

ASPECTS OF RENEWING EUROPE'S ECONOMIC AND SOCIAL MODEL IN THE CONTEXT OF THE TREATY OF LISBON

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Abstract: The bedrock of the European Union is an economic and social model, distinctly mentioned in the Treaty of Lisbon as „highly competitive market economy”, based on the idea according to which the economic growth is aimed at socially through the market. The model has enjoyed a large public acceptance. Nevertheless, because of some internal and global pressures, the respective model had to be redefined and adjusted to a changing context. This is shown in the present paper.

JEL classification: O15, O31, O38.

Key words: Europe's social and economic model, new reform program, economic growth, newly directed economic policies, single market, Lisbon strategy.

1. INTRODUCTION

At the heart of the European community is a distinctive economic and social model, referred to as a ‘highly competitive Social Market Economy’ in the Lisbon Treaty. A number of variants of this model exist with qualitatively varying performances, but they all fit broadly within a common framework. Based on the idea that economic growth should be pursued through the market for social ends, the model enjoys wide public acceptance. It helped transform Europe after the Second World War into an area of powerful industries and services with strong employment creation potential which, in turn, allowed for a fair system of social protection. A “virtuous circle” was thus completed, binding together solidarity, responsibility and competitiveness. Yet against the background of new domestic and global pressures, this model needs to be re-defined and adapted to a changing context. In the last two decades, the EU’s potential to generate growth and jobs, and consequently to improve living standards, has lagged behind that of its main trading partners.

At the same time, the consensus that exists around the model depends on a continued balance between its social and market dimensions. The answer to this problem is not an end to economic reform. On the contrary, a renewed emphasis on increasing economic efficiency needs to go hand in hand with new social policies. In other words, the sustainability of Europe’s economic and social model will depend on our ability to restore a dynamic equilibrium between the economic, social and environmental dimensions of development.

2. THE QUEST FOR GROWTH AND JOBS

A strong and globally competitive economy characterised by high productivity is a precondition for improving living standards. Economic growth is increasingly based on

technological change and enhanced specialisation in the context of deepening globalisation. These developments affect workers and companies as well as the operation of markets and the management of companies through a process of structural change. Digitalisation is increasing the scope for outsourcing, and the ICT-revolution may give ample scope for growth in productivity for decades to come.

The EU can enhance the growth process by further developing the internal market, e.g. in the area of services, as well as by fighting all forms of protectionism and enhancing a successful completion of the Doha round. Our shared vision is that technological change, globalisation and ageing populations call for urgent structural reforms with a view to enhancing flexibility, competitiveness and dynamism. Reforming the labour market is central to creating more and better jobs. Member States should aim at improving three key aspects of their labour markets: the flexibility and security of their workforce (“flexicurity”); labour mobility; and the culture and management practices of enterprises. Workforce participation rates must also be increased (see section on demography below).

The capacity of the workforce to adapt to constant shifts in production is a key element in maintaining productivity. Labour flexibility needs to have its counterpart in labour security. In a fast-changing world it is not jobs that need to be protected, but rather the person who loses a job by enhancing his or her employability. “Flexicurity” is the best way to provide this protection, by allowing workers to take advantage of shifting labour markets and make the transition to better jobs. While “red tape” cannot be legislated out of existence, it should not be a barrier to mobility. Most importantly, social security rights should, once and for all, be readily transportable between Member States. The recognition of qualifications across the EU needs to be ensured, and multilingualism encouraged. The EU should also develop a new “professional transition policy” in order to encourage and facilitate transitions between jobs as well as support the Union’s social dimension.

3. REALISING EUROPE’S SOCIAL AMBITIONS THROUGH NEW TARGETED POLICIES

This new push for economic reform must be accompanied by new targeted measures aimed at enhancing security and solidarity for the individual. Social support systems deserve robust protection against abuse or “moral hazard”. Rights and entitlements must be balanced with responsibilities and obligations. In particular, social security systems should be adapted in favour of rapid reintegration into the labour market rather than long-term support of people of working age.

In light of the existing division of competences on social policies, priority should be given to clearly defined and commonly agreed targets, as recommended by the ‘Europe2020’ agenda. Member States should take the lead in eliminating unfair situations which result from two-tier labour markets in which groups of employees benefit from the protection of long-term contracts, whilst others remain unprotected and under constant threat of dismissal. Likewise, Member States should dedicate adequate resources to fighting against social exclusion, poverty, and gender discrimination, by, for example, implementing existing EU legislation to ensure agreed minimum standards. By providing adequate coordination in the area of social and tax policy, the EU can support the capacity of its Member States to pursue social objectives in accordance with their individual preferences without causing distortions of competition or undermining the Single Market.

The EU should also contribute to the objective of a healthy European population – a crucial economic and social asset – in particular through the development of healthcare, well-being and age-related industries and services. Finally, in view of the crisis, the business community should assume its responsibility by committing itself to self-

regulation in the areas of ethics, accountability, social and ecological awareness, anti-discrimination, life-long training and continuous improvement in working conditions.

4. CREATING A WIN-WIN SITUATION: A NEW DEAL FOR THE SINGLE MARKET

The above social and economic measures need to be flanked and supported by a fully functioning Single Market. The development of the Single Market has long been hampered by two simultaneous processes: a resistance in some Member States to applying internal market, competition and state aid rules; and a tendency in other Member States to oppose even moderate initiatives of tax coordination that could improve the functioning of the Single Market and remove the concern that the Single Market may hinder the pursuit of social objectives. Left unattended, these trends would aggravate the bias of tax systems against job-creation and the difficulties of Member States in addressing inequalities. They would also lead to a race to the bottom in social protection and would exacerbate the opposition to integration. In short, the economic and the social dimensions of development would enter into a lose-lose situation.

The current economic crisis has further underlined the need for adherence to the rules of the Single Market. Retrenchment into economic nationalism would only make the exit from the crisis more difficult and the European economy less competitive. And yet, in many Member States, both at the level of public opinion and amongst political leaders, protectionist reflexes are only too prevalent. Against this unfavourable background, a re-launch and completion of the Single Market are unlikely to happen without a new strategy or deal. Such a deal should consist of a commitment to extend – within specified deadlines – the Single Market to those areas where it is still lacking or where it is insufficiently developed, first and foremost the area of services, including the financial sector. This should be matched by initiatives, if not further integration, in the areas of cohesion, social and tax policies, respecting the need for EU competitiveness.

5. ENHANCED ECONOMIC GOVERNANCE: IN THE INTEREST OF STABILITY AND CONVERGENCE

The global financial crisis and growing economic divergences between Member States have also made the case stronger for enhanced economic coordination in the EU. Renewing the convergence efforts undertaken in the 1990s – thus leading also to the enlargement of the Eurozone – is essential to the economic success and unity of the EU in general, especially for the Eurozone. These convergence efforts should be based on the following measures:– Giving leadership for economic coordination to the European Council, while fully respecting the role of the Commission and working closely with the European Parliament, the Commission itself and other relevant economic institutions; reinforcing and extending the coordination responsibilities of the Eurogroup in relation to both the internal and external management of the monetary Union; –Reinforcing procedures for supervision of national budgets to ensure transparency as well as the sustainability of public finances; encouraging Member States to harmonise their budgetary processes and calendars. It was also noted that several action- oriented attributes such as meaning imposition are necessary to understand the tasks and to perform them effectively; – Strengthening macro-economic co-ordination by extending it to private debt, to the balance of payments and, more generally, to the conditions for ensuring competitiveness; – Enhancing overall budgetary credibility by creating a financial instrument aimed at combating unexpected crises and asymmetric shocks while taking into account the risks of moral hazard; – Strengthening the functioning and supervision of financial institutions to counter excessive leverage and risk-taking; – Enhancing the EU’s investment effort by

defining a growth target for the investment component of Member States' public spending; increasing the resources of the European Investment Bank and the European Investment Fund.

6. THE CHALLENGE OF ENVIRONMENTAL SUSTAINABILITY

The task of redefining Europe's economic and social model is further complicated by the challenge of environmental sustainability. It will not only require the EU to rethink its spatial planning, cities and transport, education and consumption habits, but also its growth model. A 'New Industrial Strategy' is needed to champion new green technologies and sustainable industrial processes. In support of this, the EU should:– Pass a European Innovation Act simplifying funding opportunities and empower the European Institute for Innovation and Technology to set up innovative joint programmes across the EU; – Establish a Small Business Research initiative giving innovative, young and small businesses access to public procurement markets; – Improve the added value of the agriculture, farming and food industries, whilst reducing their negative environmental impacts by increasing access to new technologies and strengthening consumer awareness; – Create or label a series of European Research Centres within the European Institute for Technology, focusing on renewable energy, energy efficiency, ICT for sustainable development and transportation networks, biotechnology and nanotechnologies; – Adopt a low-carbon transition strategy to set a vision for a low carbon economy in 2030, and the actions required by the EU and Member States to make this a reality.

7. AVOIDING THE PITFALLS OF THE LISBON STRATEGY

If the EU is serious about reform it must make proper adjustments to its governance structures and resources. This was the lesson of the "Lisbon Strategy", whose promise to deliver on European competitiveness became mired in weak implementation mechanisms. Above all, the link between common guidelines set down at Community level and their implementation at national level, in accordance with each country's internal distribution of power, should be strengthened through an effective 'name and shame' peer pressure mechanism, as well as positive incentives, financial and other. Last but not least, assessment procedures should focus on outcomes rather than inputs or processes.

All of this needs to be combined with more coherent use of the EU's own financial resources, those of the European Investment Bank and those in Member State budgets, pooling together the funding destined to cover agreed priorities. Above all, our focus must be on creating growth and jobs.

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