Labor and Free Trade

‘Social Correctness’ Is the New Protectionism

Benn Steil

While American social trends generally wend their way across the Atlantic, the infamous doctrine of “political correctness” failed miserably in penetrating European common sense barriers. Europeans, however, appear to have found a small but promising market in Washington for a heartier, common sense-resistant Brussels variant: “social correctness.”

European politicians and Brussels bureaucrats form the core of an increasingly vocal vanguard of the socially correct. Their principal tenet is that it is no longer acceptable to carry on liberal trade relations with any country failing to provide its workers with “adequate social protection.” Such countries are said to be engaged in the practice of “social dumping,” as their lower labor costs enable them to undercut countries in economic competition that do provide proper social protection.

While stated as a matter of high principle, this doctrine actually represents little more than an attempt to justify protectionism under the guise of concern for worker rights. Social dumping exists in the eye of the higher-cost beholder: the charge is leveled exclusively at countries that succeed in attracting jobs and investment on the basis of having an advantage in unit labor costs. In order to raise their competitors’ production costs, the socially correct seek to impose their system of labor relations, workplace regulations, employment and remuneration laws, and social security provisions, all the while maintaining that they do so in the interest of universal workers’ rights.

BEGGAR THY COMPETITOR

The attempt to export social policy to neutralize a competitor’s advantage is not new. In 1890 Kaiser Wilhelm II, intent on maintaining Germany’s competitive position while addressing domestic

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demands for working-time restrictions, proposed an international agreement on a maximum eight-hour workday. While Britain had at that time rejected the idea of putting its industrial laws "at the discretion of a foreign power," one hundred years later, its industrial sovereignty sufficiently eroded, it is forced to abide by working-time directives from Brussels.

The French tried the same ruse in the negotiations leading to the signing of the Treaty of Rome. In a memorandum to its partners in May 1956, France cynically insisted that social legislation be harmonized "in conjunction with the reduction of tariff protection" in order to "make more apparent to the workers that link that must exist between the common market's establishment and higher standards of living." In the end, the only significant piece of social protectionism that the French were able to incorporate was the infamous Common Agricultural Policy, which according to Article 39b must "ensure a fair standard of living for the agricultural community." If the CAP provides any indication of what harmonized social regulation will mean for Europe and its trading partners, there is real cause for concern. The CAP devours up to 80 percent of annual EC budgets, and costs the average European family of four over $1,700 a year.

What finally brought social policy center stage, however, was the launching of the single-market initiative in 1986. While Joseph Stalin may have believed in the possibility of creating "socialism in one country," Jacques Delors apparently knows better. The president of the European Commission was under no illusion that socialism could survive in Europe when pitted against the forces of international capitalism, unless its states could be bound together in a grand social-protectionist pact.

The first step was achieved at a meeting of the European Council on December 9, 1989, in Strasbourg, when all European Community member states—save Britain—agreed to adopt Delors' brainchild: the Community Charter of the Fundamental Rights of Workers. Otherwise known as the "Social Charter," this document lays the groundwork for the most sweeping international experiment in social engineering ever undertaken by democratically elected governments.

THE BATTLE OF BRITAIN

Social regulation had been a priority for Delors, who was determined to reverse the free-market tilt that the Community had taken in its drive for a single market. Despite the fact that the EC's Council of Ministers had struck Delors' requirement for a "Social Action Program" from the charter's earlier draft, the president launched a 47-measure implementation program two weeks before the charter was even signed. Delors' initiative enjoyed the fervent support of the European Parliament, an institution whose members are naturally drawn from the minority of Europeans hankering after legislated integration and power transfers from national governments. It was not, however, endorsed by either the Economic and Social Committee or the European employers' confederation.

The 1986 Single European Act allows the Council of Ministers to approve social-policy directives by a qualified majority, rather than unanimity, only
where “the health and safety of workers” is explicitly concerned. This means that the Social Charter by itself was impotent, since the directives required to implement it would almost always need unanimous consent. Implementation, therefore, first required securing victory in the “Battle of Britain.” Two strategies were open to the commission.

The first was to amend the treaty so as to extend qualified majority voting to other areas of social policy. In the 1991 Maastricht Treaty negotiations, Britain had triumphantly secured an “opt-out” on Social Charter provisions to be implemented by qualified majority, rendering this strategy, de jure, a failure. Soon thereafter, however, Britain found itself accused of “social dumping,” as Hoover corporation shifted production from Burgundy to Scotland. An angry Delors, determined to make clear that the single market was not to be taken literally, promised in the first instance to drive through a directive requiring multi-state firms to establish elected “works councils,” which would have to be “consulted” on all relocation plans and indeed on “any proposal creating serious consequences for workers’ interests.” Britain can veto the directive, but what the other 11 EC members agree to will still be binding on over 300 British continental operations, which have no traditions of or desire for German-style works councils. The British opt-out may yet prove a Pyrrhic victory.

The second strategy was to evade the treaty restrictions through the “health and safety” loophole. The initial attack was launched with a working-time directive, which the commission brazenly reclassified from a “working conditions” measure to “health and safety.” This directive, establishing a maximum 48-hour work week and a minimum annual four-week paid vacation, would have its greatest impact in Britain. The measure, no longer requiring unanimity, was endorsed on June 30, 1993, by a vote of 11–0 in the council, with Britain abstaining. The ramparts had fallen, and Brussels was triumphant.

FROM THE SUBLIME TO THE ABSURD

The extent of the social engineering being orchestrated by the commission makes plain the absurdity of modern Eurospeak. “Subsidiarity” is meaningless when commission social policy aims at micromanaging areas of working life that even the north European welfare superstates have never touched. Its framework directive on workplace health and safety, for example, legally obliges employers to alleviate monotonous work, adapt to technical progress, account for social relationships in the design of a “coherent overall prevention policy,” and to give “collective protective measures priority over individual . . . measures.”

What cannot be implemented directly through regulations and directives, the commission intends to achieve through the establishment of a Eurosystem of collective bargaining. Despite the fact that unions represent a small and declining minority of the European work force, the commission fervently maintains the myth that its interests are represented through the European Trade Union Confederation (ETUC), for which the commission provides considerable support and assistance. In order to co-opt the national trade unions in its efforts to centralize power in Brussels, the
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commission holds out the promise of imposing 1970s-style socialist corporatism over the heads of the elected national governments. The British trade unions, traditionally bitter opponents of the Community, have thus emerged as the most stunning converts to Eurofederalism. Having bankrolled the British Labor Party through four straight election defeats since 1979, they have finally accepted that it is far easier, and cheaper, to get what they want through unelected and unaccountable socialist Eurocrats in Brussels than through the British electorate, which obviously seems to know better.

In critical areas, such as wage determination, the Social Action Program ostensibly renounces the use of Community legislative intervention. The commission has nonetheless stated that it has "a responsibility to assert its views" on the definition of an "equitable wage" by delivering an "opinion." And former ETC chief Peter Coldrick has insisted that an opinion is only acceptable "as a step." Former Social Affairs Commissioner Vasso Papandreou has duly added that while workers could not yet appeal to the European Court for a "decent wage," the commission intended to push for securing the legal means for them to do so. The court, having already decreed that the Community law guaranteeing "equal pay for equal work" actually means "equal pay for work of equal value," should have no trouble brushing off legal niceties regarding the establishment of an equitable Eurowage.

**TRADING INTERESTS**
The Social Action Program could never have gotten off the ground had it not been consistent with the purely protectionist impulses of the northern continent. The rich northerners feared losing jobs and investment to the poorer Club Med states unless northern labor and social costs could be imposed on them. But why then should only Britain insist that the commissioner has no clothes?

The answer lies in the big picture, which includes Structural and Cohesion Fund transfers doled out by Brussels to the EC's poorest member states—Ireland, Spain, Portugal and Greece—ostensibly to ease their integration with a single market. Ireland, for example, has over 18 percent unemployment but receives transfers amounting to seven percent of GDP. The main aim of aid recipients is simply to keep the tracks clear for the gravy train from Brussels. The poor four will do nothing to alienate the federalist vanguard so long as social protection directives are matched by an ever-rising tide of cohesion funds. As for the rich north, it is happy to ignore even gross violations of social rights, so long as they do not lead to job and investment transfers. No one, for example, has cried "social dumping" against Portugal, where child labor is endemic, simply because Portuguese children as yet pose no direct threat to northern jobs.

But Britain is not alone in rejecting the insidious charge of social dumping in a community of democracies, where voters are free to elect governments that will provide them with any level of social protection they are willing to pay for. The Spanish government, for example, has routinely maintained that lower labor costs simply reflect lower productivity—a position echoed even in a
recent commission report. Spanish votes, however, go to the highest bidder. France is known to have pledged support for Spanish claims on greater cohesion funds in return for Spanish support in blocking the EC-U.S. Blair House Accord on limiting agricultural subsidies.

The need to reconcile blatant social protectionism with the removal of trade and investment barriers has led the commission to some preposterous contortions of economic logic in order to justify its directives. Its draft directive on "atypical" workers mandates that part-time and temporary workers receive social protection identical to that afforded full-time workers, and vacation time, dismissal payments and seniority allowances on exactly the same basis, in proportion to hours worked. It furthermore forbids replacing an existing job with temporary work. Employment and pay measures require unanimous council approval. But since ensuring the rights of "atypical" workers will increase labor costs, the commission has concluded that harmonization is essential to prevent "distortions of competition." Thus the measure will be decided by qualified majority voting, which is reserved for laws "essential for the completion of the Single Market."

**CIRCLING THE WAGONS**

The European Commission, as well as the Organization for Economic Cooperation and Development (oecd), expects the EC jobless rate to reach 12 percent by the end of 1994. Nearly half the EC's jobless have been out of work for over a year, compared to just over six percent in the United States. Since 1974, the EC has created 3.1 million new private sector jobs, compared with 29.8 million in North America.

During the 1980s, EC unit labor costs rose an average of four percent a year, compared to one percent in the United States. The accumulated economic effects of steadily declining European competitiveness are now too high for businesses to ignore. Papandreou in 1989 ridiculed the notion that rising labor costs could undermine EC industrial competitiveness, declaring Germany, with the world's highest priced labor, to be the world's most competitive economy. An implicit causal mechanism was being posited—that higher labor costs led to higher productivity. This bizarre view underlay the Eurosocialist fantasy that German wages and working conditions could simply be imposed around the Community, with productivity growth somehow magically following in train.

The idea has been shown to be all the more absurd given that Germany itself can no longer bear the cost. With German manufacturing wage costs now 60 percent higher than those in the United States, BMW and Mercedes-Benz are shifting production across the Atlantic. Meanwhile, German unemployment growth is accelerating.

Yet the Community is not for turning. The barbarians are at the gate, and President Delors bravely leads the socialist call to arms. He demands "a new social pact," warning that "the whole of society is threatened—its values, its traditions and its future." Exactly who or what is so maliciously threatening European society? Foreigners, of course. More specifically, those socially incorrect foreigners with lower unit labor costs. The
‘Social Correctness’ Is the New Protectionism

marauders include not only Americans and Japanese, but the vast new enemy camps forming all around Latin America and Southeast Asia. French Prime Minister Edouard Balladur demands that Europe (read France) be protected from foreign traders with “different values.” French President François Mitterrand calls for trade sanctions against nations with inadequate social protection. As for Delors, it has hardly been lost on him that the collapse of communism has led to the dreaded domino effect, as nations from Mexico to Malaysia fall firmly into the free-market camp. No longer content with surviving on their own brand of “social cohesion” transfers from international aid organizations, they now seek to prosper by selling their goods and services. As this presents an intolerable threat to Eurosclerosis, Delors now demands a “global social contract,” which he hopes will put a stop to this creeping prosperity.

If the insidious lunacy of European social correctness seems transparent enough, beware the growing amen corner in Washington. Faced with the prospect of a North American Free Trade Agreement, congresspersons and special interests suddenly became desperately concerned with the “social rights” of Mexican workers. AFL-CIO chief Lane Kirkland offered to champion their cause by burying the accord in favor of a transatlantic link that would extend the EC Social Charter’s protectionist umbrella to America’s shores. If and when Mexico were allowed to join the club, Mexicans would then enjoy the full benefits of being priced out of employment. Even Mexican President Carlos Salinas de Gortari, who had rightly insisted that he would not accept any protectionist side deals tied to NAFTA, found himself helpless in the face of America’s newfound compassion for the Mexican worker.

CLOSING MINDS AND MARKETS

While there is no need to recount the benefits of free trade, it is worthwhile dispatching a few entrenched myths about developing-country competition. The demand for unskilled labor in developed countries has steadily declined for more than 20 years. Low-wage competition from developing countries accounts for only a small fraction of this decline; technological innovation in developed countries has been the primary cause. Developed countries can close their borders to trade with the developing world, going back to their old reliance on World Bank handouts and preaching the freemarket gospel to the natives, but this will only serve to exacerbate their own unemployment problems. The fastest-growing export markets for the high-wage countries are the low-wage countries. And they are large markets: over 40 percent of U.S. and EC exports now go to non-OECD countries. Rather than choking off their burgeoning export markets to protect the last of their sweatshops, Europe and America would be far wiser to focus on providing their citizens with the incentives and means to acquire the skills needed by developed economies.

As international trade and investment continue to grow, a fundamental dilemma that societies face in delineating the rights and obligations of individuals and institutions will remain unchanged. The requirements of efficiency and equity will...
invariably conflict, and nations must remain free to strike that balance in accordance with their own values and resources. When Gallup asked whether freedom or equality were more important, Americans and Britons voted over three to one in favor of freedom, while Germans and Italians chose equality by a small margin. When asked whether it were the government’s responsibility to reduce income differences, 81 percent of Italians agreed that it was, compared with 63 percent of Britons and 56 percent of Germans, and only 28 percent of Americans. To insist that there exists a single socially correct answer to such questions is the height of illiberal arrogance, yet this is precisely the sort of position that the European Commission adopts. That it secures the collaboration of member states reflects merely an equilibrium in the traditional Community horse trading in protectionism and cross-subsidies.

Americans must be wary of creeping social correctness in the critical debates over their nation’s economic future. As political correctness attempts to quash free discourse that an aggrieved group finds unpleasant, so the new doctrine of social correctness attempts to stamp out competition that politicians and special interests find effective. At the end of the day, its proponents can only succeed in rendering us uncompetitive and ultimately poorer. How much consolation would it then be to be told that we are not in economic decline, but are rather “economically challenged?”

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