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The European Socio-economic Model

Differences to the USA and Changes Over Time

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Abstract: This paper analyses the main characteristics of the European Socio-Economic Model. We discuss how the model varies across countries within Europe, examine how the model has changed over time and compare the European model with the corresponding US model. The performances of several European countries over the past 15 years, as well as the reforms which have taken place, allow us to delineate elements of a "Reformed European Model", which on the one hand upholds important characteristics of the European Society, but on the other hand can still be competitive in the globalised economy.

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1. Why the discussion came up

The process of political and economic integration in Europe has been accomplished quite pragmatically, generally sidelining the vast majority of ideological questions. The enactment of the Single Market Program, each stage of enlargement, the commitment to Monetary Union and the implementation of the Lisbon Strategy were by and large realised with nearly no discussion as to the potential impact on Europe's social, economic and political models. The new European constitution, its lack of popularity and the polarisation between the pure market model and the concept of "Soziale Marktwirtschaft" (a socially oriented, free market economy) has inspired new discussion on the European Socio-economic Model. Nevertheless, more fundamental factors are also involved. Central to the debate is Europe's disappointing economic performance: following decades of economic growth, with unemployment well below 10 %, and productivity catching up to that of the US (when measured according to worker, a margin of more than 20 % remains; however, when measured per hour, the margin became very close), the difference in productivity is widening again since the early nineties. For each of the three main components of economic performance (output growth, productivity growth, and employment generation), Europe performed less successfully than the US. Ironical and often overlooked, is the fact that employment generation differs least, due to the attempts of European economic policy to twist the "standard growth pattern" into a more labour intensive path (by lowering wages relative to the return on capital, supporting part-time work, and implementing other means to increase the employment intensity of the low growth path). Nevertheless, the higher employment intensity of European growth did not prevent unemployment from climbing towards 10 %. Unemployment – which up to the early eighties used to be lower in Europe than in the US - is now higher (2005: 8 % in Europe vs. 5 % in the USA) and the employment rate, which up to the mid sixties was higher in Europe, is now lower. The years 2004 and 2005, when Europe did not manage to grow by even 2 %, while the world economy enjoyed growth rates above 4 %, provided evidence that finally convinced the non-believers that Europe was indeed confronted with a lasting negative growth differential; originally they had argued that Europe's negative growth differential in comparison to that of the US was (i) temporary, (ii) due to the ICT bubble or (iii) to measurement errors. The average growth of the EU 15 during the period 2004 to 2006 is predicted to be 1.5 %; the same is expected for the EU 25, while 3.3 % has been forecast for the US.

Another reason for the renewed interest in the discussion of models is that not only the causes of the disappointing results, but also the cure are unclear. Some people claim that the inferior performance is the consequence of a neo-liberal policy in Europe, blaming the reduction of budget deficits, insufficient wage increases, the privatisation of firms, the liberalisation of markets, and the rise in income differences for slow growth. The opposite view is that Europe is doomed to slow growth and decay because of high taxes, large government, strict regulation, expensive labour, and the public provision of services. We assume an intermediate position insofar that a bad mix of economic policies, reform inertia and the "Paris Consensus"[1] are contributing to low growth in Europe. Too many other priorities are constantly prevailing over the enactment of an active, growth-oriented economic policy, as outlined in the Lisbon Strategy or in any textbook or survey on the determinants of long-term growth in an advanced economy.[2]

The paper is structured as follows. In the next section we define the European Model, which to our understanding is not only a "social model" proper, but is shaping also incentives, efficiency and competitiveness, and has an impact on security, leisure time, education, innovation and health. We therefore prefer to speak of a model of European society or a Socio-Economic Model. We then distinguish between different types of European models, as has been done in the literature, with the addition that the new EU member countries may develop their own model(s), corresponding to the specific particularities of the catching-up economies. Section 3 compares the performances of Europe and the US, and of different types of models, first by examining the dynamics of GDP, productivity and employment and then investigating a wider set of indicators. A 3-tier policy strategy for the most successful countries is then outlined (following Aiginger, 2004). Section 4 presents quantitative evidence

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[1] Under "Paris Consensus" we understand the position upheld by the OECD, as for example in the study on jobs and in many country reports, where it is maintained that liberalisation, deregulation and flexibility are necessary and sufficient for boosting economic growth, innovation and full employment. We have to acknowledge that reports on economic growth (OECD, 2001), as well as recent statements on the monetary policy of the European Central Bank, call for an economic policy (that is, a pro-active economic policy), which enhances measures in innovation and macroeconomic policy.

[2] See also Sapir (2004) for a similar view.

on the fiscal strategies, social expenditures, regulations, industrial relations and most importantly on the differences between countries and models in the level and dynamics of future investments (i.e. research, education, and new technologies). The data reveal differences not only between Europe and the US, but also between European models; since the nineties, changes in policy emphasis and in investment have become evident. Section 5 summarises differences between the traditional European welfare model and the new model now emerging in many European countries, most specifically in the successful Scandinavian countries. The new European model certainly differs from the old, European welfare state model and from the US model, even though Anglo-Saxon European countries are trying to combine some elements of both. Section 6 summarises.

2. Model(s) of European society

Literature on the European Social Model is abundant, nevertheless there has been no agreement on a common definition; there is a consensus that it is reasonable to distinguish between different types of European Socio-Economic Models. Even here, opinions differ as to which characteristics constitute a "model", how many of them exist, and which model is applicable to which country. We claim that it makes sense to extend the horizon of the discussion beyond "social institutions" proper. We include therefore institutions providing education, elements of the "innovation system" and the "knowledge-based society", the extent of administrative and economic regulation, and the tax rate in our analysis.

We pragmatically propose to define the European Socio-Economic Model in terms of responsibility, regulation and redistribution:

- Responsibility: a rather broad responsibility of society exists for the welfare of individuals, sheltering them against poverty, and providing support in case of illness, disability, unemployment and old age; society encourages, and actively promotes and often provides education, health, and the support of families (the latter through transfers as well as the provision of care and housing facilities);

- Regulation: labour relations are institutionalised, they are based on social dialogue, labour laws and collective agreements. The business environment is rather regulated and is shaped by social partners (on the branch and firm level). Administrative and economic regulation for product markets exists. Business start ups depend on permits and partly on qualification of owners or managers.

- Redistribution: transfers, financial support and social services are open to all groups; differences in incomes are limited by redistributive financial transfers, taxation, taxes on property and on bequests.

Table 1: Performance: Short and long run growth of GDP

	1960/1970	1970/1980	1980/1990	1990/2005	1960/1990	1970/1990	1960/2005
				Annual growth in %			
Scandinavian Model	***4.7***	***3.1***	***2.3***	***2.3***	***3.4***	***2.7***	***3.0***
Denmark	4.7	1.9	1.6	2.0	2.7	1.7	2.5
Finland	4.8	3.8	3.0	2.1	3.9	3.4	3.3
Netherlands	5.1	2.9	2.2	2.2	3.4	2.6	3.0
Sweden	4.6	2.0	2.2	2.1	2.9	2.1	2.6
Norway	4.2	4.8	2.6	3.2	3.9	3.7	3.7
Continental Model	***5.1***	***3.3***	***2.3***	***1.8***	***3.6***	***2.8***	***3.0***
Germany	4.4	2.8	2.3	1.6	3.2	2.5	2.6
France	5.6	3.3	2.5	1.8	3.8	2.9	3.1
Italy	5.7	3.6	2.3	1.4	3.9	2.9	3.0
Belgium	4.9	3.4	2.0	2.0	3.4	2.7	2.9
Austria	4.7	3.6	2.5	2.2	3.6	3.1	3.1
Anglo-Saxon Model Europe	***3.6***	***3.3***	***3.1***	***4.5***	***3.3***	***3.2***	***3.7***
Irland	4.2	4.7	3.5	6.5	4.2	4.1	4.9
United Kingdom	3.0	2.0	2.6	2.4	2.5	2.3	2.5
Mediterrean Model	***7.4***	***4.3***	***2.3***	***2.5***	***4.6***	***3.3***	***3.9***
Greece	8.5	4.6	0.7	2.9	4.5	2.6	4.0
Portugal	6.4	4.7	3.3	2.0	4.8	4.0	3.9
Spain	7.3	3.5	2.9	2.7	4.6	3.2	3.9
Anglo-Saxon Model Overseas	***4.5***	***3.0***	***2.7***	***3.1***	***3.4***	***2.9***	***3.3***
USA	4.2	3.2	3.2	3.0	3.5	3.2	3.4
Canada	5.1	4.2	2.8	2.8	4.0	3.5	3.6
Australia	5.4	3.0	3.0	3.6	3.8	3.0	3.7
New Zealand	3.5	1.8	1.9	3.1	2.4	1.8	2.6
EU 15	***4.8***	***3.0***	***2.4***	***1.9***	***3.4***	***2.7***	***2.9***
Japan	10.1	4.4	3.9	1.3	6.1	4.2	4.5
Catching-up Model	***.***	***.***	***.***	***2.6***	***.***	***.***	***.***
Czech Republic	.	.	.	1.2	.	.	.
Hungary	.	.	.	3.9	.	.	.
EU 15/USA	1.14	0.91	0.76	0.63	0.96	0.84	0.86

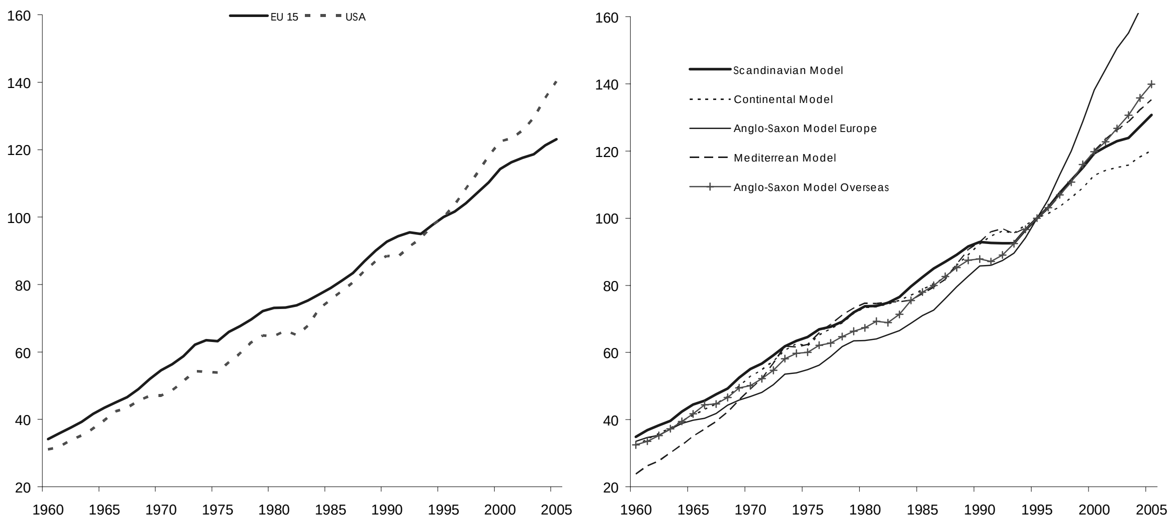
S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).
GDP per hour: 1990 – 2004; Czech Republic and Hungary: 1999 – 2005 (2004).

These three basic characteristics (responsibility, regulation, and redistribution) reflect the fact that the European Model is more than just a social model in the narrow sense. Indeed, it also influences production, employment and productivity and thus, growth and competitiveness and all other objectives of economic policy. Furthermore, the European Model influences social relationships, cultural institutions and behaviour, learning, and the creation and diffusion of knowledge. We therefore prefer to speak about a European Socio-Economic Model rather than merely a social model.

Nevertheless, the literature on the Social Model proper is more elaborate and has been standardised. We use this as a basis from which we can differentiate between several versions of the European model. It is standard practise to distinguish between a Scandinavian Model (often called the Nordic Model), a Continental Model (also known as the Corporatist Model and sometimes as the Rhineland Model) and a liberal model applicable to countries with less market interference, low transfers and underdeveloped public safety nets (the Anglo-Saxon Model). We believe it makes sense to differentiate between countries in which low levels of social expenditures are combined with supportive family networks and other characteristics of an agrarian society, and those countries in which less government interference is the result of an explicit policy or ideology, i.e. deregulation following a period of strong government involvement. The "Anglo-Saxon Model" comprises countries aiming for a lower degree of intervention through the implementation of an explicit policy. We ascribe the name "Mediterranean Model" to the southern European countries. A fifth model, not yet elaborated, may emerge in the future, consisting of the new member countries (former socialist countries). Several social institutions have been founded after the transition only, they are short of the financial means for a comprehensive welfare system and the determination to catch up with the old member countries. We will therefore call this fifth model the "Catching-up Model". Outside of Europe, the US Model serves as the standard benchmark. The USA is grouped together with Canada, Australia, and New Zealand as the "Anglo-Saxon Overseas Model". Japan, as well as the other industrialised Asian economies, remains an outsider to this discussion.

The Scandinavian Model is the most comprehensive, with a high degree of emphasis on redistribution; social benefits are financed by taxes. The Nordic Model relies on institutions working closely together with the government, trade unions are strongly involved in the administration of unemployment insurance and training, and the model is characterised by an active labour market policy and high employment rates. The Continental Model emphasises employment as the basis of social transfers. Transfers are financed through the contributions of employers and employees. Social partners play an important role in industrial relations, and wage bargaining is centralised. Redistribution and the inclusion of outsiders are not high on the agenda. The Liberal Model emphasises the responsibility of individuals for themselves, its labour market is not regulated and its competition policy is rather ambitious. Social transfers are smaller than in the other models, more targeted and "means tested". Labour relations are decentralised, and bargaining takes place primarily at the firm level. In the Mediterranean countries, social transfers are small; families still play a significant role in the provision of security and shelter. Trade unions and employer representatives are important to the rather centralised bargaining process for wages and work conditions. Employment rates, specifically those of women, are low.

Figure 1: Performance: Growth of GDP in different socio-economic models; 1995=100



S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

The Scandinavian Model is practised in five countries, namely the three countries with the best (overall) performances over the past 15 years (called the top 3 countries in Aiginger, 2004) plus Norway and the Netherlands. The inclusion of the Netherlands in this group is the most contentious choice, because the Dutch model is less ambitious, redistributes less and places less emphasis on gender equality (at least up to the nineties)[3]. We pool five countries in the Continental Model - France, Germany and Italy, which are the three big continental countries, plus Belgium and Austria, two high-growth countries with top positions in per capita GDP.[4] It is striking that the Social Model typology groups Germany and France together into one group. When analysed in terms of intervention (high in France, low in Germany), mode of industrial policy (sectoral in France, horizontal in Germany) or the importance of nationalisation and competition policy (with France favouring nationalised champions, while in Germany competition policy is similar to a holy grail), these two countries would be ascribed to different models. But the literature is undivided when it comes to the inclusion of France and Germany into the same group of "Social Models". There is a certain amount of disagreement as to whether Italy fits better into this group or into the Mediterranean group. Since we have delegated Italy to the Continental group, the Mediterranean Model

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[3] Some authors classify the Netherlands as member of the Continental Model group.

[4] It is interesting that at least four of the six founding members of the EU belong to this group. The Netherlands is on the border line between the Continental and the Scandinavian Models, and Luxembourg is between the Continental and the Anglo-Saxon Models.

comprises Spain, Portugal and Greece. The Anglo-Saxon Model is championed in Europe by the United Kingdom. As far as the low degree of regulation and the social system are concerned, Ireland exhibits a certain degree of similarity to the United Kingdom, but policy interventions have been intense, as is typical of a catching-up country: high shares of inward FDI, low taxes for business, and a regional policy supporting small and medium sized firms. In Europe, these strategies are now the paradigm for catching-up economies. Comparing the structure and success of the models, it often makes more sense to look at the figures for the United Kingdom alone, than at the average for the "Anglo-Saxon European countries", since the unweighted average for the indicators is heavily influenced by Ireland (see Figure 1). Outside of Europe, we group Canada, the USA, New Zealand and Australia together, under the heading "Anglo-Saxon Model Overseas".

Table 2: Performance: Growth and productivity in different socio-economic models 1995/2005

	Real GDP	GDP per capita	GDP per worker	GDP per hour	GDP per capita at PPP 2005
		Annual growth 1995 / 2005 in %			1,000 €
Scandinavian Model	***2.7***	***1.7***	***1.8***	***3.1***	***28.93***
Denmark	2.1	1.6	1.6	2.2	28.30
Finland	3.6	2.2	2.1	4.3	26.90
Netherlands	2.2	0.7	1.0	2.6	27.34
Sweden	2.7	2.1	2.1	3.1	27.05
Norway	2.9	2.0	2.0	3.5	35.05
Continental Model	***1.9***	***1.1***	***1.1***	***2.5***	***25.90***
Germany	1.4	1.1	0.9	2.0	24.56
France	2.2	1.1	1.2	3.3	25.61
Italy	1.4	0.4	0.6	1.8	24.03
Belgium	2.1	1.3	1.2	2.7	27.28
Austria	2.2	1.7	1.5	2.7	28.00
Anglo-Saxon Model Europe	***5.1***	***2.7***	***2.6***	***6.2***	***29.74***
Irland	7.5	3.7	3.3	9.3	31.55
United Kingdom	2.8	1.7	1.8	3.1	27.93
Mediterrean Model	***3.1***	***1.5***	***1.5***	***3.4***	***19.53***
Greece	3.7	2.7	2.7	3.7	19.23
Portugal	2.2	1.1	1.1	3.2	16.75
Spain	3.2	0.7	0.7	3.4	22.62
Anglo-Saxon Model Overseas	***3.4***	***1.7***	***1.7***	***3.7***	***28.88***
USA	3.3	2.1	2.2	3.6	36.10
Canada	3.3	1.4	1.4	3.7	29.47
Australia	3.8	2.0	2.1	4.1	28.10
New Zealand	3.1	1.2	1.0	3.4	21.83
EU 15	***2.1***	***1.1***	***1.2***	***2.7***	***25.11***
Japan	1.1	1.3	1.4	1.7	25.88
Catching-up Model	***3.1***	***2.4***	***2.9***	***3.2***	***15.52***
Czech Republic	2.3	1.8	2.8	2.6	16.46
Hungary	3.8	3.0	3.0	3.8	14.58
EU 15/USA	0.64	0.51	0.51	0.75	0.70

S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).
GDP per hour: 1990 – 2004; Czech Republic and Hungary: 1999 – 2005 (2004).

3. Economic performance in Europe vs. the US and according to type of model

In Europe, growth has been lagging behind that of the US since the early or mid nineties. If we take 1995 as the starting point, the US enjoyed annual growth of 3.4 % vs. 2.1 % in the EU-15 (1995 to 2005, see Table 1). The difference is due to higher growth in productivity per worker, namely 2.2 % vs. 1.2 % and to higher growth in employment, which was 1.2 % vs. 0.9 %. Although Europe chose a more labour intensive growth path, unemployment decreased only slightly from 10 % in 1995 to 8.0 % in 2005. The absolute difference in productivity per worker, which had narrowed throughout most of the post war period, thus increased from 20 % to 35 % per worker and from 5 % to 9 % per hour.

Table 3: Employment and unemployment

	Unemployment rate				Employment rate			
	1980	1990	2000	2005	1980	1990	2000	2005
Scandinavian Model	***3.9***	***4.6***	***5.2***	***5.7***	***73.7***	***74.7***	***74.7***	***74.3***
Denmark	4.9	7.2	4.4	4.9	76.9	76.5	78.2	77.4
Finland	4.7	3.2	9.8	8.4	72.8	73.9	66.4	68.0
Netherlands	6.2	5.8	2.9	5.2	63.8	65.0	75.1	74.5
Sweden	2.0	1.7	5.6	5.9	79.8	83.0	74.6	73.6
Norway	1.7	5.2	3.4	4.0	75.4	74.8	79.1	77.9
Continental Model	***5.0***	***6.7***	***7.4***	***7.8***	***65.6***	***64.1***	***65.9***	***66.5***
Germany	3.5	6.2	7.2	9.7	67.6	69.3	69.3	69.4
France	6.1	8.5	9.1	9.4	64.7	61.2	63.4	63.7
Italy	7.1	8.9	10.1	7.9	57.9	57.4	59.0	61.9
Belgium	7.4	6.6	6.9	7.7	59.0	58.3	61.5	61.9
Austria	1.1	3.1	3.7	4.1	79.0	74.5	76.2	75.8
Anglo-Saxon Model Europe	***6.8***	***10.2***	***4.9***	***4.7***	***64.6***	***63.1***	***69.2***	***70.3***
Irland	8.0	13.4	4.3	4.6	59.8	54.6	66.5	67.7
United Kingdom	5.6	6.9	5.4	4.7	69.4	71.6	71.9	72.8
Mediterrean Model	***6.3***	***8.1***	***8.9***	***9.3***	***59.6***	***58.8***	***60.3***	***61.6***
Greece	2.7	6.4	11.3	10.5	52.8	53.2	52.5	54.5
Portugal	7.6	4.8	4.1	7.0	73.8	70.0	71.1	70.7
Spain	8.5	13.1	11.3	10.4	52.3	53.2	57.3	59.7
Anglo-Saxon Model Overseas	**5.6**	**7.1**	**5.8**	**5.5**	**66.4**	***68.0***	***69.7***	***70.3***
USA	7.1	5.5	4.0	5.2	71.0	77.8	79.6	76.1
Canada	7.5	8.1	6.8	7.0	67.0	71.2	72.6	74.4
Australia	5.9	7.0	6.2	5.5	67.3	69.2	70.9	71.8
New Zealand	2.0	7.8	6.0	4.2	60.1	53.7	55.7	58.9
EU 15	***5.6***	***7.5***	***7.6***	***8.0***	***64.3***	***64.3***	***65.8***	***66.7***
Japan	2.0	2.1	4.7	4.3	74.4	74.6	77.3	77.1
Catching-up Model	.	.	***7.5***	***7.3***	.	.	***61.3***	***61.5***
Czech Republic	.	.	8.7	8.3	.	.	67.2	66.8
Hungary	.	.	6.3	6.3	.	.	55.3	56.2
EU 15/USA	0.80	1.36	1.90	1.54	0.91	0.83	0.83	0.88

S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Looking at the growth dynamics in the various types of models, the long-run dynamics are all very similar. Taking 1960/1990, for example, the long-term growth rates range between 3.3 % and 3.6 % for three European models (Scandinavian, Continental, and Anglo-Saxon), as well as for the Anglo-Saxon Overseas group. It is higher only in the Mediterranean Model, and there is little variation within models (with lowest growth rates for the United Kingdom and New Zealand; see Table 1). Performance in the nineties diverged. The countries in the Mediterranean model group came closest to the US, with a growth rate of 3.1 % for GDP, partly since the initial starting point was at a relatively low level of GDP per capita. The Scandinavian group followed with 2.7 % and the UK with 2.8 %. Grouping the United Kingdom and Ireland together in an "Anglo-Saxon Model Europe" would yield a growth rate higher than that of the US. However, this would be due to the extraordinary growth which has taken place in Ireland (and which has depended on economic policy interventions not characteristic of liberal models). The growth rates of the countries associated with the Continental Model were less than 2 %, due to low growth in Germany and Italy. France, Austria, and Belgium surpassed the group average, but did not reach the level of dynamics attained by the Nordic group.

Figure 2: Employment and unemployment

S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

This evidence is supported and expanded in Aiginger (2004), who uses a set of 12 indicators on the dynamics of output, productivity and employment, as well as on the level and change of unemployment and fiscal balances to derive a more comprehensive "performance evaluation" of countries since 1995. Aside from the Irish growth experience, Sweden, Finland, and Denmark have been the best performers and were therefore designated by Aiginger (2004) as the "top countries". The three big continental countries, which exhibited low dynamics, inferior employment records and high fiscal deficits, are grouped together at the lower end of the hierarchy.

In his analysis, Aiginger (2004) illustrates that the strong performance of the top countries is based upon three pillars, which comprise the foundation of the so-called 3-tier strategy. First, these countries contained private and public costs in order to restore profitability and fiscal prudence. Secondly, they improved incentives by fine-tuning their welfare systems and deregulating part-time work and product markets. And thirdly, they significantly increased investment in future growth, surpassing the investments of larger European economies in research input and output, in education expenditures and quality, and in information technology. In contrast, the large continental economies (France, Germany and Italy) underperformed in terms of investment in growth drivers, refrained from labour market reform and ran into persistent fiscal deficits.

4. The role of government and the importance of investing into the future

Europe has a much larger government sector, higher social expenditures and is more regulated. But these tendencies differ across countries and models, and the data reveal that some important changes have been taking place.

Government revenues in % of GDP are 45.3 % in Europe and 29.5 % in the US. This difference in taxation widened from 10 in 1990 to 16 percentage points in 2005, since the tax rate[5] increased by 2 ½ % in Europe and decreased by 4 ½ % in the US. Revenues in % of GDP decreased slightly in the Scandinavian countries (where the tax rates are still the highest) and increased in the countries associated with the Continental Model, with the difference thus narrowing from 8 percentage points in 1990 to 5 ½ percentage points in 2005. Tax rates decreased in Ireland and increased marginally in the United Kingdom. They also increased in the Mediterranean countries, narrowing the difference from below to the EU average to less than three percentage points.

Starting from a level lower than in Europe, the decrease in US government expenditures was somewhat greater than in the EU. However, this trend may soon be reversed, as the US has increased spending recently. Within Europe, the decline in expenditures has been strongest in

[5] Revenues in % of GDP comprise taxes proper, contribution to social security, duties and irregular revenues. The difference between Europe (EU 15; unweighted) and the US in revenue/GDP ratio is 46.2 % vs. 31.6 % according to OECD in 2005.

Scandinavia (by three percentage points). In the continental countries, the share of government expenditures increased in France and Germany, although the other three continental countries more than compensated for this tendency, leading to a small reduction in the unweighted average. The government expenditure rate increased in the United Kingdom between 1990 and 2005 (after a reduction during the decades before) and has been stable in the Mediterranean countries.

Table 4: National finances

	Public revenues				Public expenditures				Budget deficit			
	1980	1990	2000	2005	1980	1990	2000	2005	1980	1990	2000	2005
						In % of GDP						
Scandinavian Model	***49.3***	***53.9***	***56.2***	***52.8***	***50.0***	***53.6***	***49.7***	***50.5***	***-1.0***	***-1.9***	***6.5***	***2.3***
Denmark	51.3	56.0	56.7	56.5	53.5	57.0	54.2	54.5	-2.4	-1.0	2.5	2.0
Finland	44.5	54.0	56.2	51.9	40.6	48.6	49.1	50.5	3.9	5.5	7.1	1.4
Netherlands	52.0	49.5	47.5	45.8	56.0	54.8	45.3	47.9	-4.0	-5.3	2.2	-2.1
Sweden	.	.	62.3	57.8	.	.	57.4	57.0	-8.1	-10.7	5.0	0.8
Norway	.	56.2	58.2	52.0	.	54.0	42.6	42.7	5.4	2.2	15.6	9.3
Continental Model	***44.6***	***46.0***	***48.7***	***47.2***	***48.8***	***51.1***	***49.2***	***49.7***	***-4.3***	***-5.0***	***-0.4***	***-2.5***
Germany	45.3	42.8	47.1	43.6	48.4	44.9	45.7	47.0	-3.0	-2.0	1.3	-3.3
France	46.5	48.6	51.2	51.5	46.5	50.7	52.6	54.5	0.0	-2.1	-1.4	-3.0
Italy	34.6	42.6	46.2	44.6	41.7	54.3	46.9	48.2	-7.1	-11.8	-0.7	-3.6
Belgium	46.8	46.6	49.5	49.1	56.3	53.4	49.3	49.4	-9.5	-6.8	0.1	-0.2
Austria	49.7	49.7	49.8	47.4	51.2	52.0	51.4	49.5	-1.7	-2.4	-1.6	-2.1
Anglo-Saxon Model Europe	***42.4***	***40.6***	***38.8***	***37.7***	***45.6***	***42.8***	***34.7***	***39.5***	***-3.2***	***-2.2***	***4.1***	***-1.8***
Irland	.	40.5	36.3	34.5	.	43.3	31.9	35.1	.	-2.8	4.4	-0.6
United Kingdom	42.4	40.6	41.2	40.9	45.6	42.2	37.4	44.0	-3.2	-1.6	3.8	-3.0
Mediterrean Model	***28.5***	***36.2***	***43.1***	***42.4***	***34.8***	***45.9***	***45.7***	***45.6***	***-6.3***	***-9.7***	***-2.7***	***-3.2***
Greece	.	34.5	47.9	44.3	.	50.2	52.1	48.8	.	-15.7	-4.2	-4.5
Portugal	27.8	35.4	42.3	42.5	35.3	42.0	45.2	47.4	-7.5	-6.6	-2.9	-4.9
Spain	29.3	38.8	39.1	40.4	34.4	45.5	40.0	40.4	-5.1	-6.7	-0.9	0.0
Anglo-Saxon Model Overseas	**31.4**	**39.7**	**38.3**	**33.1**	**35.3**	***44.7***	***37.6***	***33.5***	***-3.3***	***-4.4***	***1.4***	**-1.1**
USA	31.1	31.7	34.2	29.5	33.8	36.0	32.5	33.5	-2.6	-4.3	1.6	-4.0
Canada	.	43.7	44.3	.	.	49.6	41.3	.	-4.1	-5.9	3.1	1.8
Australia	31.7	34.3	36.3	36.6	36.9	39.2	38.9	.	-3.0	-2.7	-0.6	.
New Zealand	.	49.2	.	.	.	53.8	.	.	.	-4.6	.	.
EU 15	***41.3***	***43.3***	***46.8***	***45.3***	***45.7***	***48.9***	***45.8***	***47.9***	***-3.1***	***-4.6***	***1.0***	***-2.5***
Japan	28.9	34.3	32.2	31.8	33.5	32.3	39.6	38.4	-4.5	2.0	***-7.5***	-6.6
Catching-up Model	***.***	***.***	***41.9***	***42.9***	***.***	***.***	***44.9***	***47.1***	***.***	***.***	***-3.0***	***-4.2***
Czech Republic	.	.	38.5	41.8	.	.	42.1	46.3	.	.	-3.7	-4.5
Hungary	.	.	45.3	44.0	.	.	47.7	47.9	.	.	-2.4	-3.9
EU 15/USA	1.33	1.37	1.37	1.54	1.35	1.36	1.41	1.43	1.18	1.08	0.59	0.63

S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).
Taxes: Australia up to 2002; budget deficit EU 15 1980 und 1990 ECO (Euro countries).

The most striking differences are evident in the budget position. Europe's deficit shrank from 4.6 % to 2.5 %, while it remained at about 4 % in the US (with a surplus up to 2000, followed by a rapidly deteriorating balance since then). The Scandinavian countries, which had a deficit of 2 % in 1990, now enjoy a surplus of 2.3 %. This fiscal prudence is part of the change in strategies implemented by the Scandinavian countries, which have not been known before for budgetary discipline.[6] The corporatist countries were able to reduce their deficits from 5 % to 2.5 %, but this overall trend was made possible by the large reductions in Italy and Belgium, while Germany and France increased their deficits. The Mediterranean countries managed to reduce their deficits thanks to their successful campaigns for the introduction of the Euro but deficits here increased again somewhat since 2000. The United Kingdom enjoyed budgetary surpluses up to 2000, but now has a deficit in the 3 % range.

This paper directs its attention towards the crucial institutional elements of the new Socio-Economic Model of Europe; we do not take short-term macroeconomic policies into our focus. Nevertheless, it should be kept in mind that "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." (Bailey and Kierkegaard, 2004, p. 18; see also Sapir et al., 2004 and Fitoussi and Kostoris Padoa Schioppa, 2005).

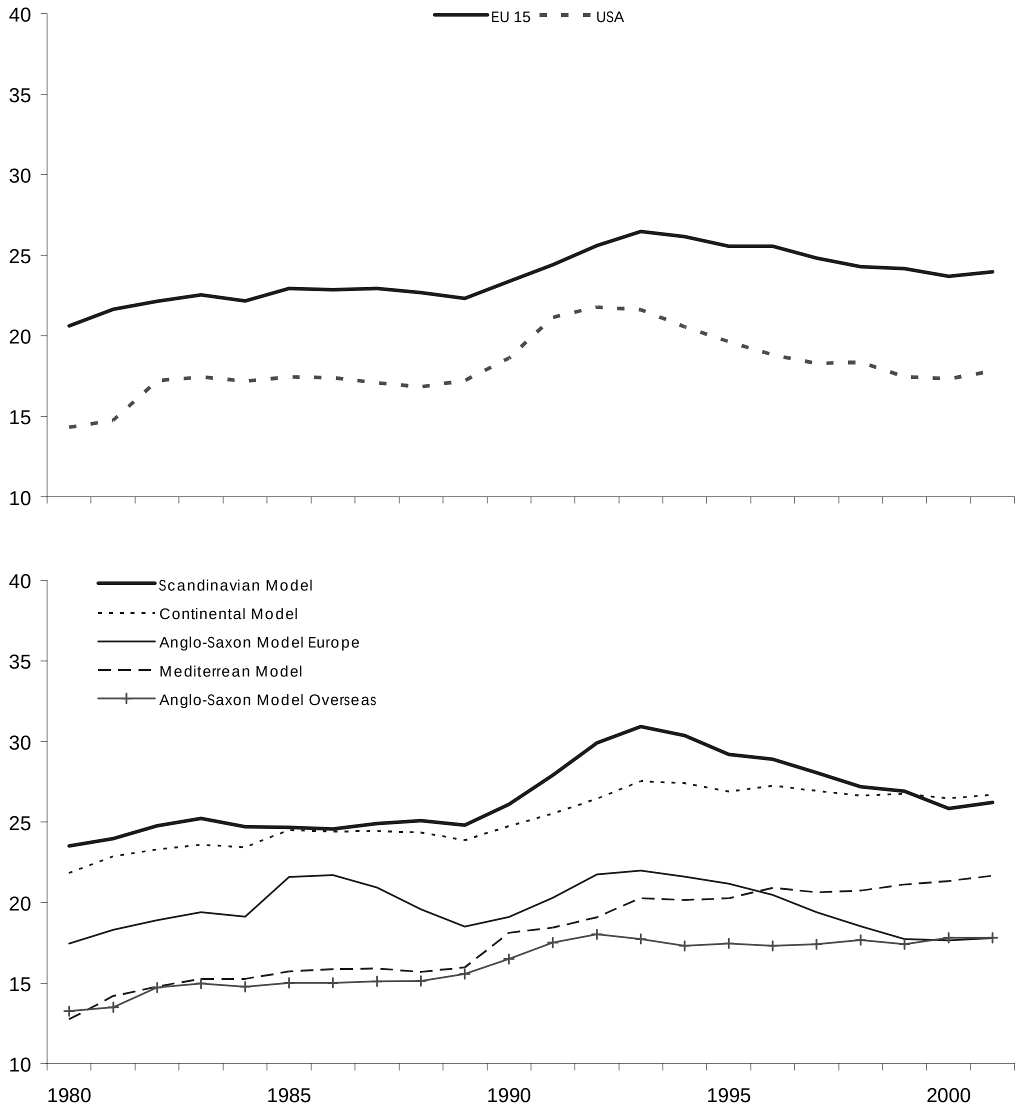
Table 5: Social expenditures (private plus public)

	Total social expenditures		Old age		Survivors		Incapacity related benefits		Health		Family		Unemployment		Housing	
	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002
	In % of GDP															
Scandinavian Model	***27.8***	***27.7***	***9.0***	***9.6***	***0.9***	***0.9***	***4.0***	***3.8***	***7.4***	***7.6***	***3.1***	***2.8***	***2.3***	***1.8***	***0.4***	***0.4***
Denmark	27.9	29.1	10.2	11.0	.	.	2.8	3.7	5.6	6.1	3.3	3.9	4.3	2.7	0.7	0.7
Finland	24.2	25.6	7.2	8.4	1.0	1.0	3.8	3.4	6.9	6.4	3.3	3.0	1.5	2.5	0.2	0.3
Netherlands	29.6	26.7	9.5	9.5	1.6	1.5	4.9	3.0	8.4	8.3	1.7	1.2	2.5	1.4	0.3	0.4
Sweden	31.6	31.3	10.5	11.7	0.7	0.7	4.2	4.3	8.6	8.6	4.6	3.0	1.4	1.7	0.7	0.6
Norway	25.6	25.8	7.7	7.4	0.4	0.4	4.1	4.6	7.7	8.8	2.8	3.1	1.8	0.7	0.2	0.2
Continental Model	***25.1***	***27.6***	***9.7***	***11.2***	***2.1***	***2.1***	***2.1***	***2.1***	***2.1***	***2.1***	***2.1***	***2.4***	***1.8***	***2.0***	***0.2***	***0.2***
Germany	24.4	29.4	10.6	12.0	0.6	0.5	1.5	2.3	7.8	8.3	1.8	3.1	1.5	2.5	0.2	0.2
France	26.5	29.0	9.6	10.6	1.8	1.9	1.7	1.7	7.5	8.6	2.7	2.7	2.3	2.2	0.8	0.9
Italy	23.7	25.1	11.2	12.9	2.4	2.6	1.7	1.5	6.6	6.5	1.0	1.0	0.6	0.4	.	.
Belgium	25.1	26.2	7.6	8.8	2.9	2.6	1.9	2.4	6.6	6.3	2.3	2.2	3.4	3.2	.	.
Austria	25.7	28.3	9.6	11.5	2.9	2.5	1.8	2.1	7.2	7.1	2.6	3.0	1.2	1.5	0.1	0.1
Anglo-Saxon Model Europe	***19.8***	***21.0***	***6.6***	***7.1***	***1.1***	***0.9***	***1.4***	***1.7***	***5.7***	***6.9***	***2.0***	***2.1***	***2.0***	***1.1***	***1.0***	***1.0***
Irland	17.6	15.4	4.2	2.8	1.2	0.8	0.8	0.8	6.0	6.4	2.0	2.4	2.6	1.3	0.6	0.5
United Kingdom	21.9	26.6	9.0	11.3	0.9	1.0	2.0	2.5	5.3	7.3	2.0	1.8	1.3	0.9	1.3	1.5
Mediterrean Model	***18.5***	***22.8***	***7.7***	***9.7***	***0.8***	***1.0***	***1.7***	***1.8***	***5.4***	***6.6***	***0.9***	***1.1***	***1.6***	***1.7***	***0.3***	***0.4***
Greece	21.5	25.9	10.9	12.2	0.6	0.9	1.5	1.3	5.3	6.8	1.6	1.8	0.9	1.6	0.5	0.6
Portugal	14.6	22.9	4.7	8.6	1.0	1.6	2.2	2.6	5.2	7.1	0.9	1.1	0.4	0.9	.	.
Spain	19.4	19.7	7.4	8.3	0.9	0.6	1.5	1.5	5.6	5.9	0.3	0.5	3.5	2.7	0.1	0.2
Anglo-Saxon Model Overseas	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
USA	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Canada	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Australia	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
New Zealand	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
EU 15	***24.4***	***26.9***	***9.7***	***11.0***	***1.3***	***1.3***	***2.0***	***2.2***	***6.8***	***7.5***	***1.9***	***2.2***	***1.8***	***1.8***	***0.5***	***0.6***
Japan	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Catching-up Model	***.***	***20.2***	***.***	***8.3***	***.***	***0.2***	***.***	***1.9***	***.***	***6.4***	***.***	***2.1***	***.***	***0.7***	***.***	***0.3***
Czech Republic	.	19.9	.	8.1	.	0.1	.	1.7	.	7.0	.	1.6	.	0.7	.	0.1
Hungary	.	20.4	.	8.5	.	0.3	.	2.1	.	5.7	.	2.6	.	0.6	.	0.5

S: Eurostat (ESSOSS);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

[6] Alesina and Ardagna (1998, p. 308) define episodes of loose fiscal policies for OECD countries between 1960 and 1994. Finland and Sweden lead the table with 10 loose periods, Norway and Denmark have five and six respectively, while the average amounts to three per country.

Figure 4: Public social expenditures as a percentage of GDP



S: OECD;
As to sub-aggregates and EU 15 unweighted average over countries.

Social expenditures appear to differ significantly between the US and Europe, when the measurements are confined to public expenditures only. The social expenditures/GDP ratios are 24 % in Europe and 14.8 % in the US (both are increasing slightly). If we look at total expenditures and take private and public expenditures into account, the difference narrows, although measurement is difficult and there are large differences between gross and net expenditures (transfers can be taxed and tax breaks can substitute for expenditures). The difference is due partly to the higher amount of expenditures on pensions in Europe. Differences between European countries have narrowed. The Scandinavian countries reduced their social expenditures relative to GDP marginally, while the continental countries increased theirs by 2 ½ %, so that the rates of the two regions have begun to converge. The increase in the rate of social expenditures for the continental group can be attributed to rising pension expenditures; the reduction in Nordic countries is due to lower expenditures on unemployment. Countries in the Anglo-Saxon group have increased their social expenditures, with the United Kingdom coming very close to the EU average. Here we see that although expenditure shares in the UK allocated to families and to the unemployed are at a low level and falling, shares for pensions are on the rise.

Table 6: Product market regulation

	Product market		Administrative		Economic regulation	
	1998	2003	1998	2003	1998	2003
Scandinavian Model	***1.9***	***1.3***	***2.0***	***1.4***	***2.4***	***1.7***
Denmark	1.4	1.1	1.2	1.1	2.0	1.4
Finland	2.1	1.3	2.6	1.3	2.6	1.9
Netherlands	1.8	1.4	2.3	2.4	2.2	1.5
Sweden	1.8	1.1	2.1	1.1	1.9	1.4
Norway	2.4	1.4	1.6	1.1	3.2	2.3
Continental Model	***2.1***	***1.5***	***2.6***	***1.7***	***2.6***	***1.9***
Germany	1.8	1.3	2.6	1.9	2.1	1.6
France	2.4	1.6	3.2	1.5	2.7	2.2
Italy	2.7	1.8	3.1	1.6	3.5	2.4
Belgium	1.9	1.4	2.1	1.9	2.5	2.0
Austria	1.8	1.3	1.8	1.8	2.3	1.5
Anglo-Saxon Model Europe	***1.3***	***1.0***	***1.4***	***1.1***	***1.6***	***1.3***
Irland	1.4	1.0	1.5	1.2	1.7	1.3
United Kingdom	1.1	0.9	1.3	0.9	1.5	1.3
Mediterrean Model	***2.3***	***1.6***	***2.5***	***2.0***	***2.0***	***2.0***
Greece	2.7	1.7	2.5	1.7	3.3	2.1
Portugal	2.2	1.7	2.3	2.3	2.9	2.2
Spain	2.1	1.5	2.8	2.0	2.5	1.9
Anglo-Saxon Model Overseas	***1.4***	***1.1***	***1.4***	***1.0***	***1.4***	***1.2***
USA	1.3	1.0	1.5	1.0	1.3	1.2
Canada	1.4	1.1	1.1	0.7	1.5	1.4
Australia	1.3	0.9	1.2	1.0	1.6	1.1
New Zealand	1.5	1.2	1.6	1.3	1.2	1.1
EU 15	***1.9***	***1.4***	***2.2***	***1.6***	***2.4***	***1.8***
Japan	1.9	1.3	2.8	1.7	1.9	1.4
Catching-up Model	***2.7***	***1.8***	***2.0***	***1.9***	***3.1***	***2.2***
Czech Republic	2.9	1.6	2.4	2.3	2.8	1.8
Hungary	2.4	2.0	1.6	1.5	3.3	2.6
EU 15/USA	1.49	1.36	1.50	1.62	1.85	1.47

S: OECD (ECO/CPE/WP1(2004)9/ANN3); Index between 0 (unregulated) and 6 (regulated).
Remark: administrative regulation = licence and permits system, communication and simplification of rules and procedures, administrative burdens for corporations, administrative burdens for sole proprietor firms, sector-specific administrative burdens; economic regulation = scope of public enterprise sector, size of public enterprise sector, direct control over business enterprises, use of command and control regulation, price controls, legal barriers, antitrust exemptions.
As to sub-aggregates and EU 15 unweighted average over countries.

Regulation of product as well as of labour markets is much higher in Europe than in the US. The differences have been existing over a long time (including that period in which productivity increase in Europe surpassed dynamics in the US), if anything the differences are narrowing.[7] However differences within European models are quite large too. The empirical data were collected by OECD and are partly qualitative assessments, they are scaled from 0 (no regulation) to 6 (highly regulated) and exist for product market regulation between 1998 and 2003 and for labour market regulation between 1990 and 2003.

Product market regulation is rated as low (1.4) and pretty similar across the four countries of the Anglo-Saxon Model Overseas and declined between 1999 and 2003 to a value of 1.1. It was rated as 1.9 in Europe and declined to 1.4 in 2003. It is pretty similar to the US - in fact marginally lower - in Ireland and the United Kingdom. Countries of the Scandinavian Model had product markets as regulated as on European average in 1998, now they are as deregulated as in the Anglo-Saxon countries, specifically in Denmark and in Sweden. The countries of the continental model started and ended with a marginally higher regulated product market, with Italy and France lagging Germany and Austria as far as product market deregulation is concerned. The Mediterranean countries have more regulated product marketa.

As far as labour markets are concerned the differences between the Angle-Saxon countries on the one side and that of the European countries in general and the continental countries in specific are much larger. The differences between Europe and the US seem to narrow a little bit, but there are some statistical changes in 1998 which are biasing the low figures for the US and UK somewhat up. Scandinavian countries have traditionally somewhat less regulated labour markets and kept this advantage. Specifically Denmark and Finland have now considerably less regulated labour markets (indices: 1.8, 2.1 respectively) than France (2.8), Germany and Belgium. An interesting feature is that the Scandinavian countries did not change the regulations for regular contracts (they are marginally more regulated than that of the continental model countries), but for temporary contracts. Specifically Sweden, Denmark and the Netherlands cancelled most administrative limits for temporary contracts (while providing pro rata benefits to them), and temporary contracts are now much less regulated than in countries of the Continental Model (with the exception of Germany and Austria). Regulation is more strictly for all contracts in the countries of the Mediterranean Model.

[7] Papers claiming that the differences in regulation explain the underperformance of Europe vs. the US have therefore to claim that a given degree of regulation is more detrimental in periods of rapid change (globalisation)

Table 7: Labour market regulation

	Labour market regulation total			Regular contracts			Temporary contracts			Collective dismissals	
	1990	1998	2003	1990	1998	2003	1990	1998	2003	1998	2003
Scandinavian Model	***2.7***	***2.3***	***2.3***	***2.5***	***2.4***	***2.4***	***3.0***	***1.8***	***1.8***	***3.4***	***3.4***
Denmark	2.3	1.8	1.8	1.5	1.5	1.5	3.1	1.4	1.4	3.9	3.9
Finland	2.3	2.2	2.1	2.8	2.3	2.2	1.9	1.9	1.9	2.6	2.6
Netherlands	2.7	2.3	2.3	3.1	3.1	3.1	2.4	1.2	1.2	3.0	3.0
Sweden	3.5	2.6	2.6	2.9	2.9	2.9	4.1	1.6	1.6	4.5	4.5
Norway	2.9	2.7	2.6	2.3	2.3	2.3	3.5	3.1	2.9	2.9	2.9
Continental Model	***3.0***	***2.7***	***2.5***	***2.3***	***2.3***	***2.2***	***3.7***	***2.7***	***2.3***	***3.6***	***3.6***
Germany	3.2	2.6	2.5	2.6	2.7	2.7	3.8	2.3	1.8	3.5	3.8
France	2.7	2.8	2.9	2.3	2.3	2.5	3.1	3.6	3.6	2.1	2.1
Italy	3.6	3.1	2.4	1.8	1.8	1.8	5.4	3.6	2.1	4.9	4.9
Belgium	3.2	2.5	2.5	1.7	1.7	1.7	4.6	2.6	2.6	4.1	4.1
Austria	2.2	2.4	2.2	2.9	2.9	2.4	1.5	1.5	1.5	3.3	3.3
Anglo-Saxon Model Europe	***0.8***	***1.1***	***1.2***	***1.3***	***1.3***	***1.4***	***0.3***	***0.3***	***0.5***	***2.7***	***2.7***
Irland	0.9	1.2	1.3	1.6	1.6	1.6	0.3	0.3	0.6	2.4	2.4
United Kingdom	0.6	1.0	1.1	0.9	0.9	1.1	0.3	0.3	0.4	2.9	2.9
Mediterrean Model	***3.8***	***3.4***	***3.2***	***3.7***	***3.1***	***3.1***	***4.0***	***3.7***	***3.2***	***3.3***	***3.3***
Greece	3.6	3.5	2.9	2.5	2.3	2.4	4.8	4.8	3.3	3.3	3.3
Portugal	4.1	3.7	3.5	4.8	4.3	4.3	3.4	3.0	2.8	3.6	3.6
Spain	3.8	3.0	3.1	3.9	2.6	2.6	3.8	3.3	3.5	3.1	3.1
Anglo-Saxon Model Overseas	***0.7***	***1.0***	***1.2***	***1.0***	***1.1***	***1.2***	***0.5***	***0.5***	***0.7***	***2.3***	***2.3***
USA	0.2	0.7	0.7	0.2	0.2	0.2	0.3	0.3	0.3	2.9	2.9
Canada	0.8	1.1	1.1	1.3	1.3	1.3	0.3	0.3	0.3	2.9	2.9
Australia	0.9	1.5	1.5	1.0	1.5	1.5	0.9	0.9	0.9	2.9	2.9
New Zealand	1.0	0.8	1.3	1.5	1.4	1.7	0.5	0.4	1.3	0.4	0.4
EU 15	***2.8***	***2.5***	***2.4***	***2.5***	***2.4***	***2.3***	***3.0***	***2.2***	***2.0***	***3.4***	***3.4***
Japan	2.1	1.9	1.8	2.4	2.4	2.4	1.8	1.6	1.3	1.5	***1.5***
Catching-up Model	***.***	***1.7***	***1.8***	***.***	***2.6***	***2.6***	***.***	***0.6***	***0.8***	***2.5***	***2.5***
Czech Republic	.	1.9	1.9	.	3.3	3.3	.	0.5	0.5	2.1	2.1
Hungary	.	1.5	1.7	.	1.9	1.9	.	0.6	1.1	2.9	2.9
EU 15/USA	13.82	3.54	3.39	12.61	11.75	11.71	10.12	7.48	6.74	1.16	1.17

S: OECD (ECO/CPE/WP1(2004)9/ANN3);
As to sub-aggregates unweighted average over countries; EU 15 unweighted average. Index between 0 = unregulated and 6 = regulated, Between 1990 and 1998 slightly changed definition: largest difference between old data and new data in the USA: 1998 old version 0,2; new version 0,7; in the United Kingdom: 1998 old version 0,6; new version 1,0.

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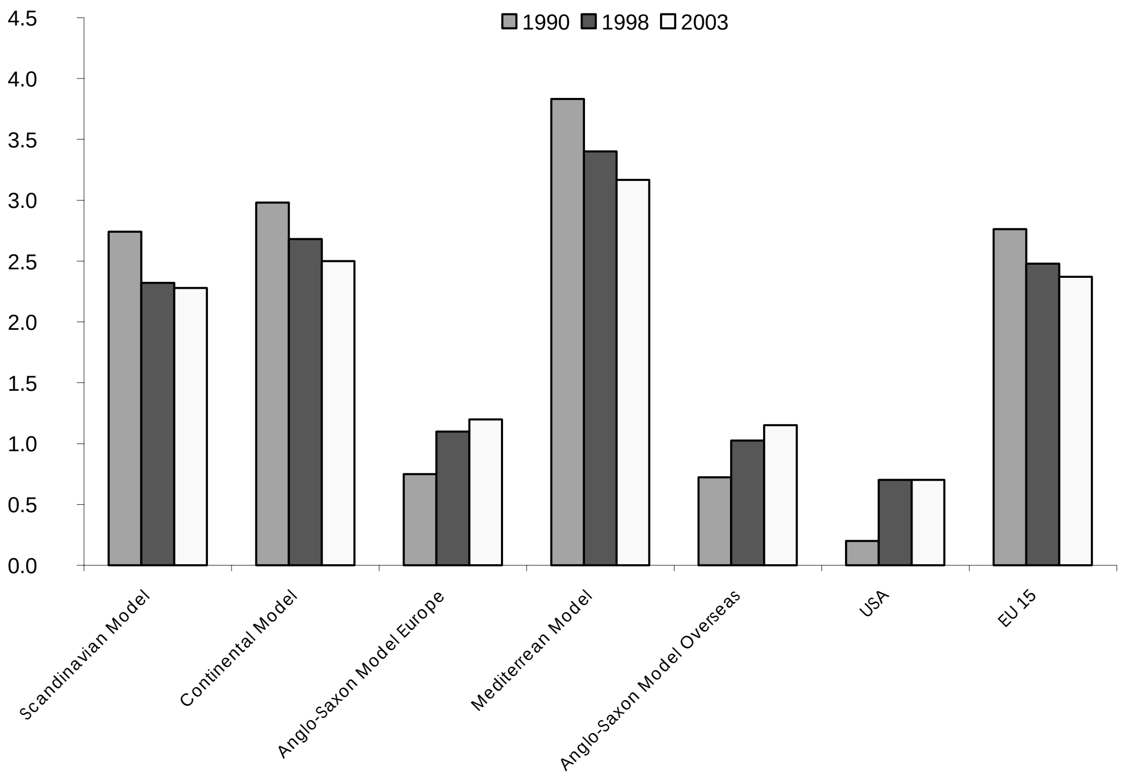
than in "calm" periods. In econometric studies this effect is captured by an interaction term (regulation is interacted with export ratios etc.). For an overview see Aiginger (2005D).

Figure 5: Labour market regulation



S: OECD (ECO/CPE/WP1(2004)9/ANN3);
As to sub-aggregates unweighted average over countries; EU 15 unweighted average.
Index between 0 = unregulated and 6 = regulated; between 1990 and 1998 slightly changed definition: largest difference between old data and new data in the USA: 1998 old version 0,2; new version 0,7; in the United Kingdom: 1998 old version 0,6; new version 1,0.

Labour relations

Trade Union density is low and decreasing in the US, falling from 22 % in 1980 to 15 % in 1990 and further to 13 % in 2000. It has decreased in Europe from 50 % to 43 % and 39 %. A drastic decline occurred in the United Kingdom, namely from 51 % to 31 %, with no deceleration however in the nineties relative to the eighties. Starting from a low level, it has increased slightly in the Mediterranean countries, which have now surpassed the US. It declined by ten percentage points to 33 % in the continental countries, with the exception of Belgium where it is stable. Surprisingly, the very high trade union density has not changed in Scandinavia in general, with a rate of more than 60 % and rates above 75 % in Sweden, Finland and Denmark. Collective agreements cover 82 % of employees in the Scandinavian countries, and the trend is on the rise, and they cover at least as large a share of employees in the continental countries (the rate is stable at 85 %). In the United Kingdom, the coverage of collective bargaining plunged from 70 % in 1980 to 40 % in 1990 and 30 % in 2000. The trend is upward in the Mediterranean countries. Among the countries included in the liberal overseas model, industrial relations vary significantly: the rate is steady at 80 % in Australia, but has declined to 14 % in the US.

Table 8: Labour relations in different socio-economic models

	Trade union density				Career or job-related training		Collective bargaining coverage		
	1970	1980	1990	2000	1999		1980	1990	2000
	In %				Participation rate	Average annual hours	In %		
Scandinavian Model	***55***	***64***	***62***	***61***	***51***	***18***	***76***	***76***	***82***
Denmark	60	79	75	74	53	22	70	70	80
Finland	51	69	72	76	50	18	90	90	90
Netherlands	37	35	25	23	41	15	70	70	80
Sweden	68	80	80	79	61	18	80	80	90
Norway	57	58	59	54	.	16	70	70	70
Continental Model	***39***	***43***	***36***	***33***	***35***	***11***	***85***	***87***	***85***
Germany	32	35	31	25	32	9	80	80	68
France	22	18	10	10	46	17	80	90	90
Italy	37	50	39	35	26	8	80	80	80
Belgium	41	54	54	56	41	13	90	90	90
Austria	63	57	47	37	31	9	95	95	95
Anglo-Saxon Model Europe	***49***	***54***	***45***	***35***	***45***	***15***	***70***	***40***	***30***
Irland	53	57	51	38	41	17	.	.	.
United Kingdom	45	51	39	31	49	13	70	40	30
Mediterrean Model	***.***	***36***	***25***	***22***	***19***	***19***	***19***	***19***	***19***
Greece	.	39	32	27	15	6	.	.	.
Portugal	.	61	32	24	17	7	70	70	80
Spain	.	7	11	15	25	11	60	70	80
Anglo-Saxon Model Overseas	***40***	***44***	***35***	***22***	***.***	***.***	***51***	***49***	***38***
USA	27	22	15	13	.	.	26	18	14
Canada	32	35	33	28	.	.	37	38	32
Australia	44	48	40	25	.	.	80	80	80
New Zealand	56	69	51	23	.	.	60	60	25
EU 15	***46***	***50***	***43***	***39***	***38***	***13***	***78***	***77***	***78***
Japan	35	31	25	22	.	.	25	20	15
Catching-up Model	***.***	***.***	***55***	***24***	***12***	***8***	***.***	***.***	***28***
Czech Republic	.	.	46	27	.	10	.	.	25
Hungary	.	.	63	20	12	5	.	.	30
EU 15/USA	1.72	2.25	2.88	2.99	.	.	3.00	4.28	5.57

S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries.

Part-time work

Part-time work is partly an indicator of labour market flexibility, partly dependent on labour demand relative to supply, and increasingly reflects the varying preferences of employees during their life cycle. Part-time employment used to be higher in the US, but declined from 16.4 % in 1979 to 14.1 % in 1990 and then to 13.2 % in 2004. It nearly doubled in Australia and New Zealand, and increased by 50 % in Canada. In the EU, part-time work increased in the nineties, namely from 12.2 % to 16.1 %. It is most popular in the United Kingdom, with a share of 24 % in 2004 and an increase of 4 percentage points in the nineties. The increase was even stronger in the continental countries (from 11.4 % to 16.4 %), although it started from a very low level. In the Mediterranean countries, part-time work is relatively uncommon and still does not cover a significant part of the work force. The greatest share of part-time jobs is in Scandinavia amounted to 20 %; the share is increasing most strongly in Finland and the Netherlands. In the US, as well as in Denmark, Finland and Sweden, half as few men as women are employed part time, while in the Mediterranean countries, for each man four women are on part time. In the continental countries, the rate is one to five. In general, gender relations in terms of part time work are improving in all of the models investigated. When asked whether their part-time employment is voluntary or not, 9 % of the part-time workers in the United Kingdom reported that they were not able to find full-time work, while the corresponding values were 16 % in the Nordic countries, 20 % in the continental countries and 28 % in the Mediterranean countries.

Table 9: Part-time employment and labour market programmes

	Part-time employment			Men in relation to women			Persons in labour market programmes				
	1979	1990	2004	1979	1990	2004	Training	Youth measures	Subsidised employment	Measures for the disabled	Total
	In % of full-time equivalent						In % der Labour Force 2002				
Scandinavian Model	***19.4***	***18.3***	***19.9***	***0.17***	***0.29***	***0.35***	***5.26***	***1.15***	***1.26***	***1.63***	***9.30***
Denmark	22.7	19.2	17.5	0.11	0.34	0.48	15.90	1.83	0.82	2.58	21.13
Finland	6.7	7.6	11.3	0.30	0.45	0.53	2.95	2.11	1.73	0.83	7.62
Netherlands	16.6	28.2	35.0	0.13	0.26	0.25	3.97	0.68	1.55	1.00	7.20
Sweden	23.6	14.5	14.4	0.12	0.22	0.41	2.50	0.61	1.95	0.99	6.05
Norway	27.3	21.8	21.1	0.21	0.17	0.31	0.99	0.51	0.24	2.74	4.48
Continental Model	***7.7***	***11.4***	***16.4***	***0.12***	***0.15***	***0.18***	***4.29***	***1.53***	***2.67***	***0.47***	***8.96***
Germany	11.4	13.4	20.1	0.05	0.08	0.17	1.24	1.01	0.97	0.38	3.60
France	8.1	12.2	13.4	0.14	0.20	0.20	2.27	2.69	2.45	0.55	7.96
Italy	5.3	8.8	14.9	0.28	0.22	0.20	0.10	3.12	4.52	.	7.74
Belgium	6.0	13.5	18.3	0.06	0.15	0.18	13.43	0.74	4.72	.	18.89
Austria	7.6	9.0	15.5	0.08	0.08	0.13	4.42	0.10	0.67	.	5.19
Anglo-Saxon Model Europe	***10.8***	***15.1***	***21.4***	***0.10***	***0.17***	***0.22***	***0.31***	***1.73***	***5.00***	***0.17***	***7.21***
Irland	5.1	10.0	18.7	0.16	0.21	0.20	.	1.73	5.00	.	6.73
United Kingdom	16.4	20.1	24.1	0.05	0.13	0.25	0.31	.	.	0.17	0.48
Mediterrean Model	***7.8***	***6.3***	***8.0***	***3.10***	***3.10***	***1.00***	***9.34***	***0.79***	***2.22***	***0.15***	***12.50***
Greece	.	6.7	6.0	.	0.34	0.28	2.09	0.38	0.54	0.02	3.03
Portugal	7.8	7.6	9.6	0.15	0.30	0.41	14.96	0.00	1.07	0.16	16.19
Spain	.	4.6	8.3	.	0.12	0.15	10.98	1.98	5.06	0.27	18.29
Anglo-Saxon Model Overseas	***14.7***	***18.4***	***20.2***	***0.22***	***0.32***	***0.37***	***1.38***	***2.27***	***0.82***	***1.07***	***5.54***
USA	16.4	14.1	13.2	0.34	0.43	0.43	0.94	0.44	0.35	.	1.73
Canada	12.5	17.0	18.5	0.25	0.34	0.40	1.15	0.39	0.29	.	1.83
Australia	15.9	22.6	27.1	0.15	0.29	0.39	0.85	2.98	1.52	0.83	6.18
New Zealand	13.9	19.7	22.0	0.17	0.23	0.30	2.57	5.28	1.11	1.31	10.27
EU 15	***11.0***	***12.2***	***16.1***	***0.1***	***0.20***	***0.24***	***5.78***	***1.42***	***2.39***	***0.70***	***10.28***
Japan	15.40	19.20	25.50	0.27	0.28	0.34	.	.	.	.	.
Catching-up Model	***.***	***.***	***3.4***	***.***	***.***	***0.36***	***0.94***	***0.15***	***3.65***	***0.02***	***4.67***
Czech Republic	.	.	3.10	.	.	0.29	0.70	0.15	0.59	0.02	1.46
Hungary	.	.	3.60	.	.	0.43	1.17	.	6.71	.	7.88
EU 15/USA	0.67	0.87	1.22	0.33	0.47	0.55	6.15	3.22	6.82	.	5.94

S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries.

Table 10: Part-time employment according to reason; 2001

	No full-time job found	No full-time job wanted	At general or occupational education	Own illness/disability	Other reasons	No reason specified	Support of children or adults
	In %						
Scandinavian Model	***16.3***	***49.6***	***21.5***	***4.0***	***4.5***	***7.8***	***6.2***
Denmark	13.6	50.9	31.9	3.1	.	.	.
Finland	32.8	25.5	26.6	3.1	4.9	.	6.7
Netherlands	2.5	68.8	13.2	1.2	0.9	7.7	5.6
Sweden	23.2	47.6	12.5	8.4	7.8	.	.
Norway	9.3	55.3	23.2	4.3	.	7.9	.
Continental Model	***20.3***	***26.4***	***5.3***	***2.6***	***32.3***	***6.1***	***39.1***
Germany	11.9	18.3	7.7	2.8	.	4.0	55.2
France	25.0	62.4	7.5	5.0	.	.	.
Italy	33.8	26.3	3.7	1.5	26.5	8.2	.
Belgium	20.0	8.3	1.8	2.4	44.6	.	22.9
Austria	10.8	16.7	5.9	1.4	25.9	.	39.2
Anglo-Saxon Model Europe	***11.6***	***39.9***	***16.8***	***2.0***	***19.2***	***1.5***	***37.5***
Irland	14.2	63.3	18.1	1.8	.	2.5	.
United Kingdom	9.0	16.4	15.4	2.1	19.2	0.5	37.5
Mediterrean Model	***27.9***	***21.0***	***5.9***	***8.0***	***30.2***	***1.3***	***9.2***
Greece	46.5	31.1	5.1	2.9	12.6	1.7	.
Portugal	15.9	22.3	5.3	20.3	27.1	.	9.1
Spain	21.2	9.7	7.2	0.9	50.9	0.9	9.2
EU 15	***19.2***	***34.6***	***11.2***	***4.1***	***21.5***	***4.0***	***21.8***

S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries.

Tax wedge

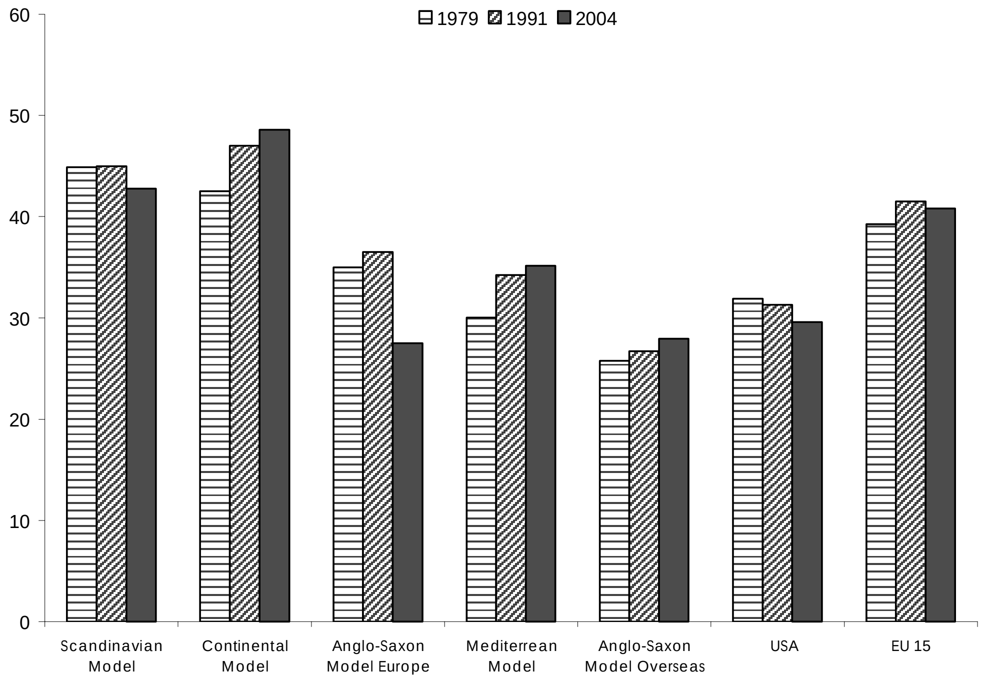
Gross expenditures per person (including social contributions and taxes) determine the labour demand of firms, net wages (after taxes) determine work incentives and disposable income and hence the consumption and savings of workers. The difference between these two figures is known as the tax wedge and is considered to be an important indicator of an economy's efficiency. The tax wedge is more than 40 % in the EU; it increased in the eighties and declined marginally (by 0.7 percentage points) between 1991 and 2004. It decreased by nearly two percentage points in the US. In Europe, the countries included in the Continental Model suffered a steep increase in their tax wedge during the eighties, surpassing the countries in the Scandinavian Model, and increasing further between 1991 and 2004 by 1.5 percentage points. At the same time, the tax wedge decreased in Scandinavia and is now about 6 percentage points lower than in the continental countries. The main difference is the high employer contributions to social security (which is paid via taxes in these countries). The tax wedge is lower and practically stable in the Mediterranean countries; it declined strongly in the Anglo-Saxon European countries, where the size of the tax wedge is presently similar to that of the US.

Table 11: Tax wedge

	Single person without children					
			Total	Employee	Employer	Income tax
	1979	1991		2004		
Scandinavian Model	***44.9***	***45.0***	***42.8***	***10.0***	***14.0***	***18.8***
Denmark	40.6	46.7	41.5	10.5	0.5	30.4
Finland	41.6	44.5	43.8	4.9	19.4	19.5
Netherlands	48.0	46.5	43.6	22.2	14.0	7.3
Sweden	50.7	46.0	48.0	5.3	24.6	18.1
Norway	43.5	41.2	36.9	6.9	11.5	18.5
Continental Model	***42.5***	***47.0***	***48.6***	***11.7***	***23.2***	***13.7***
Germany	40.8	46.4	50.7	17.3	17.3	16.2
France	.	.	47.4	9.8	28.2	9.4
Italy	45.3	48.8	45.7	6.9	24.9	14.0
Belgium	47.4	53.7	54.2	10.7	23.0	20.5
Austria	36.5	39.1	44.9	14.0	22.5	8.4
Anglo-Saxon Model Europe	***35.0***	***36.5***	***27.5***	***6.2***	***9.4***	***12.1***
Irland	33.9	39.8	23.8	4.5	9.7	9.6
United Kingdom	36.1	33.2	31.2	7.8	9.0	14.5
Mediterrean Model	***30.0***	***34.2***	***35.2***	***8.8***	***21.5***	***4.9***
Greece	25.6	33.0	34.9	12.5	21.9	0.5
Portugal	28.1	33.2	32.6	8.9	19.2	4.5
Spain	36.4	36.5	38.0	4.9	23.4	9.7
Anglo-Saxon Model Overseas	***25.8***	***26.7***	***27.9***	***6.7***	***7.6***	***18.9***
USA	31.9	31.3	29.6	7.1	7.1	15.4
Canada	23.2	29.0	32.8	6.2	10.1	16.5
Australia	21.9	22.8	28.6	.	5.7	22.9
New Zealand	26.0	23.8	20.7	.	.	20.7
EU 15	***39.3***	***41.5***	***40.8***	***10.2***	***18.0***	***12.7***
Japan	16.70	21.5	26.6	10.3	11.1	5.2
Catching-up Model	***.***	***.***	***44.7***	***9.6***	***26.4***	***8.7***
Czech Republic	.	.	43.6	9.3	25.9	8.4
Hungary	.	.	45.8	9.9	26.9	9.0
EU 15/USA	1.23	1.33	1.38	1.43	2.53	0.82

S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries.
Remark: A tax wedge is the difference between expenditures of firms (per employee) and net income per employee.

Figure 6: Tax wedge



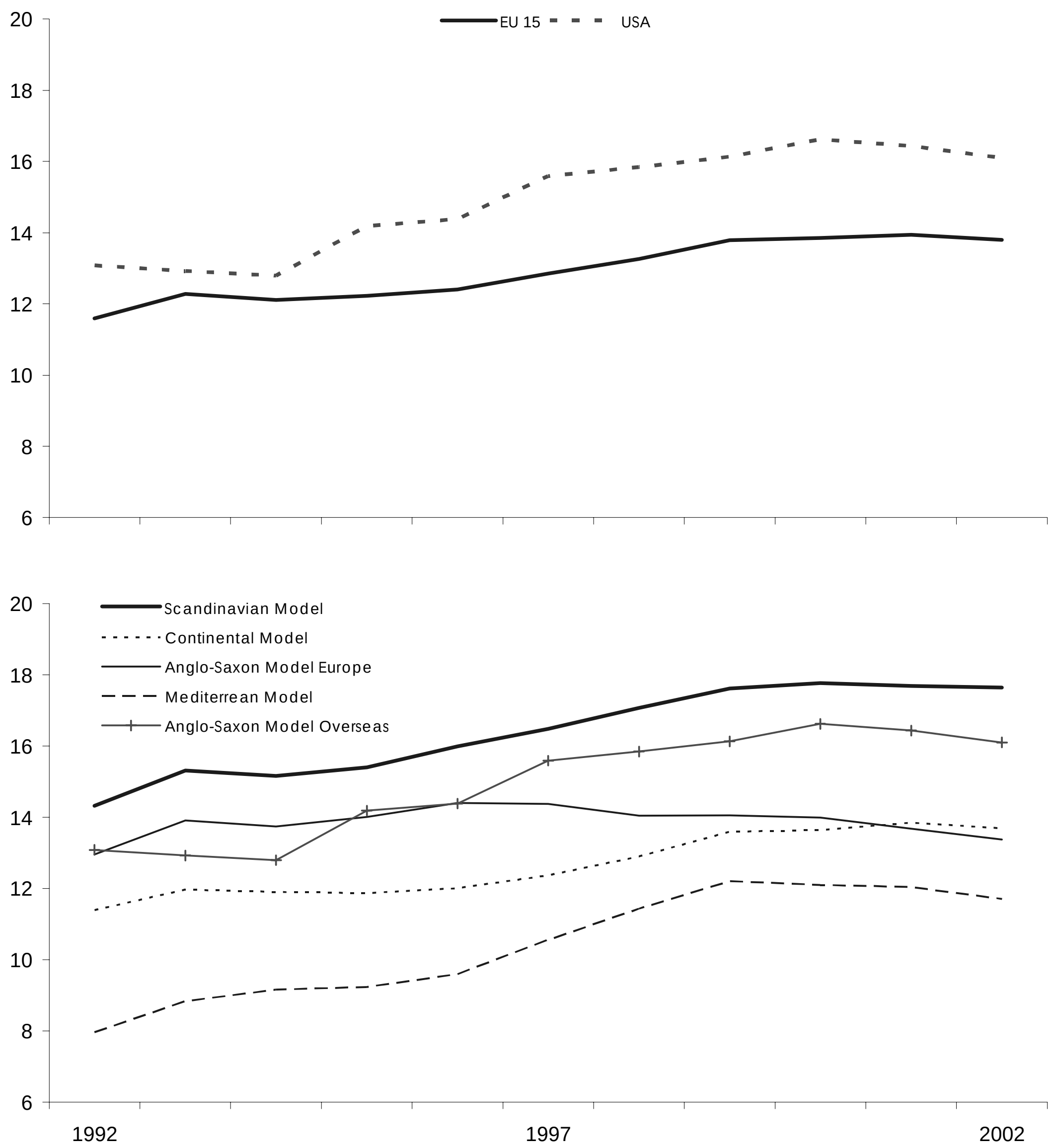
S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries. Remark: The tax wedge is the difference between the expenditures of a firm per employee and net income per employee.

Table 12: Investment into the future (growth determinants)

	Investment into the future total			Expenditure for R&D			Expenditure for education			Expenditure for ICT		
	1992	1995	2002	1992	1995	2002	1992	1995	2002	1992	1995	2002
	In % of GDP											
Scandinavian Model	***14.3***	***15.4***	***17.6***	***2.2***	***2.4***	***3.0***	***7.0***	***6.7***	***6.9***	***5.1***	***6.3***	***7.7***
Denmark	14.4	15.4	17.8	1.7	1.8	2.5	7.7	7.7	8.5	5.0	5.9	6.8
Finland	13.8	14.8	16.9	2.1	2.3	3.5	7.3	6.9	6.4	4.4	5.7	7.1
Netherlands	13.3	13.7	14.7	1.9	2.0	1.9	5.4	5.1	5.1	6.1	6.7	7.7
Sweden	15.6	17.7	21.1	3.0	3.4	4.3	7.8	7.2	7.7	4.9	7.1	9.2
Norway	.	.	.	.	.	.	.	.	.	.	.	.
Continental Model	***11.4***	***11.9***	***13.7***	***1.7***	***1.8***	***2.1***	***5.5***	***5.5***	***5.5***	***4.1***	***4.6***	***6.2***
Germany	11.8	11.8	13.4	2.4	2.3	2.5	4.6	4.6	4.8	4.8	4.9	6.1
France	12.3	13.2	14.2	2.4	2.3	2.3	5.7	6.0	5.8	4.3	4.9	6.2
Italy	8.9	9.9	11.3	0.8	1.0	1.2	5.4	4.9	4.8	2.7	4.0	5.4
Belgium	12.2	12.6	15.1	1.6	1.7	2.2	5.9	5.9	6.3	4.7	5.0	6.6
Austria	11.6	11.8	14.3	1.5	1.6	2.2	6.0	6.0	5.7	4.1	4.2	6.5
Anglo-Saxon Model Europe	***13.0***	***14.0***	***13.4***	***1.8***	***1.7***	***1.5***	***5.5***	***5.2***	***4.8***	***5.7***	***7.2***	***7.1***
Irland	12.7	13.5	11.3	1.5	1.3	1.1	5.6	5.1	4.3	5.6	7.1	5.9
United Kingdom	13.2	14.5	15.5	2.1	2.0	1.9	5.3	5.2	5.3	5.8	7.3	8.3
Mediterrean Model	***8.0***	***9.2***	***11.7***	***0.6***	***0.6***	***0.8***	***4.2***	***4.3***	***4.7***	***3.1***	***4.3***	***6.1***
Greece	6.0	7.6	10.2	0.4	0.5	0.6	2.5	2.9	4.0	3.1	4.2	5.6
Portugal	9.8	11.2	13.9	0.6	0.6	0.8	5.4	5.4	5.8	3.8	5.3	7.2
Spain	8.1	8.9	11.1	0.9	0.8	1.0	4.8	4.7	4.4	2.4	3.5	5.6
Anglo-Saxon Model Overseas	***13.1***	***14.2***	***16.1***	***2.6***	***2.5***	***2.6***	***4.9***	***5.0***	***5.4***	***5.6***	***6.7***	***8.1***
USA	13.1	14.2	16.1	2.6	2.5	2.6	4.9	5.0	5.4	5.6	6.7	8.1
Canada	.	.	.	.	.	.	.	.	.	.	.	.
Australia	.	.	.	.	.	.	.	.	.	.	.	.
New Zealand	.	.	.	.	.	.	.	.	.	.	.	.
EU 15	***11.6***	***12.2***	***13.8***	***2.0***	***1.9***	***2.0***	***5.4***	***5.2***	***5.2***	***4.2***	***5.2***	***6.6***
Japan	10.4	10.7	14.5	2.7	2.7	3.1	3.4	3.5	3.6	4.3	***4.4***	7.8
Catching-up Model	.	.	.	.	.	.	.	.	.	.	.	.
Czech Republic	.	.	.	.	.	.	.	.	.	.	.	.
Hungary	.	.	.	.	.	.	.	.	.	.	.	.
EU 15/USA	0.89	0.86	0.86	0.75	0.76	0.75	1.11	1.03	0.98	0.76	0.77	0.81

S: ifo (DICE);
As to sub-aggregates and EU 15 unweighted average over countries.

Figure 7: Investment into the future (growth determinants)



S: Eurostat; EITO;
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Future investments

According to growth theory, the medium-term growth rate of an advanced economy depends on R&D, human capital and the speed of diffusion of new technologies. Under the heading "future investment", we summarise expenditures on research, education, and information and communication technology (as a proxy for the investments and diffusion of a new technology). Future investment was 13.1 % in the US in 1992, and increased to 16.1 % in

2002 (+ 3 percentage points). The same expenditures amounted to 11.6 % in Europe and increased to 13.8 % (+ 2 percentage points). In Scandinavia, the trend mirrors that of the US in level and dynamics, while the level and dynamics of the continental countries are close to that of the EU 15. The Mediterranean countries are catching up and are presently less than 2 percentage points behind the EU average. The continental countries are the least dynamic, recently falling marginally behind the European average. In Scandinavia, expenditures on research and development and information technology are sky rocketing, in both categories exceeding those of the US. Expenditures on education and lifelong learning are higher than the EU average, and although their share in GDP is not increasing. The OECD PISA ratings stress the excellence of education in Scandinavia. Furthermore, other studies confirm the quality of life-long learning in these countries. The continental countries have not raised their R&D ratio, have average expenditures on education, are ranked moderate in the PISA ratings and under invest in ICT.

5. Towards a new European Model: a tentative sketch of its features

As to institutional structure and policies, the strategies of the most successful European countries (Denmark, Finland, and Sweden, which all fall under the Scandinavian Model) differ greatly from the United States system, particularly in terms of welfare and government involvement, as well as in their commitments to redistribution and training. Their labour market policy offers a high degree of flexibility for firms (e.g. easy dismissals), but is still a significant source of security for individuals through the prevention of poverty on the one side and provision of support on the other side, when it comes to finding new jobs and upgrading qualifications. This system is therefore called "flexicurity" and relies on "active labour market policies". These countries ascribe high priority to new technologies, efficient production and the competitiveness of firms. In contrast to the United States[8], they rely on proactive industrial policies, with government support for information technology, for agencies promoting research, for regional policies and for clusters. These countries suffered severe financial crises in the late eighties (Denmark) and in the early nineties (Finland, Sweden). Many of the problems which can be expected to arise in a highly developed welfare state surfaced during the crisis, e.g. costs increased faster than productivity and government expenditures increased faster than taxes. Then the governments embarked on a new strategy, improving institutions and incentives without abandoning the principles of the Welfare State and without

[8] Part of the difference between the US and Europe with regard to industrial policies may be in rhetoric only or in the specific instruments chosen (see Ketels, 2005, and Aiginger, 2005).

giving up their environmental goals. We believe that the specific elements of the political reforms in these northern European countries together with similar reforms in the Netherlands, the United Kingdom and other small countries suggest that there may be a new kind of reformed European Model, which combines welfare and sustainability on the one hand, with efficiency and economic incentives on the other.[9] Some of the features of a New European Model and its difference to the traditional model are summarized in Table 13.

Table 13: The Old Welfare Model versus a New European Model of a Reformed Welfare State

Old model of European Welfare	The Reformed European Model
	Welfare pillar
Security in existing jobs	Promoting mobility, assistance in finding a new job
High replacement ratios	Incentives to accept new jobs (return to labour force)
Structural change in existing firms (often large firms)	Job creation in new firms, service, self employment
Comprehensive health coverage, pensions, education	Coverage dependent on personal obligations
Regulation of labour & product markets	Flexibility as a strategy for firms and as a right for employees
Focus on stable, full-time job	Part-time work as individual choice (softened by some rules)
Early retirements	Encouraging employment for elderly workface
	Policy pillar
Focus on (price) stability	Focus on growth and new technologies
Asymmetric fiscal policy (deficits)	Fiscal prudence (but flexible in crisis)
Incentives for physical investment	Research, education, and new technologies are the basis
Subsidies for ailing firms (public ownership)	Industrial areas, university nexus
Industrial policy for large firms	Start ups, venture capital, services
Local champions, permissive competition policy	Enforce current strengths (cluster and regional policy) and competition

The new Reformed Model, as represented by successful policy reforms, differs from the old Welfare State in the following ways:

- The social system remains inclusive and tight, with the exception that minimum standards on social benefits designed to prevent poverty depend on the input of the individual and transfers may be conditional to certain obligations; replacement rates are lower than they used to be in order to provide stronger incentives to work but still high by international standards.

[9] For earlier suggestions along this line, see Aiginger (2004), Aiginger and Landesmann (2002); Aiginger (2002).

- The welfare system is more service oriented (care facilities for children, the aged and the handicapped) than transfer oriented, in order to increase equality.
- Taxes are relatively high, but in line with expenditures, aiming at positive balances in the medium term, to cover future pensions and to repay current debt.
- Wages are high, but the position of the individual is not guaranteed, as business conditions vary. The assistance and training opportunities offered to people who lose their jobs are personalised, less bureaucratic and less centralised. The public services are complemented by private agencies.
- Welfare-to-work elements have been introduced, generally on a decentralised – sometimes even private – basis; conditions vary according to the size and kind of problems, the background philosophy being one of giving help without incriminating the unemployed of being inactive.
- Part-time work and the adaptation of work to life-cycles are encouraged – not prevented. Social benefits are extended pro rata to part-time work, which is valued as a right of the individual and as an instrument of personal choice, rather than a fate preventing gender equality.
- Technology policy and the adoption of new technologies, rather than the subsidisation old industries, are a precondition for the survival of the Welfare State, and lead to more challenging and interesting work.[10]

Nevertheless, the new European Model also differs from the United States model in at least the following ways:

- Even where welfare costs are streamlined and incentives improved, the welfare system offers comprehensive insurance against economic and social risks and a broad coverage of health risks.
- Environmental and social goals, as well as the equity of income distribution and the prevention of poverty remain high on the political agenda.
- Government and public institutions play a proactive role in promoting innovation, efficiency, structural change, higher qualifications and lifelong learning. Public institutions

[10] The policies pursued by the leading countries have many similarities with the economic policy recommendations of the Steindl-Kalecki tradition, as described in Guger, Marterbauer, Walterskirchen (2004).

also provide the largest share of education and health care, which is open to all residents, of high quality and available at affordable conditions.

- Social partners (institutions representing employers and employees) negotiate wage formation, develop labour laws and co-determine economic policy in general.
- Government is large and taxes are high, even if there are mechanisms to limit increases in spending and goals for achieving a sound fiscal policy ("fiscal rules") in periods of high demand. Firms are partly sheltered from high tax rates, there are high taxes on consumption and specifically on energy.

6. Summary

Income per capita in the United States is 40 per cent higher than in Europe and there is no trend towards convergence. Productivity per worker is 30 percent higher in the US. Over the course of a long period during the post-war years, Europe was indeed catching up in productivity per worker and came very close in productivity per hour. However, during the past 10 years, the United States once again increased its lead. Income per hour is the most favourable indicator of European performance, revealing a gap of less than 10 per cent, but again the difference has recently been increasing. Employment indicators show that the United States created 78 million jobs between 1990 and 2003, while Europe created 42 million. Up to the 1970s, the employment rate in Europe was higher than in the United States; now it is 13 percentage points lower than in the US (although the gap has recently narrowed slightly). Unemployment is higher in Europe, even excluding the significant number of people on disability or early retirement schemes, which decreases open unemployment. The number of hours worked is lower in Europe, which is partly voluntarily and partly due to the lack of full-time jobs. Leisure takes a higher priority in Europe.

International organisations (e.g. the OECD) often blame higher welfare costs and the stricter regulation of labour and product markets for the lack of dynamics in European economies ("Paris Consensus"). However, an assessment of performance differences across Europe reveals that the countries performing best (aside from Ireland, which experienced a remarkable process of catching up and the United Kingdom[11] which manages to grow faster than the EU average since the nineties after a long period of low growth) are three Scandinavian welfare states: Denmark, Finland and Sweden. All three countries experienced periods of structural and cyclical crisis, which appeared to confirm some of the bleak predictions for welfare states in general. Over the past ten years, however, they have been performing better than other European countries, with growth performances close to that of the United States. At the same time, they are successfully combining welfare with higher efficiency. We highlighted the main characteristics of these countries and their reforms, enabling a tentative delineation of a new European model of a reformed welfare state. It provides an alternative model to that of the United States in achieving economic efficiency while maintaining the traditional European concerns for social welfare and environmental quality. The model thus combines security for citizens with efficiency and flexibility for firms.[12]

The fact that welfare states performed well in the 1990s does not imply that costs are irrelevant to performance. After suffering severe crises, the countries comprising the Scandinavian Model realised, together with other European countries, that costs needed to be cut and fiscal balances stabilised, that incentives had to be implemented and institutions reformed. But most importantly, they realised that cost-cutting is a short-term strategy, which needs to be complemented by proactive policies to promote research, education and the diffusion of new technologies including a commitment to use macro-economic policy for stabilizing demand and to foster growth, in order to restore business and consumer confidence (Tichy, 2005). A successful new European model emphasises cost balancing, institutional flexibility and the re-orientation of technologies. Firms are more flexible with regard to the use of labour, and workers who are laid off are efficiently assisted in their search for new jobs. Replacement ratios have been reduced and benefits are conditional to the search for employment and training efforts. Thus the new European Model of the reformed welfare state has three major elements: social and environmental responsibility, flexibility and technology promotion.

Canoy (2005) emphasizes three stages of development of the European Social Model. The model was conceived as a reaction to the consequences of industrialisation; it was at this stage that European countries began to assume responsibility for the greatest risks

[11] The policy strategy of the United Kingdom has some striking similarity to the Scandinavian Model (welfare to work programmes and recently high emphasis on improving infrastructure after a period of insufficient investment) but also remarkable differences (lower taxes and regulation, more targeting of transfers).

[12] This combination can be considered to be in the tradition of Josef Steindl (1952) and Michal Kalecki (1971).

encountered by their citizens. In the wake of World War II, the coverage of risks and persons was boosted considerably, above all in response to the poverty of the Great Depression and the desire to avoid a repetition of the economic and social turmoil that had led to war. The third phase dates back to the 70s and 80s, when the system was completed and expanded, partly as an answer to the problems of the oil crises and rising unemployment rates. A fourth phase appears to have begun during the nineties, in an effort to counterbalance the financial and fiscal crises confronting a number of countries. This fourth phase builds on the awareness that the welfare state can only be maintained, if it could be made more flexible and more future-oriented. The vision of this phase of the European Socio-economic Model could be the redirection of incentives in such a way that the welfare state is able to shift from a burden (increasing costs and lowering flexibility) to a productive force. It expands the qualifications of its citizens through training programmes, offers various forms of employment, wider choices and new opportunities, supports innovation and the diffusion of technology, thus making countries competitive by relying on the capabilities available to and needed by welfare states.

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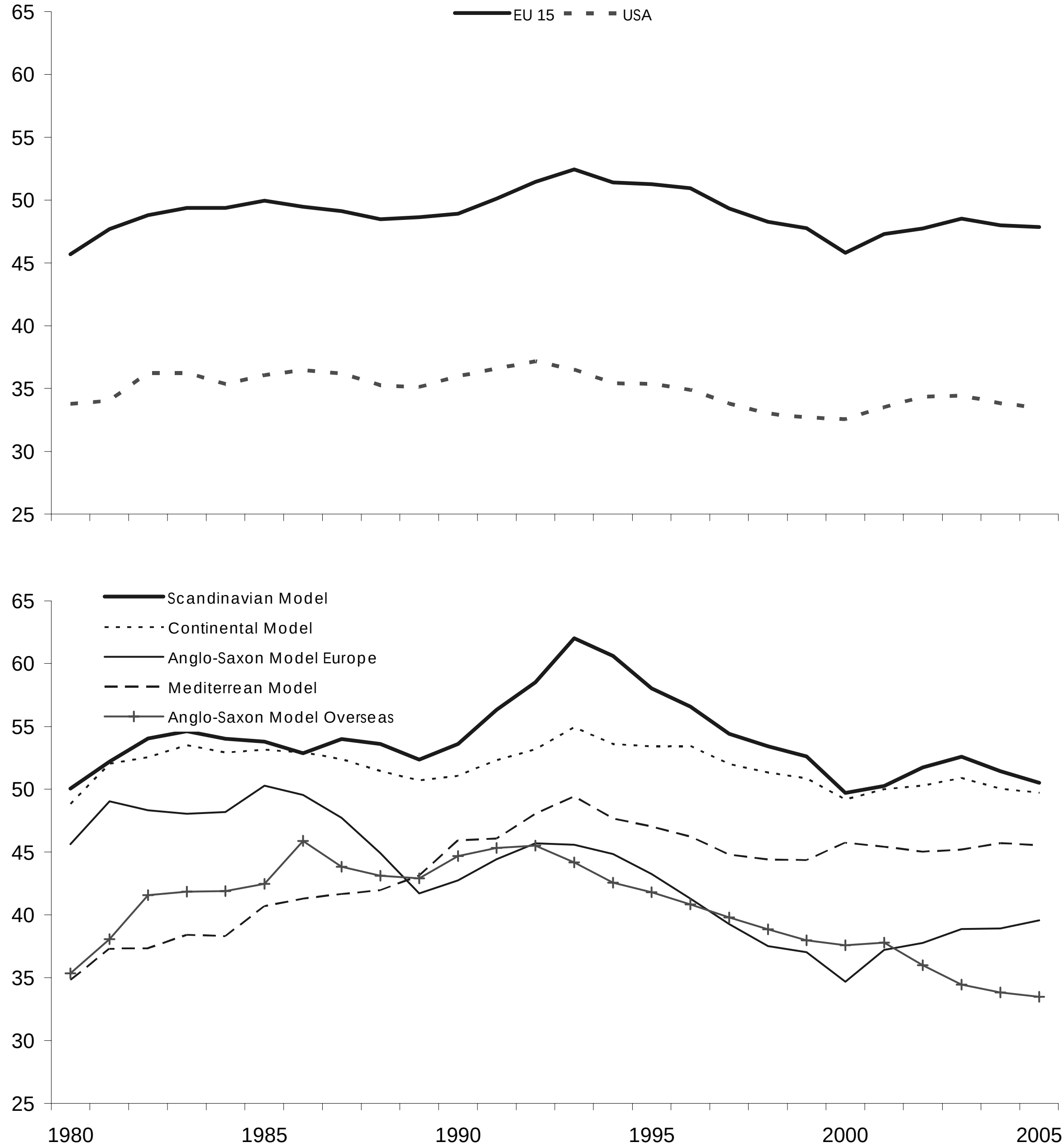
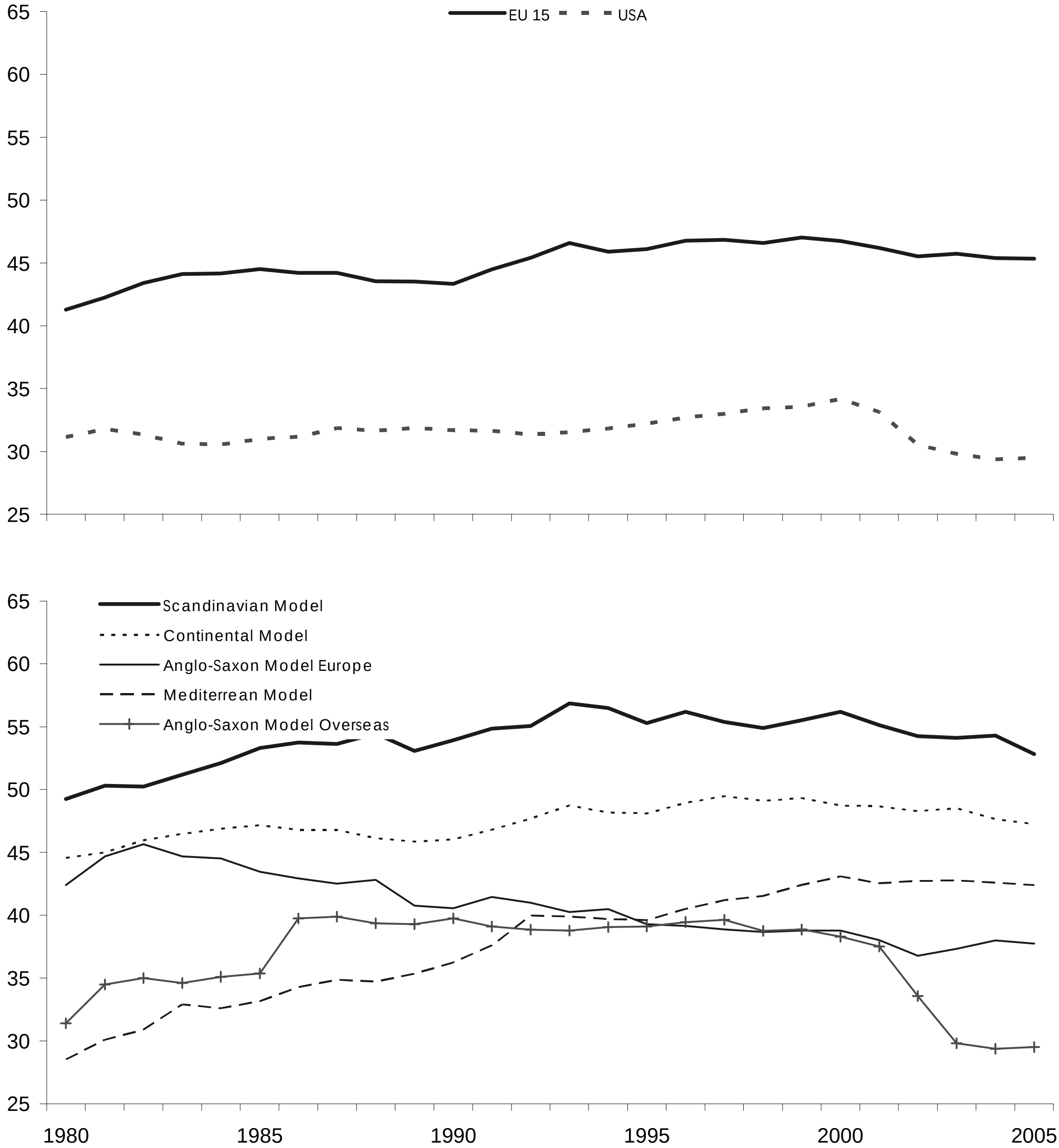
Annex

Annex 1: Taxes in percent of GDP



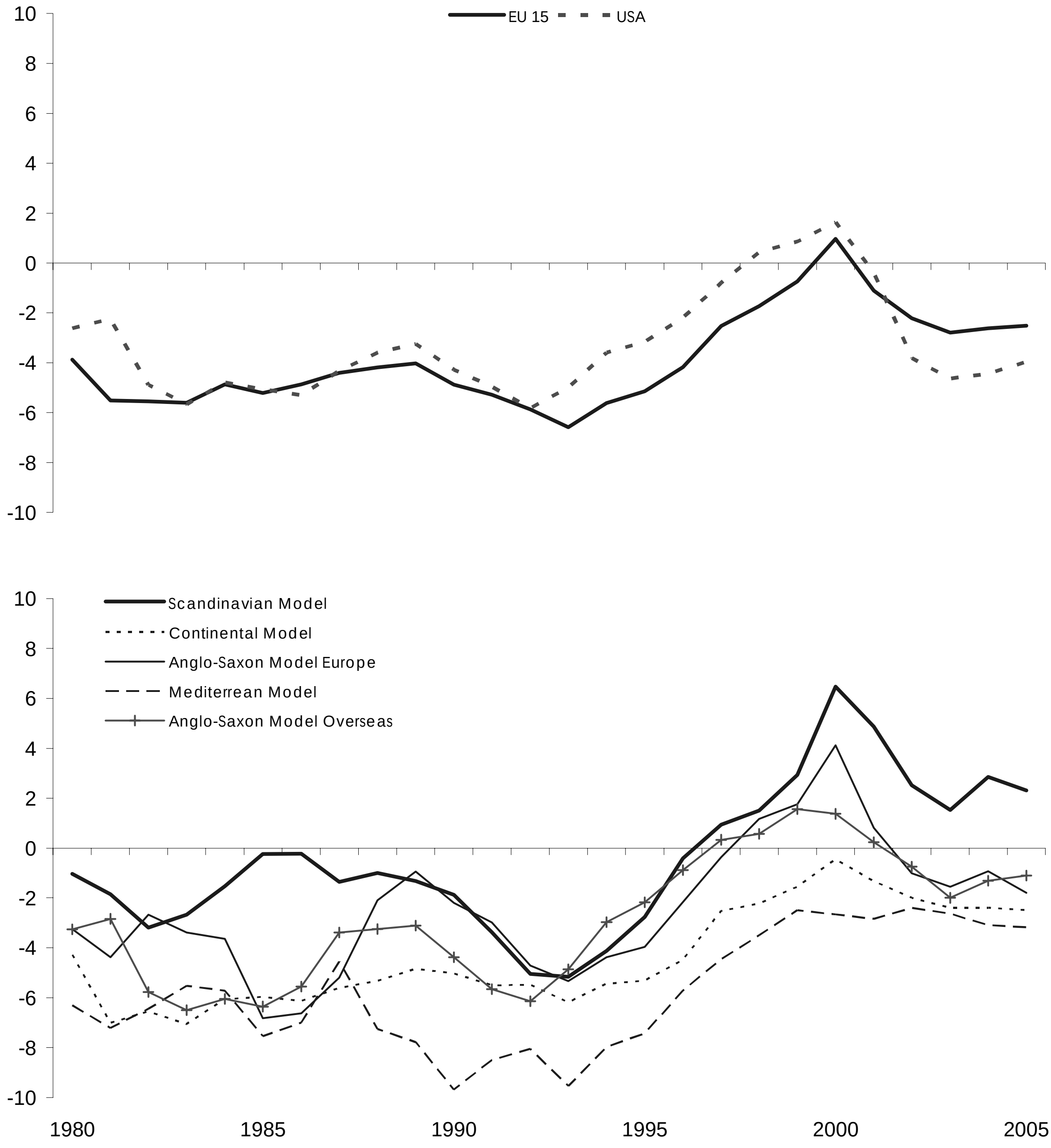
S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 2: Public expenditures as percentage of GDP



S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 3: Budget balance as percentage of GDP



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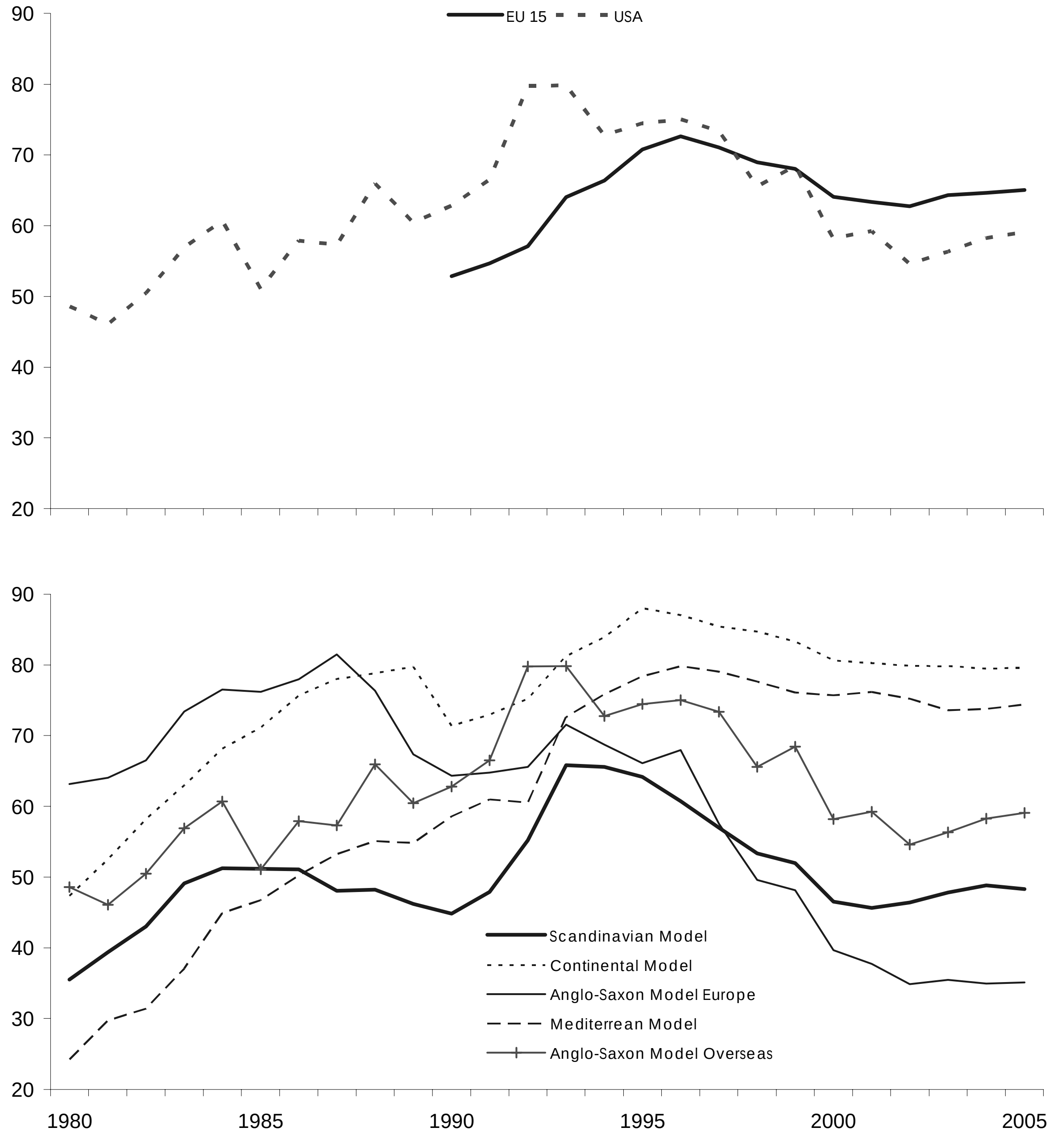
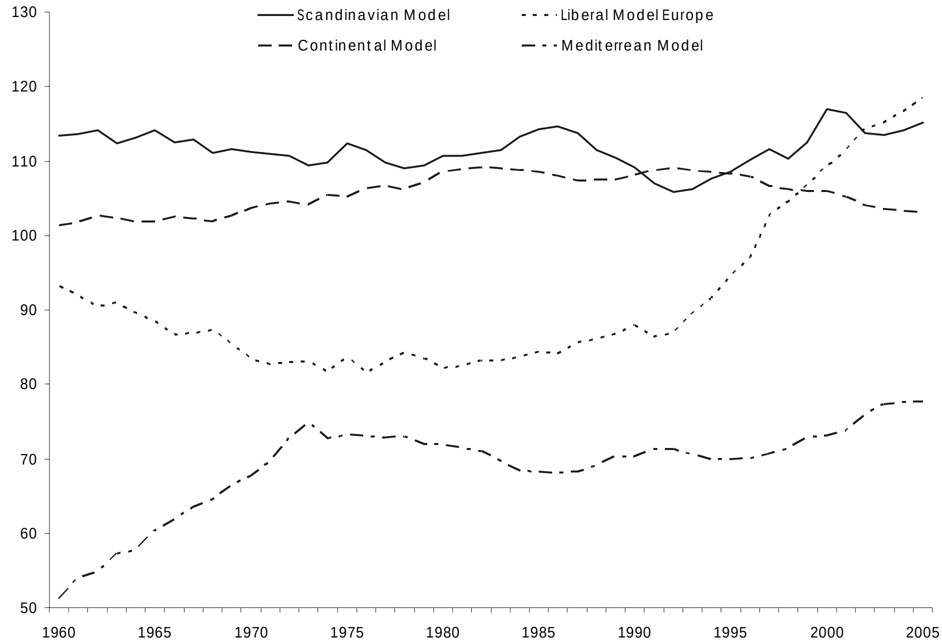
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 4: Public debt as percentage of GDP



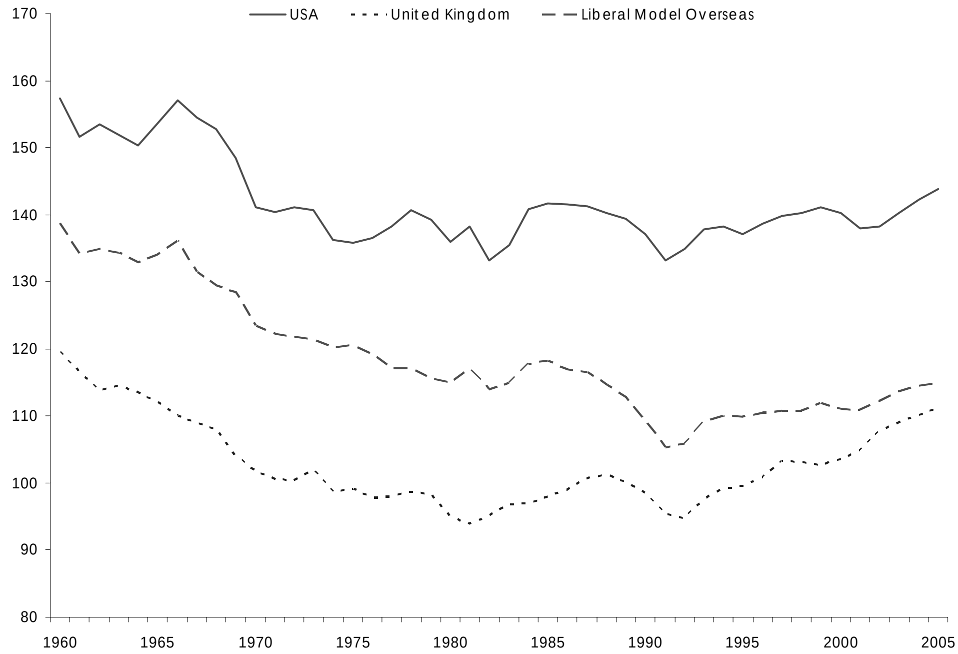
S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 5: GDP per capita (EU 15 = 100)



S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 6: GDP per capita (EU 15 = 100)



S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

Annex 7: GDP per capita (EU 15 = 100)

	GDP per capita						Country vs. EU 15					
	1960	1970	1980	1990	2000	2005	1960	1970	1980	1990	2000	2005
Scandinavian Model	***1.14***	***2.52***	***7.88***	***16.16***	***25.44***	***28.93***	***1.13***	***1.11***	***1.11***	***1.09***	***1.17***	***1.15***
Denmark	1.31	2.91	8.30	16.31	25.05	28.30	1.30	1.29	1.17	1.10	1.15	1.13
Finland	0.92	2.14	7.35	16.03	22.58	26.90	0.92	0.95	1.03	1.08	1.04	1.07
Netherlands	1.21	2.65	7.97	15.87	24.02	27.34	1.21	1.17	1.12	1.07	1.10	1.09
Sweden	1.28	2.84	8.17	16.62	23.66	27.05	1.28	1.26	1.15	1.12	1.09	1.08
Norway	0.97	2.04	7.60	15.96	31.91	35.05	0.97	0.90	1.07	1.08	1.47	1.40
Continental Model	***1.02***	***2.34***	***7.73***	***16.01***	***23.06***	***25.90***	***1.01***	***1.04***	***1.09***	***1.08***	***1.06***	***1.03***
Germany	1.13	2.42	7.66	15.79	22.13	24.56	1.12	1.07	1.08	1.07	1.02	0.98
France	1.03	2.42	7.74	15.79	22.52	25.61	1.03	1.07	1.09	1.07	1.04	1.02
Italy	0.90	2.21	7.38	15.48	22.29	24.03	0.90	0.98	1.04	1.05	1.02	0.96
Belgium	1.01	2.35	7.85	15.98	23.09	27.28	1.01	1.04	1.10	1.08	1.06	1.09
Austria	1.02	2.32	8.00	16.99	25.26	28.00	1.02	1.03	1.12	1.15	1.16	1.12
Liberal Model Europe	***0.94***	***1.89***	***5.85***	***13.02***	***23.77***	***29.74***	***0.93***	***0.83***	***0.82***	***0.88***	***1.09***	***1.18***
Irland	0.67	1.47	4.94	11.47	25.01	31.55	0.67	0.65	0.69	0.77	1.15	1.26
United Kingdom	1.20	2.30	6.76	14.56	22.53	27.93	1.20	1.02	0.95	0.98	1.04	1.11
Mediterrean Model	***0.51***	***1.53***	***5.12***	***10.41***	***15.90***	***19.53***	***0.51***	***0.68***	***0.72***	***0.70***	***0.73***	***0.78***
Greece	0.51	1.67	5.84	10.04	14.32	19.23	0.51	0.74	0.82	0.68	0.66	0.77
Portugal	0.42	1.22	4.20	9.58	15.27	16.75	0.42	0.54	0.59	0.65	0.70	0.67
Spanien	0.61	1.71	5.33	11.60	18.11	22.62	0.61	0.76	0.75	0.78	0.83	0.90
Liberal Model Overseas	**1.39**	**2.79**	**8.17**	**16.19**	**24.15**	**28.88**	**1.39**	**1.23**	**1.15**	**1.09**	**1.11**	**1.15**
USA	1.58	3.19	9.67	20.29	30.49	36.10	1.57	1.41	1.36	1.37	1.40	1.44
Canada	1.30	2.72	8.70	17.03	25.13	29.47	1.29	1.20	1.22	1.15	1.16	1.17
Australia	1.26	2.67	7.57	14.82	22.94	28.10	1.26	1.18	1.06	1.00	1.05	1.12
New Zealand	1.43	2.58	6.75	12.63	18.02	21.83	1.42	1.14	0.95	0.85	0.83	0.87
EU 15	***1.00***	***2.26***	***7.11***	***14.80***	***21.75***	***25.11***	***1.00***	***1.00***	***1.00***	***1.00***	***1.00***	***1.00***
Japan	0.58	2.11	7.08	16.61	22.77	25.88	0.58	0.93	1.00	1.12	1.05	1.03
Catching-up Model	.	.	.	.	***11.69***	***15.52***	.	.	.	.	***0.54***	***0.62***
Czech Republic	.	.	.	.	12.81	16.46	.	.	.	.	0.59	0.66
Hungary	.	.	.	.	10.57	14.58	.	.	.	.	0.49	0.58
EU 15/USA	0.64	0.71	0.74	0.73	0.71	0.70						

S: Eurostat (AMECO);
As to sub-aggregates unweighted average over countries; EU 15 reported (weighted).

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