



WHICH IS BETTER – THE ANGLO-SAXON FREE-MARKET CULTURE OR THE EUROPEAN SOCIAL MODEL?  
JOHN PHILPOTT FINDS THAT IT'S NOT A SIMPLE CHOICE BETWEEN BLACK OR WHITE.

# Model ways

**W**estern continental Europe used to be the home of the avant-garde. Today it exhibits the classic hallmarks of an *ancien régime*, economically stagnant yet fiercely defensive in the face of a rapidly changing world.

Much of the euro currency area is mired in slow growth and high unemployment. Despite volumes of rhetoric, the original Lisbon 2000 strategy for structural reform in Europe's economies and labour markets is struggling to get off the ground. As the high-level EU working group chaired by former Dutch Prime Minister Wim Kok notes about the reform programme: "The overall picture is very mixed and much needs to be done to prevent Lisbon from becoming a synonym for mixed objectives and failed promises."

This is why, aside from evident fault lines in the operation of monetary and fiscal policy in the euro zone, much debate about the causes of Europe's economic malaise revolves around the so-called European social model. This term is sometimes conflated with 'social Europe', which refers to the EU-wide policy directives emanating from Brussels. But the social model is more accurately a generic moniker of the systems of legal employment regulation, collective industrial relations, progressive tax-funded public services, and generous insurance-based social welfare regimes that operate in most continental European countries.

**MISLEADING COMPARISONS** The European way is often unfavourably compared with the lower tax, lighter regulation Anglo-Saxon model said to prevail in the US and other, typically English-speaking, countries including, although with a slightly European flavour, the UK. But such comparisons can be misleading. The EU is not homogeneous. There are marked differences between the collectivist Scandinavian and Germanic, and regulatory French and southern European versions of capitalism just as there are between the US, the UK, Canada, Australia and New Zealand.

Likewise economic malaise is not a universal feature of the EU. Some smaller continental member states do as well as if not better than their Anglo-Saxon counterparts. For example, Austria, Denmark, Ireland, Luxembourg, the Netherlands and Sweden enjoy lower unemployment rates than the UK, while also maintaining a more marked degree of social solidarity. As the influential – and generally free-market oriented – Organization for Economic Co-operation and Development noted in its June 2006 Employment Outlook, the Nordic model is no less successful than the Anglo-Saxon.

Variation in performance reflects the fact that there are a variety of country-specific social models throughout the EU, each with strengths and weaknesses, rather than a monolithic European social model. The latter term is more a convenient shorthand for certain core characteristics shared by continental countries rather than a precise description of the way in which any particular country operates.

This suggests that an appropriate stance towards the European social model should be one of constructive criticism of its real-world variants rather than a crude defence of or attack on its abstract features. All member states can learn from each other to build on their strengths and overcome their weaknesses – which is the

## Executive summary

▪ The crisis besetting major economies such as France, Germany and Italy raises a fundamental question about the most appropriate route map for structural reform. Should the underlying aim of the enlarged EU be to defend the traditional social model or to adopt more Anglo-Saxon ways?

principle underlying the EU's European employment strategy for tackling mass unemployment. But in sharing experiences there is no escaping the crisis that besets major economies such as France, Germany and Italy, which raises a fundamental question about the most appropriate route map for structural reform. Should the underlying aim of the enlarged EU be to defend stoutly all the basic tenets of the traditional social model or to adopt more of the Anglo-Saxon ways?

In addressing this question many commentators seem implicitly to assume that while Anglo-Saxon economics conveys many advantages, the European model smoothes the rough edges of free-market capitalism, resulting in more cohesive societies and more secure and satisfied workers. Indeed, stout defenders of 'the continental way' have been reinvigorated since hurricane Katrina exposed the dark underbelly of American society.

Although this view may seem justified if one looks across the Atlantic, a cross-Channel comparison is more instructive. After almost a decade of progressive employment policy, higher public investment, improved minimum standards in the workplace and greater incentives for the jobless to find work, the UK now operates what might be called the Anglo-Social model. While there is still enough wrong with UK society to prevent any serious observer from suggesting that Britain is a paragon of virtue, the emerging British social model outscores most of Europe's major states on almost every front while also offering a better deal to workers than its US cousin.

**EMPLOYMENT AND PRODUCTIVITY** Take jobs. The EU employment rate of people of working age averages just 63% (64% if the 10 member states that joined in 2004 are excluded). This is well short of the 70% rate in the UK and US. Only Denmark, Sweden and the Netherlands do as well.

Most of the difference shows up in lower employment/higher unemployment rates in the EU for women, youths (people aged under 25) and older people of working age (55- to 64-year-olds), particularly men. While this is partly accounted for by cultural factors which limit the supply of labour – for example, women in southern European countries are far less likely to enter the jobs market – hordes of Europeans are jobless and looking for work or economically inactive while living on relatively generous welfare benefits and state pensions. This results in a considerable waste of labour in the EU and stymies improvement in living standards.

Countries such as France and Germany compensate for this by way of relatively high productivity, which enables them to enjoy material

living standards (measured by gross domestic product per head of population) that are comparable with those in the UK, although lower than in the US.

Output per hour worked in the major continental European countries is higher than in the UK. The French even manage to outdo the US, although since the mid-1990s productivity has grown relatively quickly across the Atlantic. There are potential lessons here for the Anglo-Saxons to learn from continental Europe, but it should be pointed out that there is some relation between the relatively high productivity achieved by France and Germany and their relatively low employment rates. Product market regulations plus tax and social security measures that reduce work incentives make it more difficult for less productive workers to obtain jobs, in turn limiting growth in labour-intensive consumer services sectors.

**PAY AND LIVING STANDARDS** Despite the productivity gap the UK is close to the top of the EU pay league. The latest official Eurostat figures (for 2003), which adjust for currency differences, place the UK third in the average pay table behind Luxembourg and Germany but well ahead of France, Italy and the Scandinavian countries, not to mention the new member states, where pay rates are relatively low.

This comparison is distorted somewhat by a greater number of very high earners in the UK, which pushes up the average pay figure. Likewise, the UK has a relatively high proportion of low-paid workers. This might be considered a negative aspect of the British model, which is generally better at pricing low-productivity workers into jobs rather than allowing them to subsist on welfare benefits. But whether viewed from a psychological or economic perspective it is by no means obvious that long-term welfare dependency is preferable to low-wage employment. Moreover, because the government provides generous income support to low-paid people in work, the UK actually has a relatively small proportion of working poor by EU standards (lower, for example, than in France).

**WORKING CONDITIONS** Neither do all British workers work till they drop. The UK preference is to avoid tough legal limits on the freedom of workers and employers to determine hours of work, the most extreme European example of which has been the statutory 35-hour week in France. Adherence to the UK tradition in this respect is frequently criticised for failing to combat a long-hours culture. In the enlarged EU, full-time workers usually work longer hours only in Latvia and Poland, and even there full-time male workers have shorter hours than their UK counterparts. UK workers also have fewer holidays than workers elsewhere in the EU.

Whatever the pluses and minuses of long-hours working, such comparisons frequently overlook the relatively high rate of part-time working in the UK. This reflects the very wide spread of hours worked. The UK could therefore just as well be characterised as having a short-hours or flexible-hours culture, an observation that should be factored in to sometimes one-dimensional discussion of work-life balance issues.

Another perceived strength of the European social model is that it promotes greater job security and job satisfaction. But the reality is far from clear-cut. Most EU member states place greater restrictions on the ability of employers to fire staff, which almost certainly improves the job security of people in work. The upside of this is that it not only encourages employers to seek alternatives to redundancies when responding to changes in demand or market conditions but also provides an incentive to inform and consult staff about how best to respond. Hence trade union complaints about major factory closures – such as those suffered by the car industry in

## THERE IS SOME RELATION BETWEEN THE HIGH PRODUCTIVITY IN FRANCE AND GERMANY AND THEIR LOW EMPLOYMENT RATES. REGULATIONS PLUS TAX AND SOCIAL SECURITY MEASURES THAT REDUCE WORK INCENTIVES MAKE IT MORE DIFFICULT FOR LESS PRODUCTIVE WORKERS TO GET JOBS.

the last year or so – are less likely on the continent than in Britain. But the downside of such regulation is that it can limit the scope for employers to respond quickly to change and also deters them from hiring for fear that workers will subsequently be difficult or costly to dismiss. Temporary employment contracts are often used to combat this problem but these can themselves be a source of job insecurity if used on a wide scale to hire people whose preference would be to obtain a steady position. The proportion of employees on fixed contracts averages 14% across the EU, which is double the UK rate.

Reliable up-to-date comparative EU data on other indicators of the quality of working life are in short supply. But figures from the most recent *European Survey on Working Conditions* show that workers in the (pre-2004) EU member states averaged eight days a year sickness absence – comparable with the UK figure. The same survey reports that one in three (29%) EU workers were very satisfied with their working conditions – again comparable with the UK.

**FAREWELL, YESTERDAY** Europeans are understandably wary of the harsher aspects of the Anglo-Saxon model, especially in its starker US form. But the UK experience over the past decade – with the introduction of a minimum wage, greater fairness in the workplace and the New Deal welfare-to-work measures – shows that it is possible to operate a version of Anglo-Saxon economics that serves the common social good as well as the market. Economic success may not be unique to the British way – as evidenced by Scandinavian countries that have managed to enjoy low unemployment while preserving a marked degree of wage equality – but it does represent a route that might be followed without fear of adverse social consequences.

Continental reservations about the new British way are shared by those on the left in Britain, who consider it too free market-oriented. But the evidence suggests that a combination of managed flexibility and minimum social standards is the best recipe for enabling society to face up to and cope with the challenge of change. The peoples of Europe suffering slow growth and mass unemployment have little to lose and much to gain from adopting something akin to the Anglo-Social model, suited to their own individual cultures and circumstances. The emerging Europe must say farewell to yesterday and reach out to embrace the future rather than defend a past that no longer works.

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