European Social Models

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Models and Structures

• Economists do not always understand what might be meant by a social model
  – An interacting set of structural relationships
  – A degree of intentionality in outcomes

• It is widely agreed that the European Models are in trouble
  – Globalisation is a threat to welfare
  – Fertility and female participation are low
  – Pension systems are not sustainable

• Should we have a new ESM
Styles of Society

• There are many dimensions to differences in European societies and social models
  – Ordoliberalism or Millian Liberalism
  – Protestant and Catholic views on individuals

• There are several dimensions to the organisation of production
  – Some countries are structured for individual responses to incentives with low attachments to firms and general skills from education
  – There may be periods where this is good and others where it is less productive
Preferences and Institutions

• Preferences over social models may depend on preferences over output versus equality and these may not be the same
  – There is a trade off between equality and productivity, and the most equal European societies have stepped back as a result

• Setting incentives and setting goals are very different approaches
  – Fertility may be ‘too low’ but that may be the result of preferences
  – Reactions differ across styles of liberalism
What are the objectives of the (welfare) state

• Objectives for welfare are seen as
  • Redistribution from lifetime rich to poor
  • Risks reduction from unemployment, disability, health and systemic risks
  • Reallocation over lifetime in education and pension

• What are the best institutions to achieve these objectives and do they require individual or collective action
  – It is possible to design market mechanisms to do these tasks, but it is useful for the state to internalise spillovers and absorb risks
  – We do not always know in advance what the risks are and we may design the wrong institution with the wrong incentives, as in pensions systems
Labour productivity in EU (person hour in ppp) relative to the US

Relative productivity (US=100)

- geprod
- frprod
- spprod
- ukprod
Catching up and falling behind

- It is not clear that increasing participation in France and West Germany will reduce productivity per person hour to US levels.
- TFP growth took off in the late 1990s in the US, but it has dropped back to common levels since around 2003.
- Spreading technology and understanding of ways of doing should lead to catching up without losses to leaders.
- Changes in competitiveness may alter this.
Reactions to globalisation

• Many agree with Sapir that globalisation requires reform as a response
  – Labour markets and social institutions must become more flexible
  – Unemployment benefits and employment protection are not wise

• Globalisation and liberalisation lead to an increase in import penetration and exports
  – terms of trade effects tell you who gains
  – Countries that have been gaining market share have demonstrated they have the ability to respond flexibly to globalisation
Pensions and social models

• Pensions and aging are a common problem but there have been different ways of dealing with it

• Collective provision of pensions has been undermined by rising life expectancy
  – It appears difficult to raise taxes or retirement ages in public provision systems
  – Shifting incentives and information to individuals may lead to solutions

• Changing this element of the structure of society does not mean abandoning the social model
Participation and policy

• If regulation changes the availability of types of job we should ask whether those regulations are worthwhile
  – Employment protection may raise labour demand in the firm, but it reduces productivity and the rate of birth of firms
  – Restrictions on childcare and patterns of taxes may reduce female participation
  – Hours legislation may reduce welfare in the 21st century when it raised it in the 19th
Preferences and outcomes

• Countries have different preferences and these are unlikely to converge
  – Social models will not converge

• Elements of structure may be at fault
  – Pensions need changing in response to aging
  – Education reform is a response to integration trade liberalisation and globalisation

• US structures may be well designed for periods of product innovation and European ones for process innovation waves.
  – We could change to US institutions through education
  – this will take as long as the average production innovation wage and would be inappropriate