

# niesr

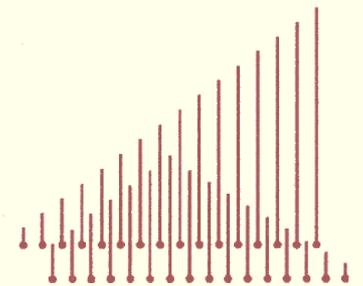
---

## European Social Models

Ray Barrell

NIESR

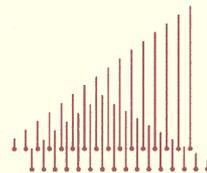
June 2007



National Institute  
of Economic and  
Social Research

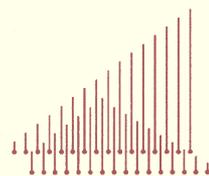
# Models and Structures

- Economists do not always understand what might be meant by a social model
  - An interacting set of structural relationships
  - A degree of intentionality in outcomes
- It is widely agreed that the European Models are in trouble
  - Globalisation is a threat to welfare
  - Fertility and female participation are low
  - Pension systems are not sustainable
- Should we have a new ESM



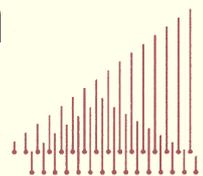
# Styles of Society

- There are many dimensions to differences in European societies and social models
  - Ordoliberalism or Millian Liberalism
  - Protestant and Catholic views on individuals
- There are several dimensions to the organisation of production
  - Some countries are structured for individual responses to incentives with low attachments to firms and general skills from education
  - There may be periods where this is good and others where it is less productive



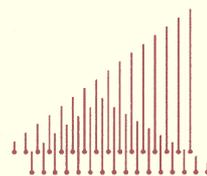
# Preferences and Institutions

- Preferences over social models may depend on preferences over output versus equality and these may not be the same
  - There is a trade off between equality and productivity, and the most equal European societies have stepped back as a result
- Setting incentives and setting goals are very different approaches
  - Fertility may be ‘too low’ but that may be the result of preferences
  - Reactions differ across styles of liberalism

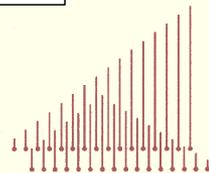
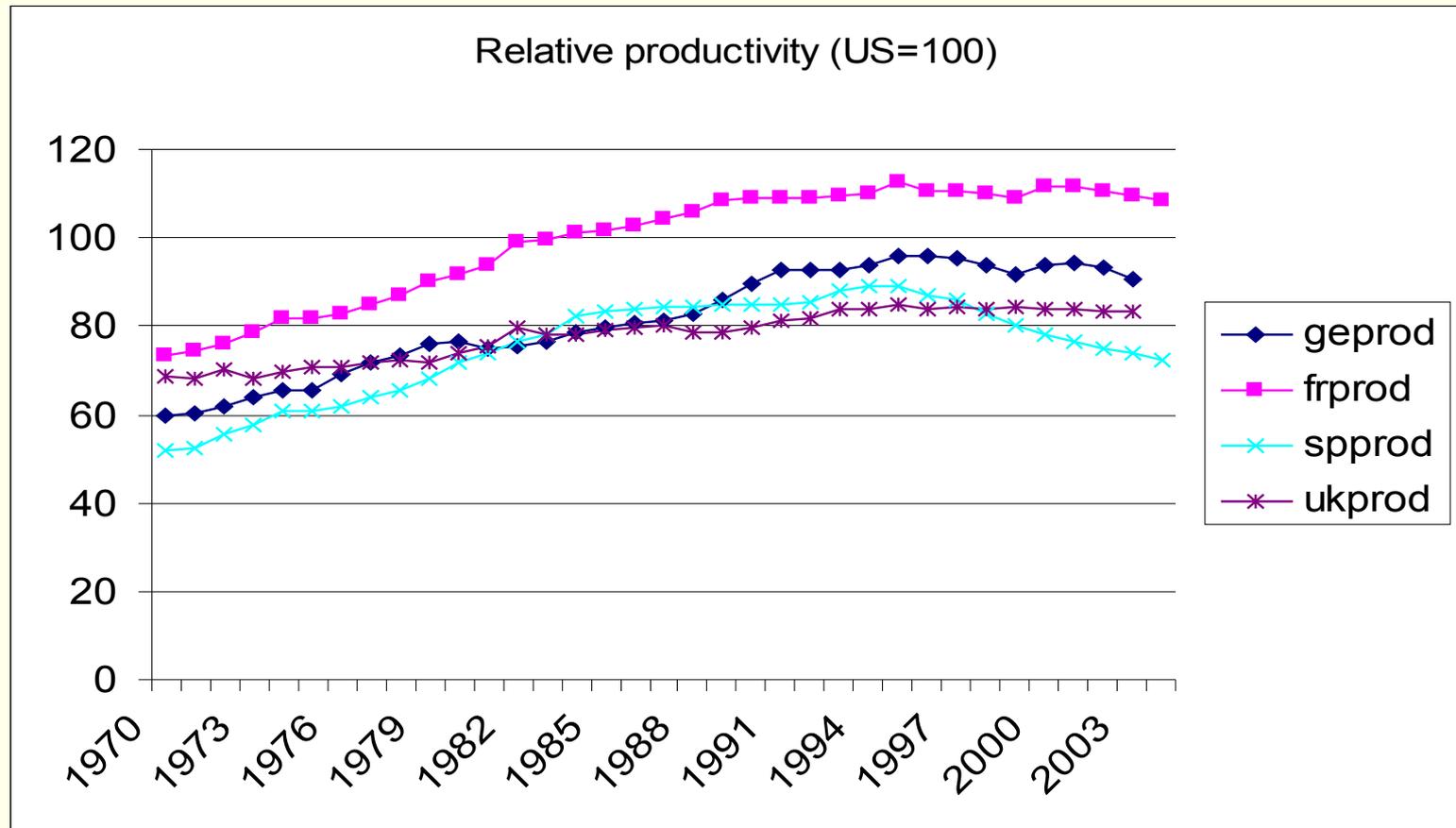


# What are the objectives of the (welfare) state

- Objectives for welfare are seen as
  - Redistribution from lifetime rich to poor
  - Risks reduction from unemployment, disability, health and systemic risks
  - Reallocation over lifetime in education and pension
- What are the best institutions to achieve these objectives and do they require individual or collective action
  - It is possible to design market mechanisms to do these tasks, but it is useful for the state to internalise spillovers and absorb risks
  - We do not always know in advance what the risks are and we may design the wrong institution with the wrong incentives, as in pensions systems

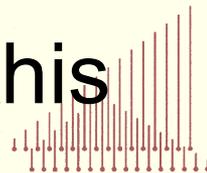


# Labour productivity in EU (person hour in ppp) relative to the US



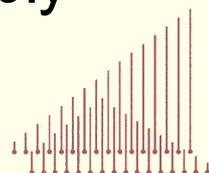
# Catching up and falling behind

- It is not clear that increasing participation in France and West Germany will reduce productivity per person hour to US levels
- TFP growth took off in the late 1990s in the US, but it has dropped back to common levels since around 2003
- Spreading technology and understanding of ways of doing should lead to catching up without losses to leaders
- Changes in competitiveness may alter this



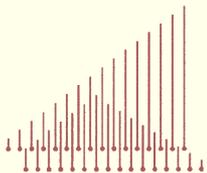
# Reactions to globalisation

- Many agree with Sapir that globalisation requires reform as a response
  - Labour markets and social institutions must become more flexible
  - Unemployment benefits and employment protection are not wise
- Globalisation and liberalisation lead to an increase in import penetration and exports
  - terms of trade effects tell you who gains
  - Countries that have been gaining market share have demonstrated they have the ability to respond flexibly to globalisation



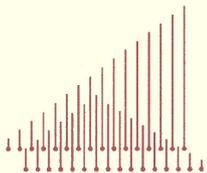
# Pensions and social models

- Pensions and aging are a common problem but there have been different ways of dealing with it
- Collective provision of pensions has been undermined by rising life expectancy
  - It appears difficult to raise taxes or retirement ages in public provision systems
  - Shifting incentives and information to individuals may lead to solutions
- Changing this element of the structure of society does not mean abandoning the social model



# Participation and policy

- If regulation changes the availability of types of job we should ask whether those regulations are worthwhile
  - Employment protection may raise labour demand in the firm, but it reduces productivity and the rate of birth of firms
  - Restrictions on childcare and patterns of taxes may reduce female participation
  - Hours legislation may reduce welfare in the 21<sup>st</sup> century when it raised it in the 19<sup>th</sup>



# Preferences and outcomes

- Countries have different preferences and these are unlikely to converge
  - Social models will not converge
- Elements of structure may be at fault
  - Pensions need changing in response to aging
  - Education reform is a response to integration trade liberalisation and globalisation
- US structures may be well designed for periods of product innovation and European ones for process innovation waves.
  - We could change to US institutions through education
  - this will take as long as the average production innovation wage and would be inappropriate

