

EuroMemo Group Conference

London 20 - 22 September 2013

The social contract and social progress in modern Europe

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Summary

With his ideas on the social contract and equality Jean-Jacques Rousseau began an enduring social movement, that led to the French revolution and finally to greater labour rights, not only in former socialist but also in capitalist countries. Equal rights became the main model of modern democratic united Europe. However, inequality has again markedly increased in the last few decades at home and around the world. Europe has been moving further and further away from its social foundations. The European Commission even encourages inequality with inhuman and inefficient measures and punishes people who did not cause the crisis. European integration is now at a crossroads and the crisis is deepening. The proper way ought to be the development of a socially responsible economy in Europe with a new social contract, based on a progressive economic policy. Social progress is the right path for the future of a modern Europe: economic and employment growth, with corporate social responsibility - business responsible to society and the environment.

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Prologue

A few years ago I frequently participated in meetings at the ILO International Labour Organization and in my spare time, while sight-seeing, my attention was attracted by an impressive monument erected by the city of Geneva in honour of their famous citizen Jean-Jacques Rousseau. With one hand on a book and a quill pen in the other hand he is sitting thoughtfully on a chair on a small island in the middle of the river Rhône that has become a park named Ile Rousseau, after the prominent philosopher. In the modest house where he was born a modern museum Espace Rousseau presents his life and work virtually. The main stress is on his work and ideas, that should be revived nowadays, in these times of the impetuous march of rigorous neoliberal capitalism. I discover that, among his work "The Social Contract" is the most interesting one and 250 years have now passed since its first edition and 300 years since his birth.

1. The social contract from an economic point of view

While watching into the future we must not forget the ideas from the past.

During the second half of the 18th century in France, during the reign of the last king, Louis XVI, social conditions were critical: the king wilfully wasted money on his extremely luxurious life, the state treasury was empty and economic policy inefficient. During that period there were three social classes: aristocracy, clergy and others - citizens, farmers and workers. The aristocracy and clergy lived in abundance, they had all the political power and privileges and did not pay any taxes. Only members of the third social class: citizens, farmers and workers paid taxes. In French society dissatisfaction strengthened and was first reflected in the critical thinking of political philosophers and later in the French revolution (1789-1799).

The Age of Enlightenment - the social, philosophical and artistic movement of the 18th century - was the time when intelligence and science prevailed. Philosophers were critics of authority and the feudal society of the time, and strived for a progressive society that laid great stress on the human; and with their work they laid the foundations for modern society. An important representative of Enlightenment was Jean-Jacques Rousseau (1712-1778), who strived for a more democratic society. He stated that the state is founded on a contract among the people and democracy is the basis for prosperity, and if a government usurps the sovereign authority of the people, then they have the right to revolt.

The idea of the social contract as a relationship between the state and individuals is characteristic of the political philosophy of the Enlightenment; its origin is in Greek philosophy and Roman law. The Social contract theory was developed in more depth during the 17th and 18th century. Among the authors of the Social contract theory and natural rights are Hugo Grotius, Thomas Hobbes, Samuel von Pufendorf, John Locke and Jean-Jacques Rousseau. Philosophers of the Enlightenment developed the Social contract theory from different points of view.

Grotius (*On the Law of War and Peace*, 1625) was the first to introduce the idea that individuals as human beings have natural rights. Hobbes (*Leviathan*, 1651) defended the idea that the social contract confronted the individual social rights of people and that a person could give up their rights for the benefit of the absolute authority of the government. Pufendorf (*On the Duty of Man and Citizen according to Natural Law*, 1673) opposed this idea by asserting the natural right with war. Locke (*Second Treatise of Government*, 1689) believed that natural rights are not transferable and that individuals voluntarily unite into the state, their protection takes over the government authority itself and works for the benefit of society. Rousseau (*Du Contrat Social*, 1762) believed in general sovereignty, that freedom of the people should be guaranteed by the law and also that democracy is the best way to restore general welfare.

Rousseau developed the idea of the social contract in his main works: "Discourse on the origin and foundation of inequality" (*Discours sur l'origine et les fondements de l'inégalité*, 1755) and "The Social Contract" (*Du Contrat Social. Principes du droit politique*, 1762). In the first book he described human development beginning from the state of nature to the modern state. The introduction of private property caused inequality among people and the development of the social classes - some are owners, while others work for them. The

owners strive for such a government that would protect their private property. The government is established on the basis of the contract, which apparently assures equality and protection for all, although its main purpose is to create inequality in society. The contract that should consider the interests of all people is in reality considering the interests of only a few of them - the strongest and the most wealthy. Such a social contract is responsible for the conflicts and competition in modern society.

Rousseau wrote *The Social contract* 250 years ago. With the ideas written in the book he provoked the sovereign. As a consequence, the book was banned and soon afterwards Rousseau was sent into exile to England for several years. In the book he prepared a response to the state of society, which he had described already in his first book, and offered a remedy for social and moral diseases that occurred with the irregular and unanticipated development of society. We cannot change history, but we can have an influence on what kind of state we want to live in in the future. Sovereignty never acts in a right way, although it often pretends that it does.

"Man is born free, and everywhere he is in chains" ¹ is the most famous thought in the book. We, the people, were free in the state of nature, however the development of society has led to a subordinate social relations, that are reflected in dependency, in economic and social inequalities. As a return to the state of nature is neither possible nor desirable, the main purpose of politics is to create such social relations in which individuals would be really free and in accord with society. The main problem for the author is: how can we be free and live together? Or: how can we live together without subordination to the power and violence toward others? According to Rousseau that is possible only if we submit our individual desires to the collective and general will, based on a contract among free and equal persons. Rousseau thought, similarly to Hobbes and Locke, that all people are equal by nature, therefore no one has a right to dominate others, and a social contract can be the only authority.

The social contract is a basic act, based on which people join a collective that supersedes the sum of individual interests and desires. The contract represents a real foundation for the society, as by the contract individuals become members of the society. A renouncement of individual rights and freedoms that we had in the state of nature occurs, and the transition to a collective body is made, whose purpose is public benefit. Similarly to individual will, which was oriented towards individual interests, the collective will is oriented towards the common good. Obligations are reciprocal; as the leadership is obliged to work for the good of people, so are individuals similarly obliged to work for the good of all.

The general will is in a real democracy demonstrated in such a way that it is periodically summoned as a whole democratic body, as all citizens. They then decide collectively and anonymously how they would live together and which legislation they would adopt. Of course such an enforcement of individual wishes is possible only in small communities, where people know each other, while it is not realizable in large states. However Rousseau believed that real democracy is feasible and that it enables us to save ourselves and preserve our naturally acquired freedom.

¹ Jean-Jacques Rousseau, *Družbena pogodba*, Krtina, Ljubljana 2001, p. 13.

Rousseau's social contract is based on just institutions in the society (monarch, government, members of parliament). He explicitly criticized slavery, allowed in his time and often the consequence of poverty or wars. Captured enemy soldiers were enslaved as a rule. He caricatures slavery with the words: " I hereby make a covenant with you which is wholly at your expense and wholly to my advantage; I will respect it so long as I please and you shall respect it as long as I wish ."²

The Social contract theory presents a consistent view on the moral and political state of society. Nature rewarded us with freedom and equality, but that has been changed throughout the history of society. We can overcome this with an appeal of free will for political cooperation, according to the rules of democratic society and act in a way that is good for us individually and collectively.

The described ideal social contract model of progressive political philosophers from the Age of Enlightenment has in reality influenced not only the French revolution, but also the transition from feudalism into capitalism and later, in the last century, into socialism. Rousseau's works "Discourse on the origin and foundation of inequality" and "The Social Contract" represent the foundation on which modern social Europe was developed.

2. The European social model and employment policy

Over the past few decades the European Union has gradually developed an advanced social model. The European social model and welfare state concept are the foundation of the European Union, including: consideration of human rights, care for full employment, social protection, social inclusion and democracy. Already in the *Treaty of Rome* - the main treaty of the European Union (1957) which defined the main goals for society: employment promotion, improvement of working and living conditions, adequate social protection, a dialogue between management and employees, human capital development and employment growth.

The Maastricht Treaty (1992) or formally the Treaty on European Union, that laid the foundation for the common European market, European Union and monetary union, stressed in protocol form also the social dimension of the European model. Discussion on employment lead to its adoption in the Amsterdam agreement (1997), which is an independent document on employment policy at the European level, namely as a supplement to the Maastricht Treaty.

The Lisbon Treaty (2007) was adopted during the German presidency and also includes the Charter of Fundamental Rights, in which social and labour rights are defined, including the right for just labour conditions, protection of workers from unjust dismissal from employment, access to health services and social aid.

*The European social charter*³ (Strasbourg, 3rd May 1996) was adopted with the purpose of achieving among members a major unification regarding the protection and realization of the ideals and principles that are our common heritage, and the promotion of economic and social development, particularly in keeping and further accomplishing human rights and

² Ibidem, p. 21.

³ European Social Charter, Council of Europe, <http://conventions.coe.int>

basic freedoms. Member states accept the following rights as their political goals: labour rights, fair, safe and healthy labour conditions, right for fair pay, freedom of association and collective bargaining, health insurance and social protection, protection from unfair dismissal from employment, right to dignity at work - protection against sexual harassment and other forms of harassment, right to equal opportunities, right to protection from poverty and social exclusion, right for suitable housing, etc.

Concepts of the European social model

Although the European social model is defined in European employment and social policy, we have to stress that the document includes common European guidelines, while implementation differs from one member state to another. There is a large diversity in the concept of the European social model among member states; it is possible to distinguish following four basic models (Sapir, 2005): Nordic, Anglo-Saxon, Continental and Mediterranean.

The Nordic model (Denmark, Finland, Switzerland, the Netherlands) is characterized by the concept of the welfare state and high social protection. Within labour market policy these countries take active policy measures for placing unemployed into the labour market again. Relatively high employment in the public sector is typical. Trade unions have strong membership and the power to decide wages and income distribution.

The Anglo-Saxon model (Ireland, United Kingdom) has lower levels of public expenditure for social aid. In the field of labour market policy, the greater part of expenditure is spent on subsidies. Trade unions are weaker, thus there is higher income inequality and lower wage employment.

The Continental model (Austria, Belgium, France, Germany, Luxembourg) is similar to the Nordic model, but has a higher share of public expenditure devoted to pensions. The model is based on security and a system of subsidies. Active labour market policy measures are performed, but in a less intensive manner than in the Nordic model. Trade unions have a lower membership rate, but in spite of that are highly influential in adopting collective agreements. Subsidies for employment of disabled people are also important.

The Mediterranean model (Greece, Italy, Portugal, Spain) of welfare state has developed later, which is reflected in the structure of the public expenditures. It is based mostly on pensions and on a relatively low level of social aid expenditures, while higher security and early retirement schemes are a characteristic of labour market policy. Trade unions had been strong and influential in collective wage bargaining, that was in turn reflected in lower income inequality before the crisis.

The Lisbon development strategy

Over the last decade the Lisbon strategy or Lisbon agenda (2000-2010) was the main European document for development, originating in European left-wing politics. The basic purpose was to achieve a balance between economic and social development models through the integration of economic and employment policies. The main goal of the strategy

was to strengthen the growth of the economy and employment, parallel to a policy of social inclusion and environmental policy, that should additionally stimulate economic growth.

At a meeting in the spring of 2000 the European Council changed the main development aim: from the previous aim to reduce unemployment to a new aim to create the conditions for full employment. The new strategic goal behind this redirection was to transform the EU *"to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion (Lisbon agenda, point 5, 2000)* Special emphasis was placed on the knowledge society and on strengthening the European social model through investment in people. The main goal was to achieve full employment, raise female employment and decrease unemployment. The best investment for the knowledge economy is in education and skills. Social inclusion and the decrease of poverty also play an important part in the policy.

In the middle of the previous decade the European Commission analyzed the implementation of these main strategic goals and realized that economic growth was too moderate and was not leading to job creation. Therefore a new document was prepared, the so called revised Lisbon agenda, with integrated guidelines for "growth and jobs" (2005) that linked together three policies: macroeconomic, microeconomic and employment policies.

European employment policy

The European Commission discussion on employment and economic growth that would stimulate also employment growth goes back to the year 1993, when the Commission was editing the White book on Growth, Competitiveness and Employment. Low employment levels and high unemployment levels caused a need for a better adjustment of employment policy in Europe. The outcome of a considerable political discussion was the first European employment strategy, adopted in 1997 in Luxembourg, that paved the path for mutual cooperation in common employment policy. The very first European employment guidelines were based on four pillars: employability, entrepreneurship, adaptability and equal opportunities.

In 2003 the next European employment strategy was built on the foundation of the Lisbon development agenda that was focused on more and better jobs. The main goals were: full employment, improvement of the quality of work and labour productivity, social cohesion and inclusion. Employment policy guidelines (10) were as follows: active and preventative measures for the unemployed and inactive people, job creation and entrepreneurship, promotion of adaptability and mobility in the labour market, human capital development and lifelong learning, increase of labour supply and promotion of active ageing, equality of people by gender, labour market integration of people with disabilities and non discrimination, fair pay for work, and transfer from informal to regular employment.

The next Guidelines for Employment Policies in the Member States (2005-2008) became a part of the Integrated guidelines for growth and jobs (2005-2008). Development documents were united as more and better jobs can be achieved only by the synchronised operation of employment and economic policy. The three main goals of employment policy were: full employment, improvement of quality of work and labour productivity, and social cohesion.

The main activities focused on were: employment growth, improvement of adaptability of workers and enterprises, and an increase in human capital investment. And the employment policy guidelines (8) were: full employment and a decrease in unemployment; promotion of lifelong learning; labour market inclusion with active and preventative labour market policy measures, a modern system of social security including a pension system and health protection; reconciliation of labour demand and supply; promotion of flexibility connected to security; employment friendly wage and labour costs development; increase and improvement of human capital investment; and adaptation of the education system to labour market needs.

With the integrated guidelines approach included, employment policy has become the central point of the development policy. Together with more and better jobs it partially includes also social policy, namely social inclusion and labour market placement of inactive persons who would like to enter into the process of work.

The next employment policy guidelines for the years 2008-2010 were more or less unchanged, a greater emphasis given only to the concept of "*flexicurity*" - flexibility and security in the labour market.

Europe 2020 - integrated guidelines for economic and employment policy

Currently we have two development documents: development strategy Europe 2020 and integrated guidelines for the 2010-2020 period. Europe 2020 has set the foundations for the development of smart, sustainable and inclusive economic growth. The integrated guidelines consist of two documents: economic policy guidelines and employment policy guidelines. The European parliament adopted also a resolution with recommendations, among them recommendations for a "social market economy" and full and quality employment.

Current employment policy guidelines⁴ include:

- Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality;
- Developing a skilled workforce responding to labour market needs and promoting lifelong learning;
- Improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education
- Promoting social inclusion and combating poverty.

The main change compared to the previous guidelines is that within the employment policy education policy and social policy are now more explicitly incorporated. Both documents: the development strategy and the integrated guidelines were prepared and adopted in times of great economic crisis that significantly impacted the labour market crisis. In the period of adoption the economically well developed member states were reserved (mostly Germany). However during the adoption phase the European Council also prepared a separate

⁴ Council decision of 21 October 2010 on Employment policy guidelines for member states, Official Journal of the European Union (2010/707/EU), L 308/46, 24.11.2010.
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:308:0046:0051:EN:PDF>

document in which they stressed the need for a social market economy with a strong environmental component.

European labour market policy

European labour market policy is public intervention in the labour market to improve its effectiveness and to abolish discrepancies. European labour market policy is part of the employment policy. The distinction between the two becomes clearer when we observe the target persons: for employment policy the target is the active population: employed, self-employed and unemployed; while for labour market policy the target is specific groups of people: unemployed, redundant workers and those non active people who would like to work (labour reserve). The European methodology of labour market policy includes the following activities:

- Labour market policy services (*LMP services*) – preventative and advanced services: job seeking assistance, counselling, job mediation, career guidance, preparation for work;
- Labour market policy measures (*LMP measures*) – active measures: education, job rotation, employment incentives, employment assistance for people with disabilities, job creation (public works) and initial incentives (self-employment);
- Labour market policy supports (*LMP supports*): unemployment benefit, unemployment assistance, co-financing of social contributions and early retirement.

During implementation it is necessary to monitor constantly the appropriateness from the perspective of the individual person and analyze the efficiency and effectiveness of spending public funds. The most efficient are those activities that lead to employment after the completion of a measure. Labour market policy represents security for people.

In this chapter we described the development of modern European standards in the sphere of employment and labour markets that are founded on the so-called European social contract. The path has been long but accompanied with good intentions. Modern European employment policy has until now been highly progressive, oriented towards knowledge and care for working people. However everything changed with the beginning of the financial crisis and the economic recession: drops in GDP caused an increase in unemployment, and the first jobs seekers mostly work in precarious types of employment without basic labour rights.

Austerity measures - deviation from the European social model

In 2011, the European Commission changed direction from a development strategy for growth and jobs to the concept of competitiveness and austerity measures focused mostly on people. The rhetoric is also different - instead of human capital development and knowledge society, now competitiveness is in the forefront, and employees have become for employers instead of human capital only labour costs. While in the Lisbon strategy development and competitiveness were based on human capital, now competitiveness has become a synonym for labour cost reduction. If the main problem in Europe is economic recession caused by the financial system, why are the European Commission's measures not

oriented towards a financial system pact, instead of a reduction of workers and social rights only? Would they like to push European society with the austerity measures back 250 years to the end of feudalism? In the times when most people had almost no rights and lived in extreme misery, in such hard times that even the existence of mankind was uncertain.

The package of measures includes: a new concept of economizing fiscal policy, public debt restriction (limit 60% of GDP), penalty for excessive budget deficit (0,2% GDP annually), a unified European framework for national budget policies, and prevention of macroeconomic imbalance (penalty 0,1% annually).

The annual growth survey represents the standpoint of the European Commission and is the beginning of a new European economic policy for economic revival and competitiveness that includes structural, fiscal and macroeconomic reform policies. Priority is on three spheres of activity: strict fiscal consolidation and macroeconomic stability, labour market reforms and stability of the financial sector. The first includes the abolition of macroeconomic imbalances and financial sector stability. The labour reforms envisage: labour relations reform, pension reform, employment stimulation of unemployed and flexicurity.

Member states are obliged to implement the basic goals: stimulation of competitiveness, employment growth, sustainable solid public finances and strengthening of financial stability. Competitiveness will be based on labour costs in industrial, services, market and non-market sectors. The pension system and social protection systems are most important for better public finance stability. The national fiscal rule has to be defined and included in the constitution. Financial stability and financial sector reform are the centre of attention.

The fact that capitalism is not working effectively is clear to most people and also to professionals from the International Monetary Fund, who are actively participating in the reform processes. From a monetary institution one would expect a focus, instead on labour costs only, rather on the improvement of financial markets and on preparing measures for the improvement of financial markets, effective control and abolishing anomalies. The IMF in the anti crisis program recommend practically freezing of wages and drastically reducing public consumption by the year 2030 (-17% public expenditures or -8,7 percentage points in GDP). Not only can capitalism no longer assure people full employment, low unemployment and decent wages for employees, now it seems as if it cannot financially contribute to the functioning of the state anymore. The drastic reduction in public expenditure means the destruction of the European concept of the social state and the welfare state. Austerity measures jeopardize the main goal of the Roman treaty the "improvement of living and working conditions" and the foundations of a social Europe set a few decades ago in the time of Jacques Delors. It threatens solidarity and well being – the great achievements of European civilisation.

3. With the social contract from economic growth to social progress in Europe

European development model that is now based on economic growth and competitiveness in favour only of capital should be reformed. Austerity measures of the conservative European Union will not lead society from the crisis but will cause a long term economic stagnation. Feasible and necessary is alternative course to economic and employment

growth - towards social progress. Introduction of a new model of fair and sustainable growth, that will lead to a social progress, is required.

Most Europeans are exhausted after years of recession and stagnation and would look forward to a new course towards a social progress in Europe. People would expect more and better jobs and better social standard: free access to quality health services and education services, better security on the labour market and in retirement, social services. Fair and sustainable economic and employment growth is precondition for healthy economy, budget consolidation and higher living standard in the society.

In Europe appeared already some alternative initiatives to austerity measures.

Social progress pact

The European political left (PES Party of European Socialists) adopted in spring 2013 a declaration "Towards a Social Union"⁵ that includes a progressive program of economic revival, employment stimulation, fair growth in Europe and the development of a social union. They propose to prepare and adopt besides the Growth and stability pact that is the basic document of monetary union, also a *Social progress pact* that would be the backbone of a social union. The social pact would put into force common social standards and would set social progress targets in four priority areas: employment, education, innovation and social cohesion. Social standards would include: decent wages, appropriate minimum wages, protection for workers, health and safety at work, quality education, labour market policy measures and supports, minimal income schemes for unemployed, decent pensions, reduction of poverty, and access to housing. These goals would strengthen the quality of the welfare state, and living and working standards.

A social compact for Europe

The European Trade Union Confederation ETUC⁶ is convinced that the post-war economic and social settlement, which led to the creation of the European Union and the European social model, is threatened. In June 2012, the ETUC adopted a resolution *Social compact for Europe* in response to concern about increasing inequalities, rising poverty and exclusion, soaring unemployment, work insecurity particularly affecting young people, and growing disillusion about the European project.

European trade unions are convinced that fundamental social rights must have priority over economic freedoms, in the spirit of the Charter of Fundamental Rights integrated in the Treaty of Lisbon. They call on the EU to focus on policies for improving living and working conditions, quality employment, fair wages, equal treatment, effective social dialogue, trade union and other human rights, quality public services, and social protection - including fair and sustainable health and pension provisions - as well as an industrial policy favouring a just transition towards a sustainable development model. They call on European employers' organisations, EU institutions, national governments and supportive organisations to engage in a discussion on the ETUC proposal for a Social Compact for Europe.

⁵ Towards a Social Union, PES, 2012.

⁶ A social compact for Europe, ETUC, 2012.

The ETUC proposal for a social compact emphasizes the following elements for growth and employment:

- Growth programmes adapted by each country should be discussed, agreed and monitored with social partners;
- European industrial and investment policies aimed at meeting the economic and environmental challenges; priority should be given to investments in sustainable infrastructure, research and development, climate technology and renewable resources;
- Rules to secure a regulated, solid and transparent financial sector that serves the real economy;
- Decent wages for all, contributing to growth and internal demand;
- For all young people provision of a decent job, or of adequate training opportunities;
- Improvement of the quality of jobs and combating precarious jobs;
- Active labour market policy measures.

For economic and social justice trade unions propose the following elements:

- Redistributive and graduated taxation on income and wealth, and the end of tax havens, tax evasion, tax fraud, corruption and undeclared work;
- Effective measures to secure equal pay and equal rights for work of equal value for all; policies to end the pay gap between women and men;
- Wage-setting to remain a national matter; secure good wages and working conditions, the statutory minimum wage; all wage floors should respect Council of Europe standards on fair wages;
- Harmonisation of the corporate tax base and minimum rates of taxation for companies (25%).

Corporate social responsibility initiative

Corporate social responsibility refers to companies voluntarily achieving social and environmental objectives during the course of their daily business activities. Companies are also part of society therefore they have obligations towards other parts of society. Stakeholder management or corporate social responsibility is a means for improving economic performance.⁷ Corporate stakeholders are: customers, employees, shareholders, suppliers, the environment, and society. Corporate governance, corporate social responsibility and business ethics lead to ethical profits.

A simple model of corporate social responsibility is:



⁷ Crowther, 2008, p.32

The corporate social responsibility CSR in EU initiative can be found among the activities of DG Employment, social affairs and inclusion. However there is not much activity on CSR, mostly promotion and coordination.

Corporate Social Responsibility in EU⁸ is defined as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". Ideally, CSR is a win-win scenario, whereby companies increase their profitability and society benefits at the same time.

At a European level, the Commission has given support to a business-led European Alliance for CSR. The Alliance has created a number of "laboratories" (long-term workshops) focusing on specific themes, ranging from employment and social policy, supply chain issues, reporting, environmental issues, to creativity and innovation in CSR.

The main mission of the European business network for corporate social responsibility - CSR Europe is to connect companies to share best practices on CSR: (<http://csreurope.org/>)

What are the advantages of CSR for companies? Companies work on CSR for a number of reasons:

- There is often a direct benefit to profitability. Companies who pay attention to training opportunities, well-being in the workplace, or work-life balance are more likely to command loyalty from their employees. This helps productivity and product quality. In addition, many companies are seriously addressing environmental challenges, whether through reducing emissions from a polluting process, or through reducing the carbon footprint created by the offices they occupy. On the one hand, this is good for the environment, and on the other, it can cut costs. Finally, it stimulates training and new skills in technologies of the future.
- There is a benefit to company image and reputation. Good corporate citizens command more respect than ever before, not least because the behaviour of companies is more visible than it has been in the past. Where consumers are attracted by responsible behaviour through attention to fair trade issues for example), companies' profitability is likely to benefit. The perception of a company in the eyes of its stakeholders should also be of concern to a company. So a good image of a company among trade unions, non-governmental organisations, investors, the education world, local communities, and the public sector can only enhance its standing and influence.
- Companies choose to act out their corporate values through CSR. Corporate governance has come under scrutiny recently and company ethics have consequently become more prominent. CSR and ethics are closely linked.

Source: MEMO Corporate social responsibility (CSR), <http://ec.europa.eu/social/home.jsp>

The Commission would advocate that companies, especially in the financial sector, to pay more attention to ethics and responsibility generally in the times of economic crisis.

⁸ Corporate social responsibility in EU.

With the social contract from economic growth to social progress

The idea of social progress originates also from the age of enlightenment and means the improvement of society in economic, social and political senses. The idea is described as progressive, in contrast with conservative opinion.

However, the mainstreaming of conservative European policy is leading far away from the Scandinavian model of the welfare state and a social Europe. Not only the financial and economic crisis itself but in addition the inefficient European austerity policy measures have together caused a decline in employment and earnings in several member states. This will cause lower public income from social contributions and taxes and lead to a decline of the social standard. In addition, growing unemployment increases public expenditure and presents strong social pressure. Lower earnings, declines in employment and rising unemployment will decrease the living standards and purchasing power of households, that will reflect in decreased consumption, leading to a decline in production and a vicious circle of economic stagnation and recession. A serious but neglected problem is the stagnation in total employment, employment rate and earnings in the EU-27 and the Euro area since the year 2009, following a decline in 2008.

On the other hand the concept of a socially responsible economy on a national level derives from, and upgrades, the corporate social responsibility initiative. Corporate social responsibility instead of profit only is nowadays a widely accepted concept in progressive companies not only in Europe but even more in the United States. Europe and other progressive countries should follow progressive companies and widen the development strategies and connect economic growth with employment growth and environmental protection. So the focus on economic growth and competitiveness based on cheap labour only for higher profits should move to social progress - the progress of the whole of society⁹. Social progress would also present the development of a social standard - public health, education, pension system, etc.

Employment policy in Europe should better focus on employment growth and quality at work. Employment growth can be achieved by the creation of new jobs, by better coordination of supply and demand in the labour market by occupation, by better connection between educational institutions and the labour market. Better quality at work would involve the growth of human capital and intellectual capital on one hand, while on the other hand employers acting socially responsibly by improving working conditions, encouraging the career development of workers, and caring about health and safety at work. Effective and efficient labour market policy services, measures and supports are indispensable for the placement of unemployed and redundant workers to work successfully.

The best alternative is a growth-oriented socially responsible economy - encompassing human and environmentally friendly economic growth. A new progressive social contract should be rewritten, 250 years after the *Jean-Jacques Rousseau's* treatise, as the foundation of a modern social Europe.

⁹ The word "social" here means relating to human society: social contract, social order, social science etc.

Concluding thoughts

Achieving the current level of basic human rights, workers rights and social rights has been a long journey. From the first ideas, presented in Rousseau's discourses on inequality and on the social contract, to the French revolution and the long term struggle for workers rights - firstly for an eight-hour workday, for decent payment, for health and security at work, minimal wages, etc. With long term economic growth, a living standard also gradually developed. And in parallel, the social standard developed: public health, education, social protection, and a pension system. Within last two decades European employment standard also gradually increased.

Despite the high level of social development achieved in Europe, many negative events occurred in society during the recent events. Inequality increased, society stratified and income discrepancies increased enormously, culminating with the economic and financial crisis. Living standards decreased and are decreasing further. Unemployment and poverty are also rising, and more and more people are on the edge of survival. The conditions in European society are critical and chaotic.

In the Lisbon development strategy competitiveness was based on human capital, now competitiveness has become a synonym for decreasing labour costs. The Lisbon strategy was oriented towards social progress but unfortunately there has been no political courage to realize its goals. Without economic growth there is no social progress and no jobs for youth.

The idea of social progress links together economic and social goals - economic growth, employment and the environment. Similarly to the concept of corporate social responsibility we will need to develop a socially responsible economy in Europe. We have to discuss a new social contract for progressive changes in society - for social progress in modern Europe.

"People are the most important capital in the company; 95% of my capital goes home every day and I have to do my best to create such working conditions, that they will come back again next day", said Jim Goodnight, founder and director of American software company SAS, who received first prize for corporate social responsibility.

Policy proposal

The European Commission should prepare and propose the framework for a social contract in Europe. In the Social contract, the main strategic goal would be social progress. The social contract proposal should be discussed with social partners on a European and a national level. Member states will after adoption of the European social contract inscribe it into their national constitution.

Literature:

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