity and social dialogue. They do not emphasize goals – like an increase in the standard of living, the improvement of education, the availability and higher standard of health care, and the increase of employment – but means, e.g., reducing re-distribution through the state budget, the reduction of direct taxes, the restriction of expenditures on the social state, and the privatisation of services of general interest. The means and the goals have exchanged their roles.

The fact that new EU Member States have had to deal with the legacy of the old state social model, based on state paternalism, egalitarianism, and maximum social security, supports such an ideological approach. This legacy is one of the reasons behind a certain confusion in the Left; it is the root of its hesitation and ambivalence.

Compared to the Right, the Left in the new EU Member States is ideologically much more ambivalent and less prepared to formulate and promote left-wing solutions. The ideological confusion of the left-wing in these countries results in the situation when “modernists” incline to apply a right-wing, ultraliberal social model, or at least some such elements. Naturally they face a strong opposition from conservatives inside left-wing parties and the loss of electoral support. Some governing left-wing parties in the new Member States seek inspiration from the ultra-right reforms of the Slovak government. They discuss seriously, for example, the introduction of the flat tax rate. The lack of concept of how to reform the public sector, and their adherence to right-wing solutions, is a result of their perplexity. Their priority is not addressing unemployment, or investing into education, science, and research.

The ideological confusion and unreadiness of the left-wing in “new” Europe (perhaps with exception of the Czech Social Democrats) encourage the idea that there are no left or right reforms and that there are only “reforms” and that there is only one ultra-liberal social model. Differences are admitted at most in the rate of intensity in the enforcement of reforms, or in the distribution of reforms over time with respect to their acceptability. The basic values of the European social model become the victim of such an approach. However, they also become the victim of the conservative approach on the Left, which does not want to reform the old inherited social model. The reason is that this model is indefensible, and if not reformed by left-wing parties, then right-wing parties will do so in their own ultra-liberal way. The only way out of this dilemma is the *reform* of the old social model inherited from the old regime *from modern left-wing or centre-left positions*.

The EU Constitution and the process of its preparation by the Convention on the Future of Europe reflect the complexity of the process of shaping the European social model as a result of the balance between the key political forces in the European Union. The EU Constitution includes basic principles of the continental social model, based on social cohesion and solidarity. The European social model in the EU Constitution is not an ultraliberal social model. It is one of the key achievements of European left-wing parties, with the help of part of the European right-wing. Stipulating such a model in the EU Constitution creates prerequisites for the sustainability of its essential values in the future. The development of the European social model can take various directions in its concrete form (and details). It will depend on the division of power between left- and right-wing parties, and also on the division of power between EU bodies – the European Commission and Parliament. The dependence of the European social model on the European political cycle will grow with the enlargement of the European Parliament’s powers. The results of European elections will therefore be an important factor in the future development of the European social model.

The reform of the European social model: disputes within left-wing and centre-left parties

European left and centre-left parties are in turmoil. Fierce discussions within the German SPD and the Polish SLD have culminated in a change of the heads of these political parties. Manifestations of a lack of loyalty to Tony Blair and his policies are on the increase in votes held in the British House of Commons. Crises in the French Socialist Party and the Italian Left could also be mentioned. But can we generalise this? Are we really witnessing a crisis of social democracy?

And if so, what is the root of this crisis? Is it a consequence of political changes since 1989? Are the left and centre-left political parties unable to respond to “new challenges”? Is their ideology worn out? And, on the contrary, are the right-wing, and its ideology, “winning”?

I do not think so. Paradoxically, I believe that right-wing parties are in crisis, despite the fact that they enjoy a dominant position in European politics today. The results of neo-liberal ideology and rule on a European and global level are not very encouraging at all: the growth of poverty, social differentiation and environmental degradation, financial crises, terrorism, and the like.

I do not consider the disputes between the European left and centre-left parties as the manifestation of a crisis. They are the result of a desperate search for adequate solutions in unprecedentedly new environment. It is natural that in this situation, solutions are not at our disposal.

The left or centre-left’s search for adequate answers to the “new challenges of the era” is subject to criticism from conservative thinking inside left-wing parties (the so-called criticism from the left), and criticism from the right-wing. But what are the most disputed issues of the social model and its reform inside the left-wing (or centre left) about? What is a typology of “reformist” (progressive, modern) and conservative (“more leftist”, old) thinking and approaches like?

Reformers (“modernists”) emphasise the necessity to respond to the challenges of globalisation, the transformation into a knowledge-based economy, demographic trends, etc. They are characterised by the search for a compromise – between work and capital, the market and the state, and individual responsibility and solidarity, which will meet the “new challenges” – i.e., the new situation at the beginning of the 21st century. Their answer is the coexistence of the market economy and a society based on solidarity. Their solution to the dilemma “individual versus collective responsibility” is the shared responsibility of individuals and the state, partnership between the state, businesses and civil society. They promote social emancipation and active social inclusion.

Conservatives (in left-wing parties)

do not reflect reality – they want to maintain the status quo.

If they do reflect it, then they propose solutions that shift the costs exclusively to higher or high income groups.

They overemphasise the role of a state, and in extreme cases, they reject the market.

They emphasise the protection of the individual by the state and fail to emphasise his/her individual responsibility.

They focus predominantly on redistribution and social protection.

The reality naturally differs from the typology according to individual political parties, the degree of their “modernisation”, it depends on the fact if a party is in power or in opposition, and the like. A discussion on socialism and liberalism in the French Socialist party (PS), characterised by the contradicting views of the conservatives and reformists, is an example. According to the first camp (for instance, Henry Emmanuelli, a PS Member of Parliament) we witness the defeat of socialism under the pressure of economic liberalism. According to the reformers, more liberalism means more socialism. The discussions of the Jean Jaurés Foundation (the foundation of the French PS) have concluded that “enlightened liberalism” – in contrast to ultra-liberalism – “is not necessarily the enemy of socialism”. It is necessary to “teach people to catch fish” (Monique Canto-Sperber); i.e., to give them the means

to adapt, the freedom of choice, and equal opportunities. Cantosperber defines social injustice as “a social destiny that you cannot do anything against, for yourselves or your descendants” (Le Monde, 13 September 2002). According to her, one of the objectives of socialism is to overcome this fatal destiny through access to education, employment, and the like.

The discussions how to reform the social model within left-wing and centre-left parties which are in power and should be implementing these reforms, are characterised by even great differences. Let us focus on two such discussions: those of the British Labour Party (LP) and the German SPD.

The British social model, even in the views of the LP maintains the fundamental characteristics of the liberal social model – it is focused on the “bottom” 20 % of society. The difference between the British Conservative Party (CP) and the LP is manifested, in principle, in the attitude towards the issue of how the state should participate in improving the social situation of the “bottom” 20 % of society. Blair’s reform package is of a “liberal” spirit. It expands individual participation for the middle and higher strata of the society and reduces the participation of the state in the funding of the social model (for instance, the increase of fees at universities). It supports the transfer of services of general interest to the private sector (a step which, for instance, would be unthinkable in the French Socialist party). The initiatives of the ruling LP, focused on improving the situation of the “bottom” 20 %, include, for instance, the *New Deal* for the long-term unemployed, which will help eliminate youth unemployment; an initiative to increase the income of the poorest pensioners; the *Sure Start Programme*, supporting children in poor families; increasing support for the poorest students at British universities; the introduction of tax credits for the poorest families, etc. Tony Blair justified the increase of fees at universities, which was passed in the House of Commons by a margin of only 5 votes, with the under-financing of British universities, accompanied by the argument that taxpayers should not finance anything from which benefit only a few. He termed university fees as a symbol of “progressive policy”, and of “the

culture of change". However this assessment can be questioned, and part of the LP does not see the university fees as the "litmus test" of reform at all.

At the cited *Progressive Governance Conference*, Peter Mandelson (LP) presented the ideas of "New Labour", which must respond to globalisation and new uncertainties in a new way (despite the fact that the values of the "progressive wing" remain unchanged) – by combating inequality, ensuring social justice, and building social solidarity. "New Labour" must create a new welfare state for the 21st century. But how? By investing in people (i.e., preparing them better for the future), by defining the "shared responsibility" of the state and individuals ("the new social contract"), by modernising the state, by defining a new, responsible approach to the environment, and by supporting good corporate governance.

The German Chancellor, Gerhard Schröder, has proposed the most ambitious reform of the social model. Campaigning the reform took a long time (15 months), and was both difficult and politically risky. The Chancellor had to fight with trade unionists and the "leftist wing" of the Social Democratic Party. They considered his reforms to be liberal, antisocial, and the like. He had to fight with the opposition as for them, the reform was too socialist. As he enforced his reforms, his personal popularity plummeted. The Chancellor had to threaten by resigning from his government post. At the extraordinary congress of his party, he fought hard for the support of his reform package. In 2003 alone, the SPD lost 40,000 members, lost seats in regional and municipal elections, and in the end, the Chancellor resigned from his position of SPD leader. He justified his resignation by stating that he was not able to explain the necessity of reforms to party members, and that he must concentrate upon launching reforms, which are clearly needed.

However, Gerhard Schröder is not the most radical "reformer" in the SPD. Let us mention the most radical, right-wingers within the party. Florian Gerster, a former head of the BA (*Bundesagentur für Arbeit*) and a one-time leading SPD politician, supported extending the reform agenda of the current German government

to include the introduction of fees for university students and the introduction of competition in the health care sector; he criticised the high social contributions, which increase labour costs.

The “leftist wing” of the SPD and trade union leaders attacked Agenda 2010 as being “scandalous”, unscrupulous, and irresponsible; they accused it of re-distributing in favour of the rich and of copying the policy of their centre-right predecessors. All in all, the reform and its authors were accused of being rightist, despite the fact that Schröder, for instance, promised to review the requirement of the left-wing to have the wealth tax re-introduced.

What elements of the Agenda 2010 are “social democratic”, which the CDU or CSU would probably not support, or where could we anticipate different priorities or approaches? Employment is a priority number one for the SPD. It says “yes” to both higher flexibility and workers protection. It supports increasing the employment of women, and places emphasis on education and innovation and on the support of small and medium sized enterprises. In tax policy, it proposes tax reductions for lower and medium income groups. In contrast to this, the German right-wing has supported the weakening of the power of trade unions (for instance, the abolition of higher collective agreements), a more rapid increase in the retirement age, and much more radical health care reform. For instance, from 2006, the CDU wants to introduce “flat-rate” contributions (or uniform contributions, not contribution rates!) in health care. It is obvious that this measure will be advantageous only for high-income groups. Joschka Fischer of the Green Party rightly characterised this as “the end of the social state in Germany”.

The latest SPD initiative, called the “Weimar Guidelines” responds to “new challenges”. It wants to give Germany a leading position in science, research, and innovation, improve the level of education, and increase the number of scientists, engineers, and university educated people. The targets of these “guidelines” include improved child care, enabling women to work, increasing the number of students, establishing elite academic centres that could compete with the USA, and increasing expenditures on sci-

ence and research to 3 % of GDP. It is understood that this agenda in general – does not win elections, but it is vital for the future. It is, after all, a typical social-democratic agenda.

If the Agenda 2010 is social-democratic, why has Schröder's reform generated internal opposition in the SPD, trade union resistance, and a negative reaction from voters? It is generally understood that the German welfare state is indefensible in its *old* form. Schröder's call should be interpreted this way: "Modernise or die". The old model is too generous and exceptionally expensive. In Germany, the costs of labour are extreme, and they represent one of the reasons why a growing number of German companies are leaving the country. Germany must respond to *outsourcing* with adequate policies. It is not enough to condemn German companies (incidentally, in an analogous way to the USA!) and call them "non-patriotic". The generosity of the German social model motivates individuals to abuse it. The old model does not respond to new facts – the ageing of the population, which is after Italy most obvious in Germany⁸⁾, and a different (higher) level of unemployment than originally built into the model.

The level of unemployment in Germany is a stumbling block for several reasons. It is one of the factors increasing budgetary expenditures and reducing budget revenues, both of which determine the funding of the old social model. It is also an important factor enhancing "new social uncertainties" generated by "new challenges".

Agenda 2010 *per se* is quite unpopular, because it restricts the generosity of the old social model: for instance, it shortens the duration of receiving unemployment benefit and its level, it introduces (minimum) individual payments in to health care, prolongs the retirement age, and the like. But is even more unpopular because it

8) For instance, the chairman of the SPD caucus in the German parliament and the new chairman of the SPD, Franz Müntefering, stated some time ago that the annual increase of pensions must be reduced, because otherwise, the pension system would become untenable, and may even collapse.

responds insufficiently to “new social uncertainties” in a situation where there is a high level of unemployment. In other words, it insufficiently “fights against the destructive effects of social cohesion of the new era in post-industrialisation capitalism”. In this respect, Agenda 2010 needs new inspiration and new “guidelines”.

An attempt to predict future solutions

“Europe has a unique position in the world. The European model of high welfare ambitions and low inequality has shown that class differences are not inevitable.” Swedish Prime Minister Göran Persson said this in an interview for *The Guardian* (11 July 2003). Here, Persson – a Social Democrat – indicated the possibility of overcoming class differences *inside* the existing social order, like the once “revisionist” Bernstein! Persson, who is a representative of the European progressive movement, addresses this message not only to the European ultra-left movement, but also to the neo-liberal representatives of the right-wing: “The European progressive movement should be a driving force for a globalisation that increases equality, pays more attention to the environment, and increases prosperity.”

Persson’s message for future discussions on the development of the European social model formulates two important starting points:

1. The fundamental goals and principles of the European social model are “axioms” incorporated in the EU Constitution.
2. The development of the European social model must respond to “new challenges” in a “European way”.

Future discussions on the development of the European social model – in the right- and left-wing parties of “old” Europe – will be about how to achieve greater social cohesion, how to reduce poverty, how to increase employment, how to *make work pay*, and what the social dialogue will be about. It will not involve discussions about the fundamental principles of this model, like social justice, solidarity, etc. Future discussions will not only have

to respond to key social and economic changes, to globalisation and its consequences – strengthening competition, to the need for the transformation into a knowledge-based economy, to demographic changes, and to new social uncertainties – but will also have to respond to cyclical developments and its implications such as the growth of unemployment the period of slow down of economic growth, the deterioration of public finance, and the like.

An adequate response to “new challenges” will require to reform the social model or to modernise it. Responses to economic fluctuations will require “fine tuning” of the social model, minor adaptation to a current social and economic situation.

Discussions on the modernisation of the social model in a progressive movement develop new approaches that seek answers to such fundamental questions like:

- the sustainability of the social model;
- how to make the social model the “driving force” of competitiveness;
- how to adjust the model to the needs for responding to the new social uncertainties of post-industrial capitalism and the like.

Discussions focus on the approaches of the “new social contract” between the state and the individual, the new “social partnership”, corporate social responsibility, or the shared responsibility of the state and the individual. It seems that the best policy approach to modernising the European social model is the one that advocates the transition from a model of the social state to the model of the social society. In this model, the task of each “actor” – the state, individuals, the business sector, and civil society (charity, the church, etc.) – is to ensure social cohesion.

In a television speech commenting on the loss in the French regional elections, French Prime Minister Jean-Pierre Raffarin said that the government must take notice of the message sent by the voters; however, he believed that the policy of economic and social reforms could not be stopped. “I believe that the French do not want a return to invariability. Reforms must continue simply because they are necessary,” he said (according to SITA, 29 March 2004). This message, I believe, was addressed to the French Social-

ists. Jospin's PS government did not make the best use of the time it had available, and did not implement the necessary reforms. It lost time – and created an opportunity for the reforms to be implemented according to a right-wing recipe: some win, while others pay. Time will show how the reconstructed Raffarin government will respond to the lost regional elections, and what the fate of French reforms will be like.

We have several “reform packages” before us: the German Agenda 2010, of the Social Democrats, Raffarin centre-right government's reform (Agenda 2007, Hospital 2007), and Hausner's reform by the Polish left-wing government of the former Prime Minister, Leszek Miller. Each of them has shaken the Prime Ministerial seat, and some heads of government have been forced to leave the government. Is this inevitable? Is the fate of every reform the same? As has been proved by many examples of successful reforms – for instance, in the Scandinavian countries – this is not the rule. The success of reforms depends on reform itself; on the way how they are implemented, etc. One also has to sell reforms. However, a good salesman of reforms is not necessary a good reformer.

Conclusion

Note, the information provided by the Slovak Statistical Office within five days: 1. Every fifth household in the Slovak Republic lives below or around the poverty line. In 1996, when such a survey was conducted, this figure was only 7 %. (11 June 2004) (In contrast to the Ministry of Labour and Social Affairs of the Slovak Republic, the Slovak Statistical Office defines the poverty line according to European rules). 2. 16.96 % of those entitled to vote in the Slovak Republic participated in the elections to the European Parliament. (14 June 2004)

Of all 25 EU Member States, Slovakia saw the lowest turnout for the European elections. This is even more striking when we consider that these were the first ever European elections in Slovakia.

The national and international press published various analyses, giving various reasons for the generally low participation in the European elections. However, it seems to me that British Foreign Secretary Jack Straw made the best observation in this context: "People think that the EU gives them too little," he said. There are two possibilities here: either the EU really is "not for the people", or there is an insufficient level of information about what the EU means for ordinary people.

One can ask a question if there is any correlation between the poverty rate and the low participation in the European elections in Slovakia. And he/she can conclude that one of the important factors affecting the lowest turnout for the European elections in Slovakia was voters' lack of knowledge of the "European project", incl. of the European social model. The European social model – with all its imperfections, the need to modernise, etc. – will continue to be one of the building blocks of the European Union and what the European Union means, particularly for ordinary peo-

ple. If they knew more about it, their participation in the European elections would surely be higher. They would realise that the European elections were and continue to be also about the European social model and its future.

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