Does a European Social Model Exist and Can It Survive?

Bernhard Ebbinghaus

Introduction

More than ten years ago, when the project of the Single European Market was on the European political agenda, Michael Emerson — on leave from the European Commission — wrote a small monograph on What Model for Europe? (1988). He begins his book by telling an anecdote from a conference in which an American economist criticized the European employment problem and recommended the adoption of the American model of an unregulated labour market. This provoked the sharp reply of a European politician: “You do not understand that Europe operates on a different model” (Emerson, 1988, p.1). A decade later, we still quest for a European social model as a base for transnational co-operation and cohesion, in particular, in the debate on EU social policy. An answer to the query might depend on the lens we use: from afar, when we compare the European welfare states with the advanced market economies of North-America and the Asia-Pacific, we can recognise Europe’s shared distinctness, whereas, when we look closer, we perceive intra-European, cross-national diversity. If there is — or should be — a model that leads European integration, this blue-print would have to be as much about Europe’s unity of shared social values, institutions and structures as well as a guide on how to manage the historically entrenched cross-national diversity.

The quest for a European social model is not merely an academic endeavour but an issue of political relevance for European integration. An analysis of the congruence of European societies helps us to understand the sources and potential for political and economic transnational co-operation. The European Commission has made explicit reference to the “European Social Model” in order to advance a common social policy agenda and the inclusion of the social partner in the process. An analysis of the European socio-economic model is also of importance for understanding its comparative advantages and viability of this model, given global competition. Thus, we might ask whether European market societies are distinct from other
leading industrial world regions, in particular from North-America and the Asia-Pacific region. In a comparison of the triad of “global players” — to borrow the jargon of international business — we can indeed detect some distinct European features vis-à-vis the USA and Japan, and some trends towards convergence within Europe (Boyer, 1996; Kaelble, 1987; Therborn, 1995).

When we look through a closer lens, we find that there is not one European model, but European integration is built on a “variable geometry” of partially overlapping social institutions and sets of national models that co-exist in the core and periphery (Ebbinghaus and Kraus, 1997). There are significant cross-national variations along the major components of the European model which have been entrenched in national social institutions over centuries. Moreover, national modes of regulation, in particular social policy and industrial relations, serve an important integrative function for nation-states, they are therefore reluctant to transfer competencies to the European level. The scope for EU redistributive social policies and transnational regulation in labour relations is rather limited, particularly in such matters as social insurance, strike laws, or workplace representation (Leibfried and Pierson, 1995; Marks et al., 1996; Ulman, Eichengreen, and Dickens, 1993).

But even if European unity has been built on a distinct mix of national socio-economic models, the question remains whether these socio-economic institutions and social practices are still viable under ongoing globalization pressures and further steps of European integration. With the Single European Market and European Monetary Union, European economies are increasingly facing „regime competition“ (Streeck, 1995) vis-à-vis the other OECD countries and developing markets. For instance, Swedish neo-corporatism and the German “social market” economy, hailed in the past for their successful combination of competitive export-oriented market economies and advanced welfare states, have become heavily undermined in the 1990s (Pontusson, 1997; Streeck, 1997b). In so far as these are prime examples, the debate on the „end of corporatism“ (Lash and Urry, 1987) or the German „Standort“ (Immerfall and Franz, 1998) are telling cases for the multiple threats to the viability of Europe’s model. But even if the malaise of these two important economies may not be the fate of their smaller neighbours, their economic problems will have repercussions on the European Economic Area.

Certainly, the transnational pressures cannot be denied — external competition and internal challenges will require the adaptation of both national and Euro-level socio-economic institutions (Grahl and Teague, 1997). The question remains whether the only possible response is to follow the Anglo-American liberal-deregulatory path on which at least Britain has set her course. Whether regime competition will undermine the present models
or lead to downward spirals of deregulation and fragmentation is hotly debated, yet thus far the issues remains largely unresolved (Abrahamson, 1991, Streeck, 1995, Scharpf, 1996). The public and academic debate is swayed by the examples of national economies outside and in Europe that fare better than others, and these are seen as possible „models“ for adaptation. Most recently, such show-cases include the US job-machine, the radical welfare state reforms of New Zealand, the Dutch employment “miracle”, the Irish economic growth record, and the Danish turn-around in unemployment.

This brings us to the final questions: Can we learn from apparently successful national models be it from overseas or from within Europe? Is it possible and—if so—preferable to transplant social institutions and “best practices” from one economic, political and social context to another? To what degree are national models, and the Europeanization process the intended outcome of public policies as implied by the idea of a „model“. Or were they more the result of historical contingencies, unintended consequences and ungoverned processes? History teaches us at least one lesson: learning from other nations always included a translation and adaptation of foreign „best“ practices to the national set of values, institutions and structures.

While the term “model” as used in the public debate often implies a masterplan, it is used here as a shorthand for the way in which specific combinations of institutions and social practices govern market—society relations in a particular nation-specific combination whether this was intended or unplanned. This conception of socio-economic model goes beyond a narrow focus on the governance of markets, macro-economic policy, and production systems, it also includes the employment relations, the labour market organization and social policies. In fact, one would expect that different models arise more from the non-economic spheres than from the mode of economic governance.

In the brief comparative analysis presented here, the focus will be on the main aspects of the economic governance, industrial relations employment regimes, and welfare state. In this chapter, we will first analyze the main trends and cross-national differences in these areas, comparing the European Economic Area with the USA and Japan. While there has been some convergence in macro-economic development, especially inflation rates and economic growth, there are still important cross-national differences in the degree of internationalization between the “global players” and within Europe. With the help of some main indicators, the cross-national differences in labour relations, labour market trends, and welfare state policies will be mapped. This supports that thesis that there are still marked differences across Europe. Thus in a second step, four different European
Table 1: Socio-Economic Indicators, Europe, USA and Japan, 1990s

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models will be distinguished, each model represents a particular combination of economic governance, industrial relations, employment regimes, and welfare state policies. Finally, at the end of this chapter, the repercussions of the coexistence of different models for European integration as well as the particular problems and viability will be considered. Indeed, since national adaptation of the particular models are needed, the main task of bringing the collective actors together and coordinate the reform of the given institutional arrangements remains largely a national affair, whatever we might be able to learn from other models.

Global convergence or cross-national diversity?

Does the European Economic Area resemble the American and Japanese economies, and has Europe’s economies become more like its global competitors? Or: can we still speak of a distinct European way. The globalization debate has led to a revival of convergence theses (Boyer, 1996), though at the same time many comparative institutional studies point at the persistent cross-national diversity (Berger and Dore, 1996, Crouch and Streeck, 1997). A brief comparative analysis of some major aspects of the socio-economic development with the help of a number of selected indicators (see Table 1) should provide us with an overview of the main patterns and trends. In order to study the convergence or divergence, Europe differs from the USA and Japan at least in four aspects, though these are also areas where we can find intra-European variations:

1. **economic performance**: Europe has by and large a lower growth performance but higher trade dependency than Japan or the USA;
2. **industrial relations**: Europe is marked by a higher degree of interest organization and co-ordinated bargaining as well as a more equal wage structure;
3. **labour market**: Europe suffers more from severe unemployment and a less flexible labour market;
4. **welfare state**: Europe differs in its larger public budget and deficits, which finance more advanced social protection.
Economic performance

Sustained economic growth, which in turn fosters welfare and employment, is a paramount indicator of economic performance. With the oil price shock, the postwar Golden Age of record economic growth ended: average growth rates declined to postwar lows in the early 1980s, affecting all parts of Europe, North-America and even East-Asia. However, despite high dependency from oil, Japan still fared by far better than any other economy in the 1970s and 1980s and the USA was less hit by the economic downturn then many European countries. While the European economies followed a similar downwards cycle, some were more severely hit by the recession of the mid-1970s and early 1980s: the UK and Continental countries had growth rates less than 2% over the first half of the 1980s, while the Scandinavians, and the USA and Japan did somewhat better. Note that Japan and the modernizing southern economies had higher growth rates until recently due to the late-comer catching-up effect, and that in contrast to the Nordic and continental European countries, the UK and UK oscillate through more pronounced up-and-downs. Yet by the early
recession had set in again and now all advanced economies seem to converge on modest growth rates around 2% to 4%, including Japan, the USA and UK.

This convergence in economic growth, together with a narrowing of inflation rates, indicates how close European economies have grown with the Single European Market and the preparation for European Monetary Union. Today, the European Union is the largest "single market" in terms of consumers (373 million in 1996), compared with the by one third smaller US domestic market (265 million) and much smaller, but more protected, Japanese home market (126 million). However, in terms of economic strength (whether measured in GDP per head in US Dollars or purchasing power parity), the US and Japanese economies still perform better than the Single European Market, and even most national economies in Europe. Yet today Japan faces severe economic crisis, while the USA has a good growth prospect but also some European countries share this, in particular, Ireland's now booming economy stands out for attracting foreign investment.

Europe is remarkable, however, in terms of its trade dependency (measured as combined export and import in % GDP): the European single market countries, in particular the smaller economies were always more internationalized than the large domestic markets of the USA or Japan. While the two other "global players" are much less dependent from imports and exports, each national economy in Europe is at least twice as internationalized. Some smaller countries, like Belgium, Ireland and of course Luxembourg, nearly import and export as much as their national gross domestic product. It should be noted, however, that the largest share of this trade dependency is due to the internal European market and not to world-wide trading. In the past, the European export economies were relatively dependent on the US and Yen exchange rates, though the Euro will provide better conditions for intra-European trade and might bring some advantages on World Market in the future if it is able to become the second international currency.
Industrial Relations

The relations between organized capital and labour assume an important role in modern economies, they shape the environment for economic growth and social welfare. Industrial relations at the national as well as the workplace level differ in Europe from North America or Japan, though there are also pronounced intra-European differences.

In some countries with corporatist labour relations, especially in Scandinavia and Continental Europe, trade union movements have gained an institutionalized role in national politics and economy (Crouch, 1993), while the two other "global players" have traditions of business or enterprise unionism. In the Nordic countries, unions have negotiated representative rights at the workplace level, while in some continental European countries, the state has legislated "dual" workplace representative structures with participation rights for employees that are unknown in North America and Japan (Rogers and Streeck, 1995).

Although in terms of membership strength, union density (measured as the share of the dependent labour force that is unionized) is on the average higher in Europe than USA and Japan (Visser, 1991). The American and Japanese union movements have also suffered from severe decline in membership. But there are large cross-national differences in membership level and trend across Europe (Ebbinghaus and Visser, 1999): the Nordic countries with union-led unemployment funds have gained in membership during the last decades, while most other countries lost members, in particular, most dramatically France and the UK, followed by Italy and Ireland, but also more gradually the Netherlands and Austria. Instead of convergence, we find persistent — if not growing — divergence in the level and composition of union membership across Europe and vis-à-vis North-America and East-Asia.

Employers associations — at least in the countries with neo-mod erately low (Traxler, 1994). In addition to the "social net" pro- vided by the welfare states and more strict employment legislation in Europe, a larger section of the dependent workforce is collectively protected thanks to a higher degree of union and employer organization, and — where those are weak — erga omnes extension of collective agreements by the state.
As a consequence of the more co-ordinated bargaining structures and strategies, Europe (but also Japan) have less wage dispersion than the free-market-oriented USA. Whereas US American unskilled workers (those at the lowest decile of the income distribution) earn only around 40% of the median income, the lowest wage group range around 60% in southern Europe and Japan, and up to 70% and more in Germany and Scandinavia (Traxler, 1994). The progressive taxation and social transfers many reduce these market induced income inequalities, yet again this holds less for the US and southern Europe. As a consequence of the residual welfare state, relative poverty levels are highest in the USA (17% after tax and transfers), followed by southern European countries (Italy—14%), whereas Germany, France, the Netherlands and the Nordic countries range below 10% (Esping-Andersen, 1990; Esping-Andersen, 1996a). With their more egalitarian wage structure and the lower post-tax / post-transfer income inequality, most European countries show a different conception of „fair share“ in the value and profits gained from work. However, given international competition the higher wages and non-wage labour cost tax the economic growth potential in the less productive sectors, such as
private services, and hamper job creation, particularly for the less skilled.

**Employment Trends**

Large differences between the three “global players” can also be detected in respect to the structure of and changes in employment. One telling measure on the level of activity are employment ratios, that is, the share of the working population (15-64) with gainful employment. Both the US and Japanese labour markets have reached levels beyond 70% since the late and early 1980s respectively, whereas the European average has been below 65% ever since the first oil price shock. However, the Nordic countries (also Luxembourg and Switzerland) stand out with employment levels which are higher than the USA or Japan, despite their better welfare provision in case of non-work. Different to the Nordic countries, the UK or USA, the continental European societies still show a relative low participation rate for women, they have also used early retirement as an “exit” route to reduce labour supply during the period of mass unemployment. While labour market rigidities through strict employment rights and practices provide an obstacle to job growth, some of the high-value production systems in Europe profited from job tenure rules and internal labour markets. Similarly as in Japanese firms, these rules provide an institutional incentive for skill investment (vocational training), peaceful employment relations, and social acceptance of new technologies.

While for Japan with its tradition of life-long employment, and the USA with its relative flexible labour market and wages, unemployment is less of a political concern, it became the most urgent political problem in Europe. In the mid-1990s, the EU has about 20 million unemployed (11%), compared to only 8 million in the USA (6%) and 2 million in Japan (3%, OECD 1997). Again, there are considerable intra-European variations: Spain stands out with more than 20% job-less rate, followed by Finland, Ireland, France and Italy. Persistent unemployment in these countries go together with high youth and long-term unemployment, indicating major problems of structural unemployment and labour market rigidities. Also noteworthy is the increase of unemployment in the 1990s of the previously unaffected full employment economies Austria, Finland and Sweden. Besides the
USA, the reduction of high unemployment in the Netherlands, and more recently Denmark is remarkable; they all have become internationally discussed „models“ over the last years. The American job machine and Dutch „(half)employment miracle“ indicates the importance of the creation of service, part-time and temporary employment for a successful reduction strategy of mass unemployment.

The Welfare State

The welfare state assumes a larger role in Europe, requiring a much larger share of economic resources, though it also reached its limits. European states tax their citizens more than other states: the EU member states receive on average over 40% of GPD in form of taxes and social contributions, compared to less than 30% in Japan and USA (see Table 1). However, there are also marked intra-European differences between high-tax welfare states such as Denmark and Sweden and those EU member states like Portugal, Spain and Britain which have more reduced taxation. Some European welfare states expanded their public services in the past without increasing in tandem the gen-
eral and payroll taxes, thus running growing public debts (most prominently: Italy and Belgium). Given the convergence criteria and stability pact of the European Monetary Union, such fiscal policies have been stalled and countries with large public deficits were forced to cut welfare expenses over the last years. As in the USA, and followed most prominently by Thatcher’s Britain, governments have started to downsize the public sector by employment cuts, privatization and marketization, though European countries were much slower and less radical in following the Anglo-American example (Wright, 1994).

Similarly to taxation and public spending, Europe stands out by its highly developed social transfer programmes. Public social spending (in % GDP) of the six founding members of the Common Market vary between 25% to 30% (see Table 1). With the entry of Britain, the South and the Nordic countries, these differences in the “social dimension” became even larger within untied Europe: the Nordic universalistic welfare states are leading the ranks (above 30%), followed by the continental conservative welfare states plus France and Italy, and then by the more residual, liberal British and Irish welfare states and the welfare laggards Greece, Spain, and Portugal (less than 25%). Nevertheless, all European welfare states compare favourable to the liberal US welfare state (15%) as well as the welfare laggard Japan (12%). However, outside the welfare state, US firms and larger Japanese corporations provide — partly mandated, partly voluntary — company benefits to their. It is remarkable that there is a correlation among OECD countries between trade openness and social expenditure (albeit also with country size): small states with open economies tend to spend more in social programmes, suggesting that they use social policy as a buffer for the vagaries of world market dependency (Rieger and Leibfried, 1997).

Two varieties of capitalism

Michel Albert, most prominently, has juxtaposed the Anglo-Saxon capitalism from Rhenian capitalism (Albert, 1991).¹ Free market

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¹ There is by now a considerable institutionalist literature in comparative political economy (led by the work of P. Hall and D. Soskice) that distinguishes between liberal uncoordinated market economies and coordinated “social” market economies (see Hall, 1997 and Rhodes and van Apeldoorn, 1997 for a literature review).
capitalism relies on short-term investment capital and thus seeks high profits for share holders. It also relies on competition by low-wage mass production, which in turn requires a flexible labour market and wage structure. Given a fragmented, uncoordinated, and decentralized systems of industrial relations, “free riding” the institutional benefits without contributing to them is possible, while the production of collective goods such as non-firm-specific vocational training are rare, given the lacking state support and weak associational capacity. Following voluntarist and pluralist traditions, the trade union movement is weak and fragmented. Moreover, it pays off for companies to be a “non-union” workplace, or to weaken trade union rights as happened under the Reagan and Thatcher governments.

The Rhenian capitalism, on the other hand, profits from more patient long-term investment capital, „good“ employment relations and stable producer–supplier ties. This is not only the case for Germany but also for the Japanese model (Dore, 1997), though the Japanese labour relations at the national level and state social policy are less developed. Patient capital and life long employment have provided, at least until today, the backbone of the Japanese model of diversified production. Different to Europe, the Japanese export-oriented economy remained relatively closed to international competition at home, thus protecting its own home market. Moreover, the future of the Japanese system is questionable, given the recent crisis in its financial system, the rising cost pressures on the ageing society, and the need for a reform of its relatively rigid institutions.

These social institutions have not emerged by themselves but were the result of historical legacies and past collective decisions made by collective actors, the state and social partners. Rhenian capitalism, instead of relying merely on the market mechanism, enforces collectively imposed “beneficial constraints” (Streeck, 1997a), such as high wages which compel employers to seek cost-saving technological changes. In order to keep wages out of competition between firms and allow wages higher than the market-rate, a high degree of organization and compliance is needed among employers and unions. For the success of a high-value growth strategy, encompassing interest organization (Olson, 1982) are also important in providing other public goods, for instance, long-term investment into vocational training and up-skilling of the workforce. Thus firms, especially small scale handicraft employers and workers have to be convinced by their associations to
invest into contributing to a collective good, such as vocational training since it is in everyone’s interest. Also for workers, some social institutions, such as life long employment, high wages, transferability of skills, career perspectives, and further training in case of technical change are important to motivate an upgrading of skills.

**How many European models?**

Given these two varieties of capitalism, can we speak of „one“ European model or should we distinguish several socio-economic models that coexist within the European Economic Area? The past and present reluctance of some countries — in particular Britain — to endorse European harmonization beyond a mere free market project, has led to a “variable geometry” of Europeanization. While a liberal uncoordinated market-economy is the undisputed model in Britain, the rest of Europe does not everywhere achieve the opposite form of coordinated capitalism. The role of the state and organized interests in providing such coordination varies considerably across Europe, there are different traditions of governing markets. Indeed, we can claim the coexistence of different models of socio-economic governance within the European Economic Area. While some countries come close to either pole of the two varieties of capitalism, others fall in-between or more or less outside these ideal-type opposite modes. Each model combines particular features and also faces specific problems of adaptation today. What we refer to as a “model” here is the way in which particular economic and social institutions hang together, this will be clearer when we analyze the particular institutional mix.

The four institutional complexes that we described in the descriptive tableau of major socio-economic trends constitute supportive “pillars” of the respective national models. In the core of the model lies the economic governance system (Hall, 1997; Lane, 1995; Soskice, 1990): the economic growth strategy that relies on a particular production regime and the supporting financial system which determines the scope of investment decisions. The particular economic governance model is coupled with specific national forms of industrial relations, employment regimes, and welfare states. These three institutional complexes provide an important supportive function for the economic development. Thus the production regime is dependent on the nature of the relations between unions and employers, and the way
in which the collective bargaining system is organized. In addition, the employment regime defines the employment opportunities and regulation of the labour market. In addition, the welfare state taxes the economic resources but also provides social protection against social risks which can support the production regime.

All these social institutions have emerged over the postwar period in particular national combinations; they are deeply rooted in institutional legacies, national values and social cleavage structures. While the four described socio-economic “pillars” are often separately governed, we should not underestimate the way in which they are interlinked: they are mutually supporting and dependent from each other. Therefore, changes in one realm have consequences in others, as each set of institutions might have to rely on others for its functioning. Most importantly, a particular production regime, be it a low-wage mass production or high-value quality production strategy requires a supporting “institutional infrastructure (Soskice)” in the realm of collective bargaining and workplace relations, labour market, and social protection. For instance, employment regulation guaranteeing life-long employment, a high-wage structure provided by centralized, co-ordinated bargaining, and social insurance against unemployment may all add to the institutional incentives for long-term skill investment by employers and workers that is crucial for the success of a high-value added production strategy, which in turn, will then finance and legitimate these non-market social institutions. Looking at the map of cross-national variations (see Table 2), one can argue that the European social landscape is built upon four distinct models.

*Anglo-Saxon Model*

The British model, particularly since the “Thatcher revolution“, followed the American „free market“ model in applying supply side macro-economic policies. The financial markets, concentrated in the “City of London”, had always played a larger role in Britain (and the USA), than on the Continent or in Japan. The privatization of the postwar nationalized industry and public service sector in the 1980s added to the dominance of short-term share-holder values, surging for immediate returns on invested capital. Ever since the late nineteenth
Table 2: The European Socio-Economic Models

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century, a debate on the “industrial decline” of Britain had pointed of some of the shortcomings: the lack of long-term and infrastructural investment, the lack in research and development, a skill-deficit in the labour force, and relative low levels of productivity. While the Conservative government was able to attract some foreign capital and help industry by deregulation, it bet on a low-wage mass production strategy.

In order to make British industry more cost-competitive, the state intervened into the traditionally voluntarist system of industrial relations, restricting union immunities, strike right, and closed shop practices. Collective bargaining became further decentralized as the union movement was not only fragmented but also suffered severe membership decline, while the employers lacked any interest in strong national organization, except for lobby purposes. Thus the low-wage mass production strategy finds institutional support by decentralized voluntarist labour relations, unregulated employment that allows “hiring and firing”, and a liberal welfare state with low social benefits. Employment levels are relatively high, especially for women, compared to the Content, partly due to the lower and shorter social protection and flexible labour market. The competitiveness problem has been tackled by further labour market deregulation, decentralization of wage bargaining, lowering of the reservation wage, and further privatization of public services and welfare provisions. The new Labour government seems not to take back these measures or depart from this route.

**Nordic model**

Not long ago, the Nordic model had been hailed for its “universalist” welfare state and full employment commitment of Sweden and its Nordic neighbours (Esping-Andersen, 1990). This was a remarkable achievement given the relative high trade dependency of these small economies, the relatively well developed employment rights, and high-wages. The export dependent high-quality, high-skill industrial sector was sustained by a financial system with neo-Keynesian macro-economic steering and long-term patient capital through state-
financed co-operative loans, at least until the entry into the European currency system and recent liberalization of capital controls (Stephens, 1996). Moreover, a system of centralized bargaining between encompassing and well organized unions and employer associations had provided relative high and equalizing „solidaristic“ wage structures that forced restructuration towards productive firms (Pontusson, 1997). The social partners were also involved in nation-wide corporatist interest intermediation that went beyond income policies and included also active employment and social policies. However, following the employment growth in and wage push by the public sector, as well as state intervention into management prerogatives, private employers seek today more and more decentralize wage bargaining and call for labour market deregulation, undermining the postwar neo-corporatist system (Kjellberg, 1992; (Lash and Urry, 1987).

The exceptional record in maintaining full employment in the 1970s and 1980s, Sweden, Finland and Norway faced rising unemployment in the 1990s, while Common-Market member Denmark had always higher unemployment. Nevertheless, all Nordic countries still have a remarkable high employment rate, thanks to high female labour force participation, widespread part-time work, a large public employment sector, and relative late actual retirement age (Esping-Andersen, 1990). Employment law and collective agreements have also provided relative life-long job security, this provided the incentives to invest in skills needed by the export-oriented industry. The universalist welfare state also supported both the skilled workforce for the private sector and employment opportunities for women in social services. However, the high public expenditures had driven taxation and social contributions to the highest level in Europe, taxing the Nordic welfare states competitiveness. Tax revolts like in Denmark, the entry into the EU by Sweden and Finland, and the financial crisis in the 1990s had added to the problems of public financing and the need for retrenchment in welfare spending. Many observers see an end of the Nordic model, though these recent reforms, while breaking with some timely principles, remained far from radical changes in course and were the outcome of relative broad consensus building.
Europe’s Centre Model

In Europe’s Centre (Germany, and its neighbours, Austria, Belgium, and the Netherlands), the governance structure is traditionally different from the Anglo-American free market model (Soskice, 1991). Here long-term patient capital provided by Hausbanken have played a much larger role, as has the state in providing the needed infrastructure and social protection. These “social market” economies are all export-oriented, even Germany that is a much larger home market than its smaller neighbours. Given relative high wages, companies can only compete on today’s world markets with high-quality products and flexible specialization, thus requiring high-skilled labour and technological innovation (Streeck, 1997b). However, given the relative high wage levels, tailored to skilled industrial male breadwinner, there has been structural mass and long-term unemployment since the mid-1970s. Female, part-time and service employment has been traditionally lower than in the Anglo-American or Nordic countries, yet some countries like the Netherlands have increased part-time and female employment in recent years (Visser and Hemerijck, 1997).

The “social partnership” between well-organized unions and employer associations plays a role beyond subsidiarist self-regulation and co-ordinated wage bargaining — organized interests play also a role in social policy administration. Also at the workplace, statutory works councils have institutionalized forms of worker participation (on German management boards even co-determination). Worker representatives can secure employment rights, mediate in case of grievances and codetermine technological change. Moreover, due to the consensual style and strike-ban until the end of an collective agreement, firms profit from the absence of industrial unrest which would be particularly harmful to a just-in-time quality production strategy.

However, the model of social partnership comes under heavy pressures by recent calls by the employers to decentralize and flexibilize the bargaining system, but also due to the ongoing losses in membership and legitimization on both sides. The continental employment dilemma (Scharpf, 1998) lies in the fact that social transfer-oriented welfare state is largely financed by social contributions that increased
non-wage labour costs, thus taxing the competitiveness of export oriented firms. In the past, social benefits have been used to support the unemployed and allow a reduction in labour supply through early retirement measures. The “social market” model has relied largely on a “welfare without work” strategy (Esping-Andersen, 1996b), thereby reinforcing the employment problem: in order to pay for the welfare of the non-active population the social contributions have to be raised and thus the rising non-wage labour costs are putting even more people out of work, thus leading to a vicious circle.

Southern model

The Southern model shares many features of the Centre model (especially France and Italy), but it also has some distinct features that show a somewhat different weight of state intervention and — in the case of Greece, Portugal and Spain — also late democratization and opening towards Europe (Castles, 1995, Ferrera, 1996). These Southern economies are marked by a legacy of belated or incomplete transition from agrarian society to industrialization, a large small medium sized firm sector, and a larger role of the state via nationalized banks, state-controlled conglomerates or public subsidies in modernizing the economy for lack of private capital (Lane, 1995; Schmidt, 1996). Recent privatization efforts have increased the market pressures, but the dualism between relatively monopolistic national industrial champions and a more or less flexible small scale sector remains thus far. State intervention was also necessary in the realm of labour relations, collective bargaining and employment regulation, given the politically fragmented union movement and intransigence of employers in the private sector. Large politically motivated and wildcat sectionalist strikes are still common, particularly in the public sector, while national social pacts and co-operative workplace relations were difficult to institutionalize but recent efforts in Italy, Spain and Portugal have shown some success.

These Southern economies are facing a severe employment problem: high unemployment, in particular for the young and foreign-born population, widespread early retirement, and low female partici-
pation rates. While part of the labour market is relatively well protected by seniority rights and employment law, those with atypical work contracts, younger job-seekers, or those in the informal sector are not enjoying the social protection of their fellow workers. With the exception of France and partly Italy, the Southern welfare states were relatively late and incompletely developed, public spending tended to follow a political clientelist motivation, but also remained residual due to still familistic and subsidiaristic principles of self-support (Ferrera, 1996). To meet the EMU convergence criteria all Southern welfare states have faced severe financial limits of public spending, putting the reform of the social policy programmes and downsizing the public sector high on the agenda of government-union-employer talks.

**Strength and Weaknesses Reconsidered**

The important intra-European variations have made European integration more difficult and led to a „variable geometry“ of political, economic and social integration. While economic integration with the help of liberalization has by now integrated all countries of the European Economic Area, EMU will not include all EU members (and the consequences of EMU for wage bargaining are still unknown). Moreover, the European „Social Dimension“ remains still underdeveloped, given the large variation across Europe and the concern for subsidiarity in the fields of social and labour policies (see Leibfried and Pierson, 1995; Marks et al., 1996). Since the latter are one of the last constituent national policy fields, national governments have and will be reluctant to transfer more authority and resources to the European level, instead they partly rely on the European social partners to come to an voluntary agreement in the European Social Dialogue.

The sources of the strength of the coordinated social models are—or at least have been—manifold. By and large, the welfare model allows a more socially acceptable and peaceful adaptation to the economic imperatives and global pressures thanks to the more developed welfare state and better employment relations. Despite all rigidities, national and European-level concertation strategies provide opportunities and means for co-ordinated adaptation, while keeping negative
social consequences at a minimum. In those European economies with established practices of coordinated capitalism, the high-skill, value-added, long-term strategies have provided a positive growth perspective that did not follow the pronounced cyclical up-and-downs of the American or British market model. The role of organized interests through institutionalized co-ordination procedures has been important to the support of the model, its viability rests on the “beneficial constraints” and institutional incentives that foster the provision of quasi public goods: negotiated wage moderation, avoidance of social dumping and harmful inequalities, collective provision of vocational training.

As much as each socio-economic model has benefits or at least beneficial constraints, it also entails important disadvantages. Each model’s institutional logic creates its own particular problems, and thus calls for specific national responses. For instance, the reliance of continental welfare states on early retirement measures, which allowed firms to shed off the well protected older workers, has off-loaded the unemployment problem on to the social insurance system, increasing social costs and payroll taxes (Esping-Andersen, 1996b; Scharpf, 1997). Thus, the European models are today under considerable pressures, not only due to global competition but also for particular internal reasons. Four problems are of special concern as they undermine the “European social model” of combining market and social welfare principles that the continental and Nordic models share:

(1) The European welfare states have grown to their limits and are under severe pressures to be thoroughly reformed. These social policy reforms will have to take into account the contingency of increasing age dependency, changing employment and family patterns, the need to lower social costs, and limited public resources for social services. Yet, those in favour of the “European social model”, including the European Commission, want to its comparative advantage: avoiding large inequalities, allowing long-term skill investment, and social protection against major social risks.

(2) In order to lower labour costs and increase competitiveness, European welfare states are under pressures to reduce social contributions, corporate taxes and income taxes. The proposed reforms suggest a partial shift from contribution to tax financed schemes, from pay-as-
you-go to funded schemes, and from mandatory public insurance to voluntary private forms of savings. This will also entail on the side of the collective bargaining parties, an acceptance of wage moderation in return for jobs and social benefits and a reconsideration of the wage schemes, especially at the lower end.

(3) The reduction of labour cost strategy will by itself not suffice to alleviate mass unemployment, thus new policies to create employment and bring the unemployed back into jobs have been part of the recent successes of the Dutch and Danish reforms. In order to allow for the more differentiated work profiles and diversified production systems, the regulation of collective contracts and employment laws is overdue. Here some of the rigidities of employment protection have to be reconsidered by the collective bargaining partner and the state as regulator of employment law. Moreover, more flexible regulations for service, part-time and temporary work have been proposed, but would require also a fine tuning of social policy instruments to take account of the new employment forms.

(4) The coordination capacity of organized interests, both labour and employers, becomes increasingly undermined by declining membership, a crisis of legitimacy, increased „exits“ from associational regulations, mobilization of sectionalist interests and the pressures towards decentralization in collective bargaining. Yet coordination is crucial to the success of negotiate “social pacts” to adapt the social model. Thus instead of unilateral state intervention or mere reliance on market-mechanisms, the government and social partners are seeking to co-ordinate welfare state reform, employment activities and wage bargaining policies (Hassel, 1998).

Given Europe’s laboratory of diverse national policies, it might be more advisable to look for „best practices“ within Europe as Leitbilder than copying the models from the other “global players”. For instance, the Dutch “miracle” (Visser and Hemerijck, 1997) has been the remarkable turn around from its past “welfare without work” problem: job growth thanks to wage moderation, part-time and new forms of employment, more reliance on active than passive employment measures. However, the Dutch reform process was a long and unplanned sequence of measures, though they resulted from a regained consensus between the main collective actors and each step
had been negotiated between the government and the social partners. What other countries can learn is that co-ordination at a national level is helpful in finding the specific responses, given the institutions in place and the domestic problem situation. Yet this requires also a willingness and compliance of the collective actors to overcome sectionalist interests and seek a common solution.

At the European level, the European Union has gained more competencies with Maastricht Social Protocol and also more active in shaping the political agenda on employment policies. This has opened up new routes for self-regulation by the European social partners and for a co-operation between European governments in matters of social and employment policy. Thus the European Commission’s Social Action Programme 1998-2000 “provides a framework within which the process of social policy renewal will be taken forward, with the aim of reinforcing the core values of the European social model while ensuring that the Union is well placed to respond to new and emerging challenges in a fast changing world (Com(98)259: V).” European initiatives thus mainly set common policy aims, exchange information on possible “best practices” and co-ordination in framework agreements and directives. Yet, the main reforms in economic governance, industrial relations, welfare state and employment policy remain national prerogatives. Even after the Single European Market and a possible European company law, economic governance will have a national imprint. Similarly, wage bargaining will remain by and large a national affair despite EMU, though again transnational co-ordination of national bargaining aims will be a possible response to increase interdependency.

Despite globalization and Europeanization, “the complex set of contradictory forces that are pushing simultaneously toward convergence and divergence are far from moving toward a single best institutional design (Boyer, 1996: 59).” Thus while cross-national diversity provides some obstacles to Europeanization it also contributes to the richness and plurality of Europe. Indeed unity and diversity mark Europe, and this might provide the needed variety and experimental ground for generating and testing multiple adaptation strategies. How could we otherwise learn from “best practices” if there were no policy variations across Europe? Hence, Europe still has a long way to go
until we can speak of „one“ European model that is more than the „variable geometry“ of different national practices that become increasingly interdependent.

References


