

### The European Social Model and the United States

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## Forum Section

# The European Social Model and the United States



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### ABSTRACT

The notion of a European social model assumes that European societies have certain features in common that distinguish them from the United States. Analysing longitudinal data on the dimensions of state, economy and society three findings stand out: (1) for most indicators the range of variation within the European Union is bigger than the gap between Europe and the United States; (2) counter to the idea of policy convergence, differences in the developmental trajectories of countries with different institutional arrangements persist; (3) despite having extended welfare states similar to those of Continental European countries, Scandinavian nations have performed as well as the Anglo-Saxon countries in terms of employment and growth dynamics. Hence there are not only different social models in Europe but also different pathways to success.

### KEY WORDS

- European social model
- policy trajectories
- social indicators
- US–European comparison
- varieties of welfare capitalism

## The concept: What do we mean by a 'European Social Model'?

The 'European Social Model', though frequently referred to in politicians' speeches, is rarely defined with any precision. Perhaps one of the clearest attempts at an official definition may be found in the Presidency Conclusions of the Nice European Council meeting of 2000, where annex 1 describing the European Social Agenda states:

The European social model, characterised in particular by systems that offer a high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values. (European Council, 2000b)

Here we find four elements: (1) a high level of social protection with services of general interest; (2) the social dialogue, referring to coordinated policy-making with collective agreements negotiated by the social partners; (3) an emphasis on social cohesion, and (4) a set of common core values. Article I-2 of the Treaty establishing a constitution for Europe specifies which common values are meant exactly: 'pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men' (*Official Journal of the European Union*, 2004). In addition, Article 2 of the Treaty establishing the European Community lists five further key elements: a high level of employment, sustainable and non-inflationary growth, economic competitiveness, an elevated quality of life, and a high level of the quality of the environment (*Official Journal of the European Union*, 2003).

These official statements make it clear that the term 'European social model' is to encompass more than a mere model of social policy. The documents rather make reference to embracing characteristics in the dimensions of state, economy and society. Implicitly – and in more recent times also explicitly – the term is often used to distinguish a European type of society from the type of society in the United States (see Albert, 1992). References to the United States that have a competitive edge may now be found rather frequently in official EU documents (e.g. European Commission, 2004, 2005a). A first, still more implicit example was contained in the conclusions of the 2000 Lisbon European Council setting the strategic goal for the Union 'to become the most dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council, 2000a).

Here, as in other documents, the idea seems to be that the European Union should be conceived of as a 'USA *plus*', i.e. as a type of society that

delivers everything the United States has to offer, but also some additional elements that make a society worth living in. In terms of the economy, this means that Europe combines the growth dynamic of a market economy with the coordinating social dialogue of the collective bargaining partners. In terms of the state, it means that European countries are not only free democracies but also redistributive welfare states that supplement the market with a distribution of life chances that smoothes social inequalities. In terms of society in the narrower sense, it finally means that, in addition to providing opportunities for the individual pursuit of happiness, European societies promote solidarity bonds between individuals that strengthen social cohesion. Anthony Giddens (2005) captured the essence of this European claim to superiority in a nutshell by stating that the European social model combines economic dynamism with social justice.

The purpose of this contribution is to find out to what extent such assumptions actually hold true empirically. An empirical clarification of the commonalities and differences between Europe and the United States is conceptually and politically important for two reasons. First, in European policy debates, the United States in practice always provides the implicit or explicit reference category: whereas liberals usually stress American strengths that are supposedly lacking in Europe – i.e. freedom, openness, flexibility, dynamism – those on the political left usually claim unique European strengths such as a high degree of social integration combined with a low degree of repressive controls. Second, reservations against using the concept of a European social model are being voiced, because some political observers see the very concept as an element of social closure that seeks to delimit Europe from the rest of the world, thus undermining a much more fundamental unity between Europe and the United States. Whereas Samuel Huntington (1993) expects future cleavages along the lines of ‘the west against the rest’, Europeans such as Timothy Garton Ash (2005) or Ralf Dahrendorf (2006) warn against emphasizing European particularities by referring to the joint tradition of freedom and enlightenment in Europe and America. For them, it is even no longer the concept of ‘the west’ but the more embracing concept of the ‘free world’ that provides the most appropriate point of departure for defining collective identities in a globalized world. This was echoed by British politicians such as Tony Blair (2005) or Gordon Brown (2005) who have warned against an ‘*inward-looking Europe*’, which would primarily seek to deepen its internal integration, and advocated an open ‘*global Europe*’ instead which does not seek to protect Europeans from global markets but rather aims at enhancing their ability to compete and to cope with globalization.

By looking at three types of data in a longitudinal perspective, the following sections will clarify which features Europe and the United States have in

common and to what extent they differ. First I will take a look at demographic and economic growth dynamics, then I will examine the changing role of the state, and finally I will inspect the degree of social inequality in society. All comparisons will focus on a common set of key questions: How big are differences between Europe and the United States in comparison with differences within Europe? Is there convergence in the most recent period of globalization? Are there several social models rather than just one in Europe, and to what extent has the recent enlargement contributed to making Europe and the United States more or less similar?

In order to reduce the complexities of the empirical world, the following descriptions will not be presented for individual countries. Instead, Europe will be subdivided into various families of nations by distinguishing between the new member states (NMS) on one side and five groups of older member states on the other. The grouping of older member states departs from the distinction of different worlds of welfare in the comparative welfare state literature (Esping-Andersen, 1990, 1996; Ferrera, 1996). Denmark, Finland and Sweden are combined into a group of Nordic or Scandinavian countries that have encompassing social security institutions with universal coverage and generous social benefits, financed to a large degree from general taxation. Ireland and the United Kingdom are grouped together as Anglo-Saxon countries representing a liberal approach to welfare policies in which social programmes are primarily targeted on needy persons, leaving more affluent groups free to opt out for private provision. Austria, Belgium, France and Germany form a category of Continental European countries that are in between these two polar types, because social policies are as generous and inclusive as those in Scandinavia but rely more on income replacement than on services and are more focused on dependent workers, with a heavy reliance on social insurance contributions levied on earnings from work. Greece, Italy, Portugal and Spain are grouped together to form a distinct family of South European nations with more residual and also more fragmented social provisions.

The Netherlands and Luxembourg were not assigned to any particular group but combined into a separate category. With respect to the Netherlands, there is no consensus in the comparative literature on welfare states about what type of policy regime the country represents. Whereas some authors see it as representative of a social democratic or Scandinavian type of welfare state (e.g. Goodin et al., 1999; Sapir, 2005), others rank it as a Christian democratic or Continental welfare state model (Van Kersbergen, 1995; Hay, 2006). Luxembourg was not assigned to the family of Continental welfare states because its role as a centre of European policy-making and of international financial transactions has given the country a peculiar growth dynamic, which should not

be counted as a collective property of any particular family of nations, and which, in combination with its small size, would have a disproportionate effect on any group average. Hence, the following comparisons refer to (unweighted) average developments in six families of European nations and to the United States. Distinguishing between several types of European nations will also allow me to inspect whether the differences between them, which the comparative welfare state typologies highlight, are more prominent than their similarities, which Hall and Soskice (2001) stress when differentiating merely between 'liberal' and 'coordinated market economies'.

## **Empirical data: Unity and diversity in Europe following enlargement and the comparison with the United States**

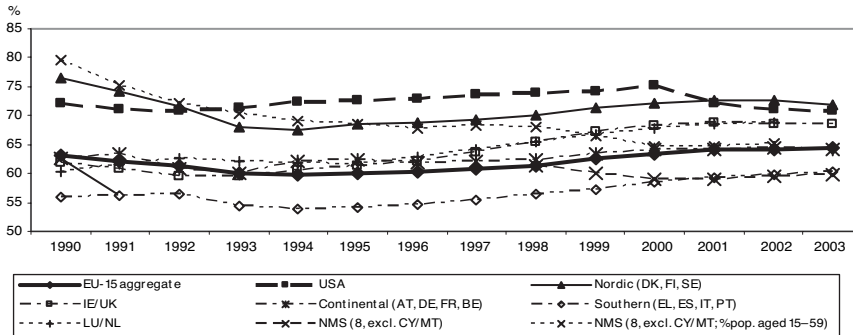
### **Growth dynamics and macroeconomic performance**

Population development is perhaps the most basic element of the change dynamics in a given society. If the population is growing, there is also growth potential for markets; where it is shrinking, investors, all other conditions being equal, are inclined to turn away. In this sense we may expect a linkage between economic growth and population growth, especially with regard to the population of working age.

Demography is a key area where Europe is losing ground compared with the United States. The USA was able to reverse the trend towards shrinking fertility rates in the mid 1970s. Presently its fertility rate stands close to 2.1, which is frequently taken as the standard for successful replacement of the population under current conditions.<sup>1</sup> In the EU, fertility rates declined steeply until the mid 1990s. Although they subsequently started growing again, they are still far below the replacement level.<sup>2</sup> The diversity within Europe is just as noteworthy as the difference from the United States, however. In the new member states (NMS), the post-socialist transformation was coupled with a steep and continuous decline in birth rates. Today the NMS join the South European countries in having fertility rates far below the European mean.<sup>3</sup> On the other hand, the Anglo-Saxon nations and the Scandinavian countries come closest to the American standard, achieving fertility levels way above the European mean. The Continental European countries are close to the mean, but within this group there are big differences between France and Germany. Luxembourg and the Netherlands have similar levels of fertility to the Nordic countries. These differences within Europe have been fairly persistent, with no clear signs of convergence, and the Eastern enlargement further contributed to this diversity.

The huge differences in fertility translate into widely differing forecasts of future population developments. According to the United Nations' *World Population Prospects* (United Nations, 2005, medium variant), the American population will grow by roughly one-third until 2050, from almost 300 million to almost 400 million. In contrast, the population of the EU-25 will shrink by 2%. Given the vast differences in national developments, this crude average conceals widely divergent patterns. A more or less sizeable shrinkage of the population is projected for six old member states – Austria, Belgium, Germany, Greece, Italy and Spain – as well as for the eight post-socialist new member states. In contrast, at least moderate population growth is expected for the other 11 countries. The American pattern of dynamic population growth is followed not only by the two Anglo-Saxon countries but to some extent also by Scandinavia and by Luxembourg and the Netherlands. This is a first indication that there are not only different social models with widely divergent growth dynamics in Europe, but also different kinds of models with similar growth prospects despite their considerable differences in institutions and policy traditions.

A similar pattern appears if we look at recent developments in the economy. The United States clearly outpaces Europe with respect to the achieved standard of living. Measured by purchasing power parities, the GDP per capita of the United States is about 50% higher than the EU-25 average. Within the EU, Luxembourg is the only country to surpass the American level of living. If we ignore short-term fluctuations in the business cycle, the USA has basically preserved its comparative advantage over European countries during the past decade. The new member states undergoing the post-socialist transition had to weather a much deeper and longer-lasting economic slump than West European countries experienced during the Great Depression of the 1930s. After the turn of the millennium, however, they were able to catch up somewhat, with growth rates far above the EU mean. The Anglo-Saxon countries, as well as Luxembourg and the Netherlands, have particularly favourable growth records. Growth in the Scandinavian nations was slightly higher than in the old EU as a whole, allowing the Nordic nations to preserve a more or less constant distance from the EU-25 mean as well as from the United States. In contrast, sluggish growth prevailed in the four Continental European countries, which continued to fall behind. The group of South European countries slightly improved its relative position in the most recent period. On the whole, European countries have not converged under the competitive pressures of globalization, but rather have diverged. The positive developments in Luxembourg and the Netherlands as well as in the Anglo-Saxon countries stand in sharp contrast to the relative decline in the Continental Europe countries, which were ahead of the Scandinavian nations up to the mid 1990s but subsequently fell behind.



**Figure 1** Development of the employment rate in Europe and the USA, 1990–2003 (% of population aged 15–64).

Sources: EU-25 – European Commission (1998, 2004); NMS, 1998–2003 – European Commission (2004); 1990–2003 (% 15–59): UNICEF (2004); USA – OECD (2004a).

Recent employment records confirm that there are widely diverging patterns of development in Europe (see Figure 1). Most European countries still lag far behind the strategic goal of the Lisbon European Council to raise the employment rate to 70% by 2010. In contrast, the United States surpassed this target a long time ago and has continued to remain above it even during the most recent economic downturn.

In the old EU-15, the aggregate employment rate increased by almost five percentage points between 1994 and 2003. Even though the employment gap separating the EU-15 from the USA was more than halved, the American employment level is still more than five percentage points higher. Employment levels in the Continental European countries remained close to the EU-15 mean throughout the observed period, whereas the South European countries caught up to some extent. After a steep decline in employment during the post-socialist transition, the new member states experienced basically jobless growth in the most recent period, as their employment level stagnated below 60% on average. In the remaining three groups of countries, employment records are more favourable. The Anglo-Saxon countries and Luxembourg and the Netherlands pulled far ahead of the EU-15 mean. The highest level of employment, however, continues to be achieved in the Nordic countries, which had temporarily shrinking job numbers during the early 1990s, but recovered to surpass the Lisbon target and even the American employment level in the most recent years.

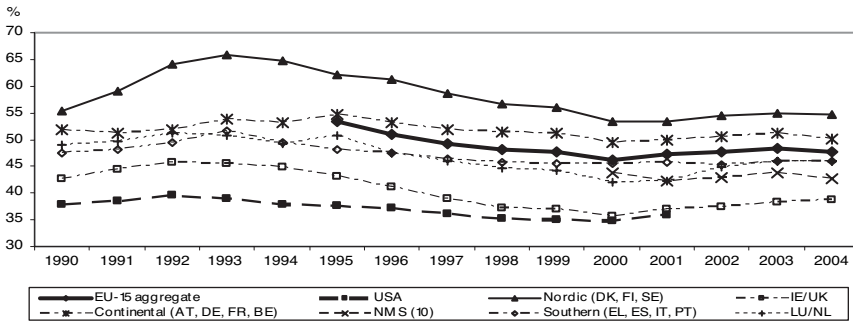
Within Europe, there was a trend towards slight convergence on growing levels of employment. The Eastern enlargement did not interrupt this trend because employment levels in the NMS are roughly similar to those in South European countries. With employment levels ranging from 51% in Poland to 75% in Denmark, the magnitude of cross-country variations within Europe

continues to be striking. The range of variation within Europe is much bigger than the rather moderate difference of eight percentage points between the United States and the European mean. The remarkable fact beyond the high degree of European heterogeneity is that there are distinct models of relative success. In addition to the Anglo-Saxon countries – to which liberal economists usually draw attention – not only Luxembourg and the Netherlands but also the Scandinavian countries managed to create jobs at a rate far above the average. The fact that these countries achieved similar trajectories of employment on the basis of widely differing welfare state arrangements suggests that, even under the pressures of globalization, a fairly wide array of policy choices remains viable. Since a high level of social protection is also among the goals that the European Union seeks to promote, the next section takes a closer look at the development of state activities and recent social policy trajectories.

### **The scope of state activity**

An analysis of the changing role of the state in Europe first requires mention of the positive impact that the EU enlargements to Southern and Eastern Europe had on the proliferation and consolidation of democracy. Democratic regime change is one of the most successful exports of the European Union. A second noteworthy trend is the shrinkage of state activities (see Figure 2). After reaching an all-time high in the early 1990s, the level of public expenditure was reduced in all EU member states. The aggregate public expenditure ratio of the EU-15 shrank by six percentage points between 1995 and 2004. Since the state sector is distinctly smaller in the NMS, these recent national developments and the EU enlargement combined to bring European spending levels closer to that of the United States.

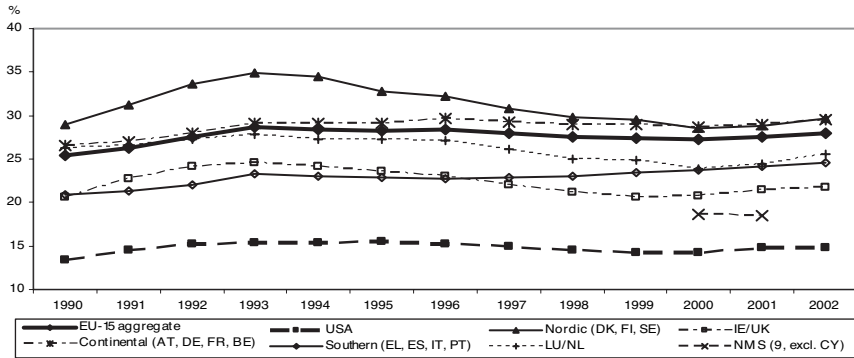
Starting from particularly high levels, the Nordic countries stood out with the most drastic cutbacks in the 1990s, but this trend was halted after the turn of the century. With spending levels above 50% of GDP, the Nordic countries still have by far the highest level of government expenditure in the EU. At the other end of the European spectrum, Ireland and the United Kingdom come closest to the United States with spending levels of 39% and 44%, respectively. In both Anglo-Saxon nations, however, the long-term decline gave way to renewed growth after the turn of the century. The other European countries are in between those polar types, with the group of Continental countries closer to the Scandinavian levels and the other three groups all below the EU-15 aggregate level. The wide divergence in public spending levels of the Scandinavian and the Anglo-Saxon countries is remarkable, because it did not impede these countries from achieving similar success in terms of macroeconomic performance.



**Figure 2** Development of general government expenditure, 1990–2004 (% of GDP).  
Sources: Eurostat (2005); USA – OECD (2004b).

The fairly steep decline in public expenditure ratios after the mid 1990s should not be interpreted as a race to the bottom. First, the downward trend in public spending has been reversed in more recent years. Secondly, on the revenue side there is constancy rather than shrinkage. In 2004, taxes and social contributions in the EU-15 claimed the same share of GDP on aggregate as in 1995 (39.9%). The new member states saw a minor shrinkage of the revenue share between 1995 and 2000, but this was brought to a halt and even slightly reversed after the turn of the century. Europe thus did not follow the American pattern of shrinking state revenues. Because the downturn in public spending was accompanied by a rather stable share of revenues, public deficits were reduced. Judging by statistical measures of dispersion such as the range or the standard deviation, there was no convergence to lower or higher levels of state revenues in Europe, but rather a constant degree of variation. With a range from 28% in Lithuania to 51% in Sweden, differences within Europe are once again bigger than the difference between the United States and the European mean, which is roughly 14 percentage points.

Measured by the social expenditure ratio, the development of the European welfare state reached its peak in the middle of the 1990s (see Figure 3). After an initial shrinkage of roughly one percentage point, the aggregate spending ratio of the EU-15 has remained fairly stagnant more recently. In this sense there are no signs of a general race to the bottom. With a reduction of five percentage points, welfare state shrinkage was most pronounced in the Nordic countries, which moved closer to the European mean and now have spending levels similar to those of the Continental European countries.<sup>4</sup> The Anglo-Saxon countries and Luxembourg and the Netherlands also reduced their spending levels by several points during the 1990s but reversed the downward trend after the turn of the century. The South European countries stand out for an upward trend in social spending,



**Figure 3** Development of social expenditure, 1990–2002 (% of GDP).

Sources: Eurostat (2005); USA – OECD (2004b).

which was particularly marked in Greece and Portugal. Since joining the EU, the social policies of these countries have been marked by attempts to ‘catch up’ rather than by a strategy of social dumping (Guillén and Matsaganis, 2000; Guillén and Palier, 2004). Because the new member states have distinctly lower levels of social spending, the Eastern enlargement contributed to making the EU somewhat more similar to the United States in this respect.

From a policy perspective, two aspects are particularly noteworthy. First, the similarity of spending levels in the Nordic and Continental European countries is remarkable, because it shows that states with similar levels of social spending can have widely diverging records of macroeconomic performance. What matters is less the aggregate level of spending and more the concrete mix in terms of transfers and services, of active and passive measures, and of outlays for social investment and social consumption. Secondly, the reversal of social spending patterns in the Anglo-Saxon countries contradicts the image of purely liberal policies aimed at unleashing market forces in these countries.

Within the old EU-15 there are no clear-cut signs of convergence, as both the range and the standard deviation of spending levels were roughly the same in 2002 as 12 years earlier. Differences within the enlarged Europe are once again more marked than the difference between the European mean and the United States. Estonia and Lithuania have now joined Ireland as countries with similarly low or even lower levels of social spending than the USA, which is thus not completely outside the margin of variation we find within Europe.

The differences between European countries and the United States become even smaller when we move from the usual data on gross social spending to figures on net spending (Adema, 2001) and take tax credits,

mandatory private benefits and taxes on benefits into account (Adema and Ladaïque, 2005). In terms of gross social spending, Denmark and Sweden have expenditure ratios almost twice that of the USA, and Ireland is the only European country to undercut the American level of social spending. In terms of net expenditure, however, the USA is clearly surpassed by only three EU member states, is almost on a par with Denmark and five other countries, and is clearly ahead of another five European nations.

The resulting policy implications can hardly be overstated. Obviously, limitation of welfare state responsibilities cannot be equated with liberation from social costs. Social risks that are not or no longer provided for by the state fall either on firms, which have to provide occupational welfare, or on private households, which have to bear the costs from their private purse thus curbing their disposable income. Consequently, social costs accrue anyhow, but they are merely borne at another level, which usually means that they are less equally distributed than in the case of public schemes with universal coverage. The next section will take a closer look at distributional outcomes by inspecting data on social inequalities.

### **The degree of social inequality**

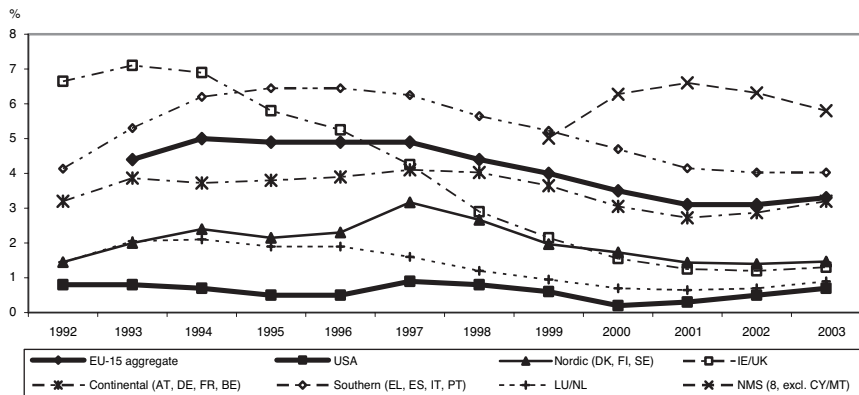
Whatever the concise meaning of the European social model may be, its downside is evident in the persistence of mass unemployment and the concomitant inequality between job holders and jobless persons. In 2003, the aggregate European unemployment rate of 9.1% contrasted with an American rate of 6.0% (European Commission, 2004). Only seven EU member states had an unemployment rate below the American level (Ireland, the United Kingdom, Denmark, Sweden, Luxembourg, the Netherlands and Austria). Particularly high jobless rates prevailed in the new member states, in the South European countries and in the Continental European countries (with the exception of Austria). Ireland and the United Kingdom stand out with a particularly successful reduction in unemployment during the 1990s. Almost similar success was also recorded in the Nordic countries, however. Starting from above-average unemployment rates in the early 1990s, the Nordic countries approached the low American level after the turn of the century. Thus they curbed unemployment almost as successfully as the Anglo-Saxon countries despite their much larger public sectors and their more generous welfare state schemes.

Crude unemployment rates in fact understate the comparative advantage of the United States over Europe because they conceal huge differences in the structure of unemployment. Only 12% of the unemployed in America have been out of work for more than one year, compared with 36% of their

counterparts in Europe. In the new member states, roughly half of jobless people have been without work for this long, but there are huge nation-specific differences, with the share of long-term unemployment ranging from 25% in Cyprus to 65% in Slovakia (European Commission, 2004).

There are some indications that the European employment strategy is beginning to bear fruit because the rate of long-term unemployment has recently been shrinking almost everywhere (see Figure 4). High levels of long-term unemployment still persist in the NMS and in Southern Europe. The long-term unemployment rate in the Continental European countries corresponds almost exactly to the EU-15 mean. The two Anglo-Saxon countries were successful in almost eradicating their originally high levels of long-term unemployment. Together with Luxembourg and the Netherlands, they now come closest to the American level. Once again, the Nordic countries are in close proximity to the Anglo-Saxon nations. Given concerns about the disincentive effects of generous social benefits, this is remarkable because Denmark and Sweden have unemployment and social assistance benefits that are even higher than those of Continental European nations such as Germany (for a comparison of benefit levels, see European Commission, 2005b).

Whereas the high and persistent level of unemployment must be considered as the downside of the European social model, a relatively low degree of social inequality and poverty rank among its merits. Compared with the United States, European countries have a much more equal income distribution. The decile ratio – which shows how much more income those in the 90th percentile have compared with those in the 10th – is a telling summary measure of the degree of inequality separating the rich from the



**Figure 4** Development of the long-term unemployment rate, 1992–2003 (% of labour force).

Sources: European Commission (2004); USA – OECD (2004a).

poor. In 2000, this ratio was 5.5 in the United States, compared with an EU average of 3.6 (Luxembourg Income Study, 2005). Only 5 of the 20 European countries for which data are available have a ratio in excess of 4.0, and Estonia is the only case to come close to the American level of inequality. The other new member states have moderate degrees of inequality comparable to the situation in Western Europe. In the old EU-15, the highest degree of inequality prevails in Ireland and the United Kingdom, followed by Spain and Italy. In contrast, the gap between the rich and the poor is smallest in the three Scandinavian countries and the Netherlands. While approaching the Anglo-Saxon countries in terms of macroeconomic performance, the Scandinavian countries thus combine their relative success with much lower levels of income inequality.

Once again, differences within Europe are even more pronounced than the difference between the United States and the European average. Over time, however, the European countries have converged somewhat as inequalities increased, particularly in the more egalitarian Scandinavian countries.

Table 1 compares the degree of inequality in the early 1980s and around 2000 by showing Gini coefficients as a summary measure of income dispersion, as well as two ratios that measure the gap between top and middle incomes and between middle and low incomes. These ratios help to determine if inequality increased primarily because those at the top pulled further ahead or because those at the bottom fell behind. Among the 12 European countries for which change data are available, we find increasing inequality in all but 4 nations. In 5 countries, inequalities increased to an even higher degree than in the United States. The top incomes pulled ahead of the middle position in 9 European countries as well as in the United States. In addition, those at the bottom of the income distribution fell increasingly behind in all European countries except Sweden, while not losing further ground in the United States. Over the past two decades, Europe has thus moved into the direction of the United States in terms of income inequality, even though the degree of inequality is still much higher and grew even more in America.<sup>5</sup>

The rate of relative income poverty, which indicates the percentage of the population coping with less than half of the national median income, also distinguishes Europe from the United States (see Table 2). The American income poverty rate of 17% is matched nowhere in Europe.

According to Eurostat data, the variation within the enlarged EU ranges from 4% in Denmark to 16% in Slovakia. Double-digit levels of relative income poverty prevail in Ireland and the United Kingdom, in Southern Europe and in four of the new member states. Once again, we find that the relative success of the Anglo-Saxon countries in terms of growth dynamics is coupled with an over-proportionate preponderance of social problems,

**Table 1** The development of income inequality in Europe and the United States

Country	Gini coefficient			90/50 ratio			50/10 ratio		
	1980s	c. 2000	Change +/-	1980s	c. 2000	Change +/-	1980s	c. 2000	Change +/-
Denmark	0.254			1.60			2.01		
Finland	0.209	0.247	18	1.51	1.64	+	1.72	1.77	+
Sweden	0.218	0.252	16	1.51	1.68	+	1.79	1.76	–
Scandinavian	0.227	0.250	17	1.54	1.66	+	1.84	1.77	–
Austria	0.227	0.260	15	1.62	1.73	+	1.78	1.83	+
Belgium	0.227	0.277	22	1.62	1.74	+	1.69	1.90	+
France	0.292	0.288 <sup>a</sup>	–1	1.93	1.91 <sup>a</sup>	–	1.79	1.85 <sup>a</sup>	+
Germany	0.268	0.264	–1	1.73	1.77	+	1.85	1.86	+
Continental	0.254	0.272	18	1.73	1.79	+	1.78	1.86	+
Greece		0.338			2.07			2.30	
Italy	0.306	0.333	9	1.97	1.99	+	2.06	2.25	+
Spain	0.318	0.340	7	2.02	2.09	+	2.16	2.29	+
Southern		0.337	13		2.05	+		2.28	+
Luxembourg	0.237	0.260	10	1.72	1.84	+	1.72	1.76	+
Netherlands	0.260	0.248 <sup>b</sup>	–5	1.86	1.67 <sup>b</sup>	–	1.58	1.78 <sup>b</sup>	+
LU/NL	0.249	0.254	5	1.79	1.76	–	1.65	1.77	+
Ireland	0.328	0.323	–2	2.09	1.89	–	2.02	2.41	+
UK	0.303	0.345 <sup>b</sup>	14	1.94	2.15 <sup>b</sup>	+	1.95	2.13 <sup>b</sup>	+
IE/UK	0.316	0.334	18	2.02	2.02	0	1.99	2.27	+
USA	0.335	0.368	10	2.04	2.10	+	2.80	2.60	–
Czech Rep.		0.259 <sup>c</sup>			1.79 <sup>c</sup>			1.68 <sup>c</sup>	
Estonia		0.361			2.34			2.17	
Hungary		0.295 <sup>b</sup>			1.94			1.84 <sup>b</sup>	
Poland	0.271	0.293 <sup>b</sup>	8	1.77	1.88 <sup>b</sup>	+	1.98	1.91 <sup>b</sup>	–
Slovak Rep.		0.241 <sup>c</sup>			1.62 <sup>c</sup>			1.78 <sup>c</sup>	
Slovenia		0.249 <sup>b</sup>			1.67 <sup>b</sup>			1.89 <sup>b</sup>	
NMS		0.283			1.87			1.88	

Source: Luxembourg Income Study (2005).

Notes: <sup>a</sup> 1994; <sup>b</sup> 1999; <sup>c</sup> 1996.

**Table 2** Relative income poverty in Europe and the United States (percentage below 50% of equivalent median income)

Country	Total Eurostat ca. 2001	Total (LIS)			Children (LIS)			Elderly (LIS)		
		1980s	2000	Change +/-	1980s	2000	Change +/-	1980s	2000	Change +/-
Denmark	4	10.1			4.7			31.5		
Finland	6	5.4	5.4	0	2.8	2.8	0	11.9	8.5	–
Sweden	5	7.5	6.5	–	3.5	4.2	+	7.2	7.7	+
Scandinavian	5	7.7	6.0	–	3.7	3.5	–	16.9	8.1	–
Austria	6	6.7	7.7	+	4.8	7.8	+	18.5	13.7	–
Belgium	6	4.5	8.0	+	4.0	6.7	+	10.9	16.4	+
France	9	7.4	8.0 <sup>a</sup>	+	7.5	7.9 <sup>a</sup>	+	4.8	9.8 <sup>a</sup>	+
Germany	6	7.9	8.3	+	8.5	9.0	+	14.0	10.1	–
Continental	7	6.6	8.0	+	6.2	7.9	+	12.1	12.5	+
Greece	14		14.4			12.9			27.0	
Italy	13	10.4	12.7	+	11.4	16.6	+	13.1	13.7	+
Spain	13	12.2	14.3	+	12.7	16.1	+	18.8	23.4	+
Portugal	13									
Southern	13		13.8	+		15.2	+		21.4	+
Luxembourg	6	5.3	6.0	+	5.2	9.1	+	12.7	3.7	–
Netherlands	6	3.9	7.3 <sup>b</sup>	+	2.7	9.8 <sup>b</sup>	+	3.7	2.4 <sup>b</sup>	–
LU/NL	6	4.6	6.7	+	4.0	9.5	+	8.2	3.1	–
Ireland	15	11.1	16.5	+	13.8	17.2	+	14.4	35.8	+
UK	11	9.1	12.4 <sup>b</sup>	+	12.5	15.3 <sup>b</sup>	+	7.0	20.5 <sup>b</sup>	+
IE/UK	13	10.1	14.5	+	13.2	16.3	+	10.7	28.2	+
USA	17	17.8	17.0	–	25.1	21.9	–	23.5	24.7	+
Czech Rep.	4		4.9 <sup>c</sup>			6.6 <sup>c</sup>			7.4 <sup>c</sup>	
Hungary	6		6.7 <sup>b</sup>			8.8 <sup>b</sup>			3.7 <sup>b</sup>	
Poland	10	9.7	8.6 <sup>b</sup>	–	11.7	12.7 <sup>b</sup>	+	17.0	3.6 <sup>b</sup>	–
Slovak Rep.	16		7.0 <sup>c</sup>			n.a.			n.a.	
Estonia	11		12.4			13.6			11.0	
Latvia	9									
Lithuania	10									
Slovenia	6		8.2 <sup>b</sup>			6.9 <sup>b</sup>			17.9 <sup>b</sup>	
NMS	9		8.0			9.5			11.4	

Source: Luxembourg Income Study (2005).

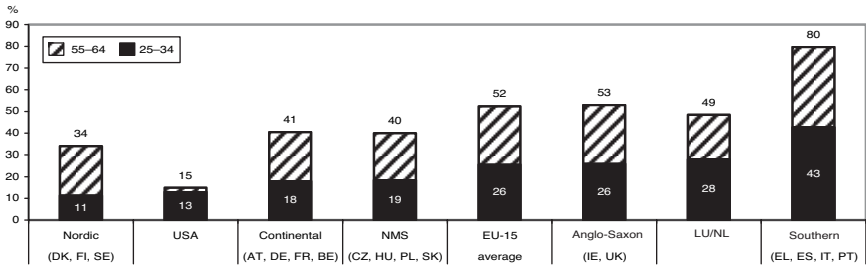
Notes: n.a. = owing to the nature of the survey, figures are not available. <sup>a</sup> 1994; <sup>b</sup> 1999; <sup>c</sup> 1996.

whereas the Scandinavian countries and Luxembourg and the Netherlands combine a similar degree of success with much lower levels of poverty and inequality.<sup>6</sup>

Finland and Sweden not only have comparatively low levels of poverty but also resisted the recent European trend of growing income poverty. In 10 of the other 11 countries for which change data are available (with Poland as the only exception), relative income poverty increased over the past two decades. This is in stark contrast to the United States, where relative poverty actually diminished somewhat between 1986 and 2000. Whereas the poverty rate among elderly people decreased in 5 of the 12 European countries, the poverty rate of households with children increased in all countries except Finland. In the United States in contrast, the poverty rate for households with children decreased, while poverty among the elderly increased.

Income inequality is not the only relevant type of social inequality. Since life chances in knowledge societies depend increasingly on learning, educational poverty and inequalities in cognitive and educational skills must become a growing concern. If we consider those who have less than upper secondary education to be at risk of educational marginalization, European countries do not compare very favourably with the United States (see Figure 5).

Although educational poverty has diminished, so that there is less of a gap between the United States and European countries among younger cohorts (aged 25–34), only the Nordic countries have succeeded in keeping the percentage of younger people without upper secondary qualifications as low as the United States. At the opposite pole we find the South European nations, with the extreme case of Portugal where almost two-thirds of the younger generation do not achieve this level. The Anglo-Saxon countries, together with Luxembourg and the Netherlands, also fall short of universal



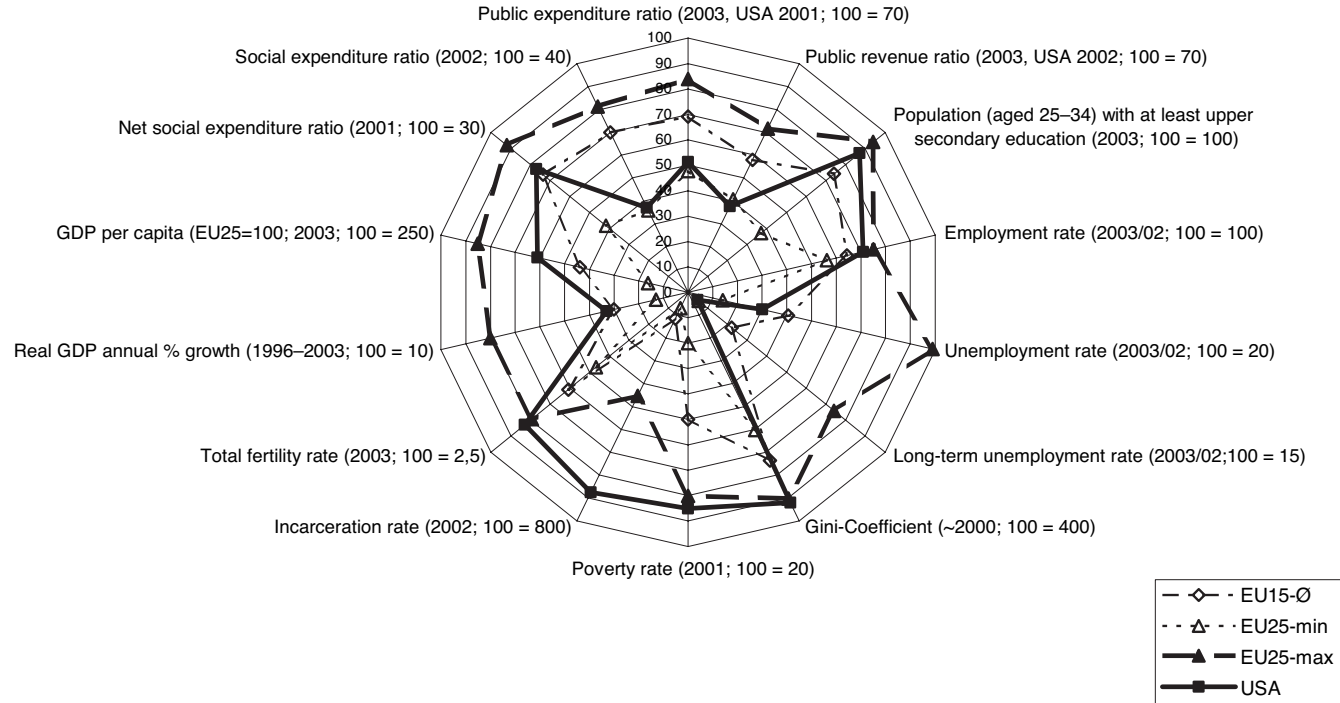
**Figure 5** Educational poverty, 2003 (percentage of population aged 25–34 and 55–64 who have not attained at least upper secondary education).

Source: Calculated from OECD (2005: 36).

higher education – more than one in four of their younger people leave school without upper secondary qualifications. Once again, there is a high degree of nation-specific variation in Europe, which is particularly strong in the new member states, where only 6% of the young in Slovakia but 43% of their peers in Poland leave the educational systems without higher qualifications. The margin of variation within Europe is thus once more bigger than the gap separating the United States and the European average.

A high output of qualifications does not necessarily indicate satisfactory outcomes in terms of acquired skills. Thus, according to the International Adult Literacy Study, the high percentage of young people with upper secondary education in the United States combines with a high percentage of people with only modest reading skills (OECD and Statistics Canada, 2000). In Europe, the percentage of educationally handicapped people with only elementary reading skills is lower and, at the same time, the gap separating those at the top and the bottom of the skill distribution is smaller. Once again, there are noteworthy differences within the EU, however. In Scandinavian and Continental European countries, less than 15% of adults fail to get beyond the most basic level in document literacy, and those in the 5th percentile of the skill distribution are at least half as good as those in the 95th percentile. In the Anglo-Saxon countries and in the United States, about 25% do not get beyond the most elementary level, and those at the top are more than twice as proficient as those at the bottom. Among EU countries, only Portugal and some of the new member states have even higher proportions of educationally marginalized people and higher degrees of inequality than the USA. This implies that, in this area too, differences within Europe are larger than differences between the European average and the American level.<sup>7</sup>

A final question concerns the extent to which the more equal European societies are also more cohesive and thus less dependent upon coercive controls than the USA. Judged by the comparatively large proportion of the population in prison, the high degree of poverty and inequality in the United States has its price (see Western and Beckett, 1999).<sup>8</sup> The bigger the low-wage sector, the lower the wages in this sector and the higher the degree of inequality in the society, the more incentives there are to substitute crime for work. In 2002, the American incarceration rate of 700 per 100,000 population compared with an average of 136 for the 24 European countries for which data are available (United Nations, 2006a, 2006b, 2006c). In the European Union, the three Baltic nations are the only ones with a rate of over 300. Average incarceration rates are higher in the new member states than in the old ones but, in all groups of countries that I have distinguished here, there is a very high degree of nation-specific variation. In the old EU-15, the three Scandinavian countries and Greece (with data for 1995) stand out for their



**Figure 6** The location of the USA within the social space of the European Union (2000/2003).

*Note:* All variables were standardized from 0 to 100 in such a way that the value for the maximum country comes close to 90.

relatively small prison populations (less than 10% of the American level). Portugal and the United Kingdom, which have the most densely populated prisons, reach about one-fifth of the American level. The variation within Europe, ranging from 56 in Slovenia to 363 in Estonia, is in this case much less marked than the difference between the EU average and the American figure. Together with a high degree of income inequality and relative poverty, the strong reliance on incarceration as a method of social control is thus one of the few key features that clearly distinguish the United States from European nations.

### **Conclusion: What remains of the idea of a European social model**

The empirical analysis shows that the notion of a European social model is not only imprecise but also misleading in three ways.

First, it implies a fundamental difference between the United States and Europe, which cannot be sustained in the light of the data. In most respects we find the United States located well within the social space spanning the societies of Europe (see Figure 6). The range of variation separating the countries at the extremes in Europe is frequently bigger than the distance between the European mean and the United States. If state-level variations within the United States were taken into account, many differences would blur even more. Yet there are five elements on which the USA stands at least somewhat apart from all member states of the European Union: the incarceration rate is way beyond the upper bound in Europe; the degree of income inequality as measured by the decile ratio, the Gini coefficient or the relative poverty rate is higher than anywhere in Europe; the share of public revenues is lower than anywhere in Europe; long-term unemployment is less frequent than it is in Europe; and the fertility rate exceeds any level found within the European Union. Yet, even in these cases, the distance separating the USA from the most similar country within the EU is not very great, and Europe has recently moved in the American direction with respect to inequality. The incarceration rate is the only case where the United States and Europe stand clearly apart. It is a matter of debate whether this one noteworthy difference justifies talk of two worlds apart. However, it may be concluded that, in their pursuit of social integration, European societies achieve somewhat higher levels of equality and rely much less heavily on coercive control than does the United States.

The second conclusion is that the notion of a European social model cannot be based on a set of key features that all member states of the European

Union would have in common. The variety within Europe is so vast that the difference between the European mean and the United States usually pales beside the magnitude of the differences found within the EU. Impressive differences also prevail between countries that are assigned to a common type or family of nations. Clearly, the distinction between liberal and coordinated market economies in Western Europe does not capture the remarkable differences between Scandinavian, Continental and South European nations to which the comparative welfare state literature has drawn attention and which the data presented here confirm. However, even countries with similar sets of welfare institutions – Austria and Germany, for example – are frequently found to display widely divergent patterns of development. Hence, when we look at single countries, the variety within Europe becomes even more striking, as remarkable national particularities within known families of nations come to the fore.

Over time, there is no consistent evidence of convergence. Judged by ranges and standard deviations, European countries have become more similar in terms of growing levels of employment, but the differences with respect to public expenditure, public revenues and net social expenditure have persisted. In this sense, there is no sign of globalization pressures translating into increasingly uniform policy outcomes. Instead of a unique European social model, we find a pluralism of nation-states with an impressive degree of particular national features and developmental trajectories. The Eastern enlargement has increased the degree of heterogeneity within the EU even further. In some respects it has contributed to making Europe more similar to the United States – for example, with respect to the more limited scope of public revenues and higher rates of incarceration. In some other respects, however, it has also contributed to enhancing differences between Europe and the USA – for example, in terms of the differences in fertility and GDP per capita and in unemployment and long-term unemployment.

The third and most relevant insight for policy purposes is that we find two rather successful social models in Europe rather than just one. In terms of population dynamics, macroeconomic performance and standard of living, it is not only the liberal Anglo-Saxon countries but also the Scandinavian countries that stand out as successful models. The economic success of the Anglo-Saxon countries is coupled with a reduced welfare state and relatively high social inequalities, whereas the similar success story in Scandinavia is combined with more redistributive social policies and with less visible inequality – in terms not only of income but also of educational skills.

There are two different yet not necessarily mutually exclusive explanations for these two macroeconomic success stories – especially in the field of labour market developments. One draws attention to the similarities and

the other highlights the differences in national policies. A similarity of Anglo-Saxon and Scandinavian countries is that they both pursue social policies geared towards activating people and with an emphasis on individual responsibility. In many respects the 'Third Way' propagated in Britain by Anthony Giddens (1998, 2001) and Tony Blair (2006) was merely a rediscovery of the rather old Scandinavian idea originating in union-controlled social funds that social policy should be enabling and that generous social benefits should be coupled with flexible labour legislation and with active labour market policies combining quite strict controls against benefit abuse with a supply of public works and of vocational training for the unemployed (see Esping-Andersen, 2002).

A second explanation draws attention to the differences in policies, which may produce similar success in terms of employment trajectories. Thus Fritz Scharpf (1986, 2000) has pointed out that there are two distinct pathways to full employment in the service economy. The first one, which is characteristic of liberal countries with high income inequalities and a big low-wage sector, promotes private sector employment in personal services because even middle-class households can afford to purchase an ample supply of cheap services. The second one, which is characteristic of Scandinavian countries with high levels of taxation, relies on expanding public services and creating jobs in the public sector. Continental European countries, situated mid-way between these polar types, cannot pursue either strategy, because strong unions keep income inequalities low, while the high tax and contribution rate is used for financing welfare state programmes that primarily centre on cash benefits to replace lost earnings. Hence these countries are less successful in compensating for the job losses resulting from de-industrialization with an expansion of service sector jobs.

In a similar vein, labour market economists such as Calmfors and Driffill (1988) have drawn attention to the fact that countries with centralized collective bargaining and those with decentralized wage-setting at the firm level both achieve similarly positive records of macroeconomic performance. Their explanation is that, at a low level of centralization, individual firms have sufficient flexibility to adapt to market forces whereas, at a high level of centralization, encompassing organizations take macroeconomic considerations into account and help to internalize the external effects of wage increases. At the intermediate level, in contrast, special interest groups are powerful enough to distort market forces but are not sufficiently encompassing to internalize the social costs of their actions, which means that the negative effects of cartelization outweigh the positive effects of coordination.

These explanations share the idea that there is a U-shaped relationship between social models and macroeconomic performance, so that countries of

the middle way are most likely to face difficulties. To the extent that this is true, it has important implications for the open method of coordination practised within the EU and for the chances of learning from best practice. If there really are different pathways to success, the adoption of an isolated policy instrument may not fit into the institutional setting or the specific policy mix of a given country, and a mutual approximation of polar types to the middle might produce undesired effects.

Given the difficulties in giving the notion of a European social model precise empirical meaning, it has recently been proposed that the concept should be seen as a deliberately ambiguous and elastic political metaphor that aims at fostering an epistemic European policy community with a shared view of social problems (Jepsen and Pascual, 2005). The concept is thus primarily seen as a rhetorical resource helping to shape cognitive maps among decision-makers and to legitimize the identity-building project of EU agencies. From this perspective, the European social model would be a project and a process rather than a concrete entity, based less on common institutions or joint values than on a way to perceive and define policy challenges.

This idea is probably more realistic than the assumption that the notion of a European social model could serve as a fundamental *idée directrice* to which all national policy-makers would subscribe, leaving only the concrete means to reach the common objective to their discretion. The more political objectives are cast in fundamental, symbolically or ideologically charged ways, the more difficult it presumably becomes to find consensus and to forge coalitions. Recent speeches by Tony Blair (2005) or Gordon Brown (2005) on one side, and by Gerhard Schröder (2005) on the other, have made it quite clear that British ideas of an open 'global Europe' and Franco-German ideas of a 'social Europe' resisting the pressures of globalization have little in common on principle. Hence it is difficult to define a substantive goal or vision for the enlarged EU (see Ash, 2005). In this situation, fundamental debates about the *idée directrice* that Europe should follow are likely to produce little more than political stalemate or lofty rhetoric.

Greater momentum will probably be achieved if concrete problems are put on the agenda of incremental reform in a more pragmatic vein. During the Second World War, Lord Beveridge (1942) described the postwar challenge as the fight against the five giants of want, disease, squalor, ignorance and idleness. A substantial part of this fight has been won in European welfare states, but all European societies are now confronted with four new challenges, which can be summarized as the four Cs: Children, Care, Careers and College education. In ageing societies with pay-as-you-go pension schemes, the sustainability of pensions requires first of all that more children are born so that the growing mismatch between the size of the pensioner

generations and the size of the generations of contributors will be mitigated. However, more children will be born only if extended child care and elderly care services make it easier to combine work and family life. Coping with the demographic imbalances in pension schemes will furthermore require a boost in the number of employed people and an increase in their productivity. In the knowledge society, career opportunities and productivity increasingly hinge upon educational skills. Hence, efforts must be made to raise enrolment in higher education and to universalize college education in order to promote better career opportunities. Given that educational poverty is at non-negligible levels in several European countries, it is remarkable how little explicit reference official EU documents make to universal access to higher education as a key element of the desirable European social model.

It will probably be easier to achieve pragmatic consensus on how to meet the four major challenges if fundamental debates among proponents of different social models are avoided. In the enlarged European Union, it is not the choice between the welfare state and the liberal market economy that is at stake. Instead, states with different types of welfare state arrangements are in search of appropriate solutions for the major challenges. When decision-makers exchange information on best practice in dealing with these challenges, they should keep three insights in mind: (1) there are different pathways to success; (2) similar policies may produce different effects in different contexts, so proposed policies must fit into the institutional set-up of a given country; (3) convergence towards a middle way is not always the most promising key to success, and may even prove to aggravate problems. If these insights are born in mind, the open method of coordination may provide useful opportunities for policy learning among European decision-makers.

## Notes

- 1 However, there are big differences in the fertility rates of different population groups, and the total fertility rate of non-Hispanic white American women (1.86) is currently also well below the level of population replacement (Martin et al., 2005).
- 2 In all cases where reference is made to data that are not shown here in any reproducible form, graphs presenting the empirical evidence together with the sources may be found on the EUP website at <http://www.uni-konstanz.de/eup/issues.htm>. The time-span covered by different data may vary owing to problems of data availability. The general target was to cover the period 1990–2003.
- 3 The terms ‘mean’ and ‘aggregate’ are used here to refer to official aggregate data relating to the EU-15 or the EU-25 as a whole, whereas the term ‘average’

is used to refer to calculated averages for a given number of countries that are not weighted by population size, thus counting each nation equally as a political unit.

- 4 This clearly contradicts the findings reported by Colin Hay, who states that 'it is the Nordic welfare states that have grown the most' and that, under globalization, 'the most generous welfare states have thrived' (Hay, 2006: 7). However, Hay's insights are based on time series data that begin in the 1960s or 1970s and end in the mid 1990s, thus leaving the most recent period of welfare state adaptation to competitive pressures out of consideration.
- 5 In addition to changes in policies and wages, there are also structural determinants of the growth in inequality such as the trend towards increasing homogamy (marriage within rather than across class barriers), which is related to the expansion of higher education among women (Esping-Andersen, 2006).
- 6 When comparing relative income poverty rates in various countries, one must bear in mind that apparently identical poverty thresholds (defined as a percentage of the median equivalent income in a given country) combine with widely divergent levels of income. According to data from Eurostat (2005), a person living at the 60% relative poverty threshold in Luxembourg has about seven times the income of a person in the apparently same relative position in Estonia. Regional disparities in the European Union are thus much bigger than are differences at the state-level in the United States.
- 7 There are noteworthy discrepancies between the results of the International Adult Literacy Study (IALS) on the one hand and the PISA study (OECD, 2004c) on the other. Whereas the United States is similarly situated in both studies – around average performance levels coupled with a high degree of inequality – some European countries fare either much worse in the PISA study than in the IALS (Germany) or much better (Ireland). A comprehensive comparison of inequalities in Europe and the USA would also require taking the degree of integration of immigrant families into account, because differences in the jobless rate of non-nationals and nationals appear to be much bigger in Europe than in the United States (Giddens, 2005).
- 8 In a cross-sectional analysis there is a fairly strong and robust statistical association between the degree of inequality as measured by the Gini index and the relative size of the prison population in various countries ( $r = .61$  for the EU-15 and the United States;  $r = .67$  within Europe).

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