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European social model(s): Experiences and reform perspectives

Euroframe Conference in Bologna, 8 June 2007

Alois Guger, Ewald Walterskirchen

„A new architecture for the welfare state in Europe“

G. Esping-Andersen et al., 2002

- Problems of the welfare state
- New challenges for the welfare state
- How have the various social models coped with these challenges so far?
- What can we learn from recent developments?
- What are the key elements of a sustainable reform?

„The simplest difference between the USA and Europe is that we have welfare states, and they do not“ (J.Wickham, National Forum on Europe, 2002:1)

- At a broad level we can speak of a ‚European economic and social model‘
- Main characteristics:
 - ✓ Relatively high level of taxes, state activity, redistribution and social cohesion
 - ✓ Universal public services (health and education)
 - ✓ Comprehensive social protection (illness, old age, unemployment etc.)
 - ✓ Extensive workers‘ rights and social dialogue
 - ✓ Commitment to macroeconomic stability through monetary and fiscal policy
- The European Social Model was the success story of the post-war period,
- but it came under pressure in the last decades

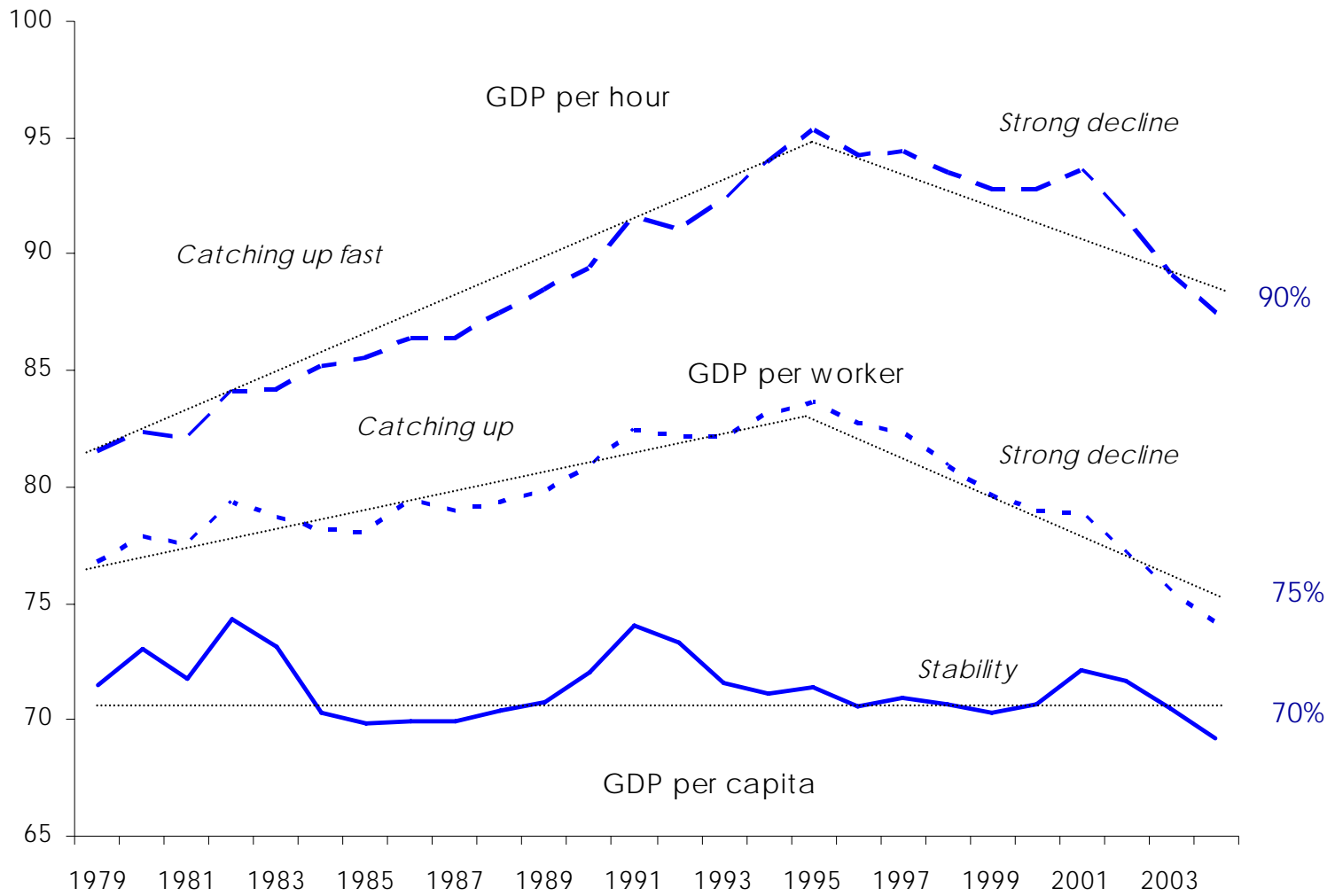
Problems:

- Poor economic performance in Europe
- High unemployment in the EU
- Is the setback caused by welfare state institutions?

Challenges:

- Ageing population and declining birth rates
- Changing gender roles and the employment shift to services engendering new inequalities and new forms of social exclusion
- Globalisation has reduced the room of manoeuvre of national economic policy, such as the scope of taxation and redistribution

Catching up and falling back in productivity EU/USA



**Welfare regimes
in the tradition of G. Esping-Andersen (1990):**

- **Scandinavian Model**
- **Continental (corporatist) Model**
- **Anglo-American (liberal) Model**
- **Mediterranean (family-centred) Model**

- Based on equality, comprehensiveness, social inclusion, universality
- Generous infrastructure of social services, affordable and of high quality
- High employment rates and emphasis on gender equality
- Tax financed unemployment benefits and health system
- Highest de-commodification, redistributive feature
- Progressive taxation, taxes on property and bequests
- Low taxes for business
- Rather high minimum wages, high replacement rates, pensions with generous minimum standards & income-related elements
- Cooperation between social partners (business, unions and government)
- Trade union operates unemployment insurance and training

Sweden, Norway, Finland, Denmark

- Based on preservation of social status, dominance of money transfers
- Income-related transfers with low minimum standards
- Contribution-based social insurance system for health, pensions, and unemployment
- Low re-distributive efforts, regressive tax structure (low wealth taxation, high taxes on labour and consumption)
- Co-operative industrial relations and coordinated wage bargaining

Germany, France, Belgium, Netherlands, Austria, Switzerland

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Anglo-American (liberal) Model

- Pre-dominant role of markets, minimal role of the State
- Low degree of regulation
- High competition, sophisticated regulation of utilities
- Selective social transfers; i.e. means tested benefits
- Welfare-to-work strategies
- Public health system (UK, US only for the poor) and (partly) publicly-financed schools (UK not US)

Anglo-American Model Europe: United Kingdom, Ireland

Anglo-American Model Overseas: USA, Canada, Australia,
New Zealand

- Important role of supportive family networks
- Low transfers
- High gender inequality, low participation rate
- Some traits of agrarian, paternalistic society remained

Italy, Spain, Portugal, Greece

	Social expenditures		Tax revenue
	2003	1998-2003 percent of GDP	2005
Scandinavian Model	30.3	+ 0.8	48.6
Denmark	30.9	+ 0.9	51.2
Finland	26.9	± 0.0	44.0
Sweden	33.5	+ 1.3	52.1
Norway	27.7	+ 0.6	45.0
Anglo-American Model Europe	25.9	- 0.1	38.1
Ireland	16.5	+ 1.3	32.2
United Kingdom	26.7	- 0.2	38.6
Continental Model	30.2	+ 1.1	42.7
Germany	30.2	+ 1.3	40.2
France	30.9	+ 0.9	45.8
Belgium	29.7	+ 2.1	47.7
Netherlands	28.1	- 0.3	39.2
Austria	29.5	+ 1.1	43.6
Switzerland	29.8	+ 2.1	
Mediterranean Model	24.0	+ 0.8	38.7
Greece	26.3	+ 2.1	36.7
Italy	26.4	+ 1.4	40.8
Portugal	24.3	+ 3.1	36.3
Spain	19.7	- 0.9	36.4
EU 15	28.3	+ 0.8	41.1
United States	-	-	-

WIFO ■ Product and labour market regulation

	Product market regulation		Labour market regulation		
	1998	2003	1990	1998	2003
Scandinavian Model	1.9	1.2	2.9	2.4	2.3
Denmark	1.4	1.1	2.3	1.8	1.8
Finland	2.1	1.3	2.3	2.2	2.1
Sweden	1.8	1.1	3.5	2.6	2.6
Norway	2.4	1.4	2.9	2.7	2.6
Anglo-American Model Europe	1.1	0.9	0.6	1.0	1.1
Ireland	1.4	1.0	0.9	1.2	1.3
United Kingdom	1.1	0.9	0.6	1.0	1.1
Continental Model	2.0	1.4	2.9	2.6	2.6
Germany	1.8	1.3	3.2	2.6	2.5
France	2.4	1.6	2.7	2.8	2.9
Belgium	1.9	1.4	3.2	2.5	2.5
Netherlands	1.8	1.4	2.7	2.3	2.3
Austria	1.8	1.3	2.2	2.4	2.2
Switzerland	-	-	-	-	-
Mediterranean Model	2.5	1.7	3.7	3.1	2.8
Greece	2.7	1.7	3.6	3.5	2.9
Italy	2.7	1.8	3.6	3.1	2.4
Portugal	2.2	1.7	4.1	3.7	3.5
Spain	2.1	1.5	3.8	3.0	3.1
EU 15	2.0	1.4	2.7	2.5	2.4
United States	1.3	1.0	0.2	0.7	0.7

	Real GDP growth (percent p.a.)			
	1970/2006	1980/2006	1990/2006	1996/2006
Scandinavian Model	+ 2.5	+ 2.4	+ 2.4	+ 2.8
Denmark	+ 2.0	+ 2.0	+ 2.2	+ 2.1
Finland	+ 2.9	+ 2.6	+ 2.3	+ 3.7
Sweden	+ 2.1	+ 2.2	+ 2.2	+ 3.0
Norway	+ 3.4	+ 2.9	+ 3.2	+ 2.6
Anglo-American Model Europe	+ 2.5	+ 2.7	+ 2.7	+ 3.1
Ireland	+ 5.2	+ 5.3	+ 6.4	+ 7.1
United Kingdom	+ 2.3	+ 2.5	+ 2.4	+ 2.8
Continental Model	+ 2.2	+ 1.9	+ 1.7	+ 1.9
Germany	+ 2.0	+ 1.8	+ 1.5	+ 1.5
France	+ 2.4	+ 2.0	+ 1.8	+ 2.2
Belgium	+ 2.4	+ 2.0	+ 2.0	+ 2.2
Netherlands	+ 2.5	+ 2.3	+ 2.3	+ 2.4
Austria	+ 2.6	+ 2.3	+ 2.2	+ 2.3
Switzerland	+ 1.5	+ 1.6	+ 1.2	+ 1.8
Mediterranean Model	+ 2.6	+ 2.2	+ 2.0	+ 2.3
Greece	+ 2.8	+ 2.1	+ 3.1	+ 4.1
Italy	+ 2.3	+ 1.7	+ 1.3	+ 1.4
Portugal	+ 3.1	+ 2.5	+ 2.1	+ 2.1
Spain	+ 3.2	+ 3.0	+ 3.0	+ 3.8
EU 15	+ 2.4	+ 2.1	+ 2.0	+ 2.3
United States	+ 3.1	+ 3.1	+ 3.0	+ 3.2

	GDP per capita	Employment rate	Unemployment rate
	2006 PPS	2005 percent	2006 percent
Scandinavian Model	31,238	73.0	5.7
Denmark	29,965	75.9	3.9
Finland	27,751	68.4	7.7
Sweden	28,495	72.5	7.0
Norway	42,008	74.8	3.5
Anglo-American Model Europe	29,108	71.4	5.2
Ireland	34,321	67.6	4.4
United Kingdom	28,741	71.7	5.3
Continental Model	27,515	65.8	7.9
Germany	27,038	65.4	8.4
France	26,224	63.1	9.4
Belgium	28,973	61.1	8.2
Netherlands	30,820	73.2	3.9
Austria	30,181	68.6	4.8
Switzerland	31,437	77.2	4.0
Mediterranean Model	23,332	60.4	7.7
Greece	20,896	60.1	8.9
Italy	24,418	57.6	6.8
Portugal	17,289	67.5	7.7
Spain	23,947	63.3	8.6
EU 15	26,470	65.2	7.4
United States	36,223	71.5	4.6

	Expenditure on R&D	IT expenditure	Youth education attainment level
	2005 percent of GDP	2005	2005 percent
Scandinavian Model	2.9	3.7	86.5
Denmark	2.4	3.4	77.1
Finland	3.5	3.7	83.4
Sweden	3.9	4.4	87.5
Norway	1.5	3.1	96.2
Anglo-American Model Europe	1.7	4.0	78.8
Ireland	1.3	2.0	85.8
United Kingdom	1.7	4.2	78.2
Continental Model	2.3	3.3	77.3
Germany	2.5	3.1	71.5
France	2.1	3.4	82.6
Belgium	1.8	2.9	81.8
Netherlands	1.8	3.9	75.6
Austria	2.4	3.0	85.9
Switzerland	2.9	4.3	82.5
Mediterranean Model	1.0	1.8	69.1
Greece	0.6	1.2	84.1
Italy	1.1	1.9	73.6
Portugal	0.8	2.2	49.0
Spain	1.1	1.7	61.8
EU 15	1.9	3.1	74.6
United States	2.7	4.0	-

- **In the long run** (1970-2006) there are rather small differences between the social models in Europe, but the differences widened over the last 10 to 15 years
- **In the last decade** GDP per capita and real GDP growth was high in liberal and Scandinavian countries, but low in Continental and Mediterranean countries
- **Public sector activities** and **tax rates** are much lower in the Anglo-American model than in Scandinavia and Continental Europe

- The **employment rate** is the highest in Scandinavia and significantly lower in Continental Europe and the Mediterranean countries
- **Public services** largely explain the high employment rate in Scandinavia; **marketisation of household services** (low-wage jobs) largely explains high employment rate in the Anglo-American countries
- **Unemployment** is relatively low in the Anglo-American countries, but the number of persons on welfare is relatively high
- **Investments in the future** (ICT, R&D and education) are high in Scandinavia and Anglo-American countries

WIFO ■ Indicators of social performance

- The political target is not only high economic, but also high social and environmental performance (Lisbon strategy)
- Main question: Is good economic performance positively or negatively correlated with good social performance.
- We choose a number of indicators to explore this
 - Life satisfaction
 - Income inequality
 - Poverty rate
 - Expectation of life
 - Infant mortality
 - Hours worked
 - Prisoners
 - Trust in people

	Life satisfaction		Inequality of income distribution	At-risk-of-poverty rate after soc. transfers	Life expectancy at birth	Infant mortality rate per 1,000 births
	2006	1996-2006	2005	2005	2004	2004
Scandinavian Model	48	+ 7	3.6	11	79.2	3.5
Denmark	66	± 0	3.5	12	77.3	4.4
Finland	33	+ 6	3.6	12	78.7	3.3
Sweden	46	+ 11	3.3	9	80.3	3.1
Norway	-	-	4.1	11	79.6	3.2
Anglo-American Model Europe	34	+ 5	5.6	19	78.5	5.1
Ireland	37	+ 3	5.0	20	77.9	4.9
United Kingdom	34	+ 5	5.6	19	78.5	5.1
Continental Model	21	+ 2	4.0	13	79.2	4.1
Germany	17	- 1	4.1	13	78.9	4.1
France	19	+ 7	4.0	13	79.6	3.9
Belgium	31	+ 6	4.1	15	79.1	4.3
Netherlands	44	- 2	4.0	11	78.5	4.1
Austria	23	- 6	3.8	12	79.2	4.5
Switzerland	-	-	-	-	80.7	4.2
Mediterranean Model	16	+ 4	5.7	19	79.6	3.9
Greece	11	+ 2	5.8	20	78.3	4.1
Italy	14	+ 2	5.6	19	80.2	4.1
Portugal	4	± 0	8.2	20	77.5	4.0
Spain	22	+ 8	5.4	20	79.7	3.5
EU 15	23	+ 3	4.7	16	79.2	4.1
United States	-	-	-	-	77.5	6.9

	Hours worked	Prisoner/population rate (per 100,000)	Trust in people
	2004	2005	
Scandinavian Model	1,535	75	0.63
Denmark	1,454	77	0.64
Finland	1,736	75	0.57
Sweden	1,585	78	0.64
Norway	1,363	68	0.65
Anglo-American Model Europe	1,667	139	0.29
Ireland	1,642	85	0.35
United Kingdom	1,669	143	0.29
Continental Model	1,449	96	0.32
Germany	1,443	97	0.33
France	1,441	88	0.21
Belgium	1,522	90	0.29
Netherlands	1,357	127	0.59
Austria	1,550	108	0.31
Switzerland	1,556	83	0.38
Mediterranean Model	1,695	115	0.30
Greece	1,925	90	0.20
Italy	1,585	97	0.32
Portugal	1,694	123	0.10
Spain	1,799	143	0.35
EU 15	1,565	109	0.32
United States	1,824	738	0.36

- **The social performance in the United States and in the liberal European countries is worse than in the Scandinavian and Continental European countries:**
 - ✓ Poverty rates are significantly higher in the liberal model, this reflects the unequal income distribution
 - ✓ Expectation of life is lower in the Anglo-American countries than in Scandinavia, Continental Europe and the Mediterranean countries
 - ✓ Infant mortality - an indicator of the efficiency of the health system – is substantially higher in the liberal countries.
 - ✓ The share of prisoners is very high in the United States, and also relatively high in the United Kingdom.
 - ✓ High GDP per capita in the liberal countries is largely due to a high number of hours worked
 - ✓ Life satisfaction is the highest in the Scandinavian countries

WIFO ■ Social model and competitiveness

- **Blaming the Welfare State for low growth and weak competitiveness is questionable:**
 - The Scandinavian countries with high taxes and large social expenditures performed very well in economic terms
 - Solidaristic or individual risk-taking is a matter of preferences, not of economics
 - The trade-off between efficiency and equality or between competitiveness and social justice is shaky
 - Social cohesion, education, health and cooperative industrial relations are productive resources
 - Social exclusion and large inequalities are costly in terms of public security and health

WIFO ■ **Key elements of a New Architecture of the welfare state**

Strategies to meet the challenges of globalisation, skill-biased technical change, demographic ageing and gender

■ **Child-centred and women-friendly social investment**

- in early childhood development by affordable quality child care
- to reduce social heritage and child poverty by
- reconciling women's career preferences and family functions, thus
- fostering fertility rates

■ **Higher investment in human capital**

- Large skill deficits will not be affordable in future (skill-biased technical progress and demographic ageing).
- The higher the qualification, the higher are activity rates.

WIFO ■ Key elements of a New Architecture of the welfare state

■ Restructuring from transfers to social services

- Continental model: reduce monetary transfers but increase infrastructure in care facilities
- Shift from passive transfer priorities to activation and reintegration in case of unemployment, invalidity etc.

■ “Flexicurity” or managed and balanced flexibility

- Reduce insider/outsider segmentation between tenured jobs with high security and flexible jobs with inadequate protection
- Increase minimum standards (replacement ratios, minimum wages, minimum pensions etc.)

WIFO ■ Key elements of a New Architecture of the welfare state

■ Active anti-cyclical macro-economic strategy

- *“Even the most successful structural reform in Europe will not generate growth if the macroeconomic conditions are not right.
Weakness in aggregate demand can ruin any economic party.”*

Baily & Kirkegaard (2004)

■ Growth and best technologies are preconditions for welfare

- Growth enhancing policy
- Strife for technological excellence, pro-active innovation policy
- Excellence in research and education

The EU-Model (Lisbon strategy) is most ambitious:
efficient + social + environmental responsible

It is fostering competitiveness and change, improving incentives, enforcing investment into drivers of growth

- The Scandinavian Model meets these ambitions best
- The Continental Model is not flexible enough and too much oriented towards the male breadwinner
- The Liberal Model is economically efficient, but at the cost of social cohesion