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Karl Aiginger

Copying with globalisation and unemployment: new challenges for the European Model*

Making economies fit for the dynamics of globalisation is high on the reform agenda. There is also the need to reduce the persistently high unemployment and to cope with the new challenge of climate change. The European Social Model with high costs, large governments and regulated markets is for some critiques the culprit for the slow growth in "old Europe", i.e. in the member countries of the pre-enlargement European Union (EU-15). This paper reports the characteristics of the model, and the differences between submodels applied in European countries. We show that economic performance had been very similar between Europe and the US and across European countries up to the nineties, with Europe catching up in productivity. Since the early nineties however, the difference to the US widened again as far as growth of output, productivity and employment is concerned. Interestingly, the performance of countries of the Scandinavian type is much better than that of the big continental economies. The paper claims that first important changes in policy had occurred in the Scandinavian countries (five pillars of success are defined). Additionally these countries outperform the continental countries in many indicators on the adaptability of their economies. The question remains whether the existing set of institutions in these countries or whether the changes in political priorities since the early or mid nineties made the Scandinavian countries better able to cope with globalisation as compared to Germany, Italy and France. The evidence highlights the importance of policy changes.

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1. Objective and outline

Disappointing growth in Europe since the beginnings of the nineties and persistently high unemployment raised the question whether it was the specific features of the European Social Model, which stopped the catching up process of productivity of Europe versus the US in this period of globalising markets. The paper defines the characteristics of the European Socio-economic Model, and then the differences between submodels in different European countries (following *Aiginger – Guger*, 2006A, B). It then carves out which policy changes and strategies made the Scandinavian countries more successful over the past ten to fifteen years – after several crises in the seventies and eighties and even the first years of the nineties. Specifically we look for indicators on adaptability which might explain why these economies were successful during the period of accelerated globalisation. The paper 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. Section 4 delineates the strategy of the successful European countries carving out five elements of change in economic policy since the nineties. Section 5 analyzes the ability of the Scandinavian countries to adapt to changes and possible reform blocs in the continental countries. Section 6 summarizes.

2. The European model: its variants and performance

The European countries share some common characteristics. We pragmatically define the European Socio-economic Model in terms of responsibility; regulation and redistribution (see also *Aiginger – Guger*, 2006A, B):

- 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 institutionalised; they are based on social dialogue, labour laws and collective agreements. The business relations are rather regulated and are partly shaped by social partners (on the branch and firm level). Administrative and

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economic regulation for product markets exists. Business start ups depend on permits and partly on qualification of owners or managers.

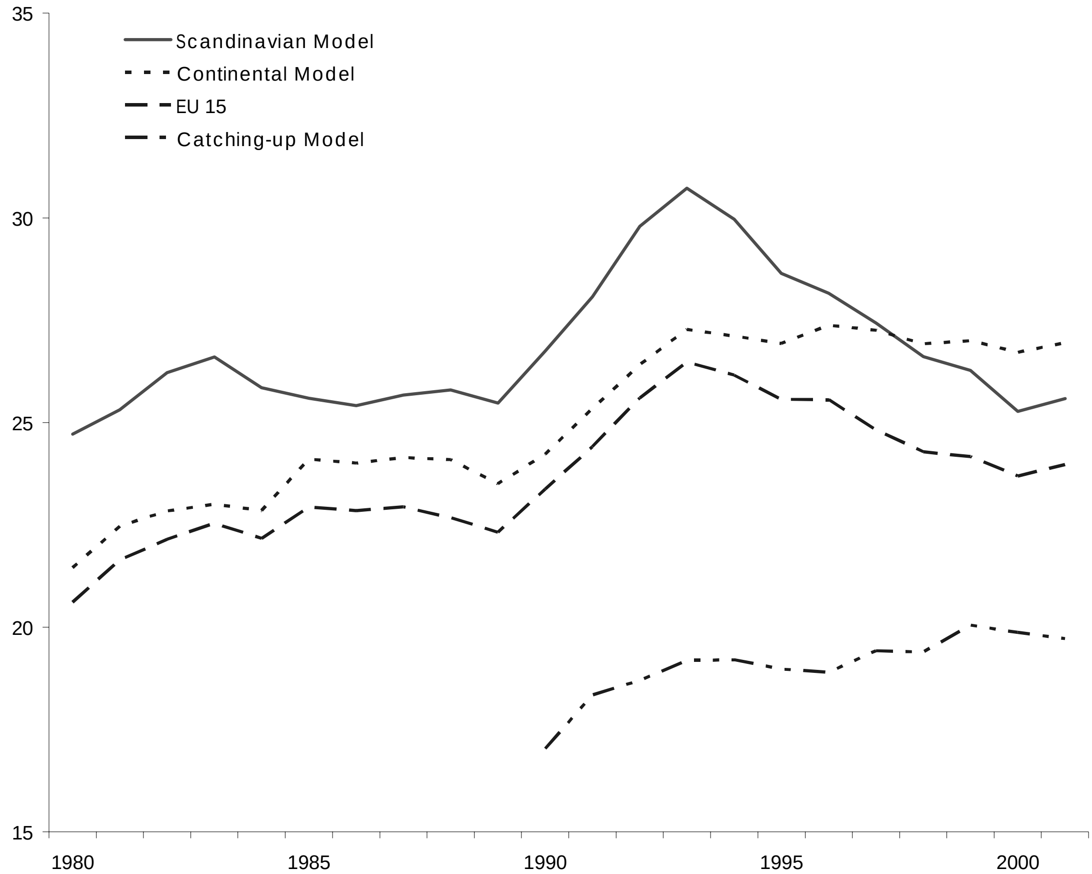
- Redistribution: transfers, financial support and social services are open to all groups; differences in incomes are limited by redistributive financial transfers, taxation, taxes on property and on bequests.

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 paper, it defines the ability to cope with external shocks and changes like globalisation. 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 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 the Anglo-Saxon-Model (or liberal model) applicable to countries with less market interference, low transfers, but targeted assistance to the poor people ("means tested approach"). 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, 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. These countries are determined to catch up with the old member countries and they had been very successful in this respect over the past ten years. We will therefore call this fifth model the "Catching-up Model". Outside of Europe, the US Model has lower levels of social expenditures, a 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 industrialised Asian economies, remain outsiders 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 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 centralised. Redistribution and the inclusion of outsiders are not high on the agenda. The Anglo-Saxon 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: Social expenditures as a percentage of GDP



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

The Scandinavian Model is practised in five countries, namely the three countries with the best (overall) performances over the past 15 years (Denmark, Finland and Sweden, they are 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).[1] 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.[2] 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,

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

[2] 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.

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 policy approaches. 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 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. Outside of Europe, we group Canada, the USA, New Zealand and Australia together, under the heading "Anglo-Saxon Model Overseas".

Table 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	***3.4***	***2.4***	***4.7***	***5.8***	***73.3***	***74.2***
Denmark	3.0	2.2	7.2	4.8	76.4	77.0
Finland	3.9	2.1	3.2	8.4	74.1	68.7
Netherlands	3.4	2.4	5.8	4.7	64.9	74.4
Sweden	2.9	2.0	1.7	7.8	83.0	73.4
Norway	3.8	3.2	5.2	4.6	74.8	76.3
Continental Model	***3.6***	***1.6***	***7.3***	***8.9***	***63.6***	***65.8***
Germany	3.2	1.6	6.2	9.5	69.5	70.0
France	3.8	1.8	8.5	9.7	59.7	61.6
Italy	4.0	1.3	8.9	7.7	57.4	62.8
Belgium	3.4	1.9	6.6	8.4	58.3	61.9
Austria	3.5	2.2	3.1	5.2	74.6	74.1
Anglo-Saxon Model Europe	***2.6***	***2.7***	***7.3***	***4.7***	***70.7***	***72.1***
Irland	4.1	6.7	13.4	4.3	54.6	69.0
United Kingdom	2.5	2.4	6.9	4.7	71.8	72.3
Mediterrean Model	***4.6***	***2.8***	***10.9***	***9.1***	***55.6***	***64.0***
Greece	4.5	3.0	6.4	9.8	54.7	55.5
Portugal	4.8	2.1	4.8	7.6	69.8	70.5
Spain	4.6	2.9	13.0	9.2	53.2	64.5
Anglo-Saxon Model Overseas	***3.6***	***3.0***	***5.7***	***5.2***	***72.1***	***72.7***
USA	3.5	3.0	5.5	5.1	72.4	72.7
Canada	4.0	2.8	8.2	6.8	71.2	74.2
Australia	3.8	3.5	7.0	5.0	69.2	73.3
New Zealand	2.4	3.1	7.8	3.7	53.7	60.2
EU 15	***3.4***	***2.0***	***8.0***	***7.9***	***64.2***	***67.1***
Japan	6.1	1.2	2.1	4.4	74.7	75.2
Catching-up Model	***.***	***3.0***	***.***	***12.9***	***.***	***57.7***
Czech Republic	.	1.4	.	7.9	.	66.9
Estonia	.	.	.	7.9	.	66.5
Cyprus	.	4.1	.	5.3	.	70.8
Latvia	.	0.1	.	8.9	.	64.6
Lithuania	.	0.4	.	8.3	.	62.9
Hungary	.	4.5	.	7.2	.	56.0
Malta	.	.	.	7.3	.	53.9
Poland	.	3.5	.	17.7	.	52.6
Slovenia	.	2.4	.	6.5	.	65.1
Slovakia	.	.	.	16.3	.	57.6
Bulgaria	*.*	*2.9*	*.*	*9.2*	*.*	*64.5*
Romania	*.*	*1.8*	*.*	*9.7*	*.*	*61.6*
EU 15/USA	0.96	0.66	1.45	1.55	0.89	0.92

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

3. 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 little differences between the European submodels 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 catching up process), and the European Anglo Saxon countries suffered from the plights first of old labour and then of iron Thatcher. The interesting divide occurred since the nineties. Europe's growth trails that of the US, and more surprisingly and with a larger difference that of the continental countries, France, Germany and Italy. In contrast the Scandinavian countries reached an average growth of 2.6% and the Anglo Saxon countries in Europe and the catching-up countries enjoyed a growth very near to US growth. The greatest surprise to 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 origins in the high cost of its social system.[3]

If we extend the performance evaluation to other indicators than economic growth, the difference becomes even larger. Unemployment is much lower, employment rate higher in the Scandinavian model, specifically if compared to 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.

4. Carving out five strategy elements

If we look at the economic policy of the successful Scandinavian countries over the past ten to fifteen years, the success strategy rests on five pillars. The strategies tried in general to maintain core elements of the existing Socio economic Model, but to make firms, individuals and institutions better able to cope with changes in the economic environment.

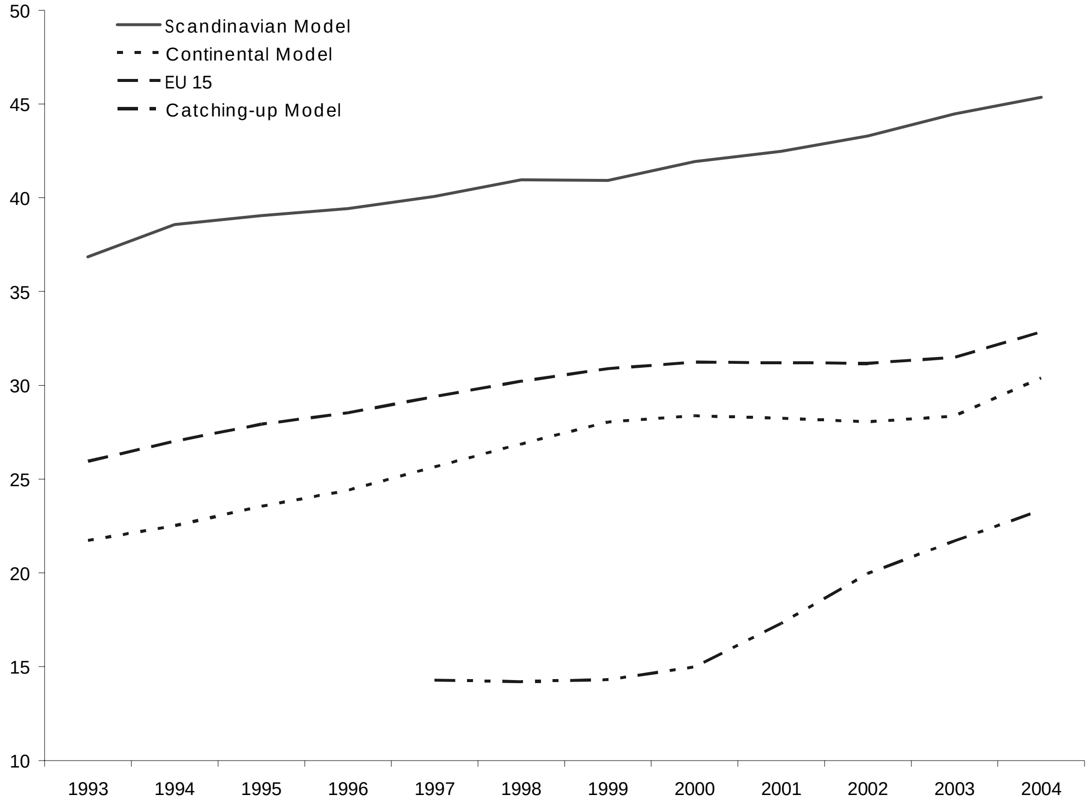
Pillar 1: Managed and balanced flexibility

Many economists stress the importance of flexibility for firms. Firms which 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 which has been pushed recently in the Scandinavian countries. Flexibility of firms is supplemented and even enabled by security for the individual persons. Those loosing their job are either offered new ones or a training program. Replacement ratios (unemployment benefit in relation to wages) are high, specifically for low incomes. Part-time work and temporary contracts are rather common, and connected with social benefits and individual choices. The share of male employees in flexible contracts is much larger than in continental

[3] The second surprise is that the two extreme models proved better than the medium model (the continental model). However, if is not clear whether the recovery of the Anglo-Saxon countries have become permanently, or is the reflex of poor growth in the decades before, or will not last if the budget deficits e.g. in the United Kingdom will be trimmed and if external finance into Ireland will fade out.

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 system of security, skill upgrading, and choice and gender equality, which characterises the model. And the decision about the work time and income does not only depend on the needs of the market, but also on the preferences of individuals. Government interferes in the rules (e.g. making pro rata entitlements obligatory) 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 (the Marxian "reserve army") – is sometimes called flexicurity. I prefer to call it "managed and balanced flexibility".

Figure 2: Flexible contracts: Share of part-time plus fix-term contracts

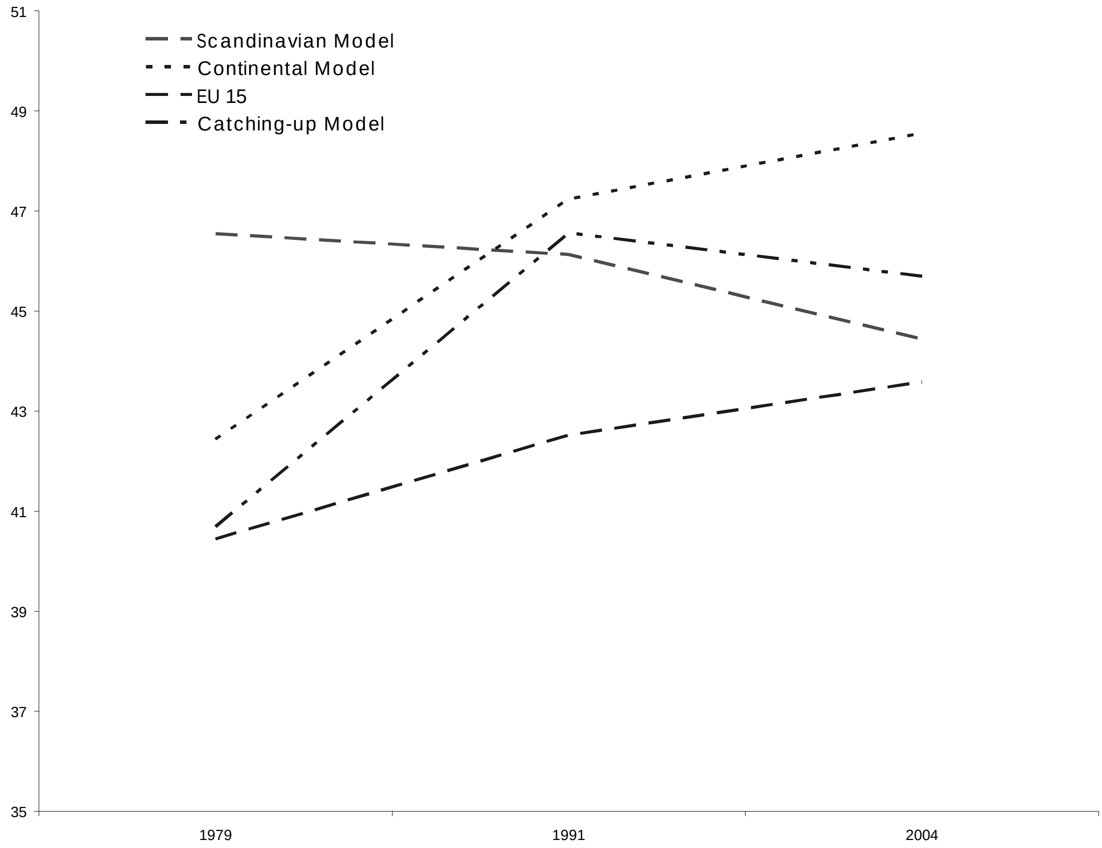


S: Eurostat, EU, Labour Force Survey and National Accounts;
As to sub-aggregates weighted average over countries; EU 15 weighted average.

Pillar 2: Work pays and training is an obligation

Economies specifically those under the stress of rapid change, offer jobs with different wages and individual have different capabilities. Government tries to limit income differences by offering either subsidies or tax credits to those earning low wages. Then 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 in 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 of the higher taxes in general, tax wedges in the Scandinavian countries are now lower than in the continental economies. Business taxes are relatively low, wealth and energy is taxed in the Nordic countries. Mobility in retraining is an obligation, by the means of financial instruments but also by pressure of efficient labour market institutions and trust.

Figure 3: Tax wedge: the difference between gross and net wages decreases in the Scandinavian countries

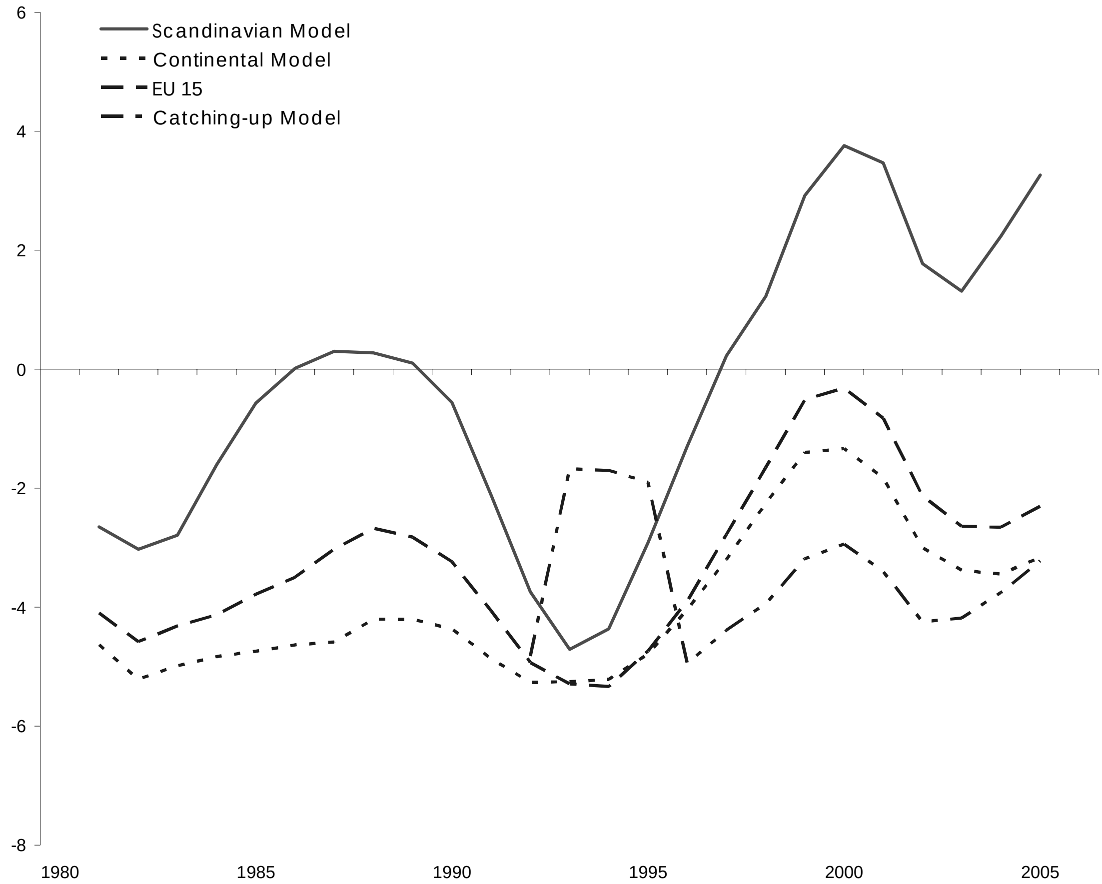


S: ifo (DICE);
As to sub-aggregates weighted average over countries; EU 15 weighted average.

Pillar 3: Fiscal prudence plus quality of government

The Scandinavian countries were known in the seventies and eighties for their permissive fiscal policy, suffering one unsuccessful fiscal consolidation after the other. Since mid nineties they target to achieve fiscal surpluses, first by capping the raise of 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 visible. 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.

Figure 4: Budget surplus/deficit, moving average over 3 years

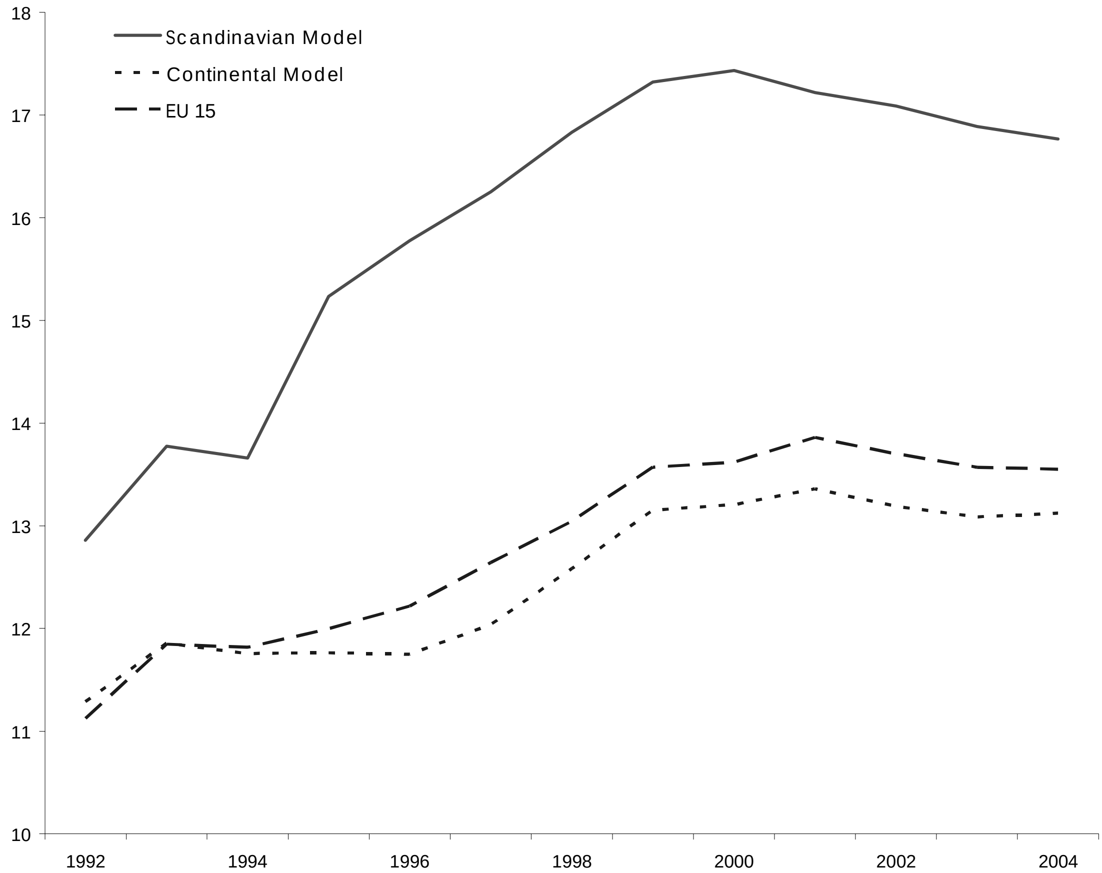


S: Eurostat (AMECO);
As to sub-aggregates weighted average over countries; EU 15 reported.

Pillar 4: Investment into the future

The Scandinavian countries increased their investment into research, education, life long learning and modern technologies like ICT and biotechnology. The difference in the rate of future investment in GDP which had been about two percentage points at the beginning of the nineties widened – despite of 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 targeted also in the Lisbon strategy, but without success in other countries. The countries are striving for excellence in innovation and education, regional policy is innovation oriented.

Figure 5: Investment into the future (in % of GDP: R&D, education, ICT expenditures)



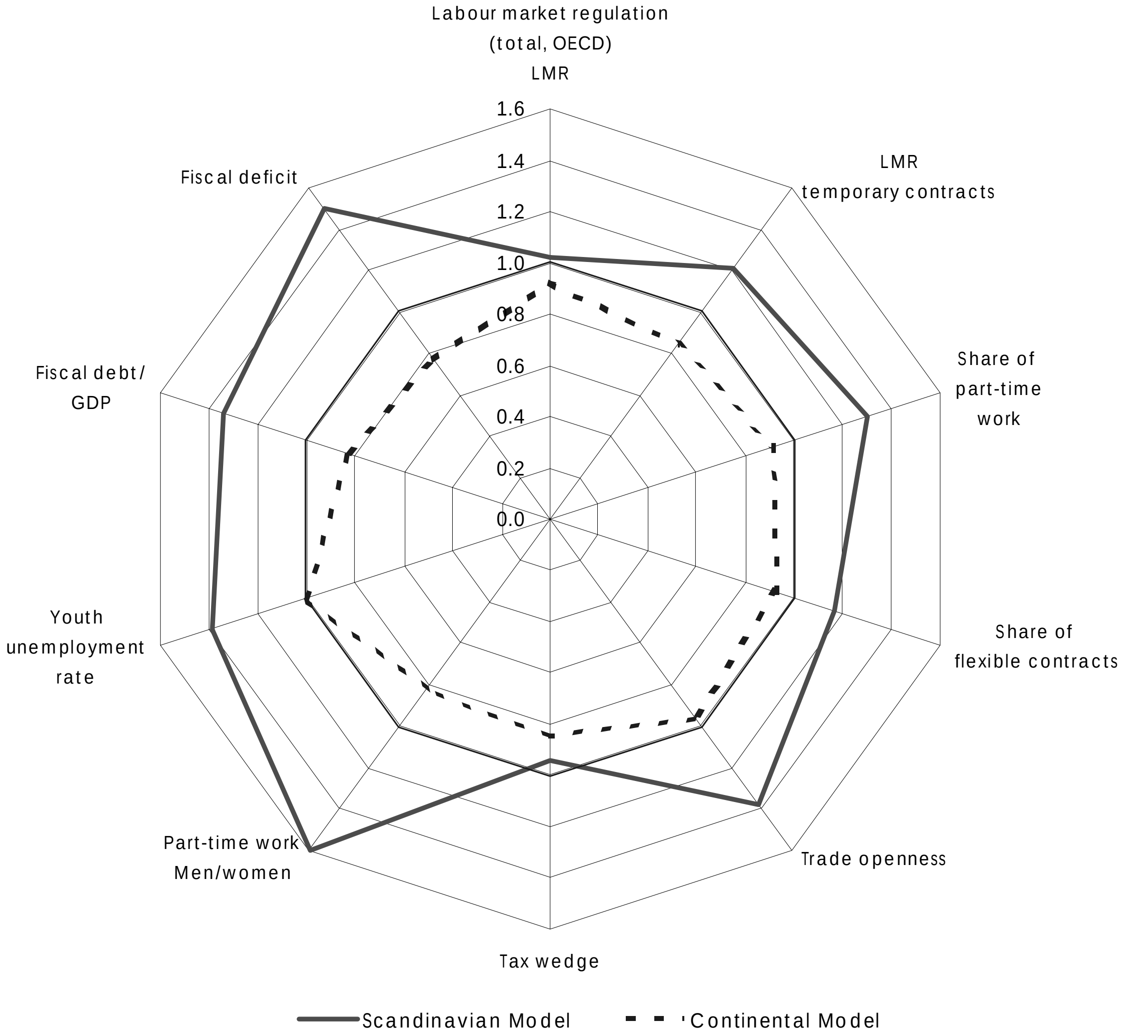
S: Eurostat (EITO);
As to sub-aggregates weighted average over countries; EU 15 weighted average.

Pillar 5: Consistent long-run strategy

The countries follow a systematic four partite economic policy making. The strategy for change is shared by the trade unions, employer's organisations, economic experts and government. The strategy is continued, if the political party in power changes. Long-run strategies are followed; they are not only discussed but implemented, not only on one level of government but on all, and also in schools and organisations. The societies are inclusive, supporting specifically the poor, including immigrants. Income differences are limited. People are trusting in the society and the government, and changes are interpreted as new opportunities, not as imminent danger[4].

[4] It is interesting that some of these changes (summarised in Appendix 1) are implemented in the Scandinavian model as well as in the liberal model, albeit at a different level. Wage supplements exist in both model, the same holds for stick a carrot strategies, policies to balance the budget by limiting expenditures. But the greater surprise is that the Scandinavian economies are able to make there social economic system fit for change, despite of high taxes, and government regulation.

Figure 6: Adaptivity profiles: Scandinavian vs. Continental Europe



Note: Data refer to 2003, 2004 or 2005; values outside the unit circle delineate less regulation, more flexible contracts, lower tax wedge, lower unemployment, lower deficits and debts (relative to the average of EU-15).

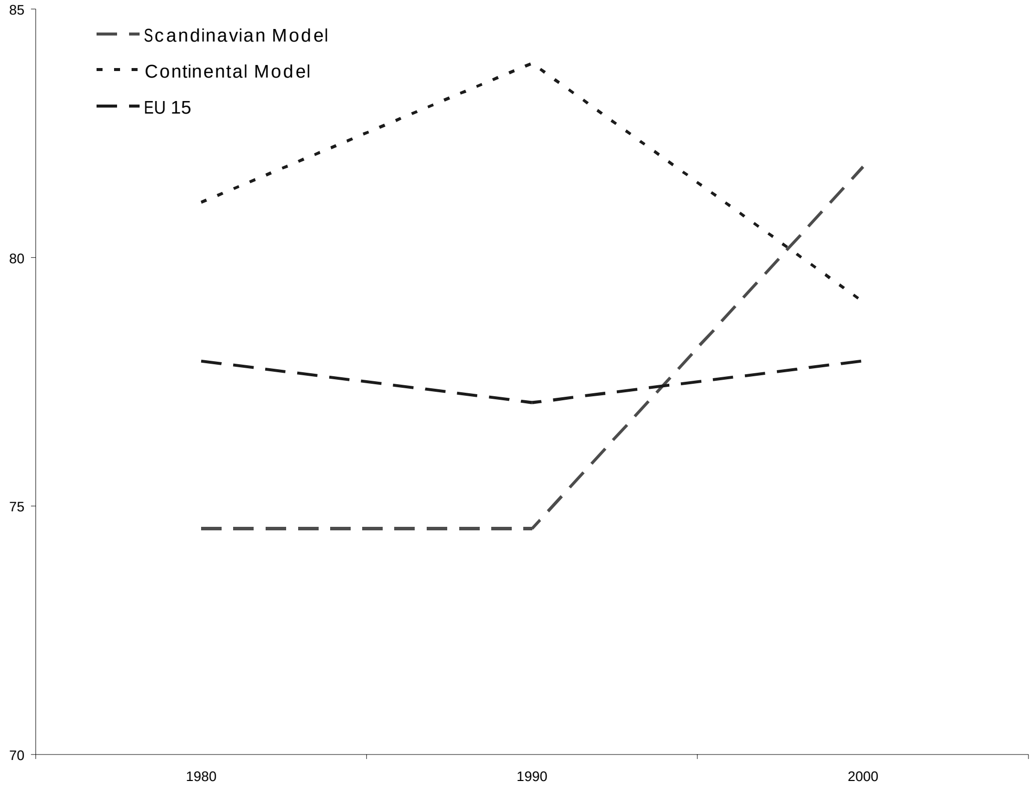
5. The ability to change and the role of institutions

Why had the continental economies been unable to change, having lower burden of taxes and lower wages? There is no definite answer, but let us venture five hypotheses.

- The continental countries underestimated the need for change. This has been specifically the case for the large countries Germany, France and Italy. Export ratios are rather low in big countries and the countries are home to large successful firms producing for the world markets. These countries had experienced no big crisis in the nineties, but enjoyed a modest growth.
- The countries were further detracted by some experiments and shocks. Such a shock may have been the late and radical privatization plus the reduction in working hours in France, the 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 specifically high, social expenditures not excessive and research and education expenditures not really low, the countries thought they could go on without policy change and without monitoring carefully the quality and efficiency of institutions.
- Deregulation was low on the agenda, despite of the fact that the labour markets in all countries and for product markets in France and Italy were rather strictly regulated. Investment into the future did not increase neither expenditure in research nor in 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.

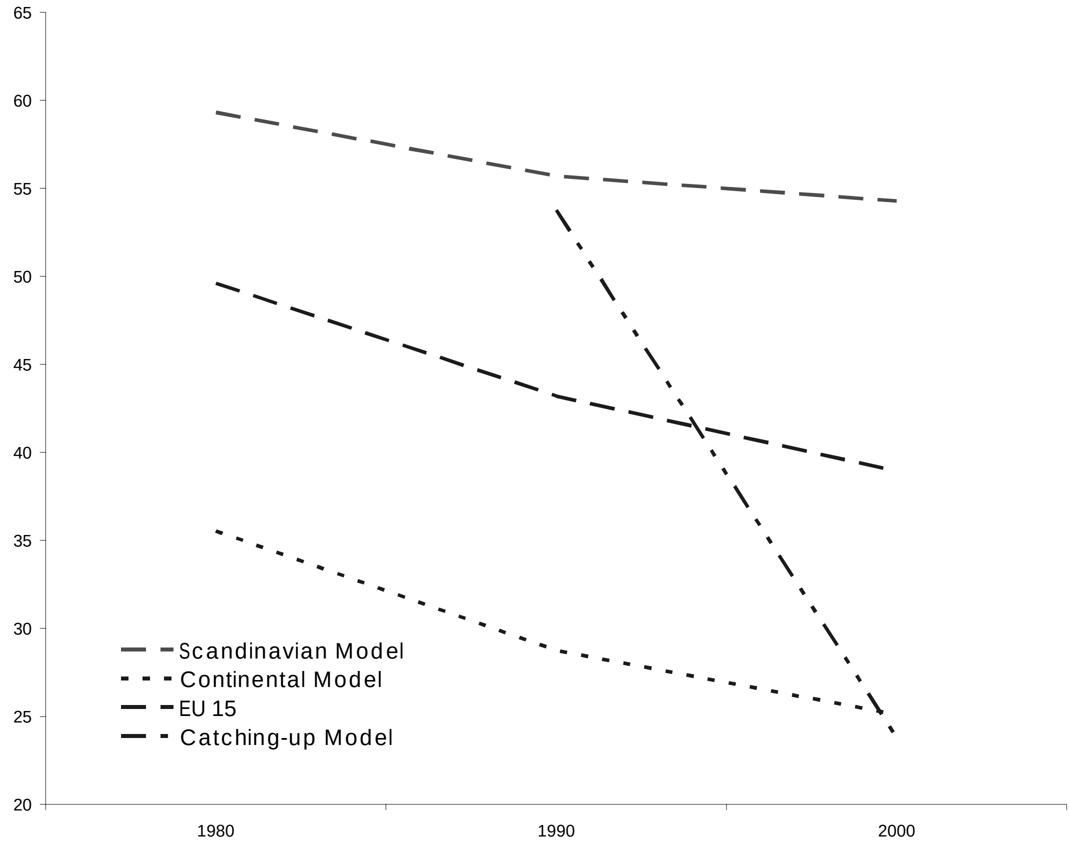
Figure 7: Collective bargaining coverage



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

- 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 nineties: they always had a high union density and succeeded to keep it high despite of booming flexible contracts (part time plus fix term) as well as to increase 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 segment) and trust.

Figure 8: Trade Union density



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

The economic role of government and the role of experts is greater in Scandinavian countries, complementary to the influence of the Social Partners. Trade Union Density is one of the best documented indicators on the importance of institutions in general and on social partners in specific. It is declining from 50 % in 1980 to 39 % on 2000 in the EU 15. This average figure hides that it is plunging from 36 % to 25 % in the continental countries, while being the highest and deceasing only from 59 % (1980) to 54 % (2000) in the Scandinavian countries. And it is 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, since the experts are a fourth constituent group. Consistent, consensual 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 (e.g. made necessary by globalization). 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 general economic interest on their own (like integration into 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, like the Waasenar Agreement and the Haarlem Agreement in Netherlands, National Mediation Commission (Rehnberg Commission) in Sweden. Less successful examples in the same direction may have been the Alliances for Jobs for Germany, Italy, and Spain. Complementary institutions were created like the Socio-Economic Council in the Netherlands, National Economic and Social Forum in Ireland. Existing institutions like TEKES in Finland were complemented with institutions focusing on smaller firms or regional activities. There were periods of conflicts, the demise of intersectoral wage negotiation, the opting out of employer's organization, breakdown of bilateral negotiations. Alternative trade unions were founded to cover new employment contracts (Netherlands), conflicts between big firms and SME in employer's organisation came up. This all means that external shocks lead to conflicts in existing institutions, and the economies and the social system had to adapt.

The role of institutions in a world of globalization, technological chance has to change from defending self interest of insiders to providing solutions for outsiders and those disadvantaged by rapid change (thus leading to growth, employment and competitiveness). Or let us say it in a more economic language institutions change from preserving rents to creating positive externalities. Modern Institutions encourage new abilities and qualification and are shaping and balancing flexibility rules. Strong, inclusive institutions – is our tentative hypothesis - will be better able to internalise positive externalities and to manage flexible contracts, than weak, decentralized institutions, which can only protect the small and decreasing members.

6. Summary

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

The second conclusion is that 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.

Thirdly, as far as institutions were concerned, the Scandinavian countries always had more inclusive institutions, and less insider-outsider problems. They managed to maintain and to exploit this property: the coverage of collective agreements is increasing, trade union membership is stable, both in contrast to continental economies. The inclusiveness of institutions and the trust in society enabled these countries to deregulate contracts, to make use of part-time work and fixed-term contracts without increasing poverty and exclusion.

Our fourth conclusion is that 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 of Trade Unions enables the countries to cope with the burden of change and with the reintegration of losers.

The fifth conclusion is that the burden of change is acceptable if it are derived from a positive vision and if the burden is distributed in a fair way. Complex reforms – like 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 case they will help to foster externalities (e.g. innovation, education, lifelong leaning) thus making the economies more competitive.

Drawing conclusions from countries experiencing a market oriented welfare state since decades is limited, since the new member countries had experienced a planned economy with a very different role of government as well as institutions only fifteen years ago. It is even more difficult if we acknowledge the differences between the socio-economic models within "old" Europe. And furthermore if we look at the early success of the Scandinavian model, then its demise in the eighties and first years of the nineties, and now the resurrection after the crisis.

But there are some hints, what may be important for the further development of the "Catching-up Model":

- institutions should be inclusive, preventing a dichotomy between outsiders and insiders
- specific positions in existing firms, industries and individual jobs should not be guaranteed, mobility, upgrading skills, finding new jobs should however be encouraged;
- part-time jobs, learning on the job, transition jobs between education and permanent job and sabbaticals should be encouraged. Part time, entry and exit should be a choice and the jobs should be connected with social benefits (pro rata);
- 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 high external effect like innovation, education, life long learning and technological excellence become priorities;
- the burden of change is not equally distributed by market forces; those less trained, with lower skills, the newcomers have to be assisted and re-qualified 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, challenging environment, and excellence in innovation and education.

Appendix

Table A1: Adaptivity indicators: Scandinavian vs. 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;	(-)	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

Note: Higher values in this table indicate greater flexibility. Some indicators had therefore to be invented e.g. since the original indicator on labour market regulation had increased if flexibility was lower. + means not inverted, - means inverted if the indicator is to be used as adaptivity indicator (as in Figure 6).

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