"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 6, No. 2, pp. 147–149
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

SOCIAL DUMPING IN THE EUROPEAN SINGLE MARKET

Anca Costea-DUNĂRINȚU

"Dimitrie Cantemir" Christian University, Economy and Foreign Affairs Department, Bucharest, Romania, E-mail: anca.dunarintu@gmail.com

Abstract *The EU is the largest exporter and importer of goods and services worldwide, imposing as a very important actor in the vast world economy. Single market, based on the four major freedoms, namely the free movement of capital, labor, goods and services led to the formation of a common framework at European level, turning slowly in the main engine of growth in Europe. The position held in the international affirmation amid accelerating trade marked by the constant emergence of new actors was achieved by recognizing economic competitiveness of the single market in the world, creating products with high added value is one of the main features that could prove this fact. Opening national markets and removing barriers resulted led to increased competition between companies, which resulted in a greater demand for goods and services at lower prices, some practices as social dumping being performed through Europe.*

Key words:
Social dumping, European Single Market, trade, barriers, demand

JEL Codes:
J3

1. Introduction

The EU is the largest exporter and importer of goods and services worldwide, imposing as a very important actor in the vast world economy. Single market, based on the four major freedoms, namely the free movement of capital, labor, goods and services led to the formation of a common framework at European level, turning slowly in the main engine of growth in Europe.

Position in the international affirmation amid accelerating trade marked by the constant emergence of new actors was achieved by recognizing economic competitiveness of the single market in the world, creating products with high added value is one of the main features that could prove this fact.

Opening national markets and removing barriers resulted led to increased competition between companies, which resulted in a greater demand for goods and services at lower prices.

Through the active participation of the EU single market in the carriage, namely businesses, consumers and workers, competitiveness move from individual dimension to a competitive Europe collectively.

Single market facilitates consumer access to safe products that comply with the rules and standards imposed therein, competitive prices, and of enterprises, especially small and medium ones, assuming that policies and rules imposed may engage in process increase competitiveness and create jobs. Moreover, small and medium enterprises of the main potential are in terms of jobs. The diversity of national regulations and non-harmonization policies of the Member States is considered one of the most dangerous obstacles that stand in the way of increasing the competitiveness amid accelerating competition. To meet competition, it is vital that market players only benefit from a social setting, economically and politically healthy, convergence policies, norms, standards and practices as one of the major objectives facing Europe at the moment . Only in such a context, the European economy can achieve the level of competitiveness, sustainable growth and progress.

2. European Single Market and Social Dumping

Single European market has numerous implications for employment, social and economic relations between the Member States. Competition in the Member States is represented by various direct and indirect costs of labor and social protection regulations, that issues the phenomenon called social dumping.

Social dumping is the use of labor wages and benefits that do not meet the standard set in a country in order to reduce production costs. Companies can rely on foreign labor or negotiate certain contracts in order to find employees to work in conditions that do not meet work requirements. Using cheap labor allows them to increase profits because they can sell goods at standard prices, even if they cost less. Nations in many areas of the world have concerns about social dumping and took steps to reduce it. (Bunescu, 2011)

Labor protection should apply to all workers. In social dumping, companies are forcing the legal protections for workers. They can provide the minimum necessary to satisfy the law, or disregard requirements. Their workers earn less money than employees with comparable jobs and do not have access to the benefits and protection supported by standards. Companies can relocate in search of work force in a foreign country, causing loss of jobs in a nation in this process, while bringing their contribution to the creation of jobs in the established country.

The workers of these companies may be immigrants or residents of economically disadvantaged areas. Their bargaining power is limited because of their low social status and the job offer, even at low wages, is too tempting to decline, and thus workers will agree to contracts that do not meet industry standards or even would bring some shortcomings. Social dumping even can allow companies to move their production to avoid not only higher wages but also increased taxes.

Critics argue that social dumping companies get an unfair advantage by cutting costs, being well positioned in the market, given that other companies comply with standards and labor practices. This is a particular concern if the process involves moving to a country to take advantage of a special offer on working conditions. Companies can attract foreign investment by granting concessions, this allowing company to move to countries with already favorable labor laws and get even more favorable treatment from the government to do business there. (COM, 2010)

Other economists and market analysts argue that what some call “social dumping “is simply the mechanism of manifestation of market conditions. Companies will look for ways to reduce cost of production, including considering relocating to take advantage of better business conditions. This suggests that nation’s counterargument is to take account of their own labor laws to determine whether it is possible to modify the regulatory climate to encourage businesses to stay.

Social dumping is a practice that involves the export of goods from a country with weak or poorly standards on labor, if the exporter costs are artificially lower than its competitors in countries with higher standards therefore representing an unfair advantage in international trade. It results from differences in direct and indirect costs of labor, which is a significant competitive advantage for businesses in a single country, with possible negative consequences for social and labor standards in other countries.

The creation of the single European market exposes businesses operating in the context of national markets to competition with others from other Member States. This means that the pressure will be exerted on businesses with high direct wage costs to ensure productivity enabling them to compete with businesses in other, lower wage costs. This competition aimed at rewarding productivity was one of the objectives of the Single European Market.

However, national systems of labor law and social protection require indirect costs of labor in enterprises, such as the costs of compliance with labor standards and costs of contributions to social security systems. Decreased labor and social standards in some Member States may involve lower costs for indirect labor for enterprises in the Member States. The result is to provide businesses in those countries with lower indirect costs of labor and gain competitive advantage compared to companies in the Member States with more stringent regulation of labor and social standards. This advantage may be offset by other factors favoring firms in countries with higher standards and social work such as better transport infrastructure and a workforce better prepared and qualified. However, differences in direct and indirect costs of labor can be a significant competitive advantage.

As a result of what was called “social competition policy regime" between Member States, national governments will be under pressure to reduce labor and social standards, in order to ease the burden of high wage labor costs on businesses. Then, companies-especially multinationals - will be tempted to locate the new investments, or even relocate existing in countries with lower standards of social work and help to reduce indirect labor costs.

In 2007-2008, the European Court of Justice (ECJ) in its judgments on the Viking, Laval and Rüffert imposed strict limits on attempts to use collective bargaining and the right to strike as measures against social dumping. In the two previous cases, the ECJ ruled that although collective action constitutes a restriction on freedom to provide cross-border services, it may be justified in certain circumstances. If Viking, this justification has a general interest such as the protection of workers. In addition, collective action must be adequate to ensure that the legitimate objective pursued, and should not go beyond what is necessary to achieve that objective. In Laval, the ECJ ruled that industrial action is a violation of the freedom to provide services where imposition aims terms and conditions for foreign businesses in excess of the minimum prescribed by national legislation. Similarly, if Rüffert ECJ restricts the scope of social clauses in public contracts labor standards established by law or collective agreements universally applicable. In both cases, the ECJ refers to Directive 96 /71 on posted workers. In accordance with Article 3 of the Directive, only the terms and conditions established by law or by collective agreements universally applicable, apply to workers posted.(Laval Case, Eurofound)

Social dumping presents two scenarios in conflict with institutional arrangements for the formulation and

implementation of EU labor law and social policy. One scenario envisages the transfer of jurisdiction of EU social policy. Social work standards and harmonized legal measures throughout the Community, established by EU will ensure the objective of equalizing labor indirect costs for all businesses, and to reduce, if not eliminate, the threat of distorting competition by certain uneven rules for Member States with lower standards .
The second scenario favors the opposite: the retention of national competence over social and labor standards, thus accepting social dumping as a result of direct competition social regimes in different Member States.
The confrontation between these two opposite scenarios could also lead to a third scenario of convergence in specific areas such as information and consultation as well as employment policies to work. The broadening actual scope described as "social dumping" remain controversial in debates between experts, practitioners, social and political actors.
The changes in the international economic system in the context of globalization and economic liberalization have led to increasingly accelerate growth of capital mobility. In the face of these changes produced worldwide, national governments were forced to reduce the rigid nature of social protection regulations in order to attract more foreign capital. In this sense, the phenomenon found in extreme fighting these regulations of social and labor policy approaches more than the lower limit of international standards. This has led to increased competition between states, non-law enforcement employment or reduction representing a competitive advantage.
In this context, international capital mobility relies increasingly on cutting the social costs of social protection of workers, decreases in social security costs and reducing workers' rights, based on collective labor bargaining or union`s negotiating capacity.
Welfare systems differ from one Member State to another, imposing different labor costs, which results in favoring countries where regulations are not so strict, distorting competition in favor of those mentioned above.

3. Conclusions

Harmonization and standardization of regulations and standards of social equalization is low and often lead to indirect labor cost differences between countries in this area.
Harmonization of social conditions is seen as a solution to those who feel threatened by social dumping and want to stop unfair competition. Imposing minimum conditions to be observed and minimum wage, hours worked per week and the duration somehow creates a climate suitable for workers, are protected against this phenomenon.(ILO, 2013)
According to the classical Ricardian trade theory, international differences in labor costs do not preclude mutually beneficial trade. (Cosea, 2007) Rather, international trade theory suggests that profit increases with economic diversity of partners. Fears that countries with high wages are unable to compete with low-wage countries often lead to confusion on the difference between the absolute and comparative advantages
Classical trade theory teaches that global differences in productivity (absolute advantage) determine wages, while specific sector variations in terms of productivity or cost (comparative advantage) establish commercial practices.

References

1. Mircea Coșea, Economia Integrării Europene, Editura ProUniversitaria, București, 2007
2. L.Bunescu, The allegation of social dumping. A case study on Romania, (http://www.ie-ei.eu/bibliotheque/memoires2011/LBunescu.pdf
3. Comunicare a Comisiei către Parlamentul European, Consiliu, Comitetul Economic şi social şi Comitetul Regiunilor, Către un Act privind piața unică, Pentru o economie socială de piață cu grad ridicat de competitivitate, 50 de propuneri pentru optimizarea muncii, a activităților comerciale și a schimburilor reciproce , Comisia Europeană, Bruxelles, 27.10.2010
4. http://www.ilo.org/global/lang--en/index.htm
5. http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/lavalcase.htm