Growth versus Security

Old and New EU Members' Quest for a New Economic and Social Model

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New Challenges for the European Model and How to Cope with It

Karl Aiginger[1]

Introduction

Disappointing growth in Europe since the beginnings of the 1990s and persistently high unemployment raised the question as to whether it was the specific features of the European social model that stopped Europe catching up with the US. This chapter defines the characteristics of the European socio-economic model and the differences between submodels in different European countries (following Aiginger and Guger, 2006a; 2006b). It then identifies which policy changes and strategies made these countries more successful over the past 10–15 years, after several crises in the 1970s and 1980s, and even the first years of the 1990s. Specifically, we look for indicators on adaptability that might explain why these economies were so successful during the period of accelerated globalization.

The chapter is structured as follows: the next section defines the European socio-economic model and its variants. Then we compare the performance of the model types in the long and in the short run. We go on to delineate the strategy of the successful European countries, carving out five elements of change in economic policy since the nineties. Next, we analyze the ability of the Scandinavian countries to adapt to changes and possible reform blocs in the continental countries. The closing section to the chapter summarizes our argument.

The European model: its variants and performance

The European countries share some common characteristics. We define the European socio-economic model pragmatically in terms of responsibility, regulation and redistribution (see also Aiginger and Guger 2006a; 2006b):

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 actively promotes and often provides education and health. It supports families either through transfers or by the provision of care and housing facilities.

Regulation Labour relations are institutionalized; they are based on social dialogue, labour laws and collective agreements. Business relations are somewhat regulated and are partly shaped by social partners on the branch and firm levels. 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, income taxation and taxes on property and bequests.

Thus, 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. Finally, and this is specifically relevant to this chapter, it defines the ability to cope with external shocks and changes such as globalization. We therefore prefer to speak about a European socio-economic model rather than merely a social model.

As important as the common elements, are the differences across countries. It is standard practice to distinguish between the Scandinavian model, and the Continental model (also known as the 'corporatist model' and sometimes as the 'Rhineland model'), and the Anglo-Saxon (or 'liberal') model applicable to countries with less market interference, low transfers, but targeted assistance to poor people. We furthermore ascribe the name 'Mediterranean model' to the southern European countries, in which a still low level of expenditures is combined with existing family networks. A fifth model, as yet not elaborated, might emerge in the future, consisting of the new member countries. In these countries, some social institutions have been founded but only after transition; they are short of the financial means for a comprehensive welfare system and they are determined to catch up with the old member countries and have been very successful in this respect over the past ten years. We will therefore call this fifth model the 'catching-up model'. Outside Europe, the US model has lower levels of social expenditures and low regulation, thus sharing characteristics with the liberal model in Europe. We therefore group Canada, Australia and New Zealand into the Anglo-Saxon 'overseas model'. Japan, as well as the other industrialized Asian economies, remains outside this discussion.

The Scandinavian model is the most comprehensive, with a high degree of emphasis on redistribution; social benefits are financed by taxes. This 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 characterized by an active labour market policy and high employment rates. The continental model emphasizes employment and wages 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 centralized. Redistribution and the inclusion of outsiders are not high on the agenda. The Anglo-Saxon model emphasizes 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 decentralized, 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 somewhat centralized bargaining process for wages and work conditions. Employment rates, specifically those of women, are low.

The Scandinavian model is practised in five countries, including the three countries with the best overall performance over the past 15 years: Denmark, Finland and Sweden. These are called the top three countries in Aiginger (2005a) and the model is also employed in 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 until the 1990s.[2] 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.[3] It is striking that the social model typology groups Germany and France together. When analyzed in terms of intervention (high in France, low in Germany), the mode of industrial policy (sectoral in France, horizontal in Germany), or the importance of nationalization and competition policy (with France favouring nationalized champions, while in Germany competition policy is similar to a holy grail), these two

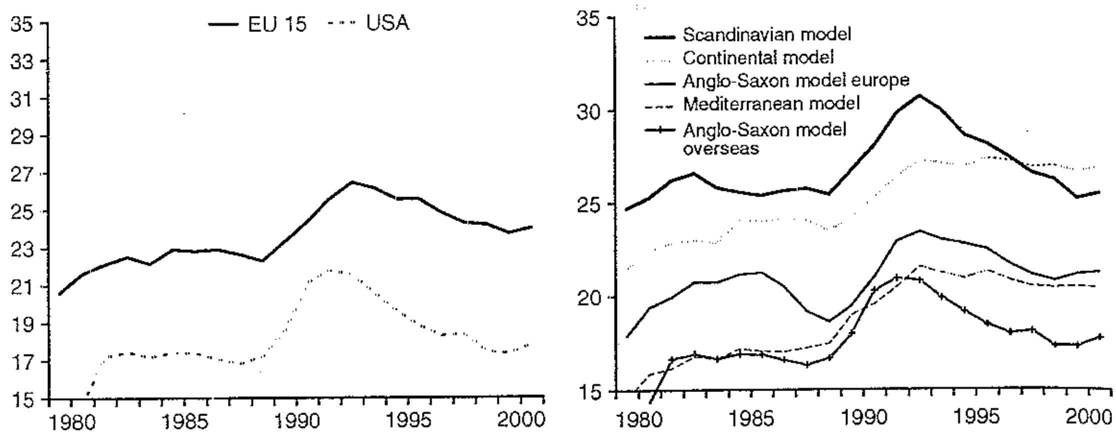

Figure 7.1 Social expenditures as a percentage of GDP
As to sub-aggregates and EU-15 weighted average over countries.
Source: OECD

countries would be ascribed to different policy approaches. However, the literature is unanimous when it comes to the inclusion of France and Germany in the same group of social model. There is a certain amount of disagreement as to whether Italy fits better into this group or into the Mediterranean group. Since we have placed Italy in the continental group, the Mediterranean model 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 country in course of catching-up. High shares of inward FDI, low taxes for business, and a regional policy supporting small and medium sized firms are among the main examples of such intervention. In Europe, these strategies are now the paradigm for catching-up economies. Outside of Europe, we group Canada, the US, New Zealand and Australia together, under the heading Anglo-Saxon model overseas. Table 7.1 summarizes the performance of the different models.

Surprising similarity in the long run and even more surprising differences in the short run

Looking at economic performance, in the long run there are surprisingly small differences between the European sub-models and no difference in economic growth between the US and the EU-15. If anything, the Mediterranean countries did achieve a slightly higher growth, which is interpreted as a catching-up process, and the European Anglo-Saxon countries suffered from the policies first of 'old Labour' and then of 'the Iron Lady',

Table 7.1 Performance: short- and long-run growth of GDP

	1960/ 1990	1990/ 2005	Unemployment rate		Employment rate	
	Annual growth in %		1990	2005	1990	2005
Scandinavian model	**3.3**	**2.3**	**4.7**	**5.6**	**73.3**	**74.2**
Denmark	2.7	2.2	7.2	4.6	76.4	77.2
Finland	3.9	2.0	3.2	8.4	73.9	68.6
Netherlands	3.4	2.2	5.8	5.1	64.9	73.6
Sweden	2.9	2.0	1.7	6.8	83.0	73.7
Norway	3.9	3.2	5.2	4.0	74.8	77.7
Continental model	**3.5**	**1.7**	**7.3**	**8.9**	**64.1**	**66.2**
Germany	3.2	1.7	6.2	9.5	69.6	70.0
France	3.8	1.9	8.5	9.6	61.2	63.8
Italy	3.9	1.3	8.9	7.7	57.4	62.0
Belgium	3.4	1.9	6.6	8.0	58.3	61.8
Austria	3.5	2.2	3.1	5.2	74.6	74.8
Anglo-Saxon model Europe	**2.6**	**2.7**	**7.3**	**4.6**	**70.7**	**71.9**
Irland	4.1	6.5	13.4	4.3	54.6	68.6
United Kingdom	2.5	2.4	6.9	4.6	71.8	72.1
Mediterrean model	**4.6**	**2.8**	**11.0**	**9.1**	**55.7**	**63.6**
Greece	4.5	3.0	6.4	10.4	54.7	55.0
Portugal	4.8	2.1	4.8	7.4	70.0	70.5
Spain	4.6	2.9	13.1	9.2	53.2	64.1
Anglo-Saxon model Overseas	**3.6**	**3.1**	**5.7**	**5.2**	**72.0**	**72.9**
USA	3.5	3.1	5.5	5.1	72.3	72.9
Canada	4.0	2.8	8.1	6.8	71.2	74.1
Australia	3.8	3.5	7.0	5.2	69.2	72.1
New Zealand	2.4	3.2	7.8	4.0	53.7	59.6
EU 15	**3.4**	**2.0**	**7.5**	**7.9**	**64.5**	**67.2**
Japan	6.1	1.3	2.1	4.5	74.8	77.2
Catching-up model	..	**2.5**	..	**7.5**	..	**61.2**
Czech Republic	..	1.3	..	7.9	..	65.4
Hungary	..	3.9	..	7.0	..	56.2
EU 15/USA	0.96	0.65	1.36	1.55	0.89	0.92

Source: Eurostat (AMECO) – as to sub-aggregates weighted average over countries – EU-15 reported.

Margaret Thatcher. The interesting divide occurred since the 1990s, whether measured from 1990 to 2005 or from 1995 to 2005. Europe's growth trails that of the US and, more surprisingly and with a greater difference, that of the continental countries, France, Germany and Italy lag the most. In contrast, the Scandinavian countries reached an average growth of 2.6 per cent and the Anglo-Saxon countries in Europe enjoyed a growth very near that of the US. The greatest surprise in our view is the recovery of the Scandinavian model. This is the most comprehensive social model, with the largest share of taxes and government in GDP. This destroys the usual foregone conclusion that Europe's growth problem has its origins in the high cost of its social system.[4]

If we extend the performance evaluation to other indicators than economic growth, the difference becomes even greater. Unemployment is much lower, the employment rate higher in the Scandinavian model, specifically if compared with the Continental model. The fiscal balance shows a surplus in the Scandinavian countries, while the continental countries and the Anglo-Saxon model in Europe, as well as in the US, run deficits.

Carving out five strategy elements

If we look at the economic policy of the successful Scandinavian countries over the past 10–15 years, their strategy rests on five pillars. The strategies tried, in general, to maintain core elements of the existing socio-economic model but also to make firms, individuals and institutions better able to cope with changes in the economic environment.

Pillar 1: managed and balanced flexibility

Many economists stress the importance of flexibility for firms. Firms that can hire and fire can adjust production to demand. Reducing regulation, and specifically labour regulation, is high on the agenda of many liberal or neo-liberal economic think tanks. But it is not this notion of flexibility that has been pushed recently in the Scandinavian countries. Flexibility of firms is supplemented, and even enabled, by security for the individual person; those who lose their job are either offered new ones or a training programme. Replacement ratios, unemployment benefit in relation to wages, are high, specifically for low-income earners. Part-time work and temporary contracts are somewhat common and connected with social benefits and individual choices. The share of male employees on flexible contracts is much greater than in continental countries. Reduction of work time is often voluntary and reversible, and adjusted to personal choices. Thus, it is flexibility for firms and persons, embedded in a

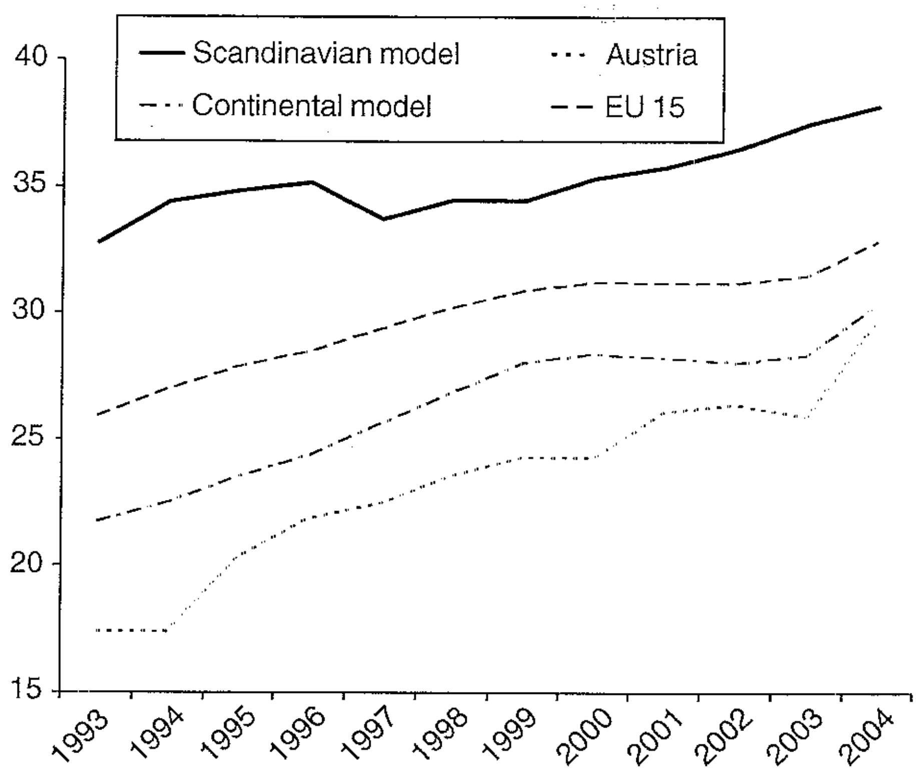

Figure 7.2 Flexible contracts: share of part-time plus fixed-term contracts

system of security, upgrading of skills, and choice and gender equality that characterizes the model. The decision about the specific work time and income depends not only on the needs of the market, but also on the preferences of individuals. Government interferes a little in the rules, and guarantees the balance between firms and employees. This new type of flexibility, different from the liberal notion of hiring and firing out of a large pool of low-qualified labour, is sometimes called flexicurity. I prefer to call it 'managed and balanced flexibility'.

Pillar 2: work pays and training is an obligation

Economies, especially those under the stress of rapid change, offer jobs with different wages, and individuals have different capabilities. Government tries to limit income differences by offering either subsidies or tax credits to those earning low wages. Under such a policy, it is always better to work than to rely on subsistence payments. Wages are held high in the short run by tax credits or subsidies, and people in this situation are trained on the job and off the job. The tax wedge is low, increasing the incentive to work for the employee and to hire for firms. Despite the higher taxes in general, tax wedges in the Scandinavian countries are now lower than in the continental economies.

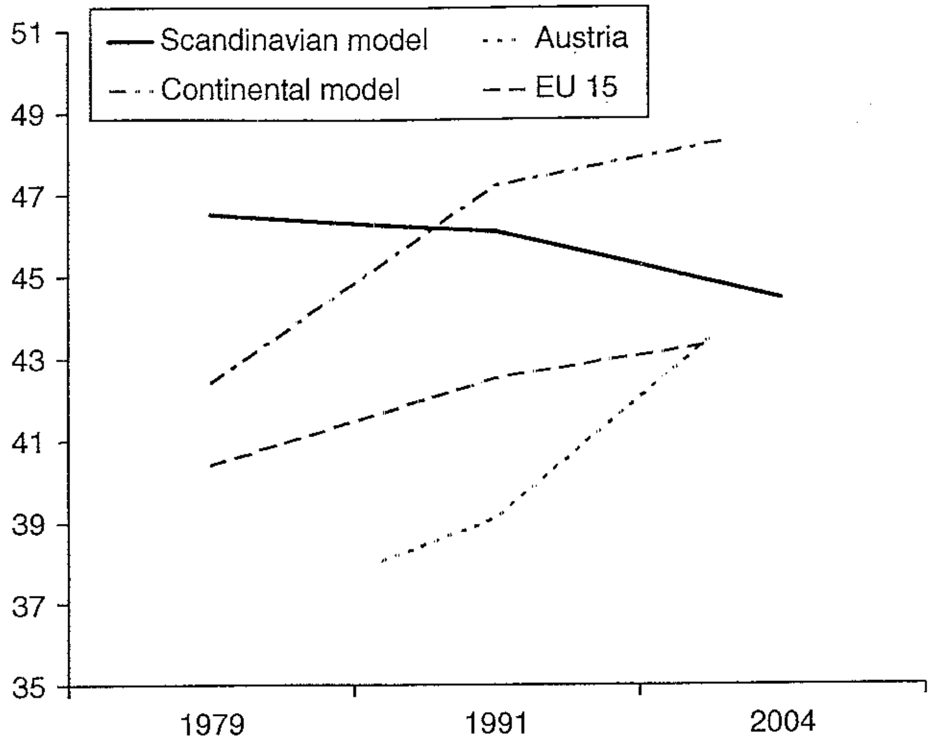

Figure 7.3 Tax wedge: difference between gross and net wages
Pillar 3: fiscal prudence plus quality of government

Business taxes are relatively low, while wealth and energy is taxed in the Nordic countries. Mobility in retraining is an obligation, encouraged not only by financial instruments, but also by the pressure of efficient labour market institutions and trust.

Pillar 3: fiscal prudence plus quality of government

The Scandinavian countries were known in the 1970s and 1980s for their permissive fiscal policy, suffering one unsuccessful fiscal consolidation after the other. Since the mid-1990s, they target the achievement of fiscal surpluses, mainly by capping expenditures. They now all have fiscal surpluses, a success reinvigorated by accelerating economic growth. Within the budget, the priority of future investment and new activities is evident. The quality of budgets is important, in the sense of boosting growth stimulating expenditures. Public sector management has been installed, schools are efficient and quality is monitored.

Pillar 4: investment for the future

The Scandinavian countries increased their investment into research, education, lifelong learning and modern technologies such as ICT and biotechnology. The difference in the rate of future investment in GDP, which

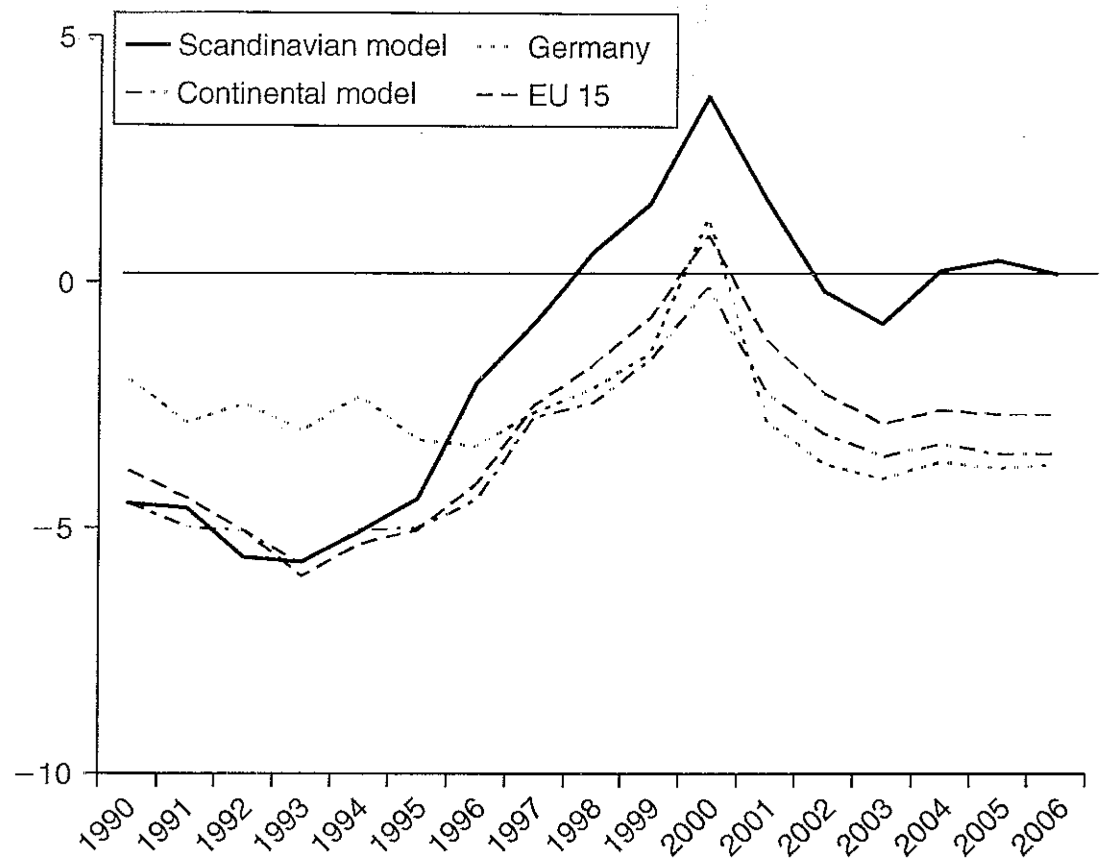

Figure 7.4 Budget surplus/deficit
Pillar 4: investment for the future

had been about two percentage points at the beginning of the 1990s, widened despite the severe crises in 1993. Now, these investments into the future are higher relative to GDP than in the US. Sweden, Finland and Denmark are leading in most rankings for innovation or education systems, as well as for the information society. These expenditures are also targeted in the Lisbon Strategy, but without much success in other countries.

Pillar 5: consistent long-run strategy

The Scandinavian countries follow a systematic four-part approach economic policy-making. The trade unions, employers' organizations, economic experts and government share the strategy for change. The strategy is continued even if the political party in power changes. Long-run strategies are followed; they are not only discussed but also implemented not on one level of government only but on all levels, and also in schools and organizations. The societies are inclusive, specifically supporting the poor, including immigrants. Income differences are limited. People trust society and the government, and changes are interpreted as new opportunities, not as imminent danger.[5]

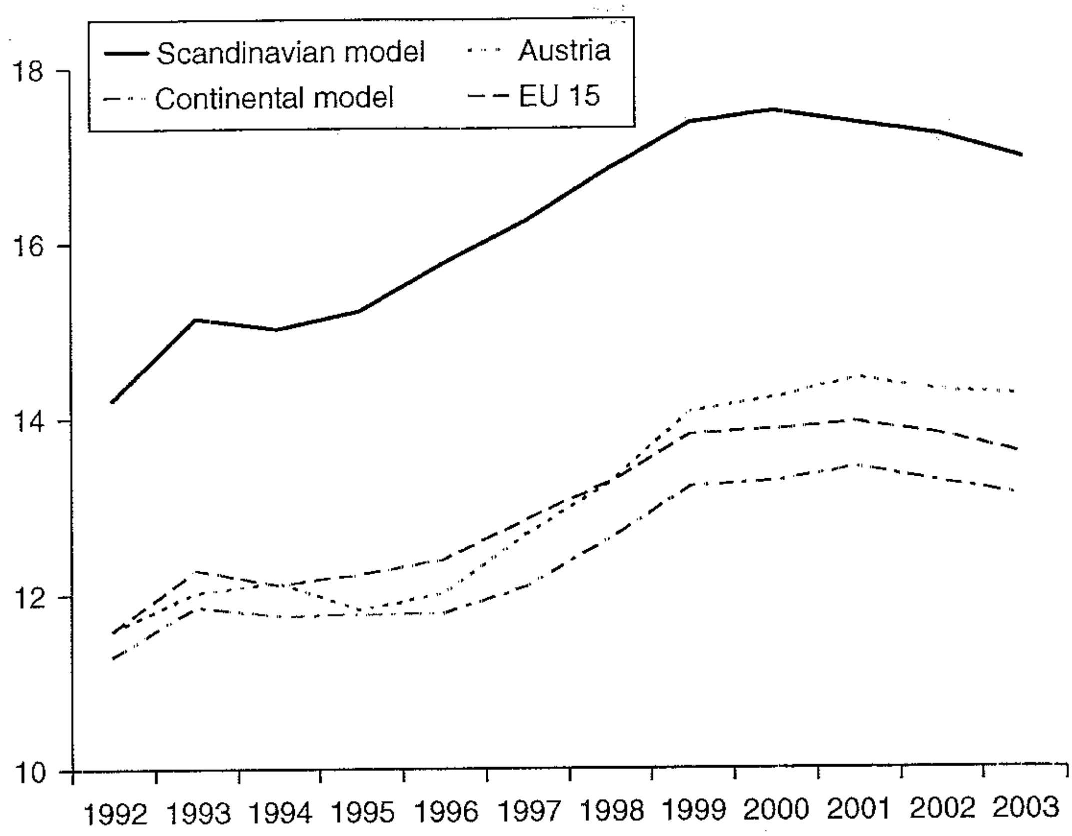

Figure 7.5 Investment into the future (as a percentage of GDP: R&D, education, ICT expenditures)
Pillar 5: consistent long-run strategy

The ability to change and the role of institutions

Why have the continental economies been unable to cope with change despite having a lower tax burden and lower wages, at least for the low-skilled sector? There is no definite answer, but I will venture five hypotheses.

The continental countries underestimated the need for change. This might have been the case for the large countries (Germany, France and Italy), since export ratios are rather low in large countries and the countries are home to sizeable, successful firms producing for the world markets. These countries had experienced no big crisis in the 1990s, and they all enjoyed modest growth. The countries were further distracted by certain experiments and shocks, such as radical privatization and the reduction in working hours in France, unification of very different economies under the pressure of a single currency in Germany, or regional conflicts and political turmoil in Italy. The big continental economies furthermore had the 'middle of the road' problem: since taxes were not excessively high, social expenditures not excessive, and research and

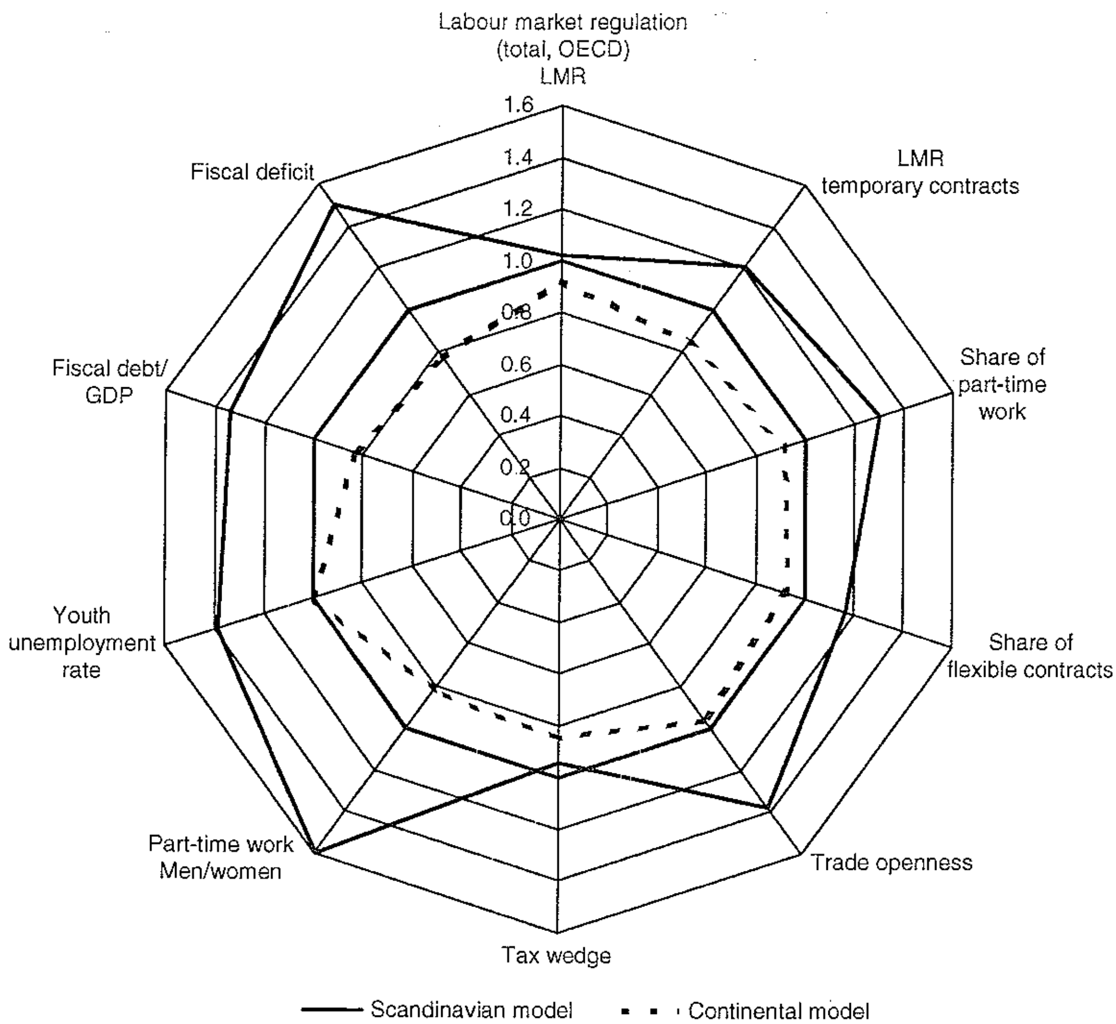

Figure 7.6 Adaptivity profiles: Scandinavia versus Continental Europe
Notes: Data refer to 2003, 2004 or 2005; values outside the unit circle delineate less regulation, more flexible contracts, lower tax wedge and lower unemployment, lower deficits and debts (relative to the average of EU-15)

education expenditures not really low, the countries thought they could go on without policy change and without careful monitoring of the quality and efficiency of institutions. Deregulation was low on the agenda despite the fact that the labour markets in all countries and product markets in France and Italy were rather strictly regulated. Investment in the future did not increase; neither did expenditure on research or on education. The Scandinavian countries realized that they could finance their, marginally trimmed, welfare model only if they excelled in future investment and generated higher economic growth.

The continental countries did not pay attention to the problem that their institutions were less comprehensive, specifically favouring insiders. The Scandinavian countries have more inclusive institutions and maintained this approach in the 1990s: they always had a high union density

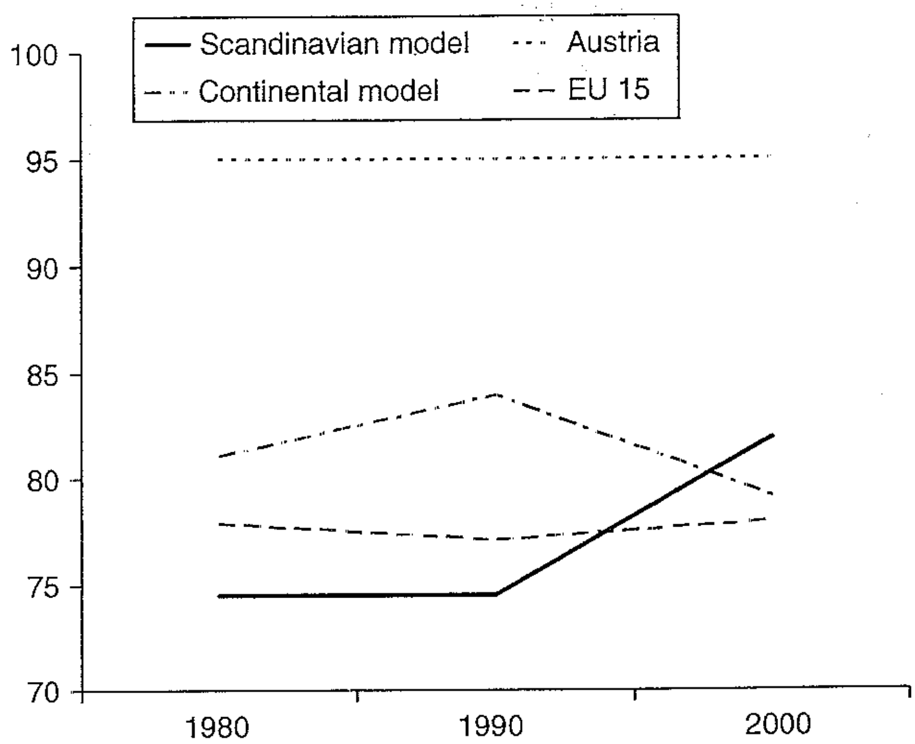

Figure 7.7 Collective bargaining coverage

and succeeded in keeping it high despite booming flexible contracts (part-time plus fixed-term) as well as increasing the coverage of collective agreements. This inclusiveness allowed the reduction of regulation specifically for irregular contracts, since people felt sheltered by minimum wages, social assistance with high replacement ratios specifically for the lowest-wage sector, and trust.

The economic role of government and experts is greater in Scandinavian countries, complementary to the influence of social partners. Trade union density is one of the best-documented indicators of the importance of institutions in general, and of social partners in particular. It declined from 50 per cent in 1980 to 39 per cent in 2000 in the EU-15. This average figure hides the fact that it is plunging from 36 per cent to 25 per cent in the continental countries, while being the highest and decreasing only from 59 per cent (1980) to 54 per cent (2000) in the Scandinavian countries. Also, the figure was higher in 2000 in the Scandinavian countries than in 1970. On the level of individual countries, there is a modest positive correlation between trade union density and economic performance (Aiginger 2007). This cooperation between government and social partners is often called tripartite decision-making, in contrast to two-partite if only employers and employees cooperate. We prefer to call the system four-partite decision-making because the experts are a fourth constituent group. Consistent, consensual

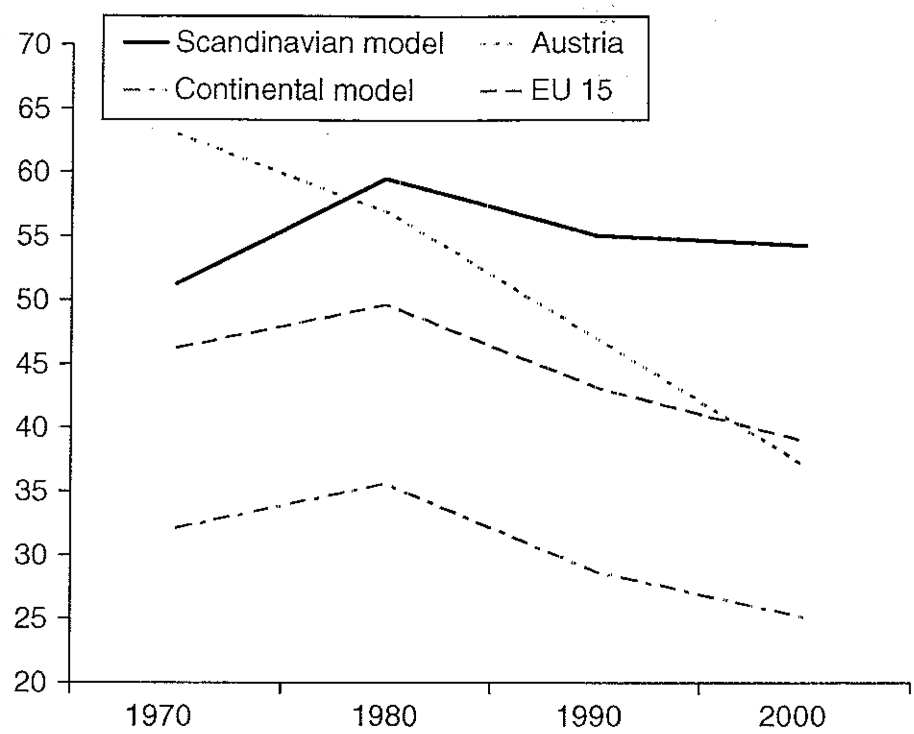

Figure 7.8 Trade union density

decision-making, with two groups focusing on special interests and two agents on more general interests, allows a quick response to changes in the economic environment. Two-partite systems sometimes favour special interests and rents, be it rents of oligopolistic firms or of existing employees in large sheltered firms. We use the term 'sometimes' since there are examples in which social partners are pursuing the general economic interest on their own, such as integration into the EU or fostering technological change in the printing industry in Austria, and others in which they serve more special interests.

The development of institutions was, in general, not smooth in most countries. There had been some pacts and partnerships brokered with and without government, such as the Waasenar Agreement and the Haarlem Agreement in the Netherlands and the National Mediation Commission (Rehnberg Commission) in Sweden. Less successful examples in the same vein might have been the Alliances for Jobs for Germany, Italy and Spain. Complementary institutions were created, such as the Socio-Economic Council in the Netherlands, and the National Economic and Social Forum in Ireland. Existing institutions such as TEKES in Finland were complemented with institutions focusing on smaller firms or regional activities. There were periods of conflict, such as the demise of intersectoral wage negotiation, the opting out of employer's organization, breakdown of bilateral negotiations and so on. Alternative trade unions were founded to cover new employment contracts, and conflicts between big firms and SMEs in employers' organizations came up. This all means that external shocks led to conflicts in existing institutions, and the economies and the social system had to adapt.

How could it be the case that strong, inclusive institutions could be good for performance? The role of institutions in a world of globalization and technological change has to change from defending the self-interest of insiders to providing solutions for outsiders and those disadvantaged by rapid change, thus leading to growth, employment and competitiveness. Or, to state it in more economic language: institutions change from preserving rents to creating positive externalities. Modern institutions encourage new abilities and qualifications, and are shaping and balancing flexibility rules. Strong, inclusive institutions will be better able to internalize positive externalities and to manage flexible contracts than weak decentralized institutions, which can only protect the small and decreasing members.

Summary

Are there lessons to be drawn from this analysis for European countries in general and the new members of the European Union? The European model is no barrier to competitiveness, if it is reformed in the direction of fostering change and growth, and improving incentives and qualifications. This is demonstrated by the Scandinavian countries, which now combine – after several crises, devaluations, and unsuccessful fiscal consolidations – rapid growth, full employment and fiscal prudence with a comprehensive welfare system and a high priority for ecological concerns and fairness.

The successful countries had to undergo substantial changes to be able to adapt their specific version of the European socio-economic model to the challenges of globalization. The reform strategy rested on five pillars: managed and balanced flexibility, making work pay and training as an obligation, fiscal consolidation plus quality of government, fostering investment into the future, and following a consistent long-run strategy embedded in trust and strong institutions.

As far as institutions were concerned, the Scandinavian countries always had more inclusive institutions and fewer insider–outsider problems. They managed to maintain and exploit this property: the coverage of collective agreements is increasing, trade union membership is stable, both in contrast with continental economies. The inclusiveness of institutions and the trust in society enabled these countries to deregulate contracts and to make use of part-time work and fixed-term contracts without increasing poverty and exclusion. Four-partite decision-making seems to be more open for radical change, than two-partite policy-making, since at least two partners – government and experts – will represent general interests. And the strong position of firm representatives and trade unions enables the countries to cope with the burden of change and with the reintegration of losers. The burden of change is acceptable if it is derived from a positive vision and if the burden is distributed in a fair way. Complex reforms – such as increasing flexibility and security at the same time – are feasible in trusting societies. Strong and inclusive institutions will mitigate the pressure from specific interests, thus preventing Olson's petrification hypothesis. In the ideal situation, they will help to foster externalities such as innovation, education and lifelong learning, thus making the economies more competitive.

Drawing conclusions from countries with a market-oriented welfare state is dangerous because the new EU member countries had experienced a planned economy with a very different role of government only 15 years ago. It is even more difficult if we acknowledge the differences between the socio-economic models within 'old' Europe.

But there are some hints about what may be important for the catching-up model:

- Institutions should be inclusive, preventing a dichotomy between outsiders and insiders
- No specific positions in existing firms or industries should be guaranteed, but mobility, upgrading skills and finding new jobs should be encouraged
- Part-time jobs, learning on the job, transition jobs between education and permanent job, sabbaticals and part time exits should be encouraged. Part-time work, entry and exit should be a choice and the jobs should be connected with social benefits
- Microeconomic changes and willingness to adapt to new challenges need a high and stable macroeconomic growth rate
- The role of economic policy does not decrease in periods of integration and globalization, only instruments change. Enforcing activities with a high external effect, such as innovation, education, lifelong learning and technological excellence, become first priorities
- The burden of change is not equally distributed by market forces, those less well-trained, with lower skills and the newcomers have to be assisted if they lose jobs
- A comprehensive welfare state is no barrier to change, but it needs to be complemented by a trusting society, high mobility, a challenging environment and excellence in innovation and education.

Appendix

Table 7.A1 Adaptivity indicators: Scandinavia versus Continental Europe

		Scandinavian model			Continental model			Scandinavian model – Continental model
		1990	2005	2005–1990	1990	2005	2005–1990	2005
Labour market regulation All contracts; 1990/2003	(–)	2.81	2.32	–0.49	3.11	2.58	–0.53	–0.26
Labour market regulation Regular contracts; 1990/2003	(–)	2.65	2.59	–0.07	2.30	2.38	0.08	–0.21
Labour market regulation Temporary contracts; 1990/2003	(–)	3.01	1.67	–1.34	3.92	2.40	–1.52	–0.73
Share of part–time work 1993/2004	(+)	21.77	26.20	4.44	12.50	18.32	5.81	7.89
Share of fix–term contracts 1993/2004	(+)	10.99	11.97	0.98	9.23	12.08	2.85	–0.11
Share of flexible contracts 1993/2004	(+)	32.75	38.18	5.42	21.73	30.39	8.66	7.78

FDI/GDP								
1995/2004	(+)	3.17	0.89	−2.28	1.33	0.95	−0.38	−0.06
Trade openness								
1990/2004	(+)	59.80	62.08	2.28	42.84	43.21	0.38	18.86
Tax wedge								
1991/2004	(−)	45.35	43.25	−2.10	47.24	48.56	1.32	−5.31
Share of part-time work								
Men in relation to women								
1993/2004	(+)	0.27	0.36	0.09	0.15	0.19	0.04	0.18
Long-term unemployment								
1992/2004	(−)	1.26	1.35	0.09	3.49	4.42	0.94	−3.08
Youth unemployment								
1993/2004	(−)	17.17	11.99	−5.18	16.05	16.53	0.48	−4.54
Fiscal debt								
in % of GDP; 1991/2004	(−)	58.44	48.22	−10.22	57.94	77.71	19.77	−29.49
Fiscal deficit/surplus								
in % of GDP; 1990/2005	(+)	−4.51	0.44	4.96	−4.49	−3.51	0.99	3.95

Notes: Higher values in this table indicate greater flexibility – some indicators had therefore to be invented, for example, since the original indicator on labour market regulation had increased if flexibility was lower; + = not inverted; − = inverted if the indicator is to be used as an adaptivity indicator (as in Figure 7.6).

Notes

1 The author thanks Alois Guger, Gunther Tichy and Ewald Walterskirchen for critical comments and acknowledges the research assistance of Dagmar Guttmann and Karolina Trebicka.
2 Some authors classify the Netherlands as member of the continental model group.
3 It is interesting that at least four of the six founding members of the EU belong to this group. The Netherlands is on the borderline between the Continental and the Scandinavian models, and Luxembourg is between the Continental and the Anglo-Saxon models.
4 The second surprise is that the two extreme models proved better than the intermediate Continental model. However, it is not clear whether the recovery of the Anglo-Saxon countries is permanent, or is a rebound from poor growth in the preceding decades.
5 It is interesting that some of these changes (summarised in Appendix 7.A1) are implemented in the Scandinavian model as well as in the liberal model, albeit at a different level. Wage supplements exist in both models, the same holds for stick-and-carrot strategies, and policies to balance the budget by limiting expenditures. But the greater surprise is that the Scandinavian economies are able to make their socio-economic system adapt to change despite high taxes and government regulation.

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