Typologies of Social Models in Europe

Karl Aiginger, Thomas Leoni

Introduction

The distinctiveness of the European Social Model "lies in the eye of the beholder": When we look at the EU from outside, we can easily find features that set it apart from other economically developed areas of the world. According to *Grahl – Teague* (1997) "the European Social Model, […] is understood as a specific combination of comprehensive welfare systems and strongly institutionalised and politicised forms of industrial relations". When we consider the EU from an insider perspective, the great institutional and socio-cultural differences among European states call into question the existence of a common social model (e.g., *Kleinman*, 2002). Esping-Andersen's seminal work on welfare state regimes[1] provides a bridge between these positions, enabling to cluster European states into (more or less) homogeneous social models. In spite of a significant number of caveats that apply to this endeavour[2], the classification into ideal-typical groups of countries has a heuristic legitimacy and represents a powerful tool to narrow down the complex differences between countries to a manageable set of dimensions and indicators.

Differences between social models are of interest when we try to explain the weak economic development in Europe over the past couple of decades. Arguably Europe as a whole has never been on a sustained growth-path since the oil shocks in the 1970s, and the globalization process that has reached its full dimension in the 1990s has further exposed the weakness of the European economies. Economic performance, economic policies and reform activities (or reform inertia) have been rather diverse across countries. Future policy should be guided by a proper understanding of the drivers that have enabled some countries to perform better than others in the recent past. Moreover, differences between social models have to be assessed in light of the welfare state challenges that lie ahead. As is being argued throughout this volume, the emergence of a new set of risks for the individual and for society as a whole keeps European institutions and policy makers under constant

1 See *Esping-Andersen* (1990).
2 For a critical view on the classification of welfare state typologies see *Hemerijck* (2006).

pressure to adapt. These risks are the result of changes in external and internal conditions, encompassing technological shifts, international competition, demographic ageing, migration and the break-up of traditional family structures.

The aim of this chapter is to apply a 'typologies of social models' perspective to identify growth drivers and key areas for adaptability to present and future challenges. As we will show, Scandinavian countries have managed to achieve good economic performance, while at the same time securing a high level of social cohesion and maintaining a full-fledged welfare state. The ability of the Scandinavian countries to maintain a good performance is to some degree at variance with the common wisdom that economic growth might be constrained by high taxes and government expenditures, with regulated labour markets, social cohesion and environmental awareness. And that all these characteristics may be more problematic in a period of increasing globalisation and competitive pressure in general. The development path of the Scandinavian countries was not smooth; all of them had to pass critical periods in the late 1980s or early 1990s. As we will see, they increased the flexibility of their labour markets, pursued successful strategies to combine flexibility for firms with social protection for workers, incentives for occupation with training and human capital development. And they committed to fiscal prudence and to excellence in education and innovation. Globalization was seen as an opportunity, not as a threat. However, it was also recognized that people had to be empowered to take advantage of this opportunity. In these respects, a number of interesting points can be made when comparing social models across Europe.

At the same time, we should be wary of projecting one social model on another group of countries (or a single country, for that matter). Firstly, there is the question of the transferability of best practices between countries. In many instances the success of a reform is dependent on pre-existing circumstances, and these might be difficult if not impossible to re-create. Secondly, as *Hemerijck* (2006) has reminded us, to speak of model(s) misleadingly suggests a static view of the welfare state. Quite conversely, since the 1970s changes in the world economy, labour markets and family structures have led all European countries to recast the policy mix upon which their social protection systems had originally been erected. The discussion of typologies of social models has to be seen against the backdrop of this dynamic process: although it is conducive to the identification of priorities and of successful strategies to pursue these priorities, it does not provide a rigid blueprint for reform.

Models of European society and their performance

Typologies of models

The performance of European countries can be analysed using the distinction along different types of welfare regimes as a starting point. In addition to the three ideal-types identified by *Esping-Andersen* (1990), the definition of a fourth distinctly Southern European social model has become standard practice following the work of *Leibfried* (1992) and *Ferrera* (1996). Drawing loosely on this literature we can classify the "old" Member State of the EU (the EU 15) into clusters of Scandinavian universalistic, Continental corporatist, Anglo-Saxon liberal and Mediterranean welfare regimes. The Scandinavian model is the most comprehensive one, with a high degree of emphasis on redistribution, social inclusion and universality. The countries that can be subsumed under this ideal-type (Denmark, Finland and Sweden) are characterised by a strong social dialogue and close cooperation of the social partners with the government, with trade unions prominently involved in economic life at large. The Continental model emphasises employment as the basis of social transfers, benefits are at a more moderate level and they are linked to income. We include the Netherlands in this group, next to Germany, Belgium, France and Austria[3]. The liberal or Anglo-Saxon model (United Kingdom and Ireland), emphasises the responsibility of individuals for themselves; social transfers are smaller than in other countries, more targeted and "means tested". In the Mediterranean model (embodied by Spain, Portugal, Italy and Greece), the low level of social transfers is partly counterbalanced by the strong supportive role of family networks. As *Ferrera* (1996) has pointed out, in opposition to the universalistic model of the North, social policies in the Southern model are characterised by particularistic and clientelistic traits.

The original approach developed by Esping-Andersen defined the worlds of welfare capitalism on the basis of indicators for the degree of de-commodification of social

[3] The Netherlands present some features (e.g. labour market characteristics) which resemble more closely the Scandinavian countries.

benefits and for patterns of social stratification/mobility[4]. The present analysis sets the social protection system in a broader context. There exist interdependencies between welfare regime, industrial relations system and social system of production. As *Ebbinghaus – Kittel* (2006) have shown, we can speak of institutional complementarities and - quoting Max Weber - elective affinities between these spheres. The European model is more than just a social model in the narrow sense. It also influences production, employment and productivity and thus, growth and competitiveness and all other objectives of economic policy (*Aiginger – Guger*, 2005; *Aiginger et al.*, 2007). Accordingly, a broad understanding of the European socio-economic models comprises economic life and social security, but also the educational system and mechanisms that drive human capital formation as well as the creation and diffusion of knowledge.

Economic performance

In the long run (1970-2006) growth differentials between different socio-economic models in Europe were comparatively small. GDP growth was about the same in the Anglo-Saxon, Scandinavian and Mediterranean countries (+2½ percent p.a.) and somewhat lower in Continental Europe. In the United States, economic growth was considerably higher. Once we control for changes in population and look at GDP growth per capita, however, the US and Europe no longer display a growth differential; the picture within the EU remains largely unaltered. Differences in economic performance across country groups have been significantly larger in more recent times, with the period since 2000 marked by slow growth in most Continental and Mediterranean countries. GDP growth per head was substantially higher in the Anglo-Saxon countries, followed by Scandinavian countries. The comparatively good performance of Spain and Greece has to be considered in light of the low starting level of GDP and the catching-up process postulated by economic theory. It does not come as a surprise that the catching-up process resulted in higher long-run growth for countries with a low initial level of GDP per head. When the development of GDP per capita is corrected for the expected growth path given the initial GDP level (see *Aiginger et al.*, 2007), Greece, Spain and Portugal are characterised as

[4] Recently *Scruggs - Allan* (2006) have attempted a replication and update of Esping-Andersen's original indicators. This work casts doubts over the empirical consistency of the attribution of single countries (e.g. Finland) to different worlds of welfare regimes. However, it does not detract from the usefulness of this classification for the purpose of the present analysis.

underperformers. By this measure, Ireland has had the best performance, followed by Austria and the Scandinavian countries.

Table 1: Economic performance

	Real GDP growth		Real GDP growth per capita	
	Percent p.a.		Percent p.a.	
	1970/2006	2000/2006	1970/2006	2000/2006
Scandinavian countries	**+ 2.4**	**+ 2.5**	**+ 2.0**	**+ 2.1**
Denmark	+ 2.2	+ 1.7	+ 1.9	+ 1.4
Finland	+ 2.9	+ 2.9	+ 2.6	+ 2.6
Sweden	+ 2.2	+ 2.8	+ 1.8	+ 2.4
Anglo-Saxon countries	**+ 2.7**	**+ 2.8**	**+ 2.3**	**+ 2.2**
Ireland	+ 5.2	+ 5.6	+ 4.1	+ 3.6
United Kingdom	+ 2.4	+ 2.5	+ 2.2	+ 2.0
Continental countries	**+ 2.4**	**+ 1.4**	**+ 2.0**	**+ 1.1**
Germany	+ 2.2	+ 1.0	+ 1.9	+ 0.9
France	+ 2.5	+ 1.7	+ 2.0	+ 1.1
Belgium	+ 2.4	+ 1.8	+ 2.1	+ 1.4
Netherlands	+ 2.6	+ 1.7	+ 2.0	+ 1.2
Austria	+ 2.6	+ 2.0	+ 2.3	+ 1.4
Mediterranean countries	**+ 2.7**	**+ 2.1**	**+ 2.2**	**+ 1.2**
Greece	+ 2.8	+ 4.3	+ 2.1	+ 3.9
Italy	+ 2.3	+ 1.0	+ 2.1	+ 0.4
Portugal	+ 3.2	+ 1.0	+ 2.6	+ 0.4
Spain	+ 3.1	+ 3.4	+ 2.4	+ 1.8
EU 15	**+ 2.4**	**+ 1.9**	**+ 2.1**	**+ 1.3**
United States	**+ 3.1**	**+ 2.4**	**+ 2.0**	**+ 1.4**

Source: EUROSTAT; OECD; WIFO calculations. Figures for country groups are a weighted average over countries.

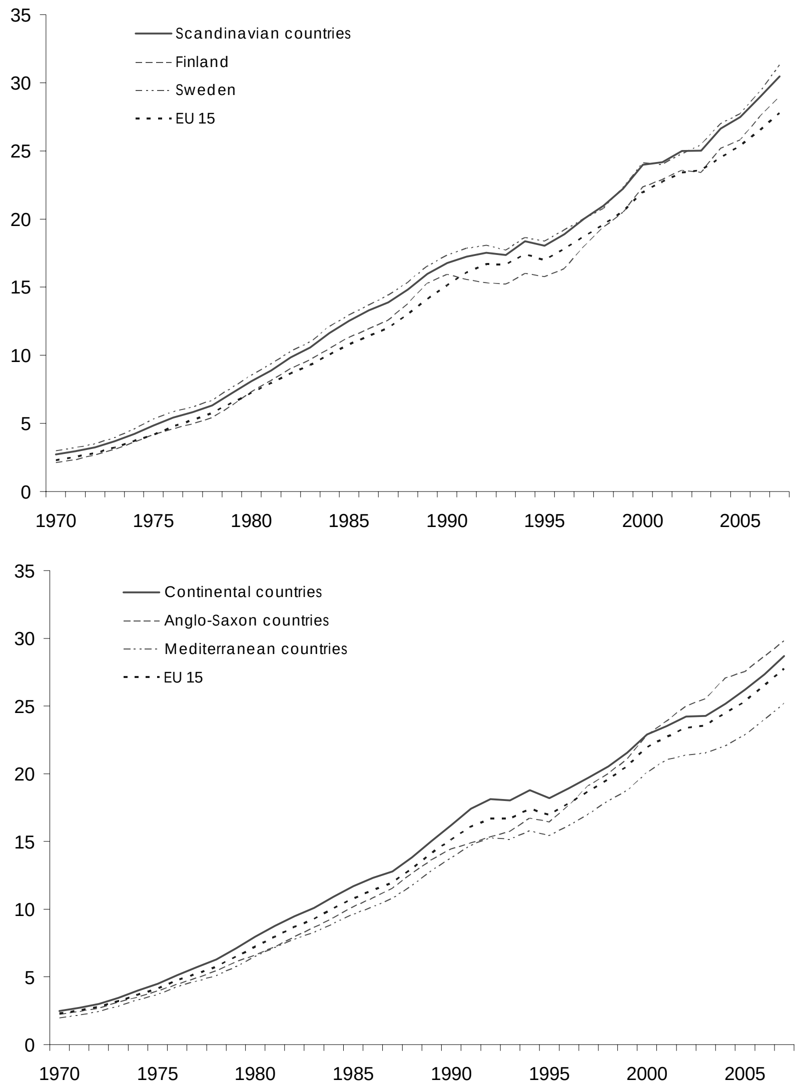
In the short run (2000-2006) the differences between the Scandinavian countries and the continental countries are striking, with growth rates nearly twice as high and budgets in the surplus in the former, and public debt declining. The employment rate is closely related to economic performance. The Scandinavian countries display the highest labour force participation rates, followed by the Anglo-Saxon countries. Both Continental and Mediterranean countries have substantially lower employment rates. Particular attention has to be paid to labour force participation of women and older persons. Especially the full integration of women in the labour market can be understood as an indicator for the capacity to use available human capital resources. Differences in female labour force participation mirror differences in welfare regimes: Scandinavian countries are characterised by the highest and the Mediterranean

countries by the lowest female employment rates. The extensive provision of public services (e.g. for childcare and long-term care) largely explains the high employment rate in Scandinavia, marketisation of household services (low-wage service jobs) the high employment rate in the Anglo-Saxon countries. When we look at the period between 2000 and 2006 we find increasing female labour force participation across all EU Member States[5]. Employment rates tell only one part of the story, however, as they do not reflect qualitative differences in employment. A large share of “female” job creation has taken place in the part-time sector[6]. In Continental Europe this trend has been particularly strong. In these countries as well as in Mediterranean and Anglo-Saxon countries the gender gap in part-time employment is largest, with women several times more likely to hold a part-time job than men. In Scandinavia this gap, albeit present, is significantly smaller, indicating that the integration of women in economic activity has been stronger than elsewhere.

Along similar lines, Continental and Mediterranean countries have been the least successful at achieving labour market participation of older persons. In a number of countries as few as a third of those aged between 55 and 64 are in employment (2006). In Ireland and the UK employment rates of older persons are well over 50%, Finland is at the same level as the Anglo-Saxon countries and in Denmark and Sweden participation rates have reached 60% and 70% respectively. Taken together, the employment rate in the EU 15 is 15 percentage points lower than in the United States. The necessity to compensate demographic trends with an extension of working life has long been recognized. In fact, employment rates of older persons are on the raise in all countries. In most cases, rates have increased by 5-8 percentage points between 2000 and 2006. Contrary to expectation, only some of the countries with the lowest starting level have experienced the strongest improvement. In the Netherlands, for instance, the employment rate of persons in the age group 55-64 has gone from 38.2% in 2000 to 47.7% in 2006; for Spain the corresponding figures are 37.0 and 44.1%.

[5] With the exception of Sweden, where it has remained constant at a very high level.
[6] Part-time employment represents an important source of flexibility and enjoys great popularity among both employers and employees. However, there is abundant empirical evidence for the fact that - especially in presence of strong gender segregation in the labour market - part-time jobs are associated with poorer working conditions, less on-the-job training and ultimately fewer opportunities of career advancement (see e.g. *O'Reilly et al.*, 1998).

Figure 1: *GDP per capita at PPS*



Source: EUROSTAT (AMECO); WIFO calculations. Figures for country groups are a weighted average over countries.

The most dramatic increase has taken place in Finland, with a shift from 41.6% to 54.5%. Sweden and Denmark, the other two Scandinavian countries, have been able to raise their already high employment rates by about 5 percentage points. Italy, Belgium and Austria, where rates were below 30% in 2000, are advancing with small steps, thus leaving the gap between the countries with the highest and those with the lowest employment rates largely unchanged.

Table 2: *Employment rates*

	Total		Female		age 55-64	
	2000	2006	2000	2006	2000	2006
Scandinavian countries	**73.6**	**74.2**	**69.5**	**70.7**	**56.4**	**63.1**
Denmark	76.9	77.4	71.6	73.4	55.7	60.7
Finland	66.5	69.7	64.2	67.3	41.6	54.5
Sweden	75.2	74.2	70.9	70.7	64.9	69.6
Anglo-Saxon countries	**71.2**	**72.0**	**63.8**	**65.3**	**50.2**	**57.0**
Ireland	66.5	70.0	53.9	59.3	45.3	53.1
United Kingdom	71.6	72.2	64.7	65.8	50.7	57.4
Continental countries	**67.0**	**67.8**	**57.3**	**61.2**	**33.9**	**43.2**
Germany	69.9	71.3	58.1	62.2	37.6	48.4
France	61.5	61.5	55.2	58.8	29.9	38.1
Belgium	61.6	62.6	51.5	54.0	26.3	32.0
Netherlands	75.1	76.1	63.5	67.7	38.2	47.7
Austria	69.6	69.9	59.6	63.5	28.8	35.5
Mediterranean countries	**59.6**	**64.6**	**41.5**	**49.6**	**33.0**	**38.2**
Greece	57.3	62.0	41.7	47.4	39.0	42.3
Italy	58.6	63.4	39.6	46.3	27.7	32.5
Portugal	72.7	72.0	60.5	62.0	50.7	50.1
Spain	59.5	65.9	41.3	53.2	37.0	44.1
EU 15	**65.8**	**67.9**	**54.1**	**58.7**	**37.8**	**45.3**
United States	**74.5**	**72.8**	**67.8**	**66.1**	**57.8**	**61.8**

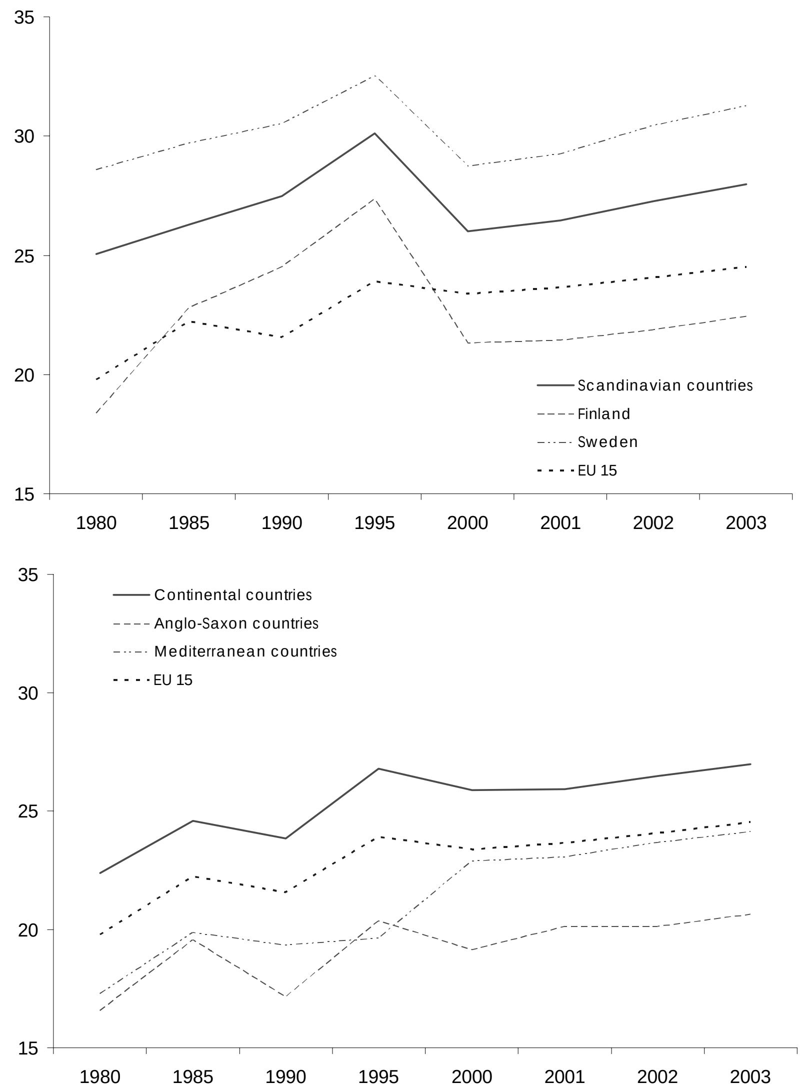
Source: Eurostat (AMECO), WIFO calculations. Figures for country groups are a weighted average over countries using nominal GDP levels of 2006 as weights.

Social expenditures and welfare state performance

Social expenditure is often used as a proxy for the size and pervasiveness of the welfare state. Clearly, a more comprehensive and generous social safety net necessitates more resources. As a matter of fact, public social spending as a fraction of GDP is highest in the Scandinavian countries, followed by the Continental group, with the difference declining over time. Both Mediterranean and Anglo-Saxon countries spend a lower fraction of GDP on social protection, although this value is still high when we compare it to the United States. In the Anglo-Saxon world private social expenditure contributes a significant amount to overall spending figures, resulting in an expenditure level which is as high as in Continental Europe. It is not the total level of spending, but its development over time and the distribution of resources according to functions which captures differences between models best. In the Scandinavian countries public social expenditure has been adjusted sharply in the wake of a reform process that took place in the 1990s. After falling for several years, public expenditure has started to grow again after the year 2000. Continental countries have witnessed a steady increase in public social expenditure since 1990 and spending has increased faster than GDP in Mediterranean countries, too. The Netherlands and Spain represent two noticeable exceptions to this general pattern.

Continental and Mediterranean countries are characterised by a high share of expenditure on old age. This clearly reflects the low labour force participation of older persons and the early retirement age in these countries. At least in the Mediterranean countries, where traditionally there have been considerable differences in retirement practices between the public and private sectors, this is also expression of a strong insider-outsider problem. Pension schemes in these countries provide generous protection to core sectors of the labour force (typically public sector employees, white collar-workers and private wage-earners of medium and large enterprises working on a full contract), but only weak subsidization to persons located outside of these sectors (*Ferrera*, 1996). This insider-outsider dynamic extends to other spheres of social protection, like short-term risks deriving from sickness, maternity and temporary unemployment. Furthermore, the redistributive role of the state places little emphasis on the youngest segments of the population: Young persons who are still in education or entering the labour market can count on little support from the state; the same is true for families with small children. Scandinavian countries, on the other side, devote a comparatively high share of resources to benefits for families; moreover, in most Northern European countries schemes (such as a form of income maintenance) are in place to support youngsters.

Figure 2: *Social expenditure as a percentage of GDP*



Source: OECD; WIFO calculations. Figures for country groups are a weighted average over countries.

When we look at indicators that capture social conditions we can easily find support for two main stylized facts. Firstly, in the EU 15 at large equity and social cohesion play a much more prominent role than in the United States. Secondly, within Europe the Scandinavian countries rank highest according to most indicators, followed by the Continental countries; Anglo-Saxon and Mediterranean countries display the weakest welfare performance. A number of variables can be used to prove this point (*Aiginger et al.*, 2007), table 3 shows a choice of outcome indicators which reflect the strength of social institutions. The share of the population which is at risk of poverty after social transfers is almost double as high in Anglo-Saxon and Mediterranean countries than it is in Scandinavia. This fact is closely related to the higher income inequality that can be observed in these countries. Life expectancy and infant mortality, which may be interpreted as indicators for the efficiency and inclusiveness of the health system, reveal a particularly pronounced gap between the EU and the United States.

Table 3: *Indicators for social performance*

	Income inequality	At-risk-of-poverty rate after social transfers	Life expectancy at birth	Infant mortality rate	Prison population
	Income quintile share ratio 2006	Percent 2005	Years 2004	Per 1,000 births 2004	Per 100,000 2005
Scandinavian countries	**3.5**	**12**	**79.0**	**3.6**	**77**
Denmark	3.4	12	77.3	4.4	77
Finland	3.6	13	78.7	3.3	75
Sweden	3.5	12	80.3	3.1	78
Anglo-Saxon countries	**5.4**	**19**	**78.4**	**5.1**	**138**
Ireland	4.9	18	77.9	4.9	85
United Kingdom	5.4	19	78.5	5.1	143
Continental countries	**4.0**	**13**	**79.1**	**4.1**	**97**
Germany	4.1	13	78.9	4.1	97
France	4.0	13	79.6	3.9	88
Belgium	4.2	15	79.1	4.3	90
Netherlands	3.8	10	78.5	4.1	127
Austria	3.7	13	79.2	4.5	108
Mediterranean countries	**5.5**	**20**	**79.9**	**3.9**	**116**
Greece	6.1	21	78.3	4.1	90
Italy	5.5	20	80.2	4.1	97
Portugal	6.8	18	77.5	4.0	123
Spain	5.3	20	79.7	3.5	143
EU 15	**4.7**	**16**	**79.2**	**4.1**	**109**
United States	**n.a.**	**n.a.**	**77.5**	**6.9**	**738**

Source: EUROSTAT; OECD; WIFO calculations. Figures for country groups are a weighted average over countries.

Within Europe, the Anglo-Saxon countries have the highest infant mortality. A similar picture emerges when we look at the size of the prison population, where a wide gap exists in the number of prisoners between EU and US. In the UK the share of prisoners is also comparatively high, especially when we look at the corresponding figures for Scandinavian and Continental countries.

A brief excursus: Where do the CEE countries fit in?

With enlargement to the East the EU has made a big leap in terms of diversity and complexity. From a typology of socio-economic models perspective, Central and Eastern European (CEE) countries can represent an own group or model. Their post-war history has followed a completely distinct path from the rest of Europe, with no need for state and society to develop an institutional framework able to absorb the conflicts between capital and labour (*Keune*, 2006). In spite of its universalistic drive, the state-socialist model was fraught with problems, especially the low quality of services and the dysfunctionalities of the planned economy. In the years after 1989, when state-socialism was replaced by the market system, all CEE countries experienced a profound crisis. GDP fell to pre-1989 levels in the whole region and the transformation process proved to be much more painful and difficult to manage than initially thought. It was only by the mid-1990s that most CEE countries regained stability and started their catching-up process.

Table 4: *Economic Indicators, CEE countries*

	GDP per person in PPS		GDP growth	Public debt		Employment rate	
	2000	2006	2000/2006	2000	2006	2000	2006
	EU-27 = 100		Change p.a.	In % of GDP		Age 15-64	
EU-15	115.2	112.1	1.9	63.1	63.0	65.8	67.9
Bulgaria	27.9	36.8	5.4	74.3	22.7	50.4	58.6
Czech Republic	68.7	78.7	4.1	18.5	29.4	65.0	66.3
Estonia	44.8	68.5	8.9	5.2	4.2	60.4	68.1
Latvia	36.8	53.7	8.6	12.3	10.7	57.5	66.3
Lituania	39.4	56.2	7.3	23.7	18.2	59.1	63.6
Hungary	56.3	65.0	4.4	54.2	65.6	56.3	57.3
Poland	48.4	52.5	3.7	36.8	47.6	55.0	54.5
Romenia	26.0	38.9	5.5	24.7	12.4	63.0	58.8
Slovenia	78.9	88.0	4.0	27.2[1)]	27.2	62.8	66.6
Slovak Republic	50.3	63.8	5.0	50.4	30.4	56.8	59.4

Source: EUROSTAT; WIFO calculations. 1) Data refer to 2001.

The establishment of a market economy and of pluralistic democratic institutions was pursued according to different procedural recipes, but the desired final outcome of this reform process was rather clear and well-defined. On the contrary, the creation of Western type welfare states was, and still is, a controversial task with respect to both means and ends. The CEE countries possessed a high level of social protection and benefits, and the question how to transform these systems left room for many different options. In their adjustment and reform path the new Member States of the EU concocted a very peculiar mix of policies and institutions. This mix reflects the different legacies and influences that impacted the development of these countries in the transition period: The pre-war traditions and institutions as well as the universalistic legacies of the post-war era played an important role alongside the dominant ideas propagated by the EU and by international financial institutions. It has been suggested that these ingredients have resulted in the emergence of a new social model:

> The analysis of five welfare state sectors (pension, health care, protection against unemployment, social assistance and family support) has demonstrated that governments implemented the welfare system already in place during the pre-Soviet period (Bismarck social insurance), tried to maintain most of the values in force during communism (universalism, corporatism and egalitarianism) and re-adjusted it to the new post-communist consensus (market-based schemes). (*Cerami*, 2005)

This unique welfare mix is not the only element which sets CEE apart from the (Western) European social models. CEE countries consistently diverge from the “old” EU Member States with respect to the structure of industrial relations. Trade union membership has been declining in virtually all post-industrialised countries. In this respect the low union density which can be observed in CEE does not represent an exception. In opposition to most of Western Europe, however, CEE countries lack a consolidated and institutionalised system of industrial relations. None of the four typologies of industrial relations which are present in Western Europe (i. e. Nordic corporatism, Continental social partnership, Anglo-Saxon pluralism and Mediterranean dualism) applies to CEE (*Kohl – Platzer*, 2004). Some common traits can be found between Eastern European countries and the Anglos-Saxon, Continental and Mediterranean countries; similarities with the Nordic tradition of industrial relations are scarce. Generally speaking, in the post-communist countries

sectoral bargaining agreements play a minor role[7]. Trade unions are virtually absent from large parts of the private sector. Interest representation and worker participation at the firm level is negligible. At the same time, also employers have a low and unstable level of organization. The absence of strong employer and employee representations at the inter-firm and sectoral level leaves the state with substantial influence on industrial relations (*Kohl – Platzer*, 2004).

These common characteristics, which might lead to the consolidation of a more defined socio-economic model in the coming decades, coexist with considerable heterogeneity within CEE. In terms of economic development, Slovenia and the Czech Republic have reached a comparatively high level of income, with GDP per person in purchasing power parities at almost 90 and 80 percent of EU average, respectively (2006). Most CEE countries can be found at an income level which is slightly more than half (Poland, Lithuania, Latvia) or near two thirds the EU average (Estonia, Hungary, Slovakia). Bulgaria and Rumania, the two latest Member States, remain under 40% of the average EU level. The Baltic States have experienced the strongest catching-up process, followed by the Slovak Republic. Living standards are increasing at a rapid pace in Romania and Bulgaria, too, albeit starting from a low level. Hungary and Poland have had comparatively low growth rates and their employment rate has stagnated between 2000 and 2006. The employment level is considerably higher and has continued to rise in Slovenia and the Czech Republic. The fastest increase in employment rates has taken place in Bulgaria and in the Baltic States, where employment has reached Western European levels.

[7] Slovenia is the most notable exception in this respect, with a strong coordination between employer and employee interest groups and collective bargaining coverage of nearly 100%.

Table 5: *Indicators for social expenditure and performance, CEE countries*

	Total social expenditure		At risk of poverty after social transfers		Income inequality	
	2000	2005	2000	2006	2000	2006
EU-15	27.0	27.8	16	16	4.5	4.7
Bulgaria	n.a.	16.1	14	14	3.7	3.5
Czech Republic	19.5	19.1	8[1)]	10	3.4[1)]	3.5
Estonia	14.0	12.5	18	18	6.3	5.5
Latvia	15.3	12.4	16	23	5.5	7.9
Lituania	15.8	13.2	17	20	5.0	6.3
Hungary	19.3	21.9	11	16	3.3	5.5
Poland	19.7	19.6	16	19	4.7	5.6
Romenia	13.2	14.2	17	19	4.5	5.3
Slovenia	24.6	23.4	11	12	3.2	3.4
Slovak Republic	19.3	16.9	n.a.	12	n.a.	4.0

Source: EUROSTAT; WIFO calculations. [1)] Data refer to 2001.

Some analogies can be drawn between the new Member States and Western European socio-economic typologies (see for instance *Schmögnerová*, 2007). A look at economic and social indicators suggests that we can identify at least two different groups of CEE countries (table 5). One group of countries is characterised by a low level of social expenditure, low levels of taxation and correspondingly low levels of redistribution. The Baltic States and to a certain extent also Slovakia can be included in this group, which can be linked to the Anglo-Saxon model. As can be seen from table 5, in these countries GDP has grown faster than social expenditure in recent years. Over the same period, income inequality and the risk of poverty have increased substantially. A second group of countries resembles more closely the Continental socio-economic model, with higher levels of taxation and redistribution and a strong link between social transfers and employment. Slovenia and the Czech Republic, to name the two most representative countries in this respect, have succeeded in keeping income inequality almost constant in the years after 2000. Countries such as Poland, Bulgaria and Rumania reveal some similarities to the Mediterranean model. They are characterised by intermediate levels of social spending, high levels of inequality and low employment rates.

Although the CEE countries have not yet caught up with the EU 15, they are already confronted with the same "new" challenges and societal risks. It remains to be seen

whether they will follow a distinctly separate path in building a response to these challenges. This would lead to the consolidation of a "transitional" socio-economic model. Quite conversely, they might also strengthen those elements which they have already in common with Western European countries. This would result in a stronger convergence with one (or more than one) of the existing socio-economic models. Judging from the present, it appears unlikely that such a convergence process would bring them close to the model embodied by the Scandinavian countries.

From the past to the future – lessons to be learned

Cornerstones of successful reform

If we abstract from the differences that exist within groups, the typologies analysis of European states highlights a stark contrast between the Scandinavian countries on one side and the Continental and Mediterranean countries on the other side. In the words of *Sapir* (2005) the first have managed to combine both equity and efficiency, whereas the latter are inefficient and, if we look at the Mediterranean group, also inequitable.

There is a broad consensus that the performance of the Scandinavian countries was no foreclose conclusion, but happened after a long period of declining lead in per capita income and repeated devaluations of the currencies in Sweden and Finland. The success is based on the necessity and capacity to reform institutions and to increase the adaptability of the economies. The Scandinavian countries a f t e r the reforms of the nineties are now able to cope with the challenges represented by changes in world economy, labour markets and society. The economic and social performance that we can observe and measure today is the outcome of reforms a n d some conditions and institutional settings that were in place at the time of reform. To which extent can the reforms carried out by governments across Scandinavia be separated from these pre-existing characteristics? In a number of instances, we can trace back elements of the Scandinavian success story of the last decade to earlier periods:

- The high employment rates and particularly the high female labour participation rates that we can observe in the Nordic countries are the result of an evolution that originated in the 1960s. Up to that point, labour market participation of women did not differ much between Scandinavian and Continental countries. At the beginning of the 1960s female labour force participation rate was close to 45% in Sweden and about 41% in France and Germany. A decade later, however, every second Swedish women was participating in the labour market, whereas the participation rate had dropped below 40% in Germany and France; by 1980 the gap between the countries had widened to almost 20 percentage points (cfr. *Sorrentino*, 1983). A similar development can be observed in Denmark, in Finland the increase in female labour force participation was less dramatic because the rate was already about 60% at the beginning of the 1960s. This development reflects changes in both the industrial structure and social policies with respect to families and childcare.

- Many of the distinguishing features of Scandinavian labour markets were in place long before they started to represent a model for other countries. For instance, active labour market policy (ALMP) was developed in Sweden as part of a general Keynesian approach to the economy in the post-war period. ALMP was originally targeted at increasing labour mobility, starting in the 1960s it became more generally focused on combating unemployment (see *Rueda*, 2006). Also the Danish flexicurity model is not by itself something new. *Andersen – Svarer* (2007) have argued that the main components of flexicurity (namely the flexibility and the security) were already in place in the 1970s and 1980s; what changed with the 1990s was the introduction of welfare-to-work elements and the stronger focus on incentives[8].

- In general terms, the Scandinavian countries always had more inclusive institutions, and as a consequence less insider-outsider problems than other European countries. The inclusiveness of institutions and the trust in society enabled these countries to introduce greater flexibility in the labour markets without increasing poverty and exclusion (*Aiginger - Guger*, 2006). Another central feature of the Scandinavian success story – the emphasis on innovation and quality in education – also has deep roots. As *Iversen – Stephens* (2008) have pointed out, success in information and communication technology can be linked to the type of human capital formation prevalent in the Scandinavian countries: High levels of spending at all educational levels (starting with the preschool age) coupled with active labour market policy and moderate levels of employment protection resulted in particularly high levels of general skills, also at the median and the bottom of the distribution.

[8] "The policy tightened eligibility for unemployment benefits and their duration as well as introduced workfare elements into unemployment insurance and social policies in general. Thereby, policy makers attempted to strengthen the incentive structure without taking resort to general benefit reductions" (*Andersen – Svarer*, 2007).

This being said, the present position of the Scandinavian countries has to be viewed against the backdrop of a profound reform process. In addition to any strength of their previous policies and institutional settings, Scandinavian countries developed their contemporary success story after having reached the trough of a crisis at beginning of the 1990s.

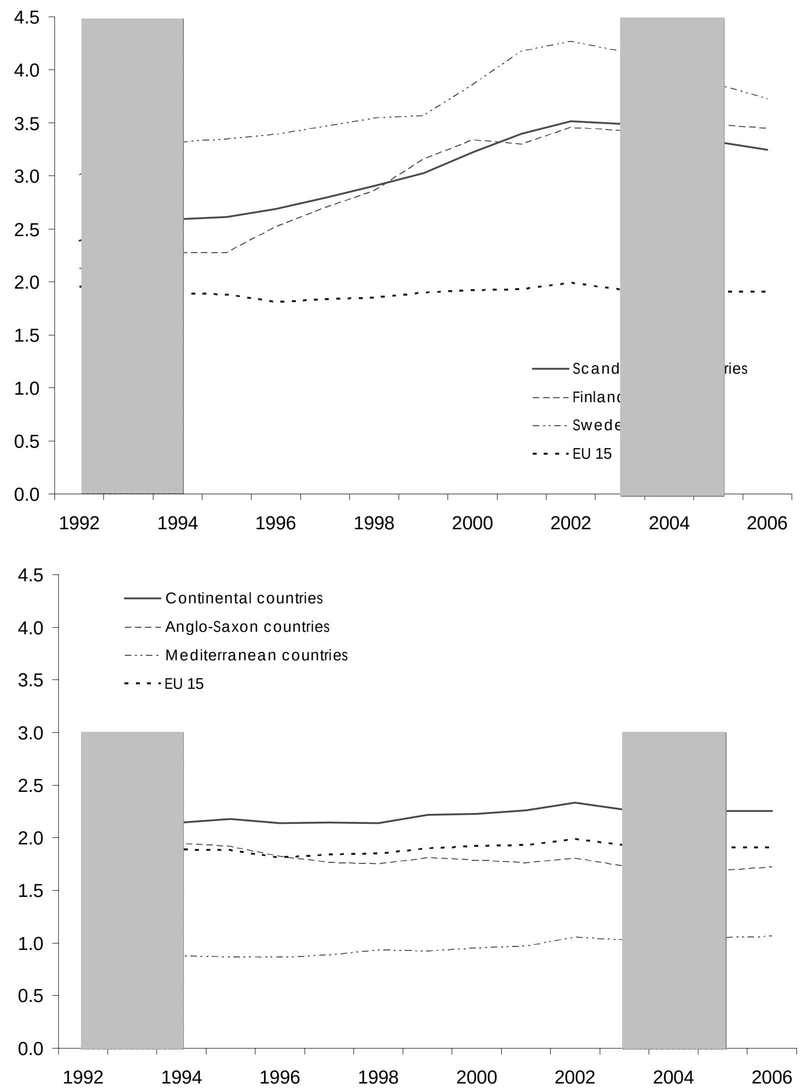
Table 6: *Indicators for investment in the future and growth drivers*

	Expenditure for R&D		Expenditure for education		Expenditure for ICT	
	2000	2006	2000	2006	2000	2006
Scandinavian countries	**3.2**	**3.2**	**7.3**	**7.4**	**7.1**	**6.6**
Denmark	2.2	2.4	8.3	8.5	6.6	6.0
Finland	3.3	3.5	6.1	6.4	6.6	6.0
Sweden	3.9	3.7	7.3	7.2	7.7	7.3
Anglo-Saxon countries	**1.8**	**1.7**	**4.6**	**5.2**	**6.9**	**6.3**
Ireland	1.1	1.3	4.3	4.7	4.7	3.8
United Kingdom	1.9	1.8	4.6	5.3	7.0	6.6
Continental countries	**2.2**	**2.3**	**5.1**	**5.2**	**5.9**	**5.7**
Germany	2.5	2.5	4.5	4.6	6.0	5.8
France	2.2	2.1	5.8	5.8	5.5	5.4
Belgium	2.0	1.8	6.0	6.0	6.1	5.9
Netherlands	1.8	1.7	4.9	5.2	6.8	6.4
Austria	1.9	2.5	5.7	5.4	6.0	5.8
Mediterranean countries	**1.0**	**1.1**	**4.4**	**4.4**	**5.0**	**4.8**
Greece	0.6	0.6	3.7	3.8	5.0	4.3
Italy	1.1	1.1	4.5	4.6	4.8	4.8
Portugal	0.8	0.8	5.4	5.3	6.1	6.1
Spain	0.9	1.2	4.3	4.3	5.0	4.6
EU 15	**1.9**	**1.9**	**4.7**	**5.2**	**5.9**	**5.6**
United States	**2.7**	**2.7**	**4.9**	**5.1**	**5.7**	**5.4**

Source: EUROSTAT; EITO; WIFO calculations. Figures for country groups are a weighted average over countries.

Denmark, where the crisis was comparatively mild, experienced years of sluggish growth and rising unemployment culminating in a recession in 1993. In Sweden in the early 1990s exports, GDP and employment decreased dramatically, leading to a deep recession and a budget deficit of almost 10 percent in 1993. Finland was hit hardest by changes in economic and geopolitical circumstances: the double breakdown of its regional markets (in the Soviet Union) and of its product markets (resource-intensive products such as textiles and paper) threatened its economic existence. Although the origins of the crisis were not identical for all of them, the Scandinavian countries were able to use the crisis as a chance for a turn-around process. In a stylized manner the underlying strategy can be summed up in three points (*Aiginger - Guger*, 2005): All three countries managed to reform institutions, and to make labour and product markets more competitive, not by means of a simple deregulation, but also by reforms targeted at increasing training, geographical mobility and incentives to work.

Figure 3: *Expenditure for R&D as percentage of GDP*



Source: EUROSTAT (AMECO); WIFO calculations. Figures for country groups are a weighted average over countries.

In all countries the reform process was accompanied by a period of wage moderation and by a strong reduction and readjustment of public expenditure. Another aspect which was common to all three countries was their orientation towards new technologies and innovation. This last step, which proved to be a major asset in the global reallocation of production, was a clear top-down strategy pursued by the governments[9].

The outcome of this process can be summed up in the following features, which are arguably difficult to reproduce as a whole, but which can be seen as cornerstones of a strategy to succeed as high-income countries with an extensive and sophisticated welfare state in light of international competition, changing demographic trends and shifts in societal patterns (*Aiginger,* 2007):

1. Managed and balanced flexibility: Flexibility of firms is supplemented and even enabled by security for the individual persons. Replacement rates (unemployment benefits 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. At the same time work pays and training is an obligation: In-work benefits or tax credits provide an incentive to take up employment rather than to rely on subsistence payments. Hence the model is characterised by flexibility for firms and persons, embedded in a system of security, skills upgrade, choice and gender equality.

2. Fiscal prudence plus quality of budget: In the 1970s and 1980s the Scandinavian countries were known for their permissive fiscal policy, suffering one unsuccessful fiscal consolidation after the other. In the mid 1990s they curbed expenditures and since that period they target fiscal surpluses, first by capping the raise of expenditures. 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.

[9] Sweden, for instance, developed pervasive and comprehensive programs to increase medium term growth, with a consistent long-run government assisted innovation strategy, which was prudently maintained even during the big crisis. In order to promote information technology, PCs for private use were made attractive by tax incentives, while support was provided for educational expenses, and the use of ICT by the government was made compulsory.

3. Investment into the future: The Scandinavian countries increased their investment into research, education, life long learning and modern technologies like ICT and biotechnology (table 6). The difference in the rate of future investment in GDP, which had been about two percentage points at the beginning of the nineties, widened – in spite of the severe crises in 1993. Next to expenditures that have been subsumed under the "future investment" heading, high spending on the youngest groups of population is a further element which characterises the Nordic countries and sets them apart from the rest of Europe.

Furthermore, it is important to point out that the Scandinavian 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 and it is continued even if the political party in power changes.

Adaptation to new risks

Hemerijck (2006) points out that it would be wrong to overemphasize the importance of pre-defined socio-economic models. Institutions and policies have been changing and will have to change dynamically in order to meet the new challenges that define European societies. Roger Liddle and Simon Latham (see corresponding chapter in this volume) describe the impact of these new risks using the individual life course model as analytical grid. They begin with childhood, where the break-up of traditional family structures and raising inequalities have increased the risk of poverty, deprivation and low educational attainment, and conclude with the retirement age, where demographic developments call for a longer working life but also for more migration. These risks and the underlying social and economic trends are common to all European societies. Accordingly, there exists a broad consensus on a number of goals, such as the necessity to encourage lifelong learning, to increase labour force mobility and to raise the retirement age. The European integration process has favoured mutual learning and the exchange of best practices in numerous fields of policy-making. Hence it is not surprising that across Europe the measures that are being implemented to confront these new risks are often similar.

In the long run, we may witness further convergence of socio-economic policies and institutions across Europe. A new European social model may emerge, making the typologies that we have used so far obsolete. At present, however, substantial differences between socio-economic models persist: Agreement on a broad set of goals and of necessary measures is counterbalanced by differences in approaches and emphases. One dimension which exemplifies these differences concerns the response given by European countries to the demise of traditional household structures and the increase of inequalities in early stages of life. As pointed out by Liddle and Latham, children living in households with only one parent are often the first victims of these trends. In the UK, 41% of singles with dependent children are considered at-risk-of poverty (against an average of 19% for the whole population); even in Sweden the poverty risk for lone parents (32%) is considerable higher than for the remaining population (12%). Precarious income and living conditions at early stages of life can have a very detrimental effect on future cognitive development. The importance of the first years of life is enhanced by the widening inequality in terms of economic and educational opportunities. Not only children of lone parents, but also those of families with migratory and/or low educational background risk to be left behind in the quest for skills and knowledge.

Indicators reveal that the likelihood of children to grow up in poverty varies considerably between country groups (table 7). Although in some countries such as France and Germany at-risk-of-poverty rates for children have been falling, there is no clear indication that a convergence process is taking place. In the Anglo-Saxon and Mediterranean countries close to a third of children below the age of 16 are considered at-risk-of-poverty. Changes between 2000 and 2006 have been rather negligible. In most Continental countries the corresponding shares lie at about 20%. Scandinavian countries occupy a privileged position: low child poverty rates do not only correspond to normative ideals of fairness and equality, they are also conducive to social cohesion and economic growth. In post–industrial societies individuals' life chances and overall economic development depend on learning abilities and the accumulation of human capital. In the words of Gosta Esping-Andersen, "we cannot afford not to be egalitarians in the advanced economies of the twenty-first century".

Table 7: *Indicators on new risks*

	At-risk-of-poverty rate (age below 16)		Public expenditure on childcare and pre-primary education	Part-time gender gap		Fertility
	Percent		In % of GDP	Ratio women/men		Total fertility rate
	2000	2006	2003	2000	2006	2006
Scandinavian countries	n.a.	**14**	**1.4**	**3.3**	**2.9**	**1.84**
Denmark	n.a.	12	1.6	3.3	2.7	1.83
Finland	12	14	1.4	2.1	2.1	1.84
Sweden	n.a.	16	1.3	3.9	3.4	1.85
Anglo-Saxon countries	**35**	**34**	**0.6**	**4.9**	**4.1**	**1.85**
Ireland	28	30	0.2	4.4	5.2	1.93
United Kingdom	36	34	0.6	5.0	4.0	1.84
Continental countries	**19**	**18**	**0.7**	**6.5**	**4.9**	**1.61**
Germany	19	16	0.4	7.6	4.9	1.32
France	25	20	1.2	5.8	5.2	2.00
Belgium	21	19	0.8	6.8	5.6	1.64
Netherlands	n.a.	21	0.5	3.7	3.2	1.70
Austria	19	21	0.6	7.9	6.2	1.40
Mediterranean countries	**32**	**32**	**0.6**	**5.0**	**5.2**	**1.34**
Greece	28	29	0.4	3.0	3.5	1.39
Italy	30	33	0.6	4.5	5.6	1.32
Portugal	37	33	0.9	2.6	2.1	1.35
Spain	34	30	0.5	6.0	5.4	1.38
EU 15	**24**	**24**	**0.7**	**5.4**	**4.5**	**1.63**

Source: OECD, Social Expenditure Database 1980-2003; EUROSTAT. Figures for country groups are a weighted average over countries.

Next to policies to combat poverty and exclusion, the provision of qualitative and affordable childcare institutions is of great importance in this respect. Adequate childcare facilities are a necessary condition for lone mothers (and fathers) to participate in the labour market and to secure their independent subsistence. In addition, institutions that provide high-quality childcare are an important instrument to improve the situation of children who live in disadvantaged households. The high share of GDP that goes to childcare and pre-primary education in Scandinavian countries (between 1.3% and 1.6% of GDP) can therefore be seen as a contribution to guarantee equality of life chances and to support the integration of children with migratory background. The need to improve the provision of childcare facilities has been recognized by the Member States of the European Union as one of the Barcelona objectives. In its most recent report on the subject, the Commission acknowledges that virtually all countries are stepping up their efforts in this respect. Nevertheless, "childcare provision for pre-school-age children differs widely between Member States, depending on the systems in place and the different national approaches and priorities accorded to reconciling working life and family life" (*European Commission*, 2008). Sweden, Finland and Denmark are still the only three EU countries which offer guaranteed access to facilities for children aged below 3.

The issue of child development is closely interlinked with the position of women in labour market and society. Although gender equality has made substantial progress in recent decades and female labour force participation rates have been on the rise in all European countries, job opportunities and the division of familial responsibilities continue to be characterised by a strong gender bias. Women find it particularly difficult to combine family and career, a fact which reflects negatively on the work-life balance of families. Improved opportunities for women are not only an end in themselves; they are also a crucial determinant of fertility decisions. Total fertility rates are generally low in Europe, a consequence of the fertility decline that can be traced back to the 1960s. For most EU countries, the turn of the last decade has marked the lowest point in terms of fertility, with rates increasing slightly in recent years. In opposition to the past, the relationship between fertility and female labour force participation has turned positive (*Apps – Rees,* 2004; *Del Boca – Locatelli*, 2006). The Mediterranean countries have fallen far behind in their fertility indicators, whereas in Scandinavian and Anglo-Saxon countries, where female participation rates are high, the number of children has remained closer to the reproduction rate of 2.1. With the noticeable exception of France, also the Continental countries have so far largely failed in their quest to raise fertility rates. For the future, a return to the traditional pattern of the past is no viable option. Young couples will have to be convinced that having a child does not result in a considerable loss of career and income perspectives.

Childcare facilities, policies that facilitate the return to employment after child-bearing and measures that encourage men to do part of the child-rearing are of relevance in this respect. In other words, a better gender balance of (paid) labour and (unpaid) household work has to be achieved. Quite conversely, in many countries new forms of gender inequality have been emerging, most notably a segregation of women with dependent children in part-time employment. In Continental Europe the polarisation between "male" full-time employment and "female" part-time employment has been particularly strong. In countries such as Germany, France and Austria the typical

male breadwinner household model has given way to a model where the main (male) income is integrated by the part-time income of the (female) partner[10]. In light of the fact that women have reached high levels of formal qualification, sizeable gender gaps in part-time employment indicate a systemic underutilization of existing human capital. An excessive concentration of women on part-time employment raises also other problematic issues with respect to the long-term labour market perspectives of women and of their economic independence in old age. Scandinavian countries have made a conscious effort to enable women to work full-time and to make it more attractive for men to work part-time. A similar strategy has been followed by the Netherlands. In these countries the gender gap in part-time employment is comparatively low and part-time employees typically work more hours than in the other European countries.

Growing competition from emerging economies, ageing, changes in social structures and values – these trends represent ongoing challenges for all post-industrialised economies. The Scandinavian countries are not exempted from the pressure to continuously adjust to changing external and internal conditions (*Andersen, Holmström et al.*, 2007). However, as the brief discussion of challenges related to childhood and to the position of women in society has attempted to show, they are at present in a better position and have more room for future adjustments. The same conclusion could be reached by looking at other areas where new challenges have emerged, such as the need to foster lifelong learning or the necessity to extend the working life. This is not to say that it is sufficient to look to Scandinavia for viable solutions in all fields of policy. The increased openness of European countries to economic and social globalization (see table 9) is linked with issues that are far from being resolved. One field where none of the EU Member States seems to have found a successful strategy is migration. The rise of overtly xenophobic political parties in a number of different countries (e. g. Italy, France, Denmark, Austria) signals the unease of many European citizens with respect to migration and to the consequences of globalization more in general. The failure to integrate previous waves of migrants rests like a heavy burden on the present. It fuels negative perceptions and it is likely to cause increasing social costs in the future. It is also a

[10] A similar pattern can be observed in Anglo-Saxon and – to a lesser extent – in Mediterranean countries. The comparatively small gender gap in part-time employment which can be observed in Italy and Greece has to be interpreted against the backdrop of low female employment rates in those countries.

stumbling block for the implementation of migration policies that correspond to the necessities of ageing European societies.

Table 9: *Globalization indexes*

	Economic globalization			Social globalization		
	1995	2000	2005	1995	2000	2005
Scandinavian countries	***84.3***	***91.7***	***88.9***	***80.8***	***87.5***	***86.9***
Denmark	84.5	92.4	88.0	85.7	89.3	88.6
Finland	80.0	92.3	88.8	67.8	85.0	83.7
Sweden	86.4	90.8	89.5	84.1	87.5	87.4
Anglo-Saxon countries	***77.2***	***84.0***	***79.6***	***83.0***	***86.5***	***87.2***
Irland	91.9	96.5	85.5	74.4	78.5	77.7
United Kingdom	76.2	83.1	79.2	83.6	87.1	87.9
Continental countries	***69.6***	***82.1***	***78.3***	***81.4***	***84.5***	***85.0***
Germany	63.8	79.3	74.2	79.8	82.4	83.3
France	67.9	78.7	77.4	80.1	84.0	84.2
Belgium	90.7	95.8	91.9	88.5	91.0	90.8
Netherlands	89.4	95.9	88.0	87.2	89.1	89.4
Austria	74.8	89.9	88.5	87.3	91.0	92.5
Mediterrean countries	***68.4***	***80.6***	***78.2***	***62.8***	***70.8***	***73.5***
Greece	63.7	78.8	73.6	49.1	52.7	66.5
Italy	66.1	78.0	76.1	62.1	71.7	71.9
Portugal	73.5	86.9	83.8	55.8	62.2	76.3
Spain	72.9	84.7	82.2	68.1	74.5	77.5
EU 15	***71.8***	***82.8***	***79.2***	***77.3***	***81.8***	***82.9***
United States	***63.3***	***69.2***	***63.2***	***75.0***	***76.2***	***76.5***

Source: Dreher (2006); updated in: Dreher, Gaston and Martens (2008). Figures for country groups are a weighted average over countries.

Conclusions

In this chapter we investigated the nexus between European socio-economic models and cross-country performance along economic and social indicators. This analysis highlighted the persistence of substantial differences between countries representing different socio-economic regimes. The two models embodied by the Anglo-Saxon and by the Scandinavian countries had the best performance in terms of output, productivity and employment. Inclusion of social indicators suggests that the Scandinavian countries came closer to achieving the virtuous triangle of social

cohesion, full employment and dynamic economic growth. The success of the Scandinavians is partly rooted in a set of institutional, societal and political conditions that have been in place for a long time and partly based on courageous reforms in the nineties, in the wake of a deep crisis and after decades of declining lead in per capita income and recurrent devaluations.

Some of the institutional characteristics of the Scandinavian countries cannot be easily reproduced and transferred to other countries. High activity rates of both men and women, highly inclusive social institutions, elements of flexicurity in the labour market and a well-functioning education system were among these distinctive, pre-existing conditions. Together with a cooperative style of policy-making and government, they constituted a favourable framework for adaptation to the new economic and societal necessities brought about by globalization and socio-demographic change. The depth of the crisis faced by the Scandinavian countries at the beginning of the 1990s built high pressure and set the stage for a thorough reform process. Elements of this reform process were (i) managed and balanced flexibility, i.e. the combination of security for workers and flexibility for firms to be able to cope with fluctuating demand on world markets, (ii) fiscal prudence and the quality of budget and the finetuning of taxes (lowering taxes on labour and on firms, high taxes on property, consumption and energy) and (iii) maybe the most important, excellence and high investment into the future (education, young people, research, information technology). These reforms made economies with high taxes, social inclusiveness and environmental responsibility the most competitive countries in a globalizing world.

Although a socio-economic model can hardly be reproduced as a whole, the success of the Scandinavian reform processes enables to draw some general conclusions:

1. The welfare state can be considered a productive force and an asset in a globalized world. Rather then being solely a financial burden, social services and public transfers are an important input in a strategy to empower and activate people to be able to succeed in a market that is imposing increasing demands in terms of skills and flexibility. High levels of social expenditure and a prominent role of cooperative industrial relations need therefore not be at

odds with market forces and competitiveness. On the contrary, in a rapidly changing environment the welfare state plays a crucial role for the development of a competitive, knowledge-based economy. The question is not whether to allow collective risk sharing, but rather how to do it while maintaining the right incentive structure and the capability to adapt.

2. In order to fulfil its tasks, the welfare state has to adapt to changes in economic and societal conditions. The post-war welfare states – particularly in Continental Europe – mainly concentrated on equalising living conditions through monetary transfers and income maintenance guarantees. Their policies had been conceived to meet the requirements of a comparatively homogenous society and of predictable life-cycle patterns. The welfare state of the future will have to be more service oriented to meet the needs of more individualistic societies. In the face of growing societal complexity (not only due to individualisation but also as a consequence of increasing migration and mobility), guaranteeing equality of opportunities at early stages of the life will be more important than equalising income at later stages.

3. The Scandinavian welfare states offer good examples of best practices in combining inclusive social institutions and well-functioning labour markets with incentives for education and employment. A competitive economy based on innovation and strong productivity growth can not afford to waste human capital resources. Accordingly, the welfare state has to set the preconditions for people to develop the necessary cognitive abilities and to participate for longer in gainful employment. Development in early childhood plays an important role in this strategy, with high-quality child-care facilities and policies to combat child poverty as social investments. Child-care facilities, together with the provision of care for the aged and the handicapped, are also necessary to empower people to combine gainful employment with family obligations, thus fostering (female) participation, work-life balance and equality in the modern ageing society.

4. Fast technological change and international competition demand a proactive role from government and public institutions in promoting competition,

innovation, efficiency and structural change. The view that governments have just to deregulate the markets, and to wait that innovation and growth will rebound automatically, is too simplistic. A similar case can be made with respect to flexibility and mobility in the labour market. As the Danish case shows, highly competitive labour markets are characterised by elements combining deregulation and flexibility with a high degree of social security ("flexicurity", i.e. protecting individuals not jobs). In the case of job loss, active labour market policies to foster re-employment are coupled with fair income protection, where social benefits are partly made dependent on the input of the individual and transfers become conditional on certain obligations, particularly with respect to training.

References

Aiginger, K., Guger, A., The European Social Model: from an alleged barrier to a competitive advantage, Progressive Politics, vol. 4.3, September 2005.

Aiginger, K., Guger, A., The Ability to Adapt: Why it differs between the Scandinvican and Continental European model, Intereconomics, Vol. 41, No. 1, January/February 2006, pp.14-23.

Aiginger, K., Coping with Globalization and Unemployment: New Challenges for the European Model in: W. Bienkowski , J.C. Brada and M.-J.Radlo (eds.), Growth versus Security - Old and New EU Member's Quest for a New Economic and Social Model, Palgrave Macmillan, 2007.

Aiginger, K., Guger, A., Leoni, T., Walterskirchen, E., Reform Perspectives on Welfare State Model in Global Capitalism, WIFO Working Paper 303, 2007.

Andersen, T.M., Holmström, B, Honkapohja, S., Korkman, S. Söderström, H.T., Vartiainen, J., The Nordic Model. Embracing globalization and sharing risks, The Research Institute of the Finnish Economy (ETLA), Helsinki, 2007.

Andersen, T. and Svarer, M., Flexicurity - Labour Market Performance in Denmark, in: CESifo Economic Studies, Vol. 53 (3), 2007, pp. 389–429.

Apps, P. and R. Rees, Fertility, Taxation and Family Policy, Scandinavian Journal of Economics, 106 (4), 745-63, 2004.

Del Boca, D. and M. Locatelli, The Determinants of Motherhood and Work Status: A Survey, IZA Discussion Paper 2414, October 2006.

Dreher, Axel, Does Globalization Affect Growth? Empirical Evidence from a new Index, Applied Economics 38 (10), 2006: 1091-1110.

Dreher, Axel; Noel Gaston and Pim Martens, Measuring Globalization - Gauging its Consequence, New York: Springer, 2008.

Cerami, A., Social Policy in Central and Eastern Europe. The Emergence of a New European Model of Solidarity?, paper presented at the Third Annual ESPAnet Conference, Fribourg, September 22-24, 2005.

Ebbinghaus, B., Kittel, B., Europäische Sozialmodelle à la carte: Gibt es institutionelle Wahlverwandtschaften zwischen Wohlfahrtstaat und Arbeitsbeziehungen?, in Jens Beckert, Bernhard Ebbinghaus, Anke Hassel, Philip Manow (eds.), Transformationen des Kapitalismus, Frankfurt-New York, 2006, p. 223-246.

Esping-Andersen, G., Three Worlds of Welfare Capitalism, Polity Press, Cambridge, UK,1990.

Esping-Andersen, G., Why We Need a New Welfare State, Oxford University Press, Oxford, 2002.

European Commission, Report from the Commission to the European Parliament, Council, the European Economic and Social Committee, Committee of Regions: Implementation of the Barcelona objectives concerning childcare facilities for pre-school-age children, Brussels, 2008.

Ferrera, M., The 'Southern Model' of Welfare in Social Europe, Journal of European Social Policy, 6(1), 1996, pp. 17-37.

Grahl, J., Teague, P., Is the European social model fragmenting?, in New Political Economy, vol. 2, no. 3, 1997, pp. 405-426.

Hemerijck, A., Social Change and Welfare Reform, in: A. Giddens, P. Diamond, R. Liddle (eds.), Global Europe Social Europe, Polity Press, 2006.

Iversen, T., Stephens, J.D., Partisan Politics, the Welfare State, and Three Worlds of Human Capital Formation, in Comparative Political Studies, Vol. xx, p. xxx, 2008.

Keune, M., The European Social Model and Enlargement, in Amparo Serrano, P. and Jepsen, M. (eds.), Unwrapping the European Social Model. Policy Press, 2006.

Kleinman, M., A European Welfare State? European Union and Social Policy in context, Palgrave, London, 2002.

Kohl, H. and H.-W. Platzer, Arbeitsbeziehungen in Mittelosteuropa. Transformation und Integration, Nomos, Baden-Baden, 2004.

Leibfried, S., Towards a European Welfare State?, in: Pierson, C., Castels, F.G. (eds.), The Welfare State Reader, Polity Press, Cambridge, UK, 2000, pp. 190-206.

O'Reilly, J., Fagan, C. (eds.), Part-Time Prospects: An International Comparison of Part-Time Work in Europe, North America and the Pacific Rim, Routledge, London, 1998.

Rueda, D., Insiders, Outsiders, and the Politics of Employment Promotion, Paper prepared for presentation at the “Challenges to the Welfare State” Conference. Minda de Gunzburg Center for European Studies, Harvard University, May 5, 2006.

Scruggs, L., Allan, J.P., Welfare State Decommodification in Eighteen OECD Countries: A Replication and Revision, in Journal of European Social Policy, 16 (1), 2006, pp. 55-72.

Sorrentino, C., International comparisons of labour force participation, 1960-1981, in: Monthly Labor Review, February 1983, pp. 23-34.