

## ECONOMIC AND SOCIAL MODELS IN EUROPE AND THE IMPORTANCE OF REFORM

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*This paper contributes to the ongoing debate on **European economic and social models**. It provides a comparative assessment of fiscal and regulatory policies in 17 industrialised countries (the EU15, US and Japan) and presents the record of these countries in attaining key economic and social objectives.*

*Social and economic systems that feature efficient public sectors and flexible market structures tend to experience reasonably sustainable public finances, high economic growth, education standards and employment and well-functioning markets. **Anglo-Saxon** countries broadly fit this mould, albeit it seems at some cost to income equality. A more pronounced emphasis on welfare state policies and the corresponding relatively high levels of public spending benefit income distribution in the **Nordic** countries while the resulting inefficiencies in their economies are counterbalanced by flexibility in labour and particularly product and financial markets. Also a number of **reform-minded European countries** have improved fiscal and regulatory policies while significantly enhancing the functioning of markets, fiscal sustainability and economic performance. This was generally attained without jeopardising social objectives. On the other hand, those **continental** and **Mediterranean** countries that maintain market inefficiencies and at the same time sustain expensive and inefficient welfare states generally suffer from low growth and employment and less well-functioning markets and face serious risks to their economies' fiscal sustainability.*

*The findings of this note support calls for the **comprehensive reform of fiscal policies and all markets – labour, product, and financial**. Important cross-market effects imply that the compound benefits of such reforms will be larger than the sum of the benefits from reform within individual policy domains/markets. Moreover, social standards are unlikely to worsen and may even improve under more efficient and better targeted policies. At the same time, predictions about the sustainability of “economic and social models” in the future are difficult to make. Not only demographics but also intensifying global competition over talents and capital is likely to put increasing pressure in particular on models that feature extensive public spending, coupled with high tax rates and inflexible markets.*

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## 1. Introduction

Recently, a prominent debate on how EU Member States should deal with economic and social challenges has emerged in Europe under the catch-phrase “Economic and Social Models”. Should Europe follow the “Nordic model”, often (rightly or wrongly) characterised as big government, high taxes and cradle-to-grave security, or rather the “Anglo-Saxon model” with presumably low spending, low taxes, flexible markets, but social inequality? Are there viable alternatives that combine good economic performance with adequate social protection and well-functioning markets?<sup>2</sup>

The debate derives from three major policy challenges that are pertinent particularly for Europe and the functioning of EMU: First, a number of countries are experiencing low economic growth coupled with high unemployment and creaking welfare systems. Second, globalisation means that established “first-world” economies (with relatively large public sectors) face new and increasing competition from emerging players such as China and India (with significantly smaller public sectors), which in turn may exert pressure on domestic economic and social systems. Third, the combination of low fertility rates and rising life expectancy in the euro area implies that the working age population will decline while the proportion of older people in the population is increasing.<sup>3</sup> This will have important consequences for labour supply, real GDP growth, public finances and income distribution. To address these challenges, the EU agreed in the year 2000 on the so-called “Lisbon Strategy”, which was re-launched in 2005 with a focus on “growth and jobs” in order to improve the implementation of reforms.<sup>4</sup>

In this note, we analyse the effects of economic and social policies with regard to the public sectors and market regulation of 17 industrialised countries (the EU15, US and, to a lesser extent, Japan). In relation to the ongoing debate on economic and social models, we provide stylised facts on country *performance* as regards the attainment of those key policy objectives that are relevant for the economic and social models debate. These include the sustainability of public finances, solid growth and high employment in a population that is well educated, a “fair” income distribution and well-functioning labour, product and financial markets. We also assess the findings on *performance* from a perspective

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<sup>2</sup> See for example The Economist (2006) “Admire the best, forget the rest”, 9 September; Financial Times (2006) “The devaluation saga of Sweden’s industrial rebirth”, 11 September. European policy fora have also discussed EU common social values, the structural challenges posed by globalisation and demographic change as well as the associated need for structural reform and an appropriate economic and social policy response in the EU Member States (e.g. 7-8 April 2006 informal ECOFIN Council meeting).

<sup>3</sup> See “Demographic change in the euro area: projections and consequences” ECB Monthly Bulletin, October 2006.

<sup>4</sup> See “The Lisbon Strategy – Five years on” ECB Monthly Bulletin, July 2005.

of *efficiency* by looking at the relevant fiscal and regulatory policy inputs. These include public expenditure policies, tax policies and market regulation.<sup>5</sup>

The remainder of this note is structured as follows: The next section outlines the conceptual approach and discusses methodological caveats and measurement issues. The third section describes public expenditure patterns across the sample countries and assesses the efficiency of fiscal policy with regard to the sustainability of public finances, growth, employment and education standards as well as income distribution. The fourth section turns to the characteristics of market regulation and an assessment of the functioning of labour, product and financial markets with regard to employment, output and market adjustment. Section 5 synthesises the findings and concludes.

## **2. The conceptual approach**

Before starting to evaluate economic and social policy regimes in industrialised countries, it is worth briefly discussing conceptual issues and related measurement challenges.

The assessment of countries' economic and social models ideally requires three elements: (i) a set of objectives that governments should attain, (ii) reasonably high-quality and internationally comparable indicators on the "performance" of countries in attaining these objectives (iii) indicators that measure the policy inputs that are used to attain such performance.

As regards (i), it is not trivial to define the relevant objectives of government policies. The economic and political philosophy debate provides some guidance. Classical economists from Adam Smith have very much emphasized the role of government in providing functioning markets to enhance the opportunities of individuals for specialisation and mutually beneficial exchange. More recently, part of the public finances literature, notably Musgrave, has defined economic efficiency, stability and income distribution as the main objectives of government and, in particular, fiscal policy. Another way of looking at these two approaches is to argue that individual preferences or "utility" are affected by growth and economic prosperity that is stable and broadly-based and the liberty to pursue emerging opportunities in the market place. Of course these two approaches are closely intertwined and functioning markets, efficiency-enhancing public spending and well-designed social policies can in principle support growth, equality and opportunities.

As regards (ii), we try to measure the degree to which government policies help the attainment of these objectives via a number of comparable indicators that measure fiscal sustainability (which is a prerequisite for macroeconomic stability), real economic growth and education standards (prosperity),

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<sup>5</sup> This approach follows recent studies on public expenditure reform experiences conducted by Schuknecht and Tanzi (2005) as well as Hauptmeier, Heipertz and Schuknecht (2006). A more technical analysis of fiscal policy efficiency can be found in Afonso, Schuknecht and Tanzi (2005 and 2006).

the Gini coefficient (that measures income distribution) and indicators of the functioning of labour, capital and product markets (that measure opportunities in markets).

As regards the measurement of policy inputs (iii), we look at indicators of policy *inputs* in the fiscal sphere (total public spending, spending on transfers and education) and in the regulatory sphere (labour, product and capital market regulation) in relation to the attainment of policy objectives. This will help to gauge overall policy *efficiency*.

For the sake of comprehensiveness in our presentation and analysis, we employ a rather simple approach and look at stylized facts via correlations between policy performance and input variables and their changes over time. The stylized facts approach has shortcomings as it can obviously not establish firm propositions about the direction of causality, nor can it describe the greater complexity of multivariate relationships. Moreover, some important output and input features cannot be easily quantified or are not fully comparable across countries. There is also considerable confusion as to the meaning of different concepts, and the choice of indicators at times strongly influences the results (see Annex 1 for an example). The advantage of this approach, however, is that it allows the compilation, structuring and identification of patterns from a rich, complex and dispersed set of policy variables. Moreover, we also try to underpin our results by putting the findings into perspective with the broader and technically more sophisticated discussion in the literature.<sup>6</sup>

### **3. The role of fiscal policy**

#### *3.1 The Size of Government*

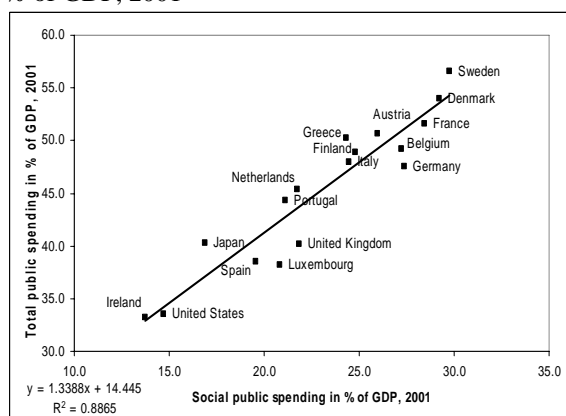
Section 2 suggests that, before assessing countries' performance, it is worth taking stock of the magnitude of overall public resource use. Countries differ strongly in the relative size of their public and private sectors. Chart 1 shows developments in the total expenditure ratio for general government (which includes all lower levels of government as well as social insurances) over the last decade for the 17 sample countries and puts it into relation to social spending, i.e. the biggest expenditure item of national budgets. Despite significant divergence between individual countries, it shows that the role of the public sector is very important in all of these economies today and strongly correlates with social spending.

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<sup>6</sup> For more detailed and technical elaborations on the efficiency of expenditure policies see, for example, Afonso, Schuknecht and Tanzi (2005) in the debate on the "*quality of public finances*". This approach is at the basis of ongoing work on the quality of public finances, as conducted in the corresponding EPC Working Group on a mandate from the ECOFIN council, as well as in the OECD and IMF. The discussion in these fora looks at government performance through a range of variables that proxy the attainment of key policy objectives (growth, income distribution, stability, functioning markets and equal opportunity) relative to the fiscal expenditure inputs, using a comparative perspective to derive efficiency scores.

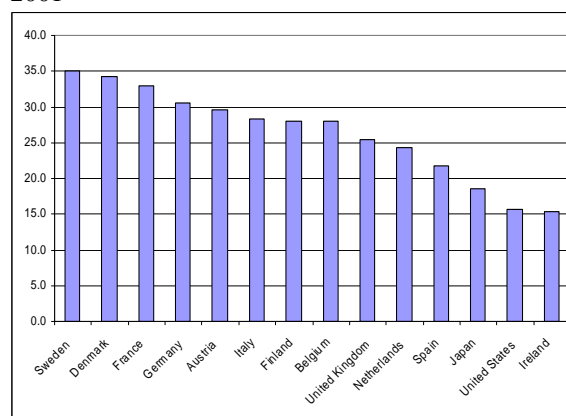
### Chart 1: Total and social public spending

Social public spending and total public spending in % of GDP, 2001



Source: AMECO Database

Gross total social public expenditure in % of GDP, 2001



Source: OECD

Chart 1 also shows that the Nordics as well as several continental and Mediterranean countries are associated with “moderately big” to “very big” governments”, with public spending at levels near or above 50% of GDP. Anglo-Saxon countries, as well as Spain and Luxembourg, feature government spending between about 30% and 40% of GDP. However, no public sector today is small when compared to the expenditure levels after World War II and up to the 1960s (when spending barely averaged 30% of GDP in industrialised countries), and Western budgets look even larger when compared to today’s emerging market economies in Asia, where public spending is well below 30% of GDP.

A substantial proportion of the public sector nowadays is devoted to a country’s welfare state policy, reflected in the high correlation between social and total spending. Chart 1 on the right-hand graph also reports gross social spending ratios in the sample countries. These largely determine the differences in total spending across countries, since differences in spending on public consumption and investment across industrialised country governments are much more limited. As regards social spending, the Nordic countries and several of the continental and Mediterranean countries again stand out as the “biggest” spenders. However, the numbers presented here are not fully comparable. There are considerable discrepancies between gross and net social expenditure levels, as some governments – especially the Nordics – levy direct taxes and social security contributions on cash transfers, while others pay out untaxed benefits or even provide tax credits (see Adema 2001 as well as Adema and Ladaique 2006).

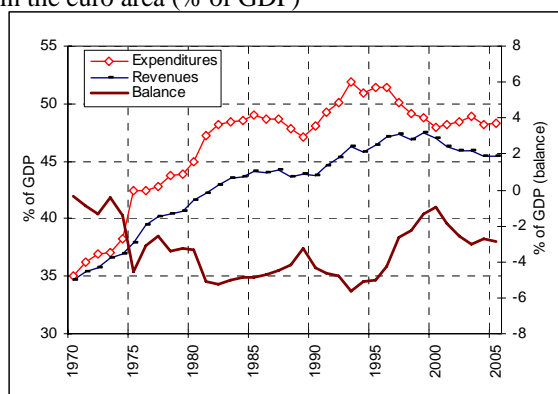
### 3.2 Fiscal sustainability

Here we first consider the sustainability of fiscal policies across countries or, in other words, whether the size of government and the corresponding social model might interfere with fiscal discipline. This

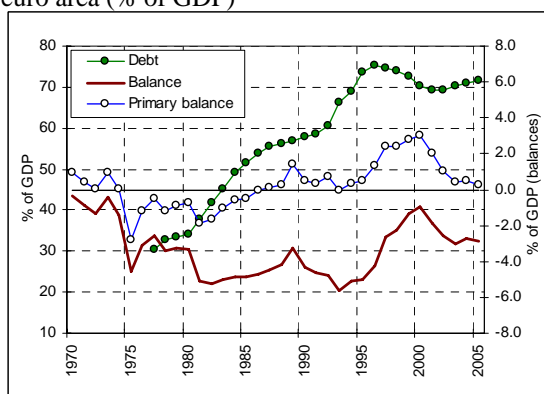
is important from the perspective of the ECB because fiscal discipline constitutes a prerequisite for maintaining macroeconomic and price stability and thus confidence in the euro. Looking at developments over recent decades reveals some interesting patterns (see Chart 2).

**Chart 2: Changes in expenditure, deficits and debt for the euro area average**

General government expenditure and revenue ratios in the euro area (% of GDP)



General government debt and deficit ratios in the euro area (% of GDP)



Source: AMECO Database

For the average of euro area countries, the strong growth of public spending since the 1970s was accompanied by a rapidly deteriorating fiscal balance. These deficits then persisted in many countries in the 1980s and coincided with a continued debt-build up until the mid-1990s. Developments over the last decade, however, show that significant expenditure reform can improve the fiscal position of a country as well as of the euro area average. A large number of countries reduced public spending over this period as part of a comprehensive reform effort that also included important structural measures, reversing the rising trend of expenditure developments and regaining positive primary balances and more sustainable fiscal positions.<sup>7</sup> For the euro area as a whole, this implied that the general government budget balance improved until 2000, before deteriorating again in more recent years when expenditure reform came to a halt. Chart 2 also illustrates the strong correlation between expenditure reform and improving fiscal balances between the mid 1990s and 2005. In the wake of deficit reductions, public debt started to fall. As a result of these developments, the following pattern in the sustainability of individual countries in relation to their deficit and debt situation emerges today (see Table 1):

<sup>7</sup> See Hauptmeier, Heipertz and Schuknecht (2006) and Schuknecht and Tanzi (2005) for a detailed discussion.

**Table 1: 2005 Fiscal position and the related sustainability of public finances**

		2005 gen. gov. balance (% of GDP)	2005 gross national debt (% of GDP)	Ageing-related fiscal burden 2050	S2 indicator (baseline scenario)
<b>Anglo-Saxons</b>	Ireland	1.0	27.6	7.8	2.9
	United Kingdom	-3.5	42.8	4.0	4.9
	United States	-3.8	65.0	n.a.	n.a.
	<b>group averages</b>	<b>-2.1</b>	<b>45.1</b>	<b>5.9</b>	<b>3.9</b>
<b>Continental and Mediterranean States</b>	France	-2.9	66.8	3.2	4.0
	Germany	-3.3	67.7	2.7	4.4
	Greece	-4.5	107.5	n.a.	n.a.
	Italy	-4.1	106.4	1.7	3.1
	Portugal	-6.0	63.9	10.1	10.5
	Luxembourg	-1.9	6.2	8.2	9.5
<b>group averages</b>	<b>-3.8</b>	<b>69.7</b>	<b>5.2</b>	<b>6.3</b>	
<b>Continental and Mediterranean Reformers</b>	Austria	-1.5	62.9	0.2	0.3
	Belgium	0.1	93.3	6.3	1.8
	Netherlands	-0.3	52.9	5.0	1.3
	Spain	1.1	43.2	8.5	3.2
	<b>group averages</b>	<b>-0.2</b>	<b>63.1</b>	<b>5.0</b>	<b>1.7</b>
<b>Nordics</b>	Denmark	4.9	35.8	4.8	-2.2
	Finland	2.6	41.1	5.2	-0.9
	Sweden	2.9	50.3	2.2	-1.1
	<b>group averages</b>	<b>3.5</b>	<b>42.4</b>	<b>4.1</b>	<b>-1.4</b>
<b>Other</b>	Japan	-6.5	158.9	n.a.	n.a.

Source: AMECO Database, Commission Services, EPC

The first two columns show that the Nordic countries, while being the biggest (total and social) spenders, nevertheless have sound budget balances and relatively low debt ratios. The Anglo-Saxon countries report rather diverse budget positions but mostly moderate debt ratios. The picture for continental and Mediterranean countries is most diverse. The Mediterranean countries except Spain report the largest imbalances. Several reform-minded countries (Austria, Belgium, the Netherlands and Spain) typically show sound or improving fiscal positions.

When adding the ageing-related fiscal burden to the picture (third column), we find that there is less of a pattern along these country groups but rather according to the degree of reforms undertaken in the past. Note that public spending is expected to increase by as much as 10% of GDP until 2050 on account of higher pension, health and long term care costs if there are no further social security reforms. Portugal, Ireland, Spain and (although no estimate is available) Greece will be particularly affected if they fail to undertake the necessary reforms.

For an overall assessment of fiscal sustainability, as recently conducted by the EU Commission and the EPC in the Sustainability Report (2006), it is instructive to consider the so-called S2 sustainability indicator (fourth column of Table 1). Starting from a country's current fiscal position, it measures the size of a hypothetical permanent budgetary adjustment that would be required to meet the inter-temporal budget constraint over an infinite horizon (often also referred to as the "tax gap"). The indicator confirms the previous picture of large diversity across countries, which can broadly be

grouped as follows: The Nordics show a negative gap in the sense that their long-run sustainability appears to be reasonably assured. This should be seen in conjunction with the very ambitious expenditure reforms that these countries have undertaken. However, given that the relatively high spending levels of these countries needs to be sustained by the corresponding high revenue ratios, competitive pressure on the latter in a globalising world economy might cause the sustainability issue to resurface for any high-spending country. Other reforming countries and in particular Ireland also show relatively low sustainability gaps and, given lower expenditure ratios, appear to be less vulnerable to this kind of pressure. Lastly, the non-reforming continental and Mediterranean countries are already to be seen at serious risk in terms of long term fiscal sustainability, as reflected in comparatively high S2 indicators.

Hence, from several perspectives we find a very diverse fiscal situation across industrialised countries. Over recent decades, strong spending growth was first correlated with degrading deficit and debt positions. Expenditure and social security reform in recent years has significantly reduced sustainability risks in a number of continental European and the Nordic countries. Sustainability risks, therefore, are not correlated with large public sectors and social spending per se but with the large imbalances and unreformed welfare systems of a number of countries in continental and Mediterranean Europe. The public finances of those continental and Mediterranean countries that have undertaken reforms appear much better positioned.

### *3.3 Economic growth*

A key issue in the debate over the “right” economic and social model and the appropriate role of government is the growth performance of individual countries. Economic growth and its underlying “ingredients” – employment, capital and their productivity – are seen as key for economic prosperity and welfare. Proponents of “small” governments point to higher economic efficiency if more resources are left to the private sector.

Also in light of global competition over scarce human and physical capital, overly high taxes are seen to have a deterrent effect and could further undermine growth prospects in the future. As argued by Tanzi (2001), globalisation (through e-commerce, electronic money, intra-company trade, off-shoring, financial innovation etc.) can have a significant negative impact on countries' ability to raise revenues through their tax systems. The findings in the literature on this theme are rather diverse but, on the whole, larger public sectors tend to feature lower growth, especially to the degree that government expenditure is devoted to consumption items such as wages or social welfare and to the extent that the corresponding high tax and social security burden hampers potential growth (see Afonso, Ebert, Schuknecht and Thoene, 2005, for a survey of theory and evidence).

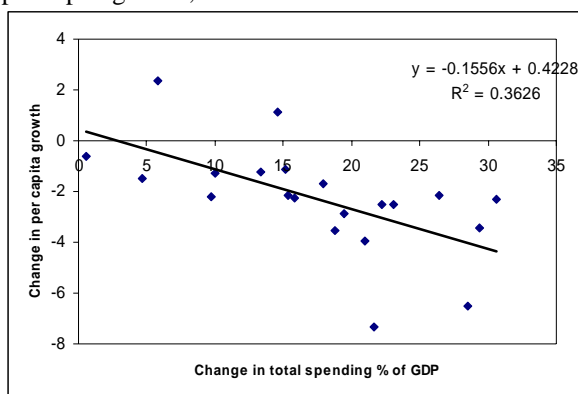
When looking at public expenditure and growth data from a historical perspective, this picture is confirmed. Average economic growth has declined between the 1960s in almost all industrialised



countries, strongly correlated with the expansion in public spending. Chart 4 illustrates in the left-hand graph that, for example, an increase by 10 percentage points of the public spending ratio between 1960 and 2000 was associated with a decline in the annual growth rate of over 1 percentage point. Higher social spending and direct taxes coincided in particular with declining employment ratios and investment over this period (see also the labour market section below and Tanzi and Schuknecht, 2003). As a result, the converging trend of per capita incomes across industrialised countries which could be observed in the 1950s to 1970s seems to have slowed down or even halted in the past two decades. When looking at the ranking of PPP-adjusted per capita income for the period 1980 to 2004 on the right-hand graph in Chart 3, one can see that most countries with large public sectors have lost ranks (especially Italy, Sweden, France and Germany) while the big “winners” were the UK and Ireland.

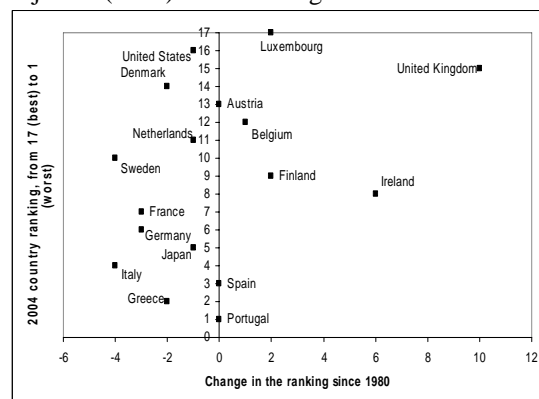
**Chart 3: Public spending and economic performance**

Change in total spending 1960-2000 versus change in per capita growth, 1960s-1990s



Source: AMECO, Tanzi and Schuknecht, 2005

Ranking of per capita gross national income, PPP adjusted (2004) and its change 1980-2004



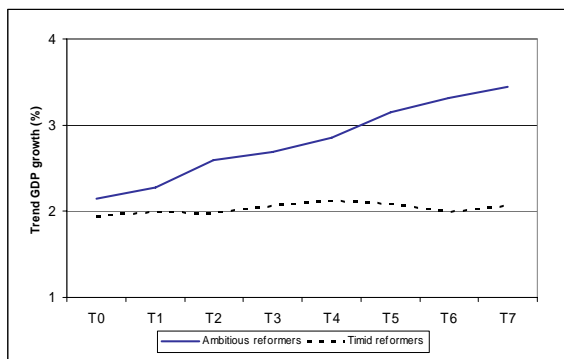
Source: OECD

The story would, however, conclude prematurely if we simply stated that large government equals low efficiency and poor growth performance. We also need to take a look at the more recent experience, following the major expenditure reforms undertaken by a number of countries in the last decades (especially the United Kingdom, Ireland, Finland, Sweden, Spain, the Netherlands, Belgium and, to a lesser extent, Austria). The expenditure reductions of these “ambitious reformers” were flanked by important structural reforms of the benefits systems as well as the factor and product markets, (signalling the importance of cross-effects of reforms; for a more detailed analysis see Hauptmeier, Heipertz and Schuknecht 2006). During the reforms, trend growth accelerated significantly. At the same time, “timid reformers”, i.e. the larger continental European as well as the Mediterranean countries (except Spain) did not undertake comparable measures and experienced anaemic and even declining trend growth. This is reflected in the left-hand graph of Chart 5, where T0 stands for the year of maximum public expenditure as a ratio of GDP when reforms started. Within a few years,

ambitious reformers experienced a strong revival of trend growth, while the timid or non-reformers did not make this experience.

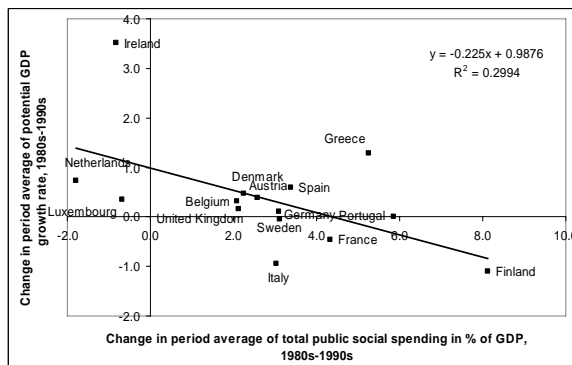
#### Chart 4: Expenditure reform and economic growth

Ambitious expenditure reforms and trend growth



Source: Hauptmeier, Heipertz and Schuknecht (2006)

Social spending and potential growth performance



Source: AMECO

The long-run relationship between the behaviour of the public sector and growth dynamics is also shown on the right-hand side in Chart 4, where contained growth in social spending is seen to coincide with comparatively more positive developments of the potential growth rate over time. Ireland again is a particular case at hand, showing a substantial reduction in the average ratio of social spending to GDP in the 1990s compared to the 1980s in conjunction with a remarkable pick-up in potential GDP growth, which, to some extent, can also be assigned to the effects of the rapid catching-up process of that country. Improvements in the potential growth rates of a number of continental, Mediterranean and also Nordic countries are more limited, as most countries also show on average substantial increases in social spending in the 1990s compared to the 1980s.

A number of caveats, however, are warranted. The reported findings emerge from case studies on expenditure and structural reforms and – short of proving a causal relation – illustrate the coincidence of reforms with higher growth. Moreover, there is no certainty that these trends can continue into the future in the sense that faster growth would truly reflect a higher trend path or only the transition dynamics to a higher output level. On the whole, it nevertheless appears that large public sectors coincide with lower growth (and hence, in this domain, countries show poor performance and low efficiency). However, reforms in spending and tax systems coupled with flexible market structures can, at least temporarily, countervail this tendency with reasonable success, as exemplified currently by the Nordic countries. We will come back to the issue of what it takes to be able to “afford” large public sectors in later sections.

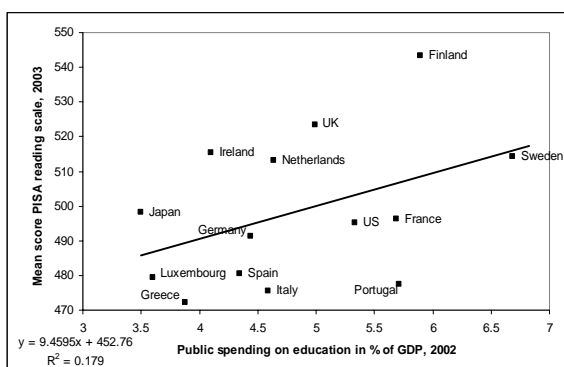
### 3.4 Education standards

Human capital formation is widely acknowledged as an important source of economic growth and also a policy tool in mastering some of the challenges posed by globalisation. As the public sector is in most countries the principle financier and provider of education, the efficiency of public spending in this domain is very important. Hence, there are frequent calls that public spending and its efficiency is particularly important as the human capital base is the main comparative advantage of today's industrialised countries.

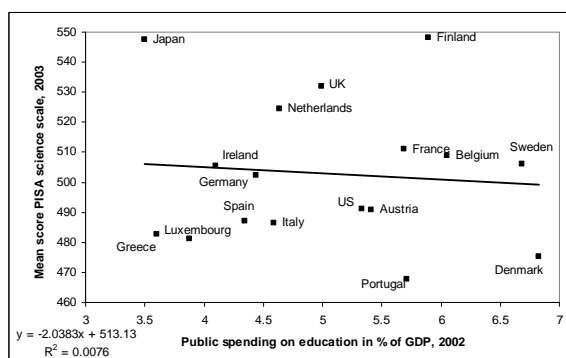
It is, however, telling that empirical evidence points to very limited links between the amount of spending on education and outcomes (see e.g. Afonso, Schuknecht and Tanzi, 2005 and Afonso and St. Aubyn (2005)). This is illustrated below when correlating public spending with educational attainment, as measured by the PISA mean scores in reading and writing skills (see Chart 5). Some high-spending systems (for example Portugal, France and Sweden) are not efficient in the sense that other countries perform equally well or better in terms of educational attainment, while spending significantly less public money. This does not confirm the hypotheses that better education standards and human capital development in many European countries will necessarily require more public money.

**Chart 5: Public spending on education**

Public education spending and PISA reading scale



Public education spending and PISA science scale



Source: OECD

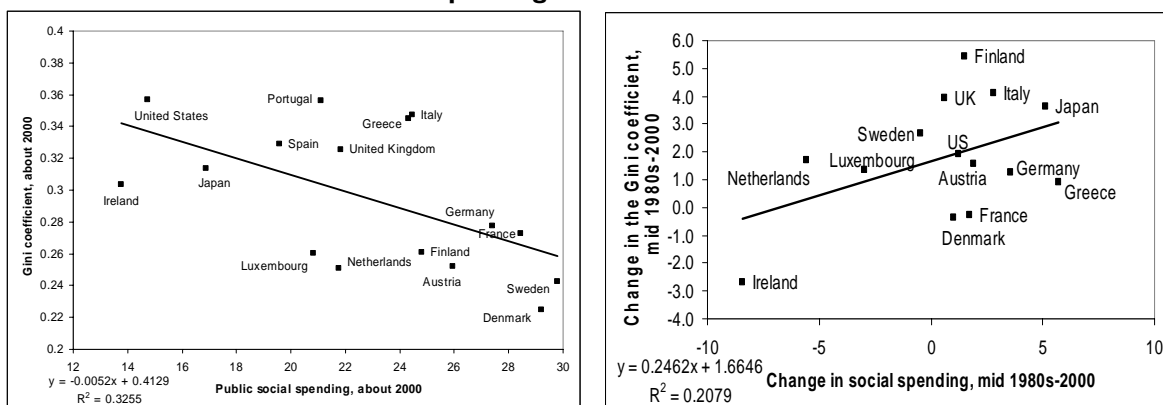
### 3.5 Income distribution

In the debate on economic and social models, the defenders of “big” government and large social spending typically refer to far-reaching income re-distribution and a low poverty rate as a key policy objective (see also Sapir 2005). It is argued that re-distribution leads to more “justice” (assuming a strong connection between outcome equality and social justice). Furthermore, for reasons of political economy, re-distribution is said to facilitate electoral acceptance of necessary change and transformation in a globalising economy. On the other hand, opponents of high levels of social spending not only point to the need for high tax burdens and the associated opportunity costs in terms

of lower growth but also flag the loss in individual opportunity and collective economic adaptability, when people are caught in poverty traps, when employment opportunities disappear or when the fundamental microeconomic incentives of people and employers to save, invest, work and adapt are distorted.

It is undeniable that countries with large public sectors and social spending show a more equal income distribution (and, hence, a better “performance” as to achieving outcome equality). This is confirmed by all available indicators, be it poverty rates, the income share of the poorest quintile of households or the so-called Gini coefficient, which is perhaps the most prominent index and denotes the skewedness of the income distribution. Gini coefficients (which range between 0 and 1, 1 equalling perfect inequality) show higher numbers and hence higher inequality in countries with small public sectors (see left-hand graph in Chart 6).

**Chart 6: Gini coefficient and social spending**



Source: OECD

It is not surprising that the Nordic countries achieve the lowest Gini coefficients and thereby the comparatively highest degree of income equality in their populations, given that much of their public sector activity consists of re-distribution and the provision of social benefits. This is in contrast with the Anglo-Saxon countries, which accept higher levels of inequality in return for a less prominent (and less expensive) role of the public sector. However, inequality is high even in a number of countries that extensively engage in public social spending, such as the Mediterranean sample countries. This underlines the fact that the design and efficiency maybe more than the sheer size of welfare systems matters foremost for their success.

While the figures on the surface suggest that higher social spending can achieve a more equal income distribution, there are three dimensions worth discussing (beyond questioning the value of outcome equality as a standard for social justice): (i) how many resources are used (i.e. how efficient is social spending?), (ii) what are the opportunity costs in terms of growth and employment, and (iii) would a reduction in public expenditure incur a high “cost” in terms of increasing inequality? As regards the first point, Chart 6 implies that, in principle, one percentage point improvement in the Gini coefficient

would “require” a two percentage points increase in the social spending ratio. Or, more concretely, Ireland’s income distribution is only a little less equal than Germany’s or France’s (and more equal than Italy’s), although its social spending ratio is only half as high. This finding is consistent with the literature in the sense that a more and more equal income distribution is only to be had at a rising fiscal (and economic) price. The main reason is the very poor targeting of much social spending and hence its inefficiency especially in countries with public sectors that are already large (for more details, see Immervoll et al. 2005 and Pearson and Martin 2005 as well as Tanzi and Schuknecht 2000). As we argued above, the required levels of social security contributions are likely to lead to a significant loss of growth and employment.

Finally, and from a forward-looking perspective, the correlation between changes in the level of social expenditure and changes in the Gini coefficient is not significant, which should be particularly relevant for reform-anxious policy makers. The right-hand graph in Chart 6 suggests that, if anything, countries that raised social spending experienced a larger deterioration in Gini coefficients than countries that lowered social spending. In Italy, for example, increases in social spending did not prevent inequality from rising, whereas a sharp reduction in social spending in Ireland was still associated with a rise in equality. This finding reinforces the notion that, besides the level of public expenditure in the social policy domain, other factors must have a bearing on the effectiveness and efficiency of public policies for income distribution.<sup>8</sup>

In sum, while the amount of public money spent on social policy appears to be correlated with equality in income distribution, the efficiency with which that money is used seems rather low. In recent years, expenditure reforms seem to have been successfully conducted at virtually zero or very little loss of equality relative to the experience of countries that did not reform. Large potential gains in efficiency hence appear to be hidden in this domain.

#### **4. The role of regulatory policy: labour, financial, product markets**

##### *4.1 Factor input: labour*

This section turns to factor market regulation and conducts an assessment of the functioning of labour markets with regard to employment, output and market adjustment. High levels of labour utilisation are a sign of good performance, while flexibility indicators reflect the quality of the regulatory policy input. Improvements in labour market performance are seen as an important prerequisite for euro area countries to prepare for the negative consequences of demographic change and globalisation, besides

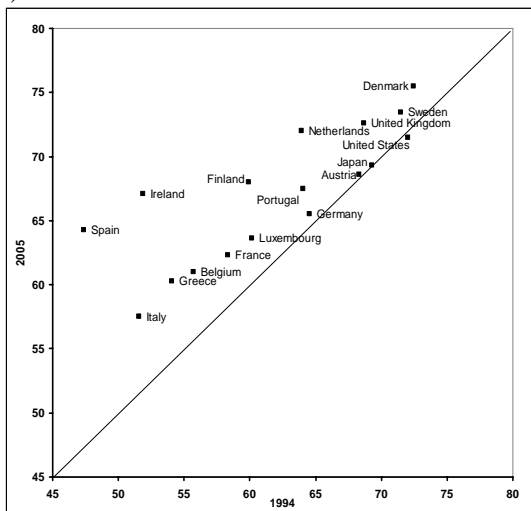
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<sup>8</sup> Moreover, reforms of public expenditure and structural features of the economy may be more helpful to the poor and low income earners than what vested interests in the existing systems would make believe. Even the relatively poorest income quintile in countries that reform the economy and public spending can fare comparatively better than the corresponding income group in countries that do not or only timidly reform (see Schuknecht and Tanzi 2005, Table 8d, p.33). In other words, it is trivial but true that relatively poor people in rich countries can be better off in absolute terms than vice versa.

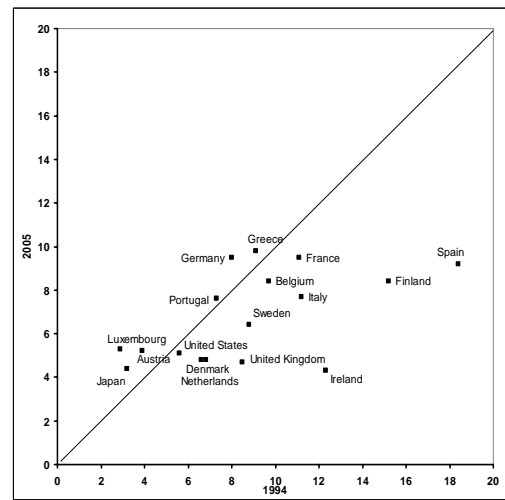
their importance for the absorption of asymmetric shocks in a monetary union. As the size of the working age population decreases (due to ageing) and the degree of competition increases (due to globalisation), it is important that labour market participation and employment rates continue to increase. In addition, ongoing restructuring and transformation require that euro area labour markets match job searchers and vacancies efficiently in order to retain and reabsorb workers from declining industries.

**Chart 7: Employment policy outputs**

Employment rate, % of persons of working age (15-64)



Total unemployment rate, % of total labour force



Source: OECD (2006) Employment Outlook, OECD social indicators (2005).

Note: The 45 degree line represents a ‘no change’ scenario over the time period considered. Countries above the line have increased their scores, whereas countries below have decreased them.

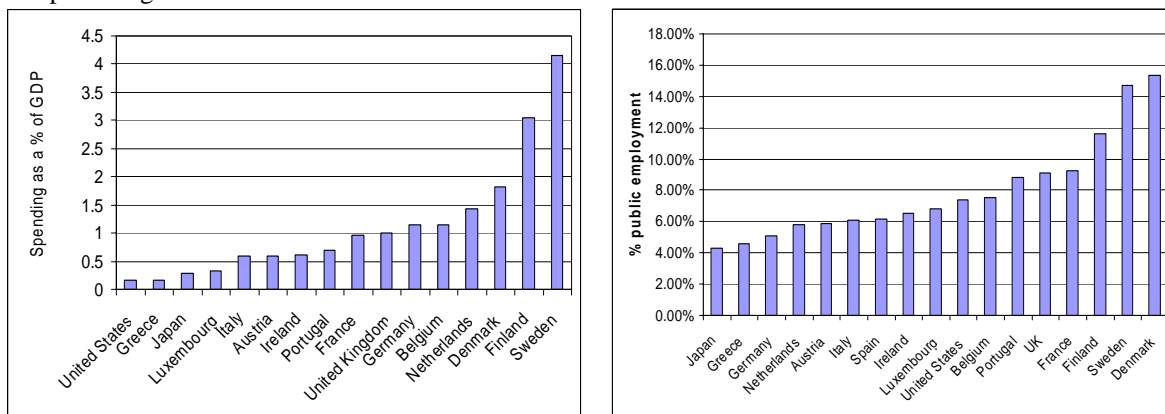
Both the Anglo-Saxon and Nordic countries (particularly the United States, the United Kingdom, Denmark and Sweden) have already achieved relatively high total employment rates (see Chart 7), high labour market participation rates (total, of women, the young and old) and low aggregate unemployment, including youth unemployment. Two of the continental reformers, the Netherlands and Austria, have also shown relatively good employment performance. However, the Nordics seem to incur some detrimental effects of their social model on private employment, which they partially offset through relatively high expenditure on active labour market policies (ALMPs, which include e.g. job placement services and training) and, in particular, very high rates of public sector employment (see Chart 8). Subtracting the rate of public employment from the total figures in fact reduces the Danish and Swedish employment performance from outstanding (1<sup>st</sup> and 3<sup>rd</sup> position) to average (10<sup>th</sup> and 11<sup>th</sup>, see chart A in appendix 1). In contrast, the Anglo-Saxon countries, whilst also applying the principles of some activation policies (e.g. making unemployment compensation conditional on job search and training), have tended to achieve good labour market outcomes through increased market efficiency with generally low expenditure on ALMPs and considerably more moderate public employment. Continental and Mediterranean European countries generally show relatively unfavourable

employment performance, with low to moderate expenditure on ALMPs and despite sometimes relatively high public employment (especially in the case of France).

**Chart 8: Expenditure on labour market policies and public employment**

Public expenditure on active labour market measures as a percentage of GDP 2004

Proportion of public employees in total population % 2004



Source: Employment Outlook 2004, 2005, 2006, AMECO and OECD. No Data available on ALMP expenditure for Spain. Note: Active measures include e.g training and job seekers support.

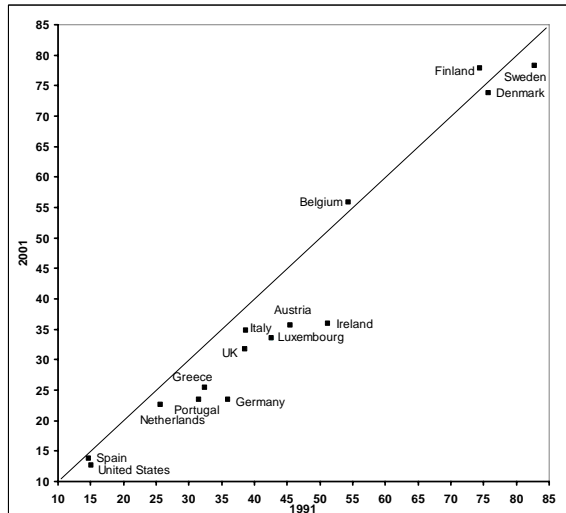
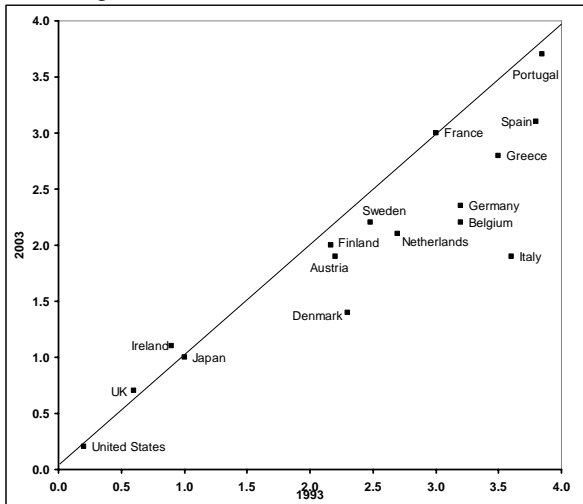
Chart 9 shows that many countries have made some progress in increasing the flexibility of their labour markets (and hence reducing their regulatory policy inputs) over the last decade. For example, levels of employment protection legislation and tax wedges have fallen in a number of cases between the first half of the 1990s and the early 2000s (shown by the clustering of countries on the right hand side of the 45 degree line in Chart 9). The percentage of trade union density provides a proxy measure for a number of labour market regulations such as health and safety and regulation on working hours and has been found to be related to the degree of real wage rigidity<sup>9</sup>. Chart 9 shows that trade union density has also decreased over this period in most countries, although union coverage remains at 68% or over for all the EU-15 Member States with the exception of the Luxembourg and the UK (at 60% and 30% respectively) and even increased (by about 10%) in the Netherlands, Portugal, Spain, Sweden and Denmark over the last decade. The Anglo-Saxon countries typically exhibit relatively flexible labour markets and the lowest degree of employment protection legislation (both on temporary and regular contracts), low tax wedges (in line with their relatively small governments), low replacement rates and average to low trade union densities (and coverage for the UK). Nordic countries, on the other hand, favour high degrees of social protection, relatively high replacement rates and tax wedges (in line with their relatively large governments) as well as high trade union density and coverage, but exhibit moderate levels of EPL. Most Mediterranean European countries are characterised by relatively strict EPL, but otherwise group together around or above the median on the other input indicators, along with the Continental countries. Certain countries stand out as having significantly

<sup>9</sup> See Dickens et al (2006).

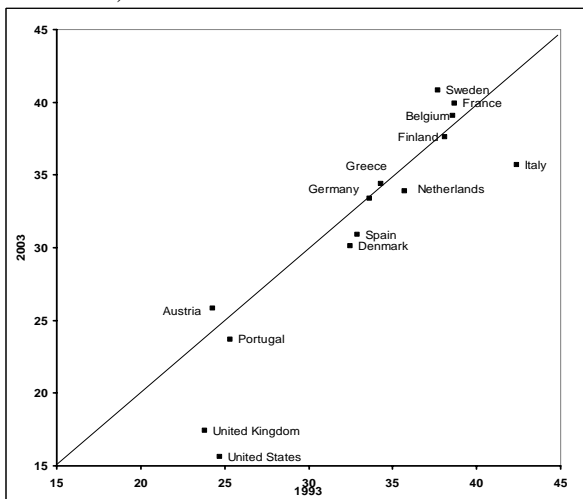
more rigid labour market institutions, such as Belgium and France, with relatively high rigidity scores on all four of the measures presented.

**Chart 9: Labour market institutions**

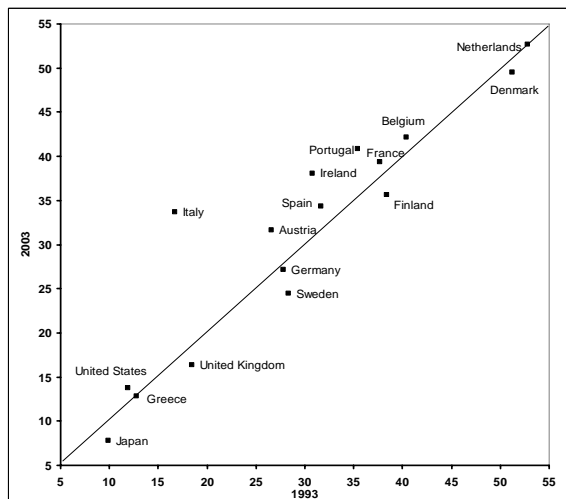
Strictness of EPL: Aggregate measure (value 0 to 6 = low to high EPL) Trade Union Density (percentage)



Tax wedge (social security contributions and personal income tax less transfer payments as percentage of gross labour costs)



Replacement rates (average of the gross unemployment benefit replacement rates)



Source: OECD (2004, 2005) Employment Outlook, OECD (1994), The OECD Jobs Study

Note: The 45 degree line represents a ‘no change’ scenario over the time period considered. Countries above the line have increased their scores, whereas countries below have decreased them.

France has a very low rate of union density at under 10%, however union coverage was estimated at 90% in 2000.

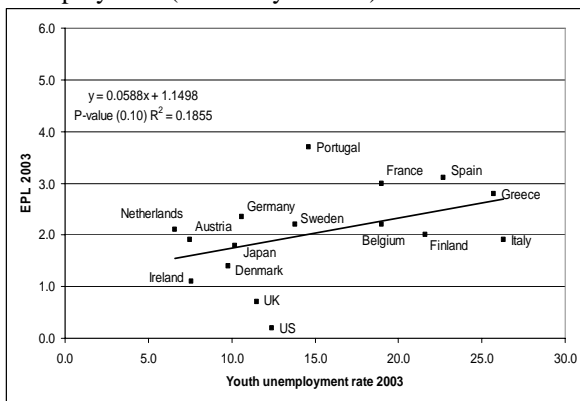
Linking rigidity to performance of labour markets highlights some important influences of their regulatory design on economic outcomes. First, strict EPL on regular contracts is found to worsen the job prospects of new labour market entrants, particularly the young, by reducing job turnover and hiring (see the first panel in Chart 10). Second, the lower job turnover supported by strict EPL increases both the duration of unemployment and the proportion of long term unemployed (second panel in Chart 10). On these two indicators, we see the earlier pattern of overall employment rates



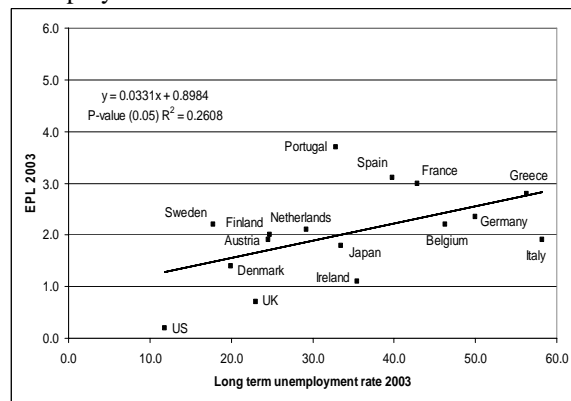
repeated, with Anglo-Saxon, Nordic and some of the reform-minded continental European countries performing best. Third, recent work by the OECD (2006) argues that the negative interaction between EPL on regular contracts and employment also reduces the responsiveness of employment and wages to adverse shocks, diminishing an economy's resilience (as measured by the half life of the output gap). The analysis connects the reform of EPL on temporary contracts in a number of countries over recent years to the significant increase in temporary jobs in total employment (e.g. in Germany, France, Italy, the Netherlands, Portugal and Spain). This could suggest that reducing overall EPL may actually boost employment, but certainly indicates that the burden of employment-related adjustment costs now falls on temporary (rather than permanent contract) workers.

**Chart 10: Interaction of EPL and labour market outcomes**

Strictness of EPL (aggregate measure: value 0 to 6 = low to high EPL) and the rate of youth unemployment (15 to 24 year olds)



Strictness of EPL (aggregate measure: value 0 to 6 = low to high EPL) and the rate of long term unemployment 2003



Source: OECD (2004, 2005) Employment Outlook, OECD (1994), The OECD Jobs Study  
 Note: The equation shows the fit and significance (p-value) of the regression line

As a consequence of the possible negative effects of EPL on employment and labour market adjustment, the policy debate has recently paid close attention to the Danish “flexicurity” model. This system is said to “protect the worker, not the job”, being characterised by relatively low levels of EPL in conjunction with generous unemployment benefits (and corresponding high taxes and ALMP measures). In addition, job turnover is relatively efficient in Denmark, possibly as a result of relatively long notification periods which allow displaced workers to search for their next job in good time. As a result, the rate of long term unemployment is low. However, it must be said that EPL levels are still higher in Denmark than in the Anglo Saxon countries (see Chart 9) and long term unemployment rates are still higher than in the US (Chart 10).<sup>10</sup>

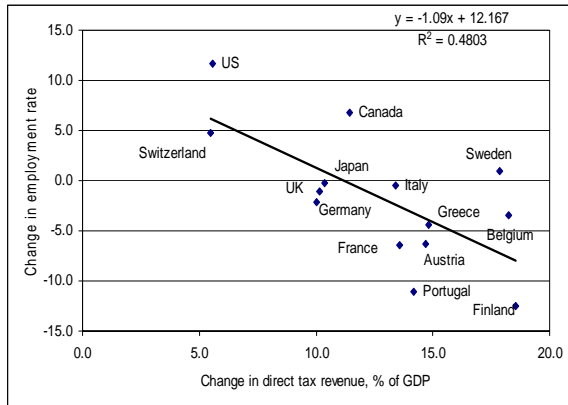
In addition, systems based on high taxes and generous social support suffer from high tax wedges, which are seen to have a negative effect on labour market outcomes by reducing the supply and demand of labour resources. Moreover, high net replacement rates prolong unemployment spells and

<sup>10</sup> See also an IMF study (Annett 2006) for a critical assessment of the Danish model.

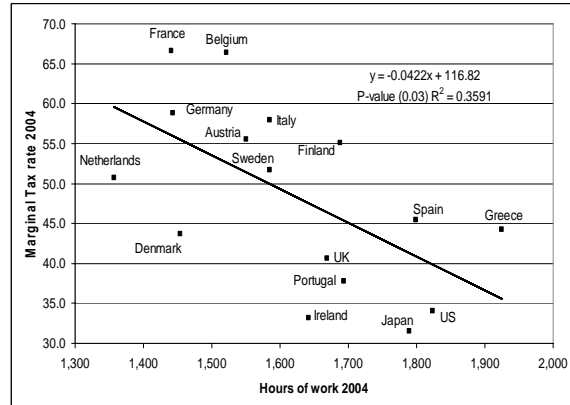
associated welfare losses<sup>11</sup>. Chart 11 shows the negative and significant relationship between an increase in direct taxes rates and employment on the one hand (left hand panel), and between the level of marginal tax rate and hours of work on the other (right hand panel). Anglo-Saxon countries experience higher employment outcomes (in terms of people employed, both in changes and levels, and hours worked), which can be associated with their relatively low average taxes. Mediterranean countries (such as Spain, Greece, and Portugal) combine moderately higher average taxes with above-average hours of work, but below-average employment rates. The Nordics and even more so some continental European countries (particularly Belgium, France and Luxembourg) in general tend to have higher marginal tax rates on labour and less favourable employment performance than Anglo-Saxon countries and Japan.

**Chart 11: Interaction of taxes as a social and labour market outcomes**

Change in direct taxes versus the change in the employment rate, 1969s to 1990s



The marginal tax rate versus average annual hours of work per worker



Sources: OECD (2004, 2005) Employment Outlook, OECD (2005) Taxing Wages, Tanzi and Schuknecht 2003

Note: The equation shows the fit of the regression line

One can further identify important interactions between the choice and design of particular components of benefit systems with labour market performance. For example, systems of unemployment compensation that offer generous benefits of long or infinite duration have been found to create labour supply distortions by reducing job search intensity and by lowering the opportunity cost of not working.<sup>12</sup> The interaction of benefits and taxes on labour can create unemployment or inactivity traps, especially for low-paid or low-skilled workers on the margins of the labour market.<sup>13</sup> Badly designed eligibility criteria to disability programmes along with the provision of early

<sup>11</sup> See for example OECD (2006), Bassanini and Duval (2006), Kongsrud and Wanner (2005), Jimeno Rodriguez-Palenzuela (2002), Blanchard and Wolfers (2000), Daveri and Tabellini (2000) and Elmeskov et al (1998).

<sup>12</sup> Supported by the work of Bassanini and Duval (2006), Nickell et al (2005), Nunziata (2003), Jimeno and Rodriguez-Palenzuela (2002) and Elmeskov et al (1998).

<sup>13</sup> See OECD (2006b).

retirement schemes have been found to offer routes to early labour market exit,<sup>14</sup> reducing the employment of older workers. Badly designed legislation to limit worker exploitation may have negative effects on average annual hours of work.<sup>15</sup>

Benefit systems also interact with economy-wide economic outcomes and adjustment mechanisms. Recent work by the OECD (2006) argues that social safety nets relying on passive income transfers are less effective in dealing with permanent supply shocks (e.g. technological change) as opposed to temporary demand shocks (e.g. stemming from investment and stock cycles). Generous benefit systems therefore reduce hardship in downturns, but, if poorly designed, may also delay labour market adjustment and therefore lead to a greater persistence of low activity resulting from shocks. This suggests a trade-off between the positive effects of benefit systems in cushioning the initial negative impact of adjustment on the one hand, and on the other of the possibly counterproductive features of generous systems in reducing the capacity of labour markets to rebound. The OECD (2006) finds that over the period 1995 to 2005, the persistence of economic slack tended to be stronger in countries where the variability of economic growth was lower and social safety nets more extensive. This finding is supported by a number of econometric studies which confirm that social safety nets are costly in that they increase the persistence of high unemployment and lower activity after an economy has been hit by a negative shock.<sup>16</sup> A number of studies have also found evidence that countries with low estimates of output gap persistence predominantly include the Anglo-Saxon and Nordic countries.<sup>17</sup> In contrast, output gaps are found to be highly persistent in the large continental European countries as well as Japan.

#### *4.2 Factor input: other markets*

Flexibility in other areas of regulatory policy, such as the design of product and financial markets, may not only improve economic performance in general but may have provided important adjustment channels in the absence of flexible labour markets, particularly for countries that face political resistance to a comprehensive reform of social security systems. For example, some work by the OECD (2002) concludes that product market regulations can have important effects on labour market performance. Chart 12 therefore presents the extent of product market regulation in our 17 countries. It shows that almost all countries have experienced some degree of deregulation of their product markets over the last decade. Furthermore, particularly the Anglo-Saxon and Nordic blocks have benefited from relatively low levels of product market regulation over the last decade. This may have helped the

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<sup>14</sup> See for example Leiner-Killinger, Madaschi and Ward-Warmedinger (2005).

<sup>15</sup> See for example Haveman, de Jong and Wolfe (1991).

<sup>16</sup> Blanchard and Wolfers (2000) find that higher replacement rates, stricter EPL and a higher tax wedge lead to significantly persistent high unemployment following an adverse shock. Scarpetta (1996) finds a significant and positive effect of employment benefit rates and EPL on persistence. These results are confirmed in the recent work of Bassanini and Duval (2006) and Duval (2006).

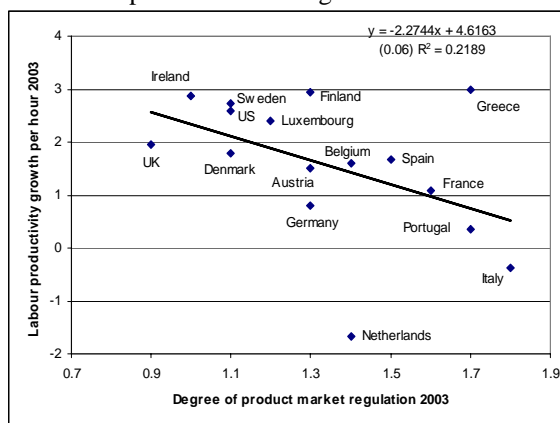
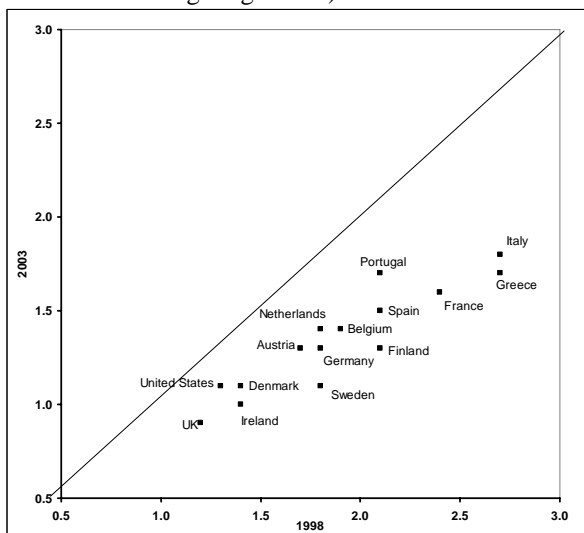
<sup>17</sup> See OECD (2006) and Cotis and Coppel (2005).

Nordics to sustain their relatively large public sectors. As concerns Mediterranean and Continental European countries, this group generally exhibits relatively rigid product markets, with the exception of a few reform-minded countries, notably the Netherlands.

**Chart 12: Product market regulation and outcomes**

Product market regulation: Aggregate measure (value 0 to 6 = low to high regulation)

Annual growth in labour productivity per hour versus the level of product market regulation



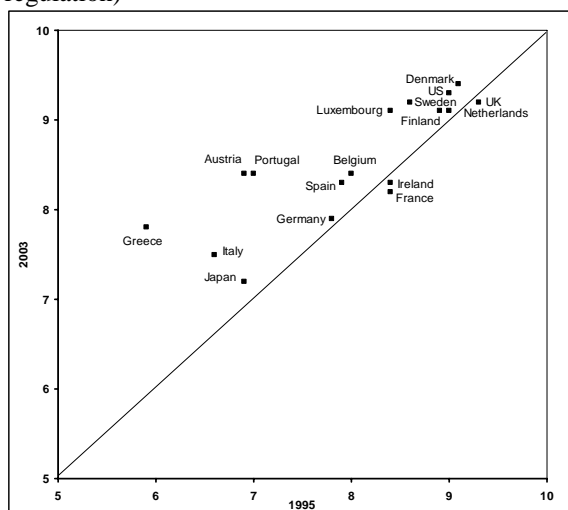
Source: The OECD Jobs Study, OECD Factbook 2006

Note: The 45 degree line represents a 'no change' scenario over the time period considered - countries below the line have become less regulated. The equation shows the fit and significance (p-value) of the regression line.

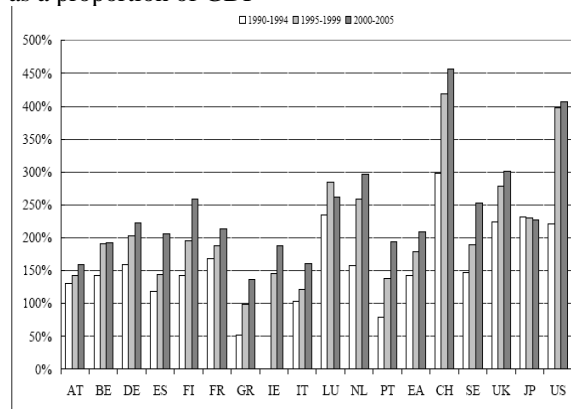
The right hand panel of chart 12 demonstrates an example of possible cross-market effects, highlighting the negative correlation between the degree of product market regulation and labour productivity growth. Therefore countries with relatively low levels of product market regulation such as Ireland, the US, US, Sweden and Finland tend to also experience relatively high levels of productivity growth. Work by the OECD among others has also emphasised the significant effect of stronger product market competition on employment. Here the product market regulatory environment has been found to account for up to 3 percentage points of deviations of the non-agricultural employment rate from the OECD average.

### Chart 13: Credit market regulation and capital market size

Credit market regulations (value 0 to 10 = high to low regulation)



The aggregate size of stock, bond and loan markets as a proportion of GDP



Source: Economic Freedom of the World 2001, 2003, ECB (2006)

Note: The 45 degree line represents a 'no change' scenario over the time period considered. For the left hand panel, countries below the line have become less regulated, for the right hand panel, countries above the line have become less regulated.

Chart 13 presents the extent of capital market regulation across the 17 countries. It shows a very similar country grouping as with the degree of regulation of product markets. Recent work by the ECB looks at the institutional features of the financial sector and in particular at potential ways to improve its functioning and contribution to productivity, innovation and growth in Europe<sup>18</sup>. This report presents a number of indicators characterising and measuring the performance of financial markets in industrialised countries. One of these indicators – the size of capital markets and financial structure – provides a measure of the overall level of financial development in an economy. It shows that the US, the UK and the Netherlands have the largest capital markets as a percentage of GDP of industrialised countries (see the right hand panel of Chart 13). Sweden and Finland are also found to have relatively well-developed capital markets. However, chart 13 shows that many central European and Mediterranean countries tend to have significantly smaller capital markets, the report concluding that EU capital markets are overall not as developed as they could be.

Empirical analyses within this study also establish a link between the financial development and economic growth. In particular, capital market size is found to foster the reallocation of productive capital (supporting the efficient use of resources and thus economic growth). These findings would seem to support the hypothesis that relatively well-developed capital markets in particularly the Anglo-Saxon and Nordic blocks will have supported their growth performance.

<sup>18</sup> See ECB (2006) for details.

#### 4. Synthesis and Conclusion

In this study, we have examined indicators of fiscal and regulatory policies and their correlation with a number of country performance indicators in domains relevant for the “economic and social model” debate, namely: the functioning of markets, economic growth, employment, education, income distribution and fiscal sustainability in 17 industrialised countries. Some interesting patterns emerge and partly confirm the findings from earlier studies in this debate (e.g. Sapir, 2005) but also reveal some interesting “news” as to the most appropriate grouping and characterisation of countries.

**Anglo-Saxon countries** combine relatively low and efficient public expenditure with flexible markets and strong economic and labour market performance. These countries typically ground their positive labour market outcomes on flexibility, with generally low levels of employment protection legislation, union membership and coverage, tax wedges and replacement rates, low expenditure on active labour market policies and moderate public employment. However, the Anglo-Saxon economic and social model produces larger income inequality associated with a lower degree of social protection.

Most **Nordic countries** have equally favourable employment outcomes – particularly in terms of the number (rather than hours) of people employed. However, they have tended to support this performance with relatively high expenditure on active labour market policies as well as with a degree of public sector employment that is extensive by any standard. Furthermore, the labour market components of their social model, with relatively high levels of EPL, union density, tax wedges and replacement rates, appear both relatively inflexible and costly – in terms of financing, in terms of foregone private sector employment and possibly also in terms of adjustment capacity to shocks (such as structural shocks resulting from globalisation). Their social and economic model, based on comprehensive safety nets and income equality, seems to be enabled economically through high product market flexibility and relatively well-developed capital markets. Whether their high levels of public spending are sustainable in terms of tax revenue, however, has to be seen critical from an angle of globalisation and increased international competition.

In contrast to both the Nordic and the Anglo-Saxon cases, most **Mediterranean and continental countries** in Europe exhibit little strategy and mixed approaches with regard to either the choice or design of their market and social policy components. As a result of lacking reforms, they experience relatively bad labour market performance, low economic growth and poor education standards, while at the same time burdening their economies with large and inefficient public sectors that in most cases give rise to serious sustainability concerns. Product markets are relatively rigid and capital markets relatively small. A number of continental countries experience low income inequality, but also relatively low levels of labour utilisation – both in terms of the number of people employed and hours worked. Many Mediterranean countries combine unfavourable employment performance and limited income equality.

Finally, a number of **reform-minded continental European countries** (most notably the Netherlands and Spain but also Austria and Belgium) have significantly improved the performance and efficiency of their public sectors in the fiscal and regulatory sphere over the past two decades. This has been rewarded by better functioning markets and much improved growth and employment developments at little cost to social policy objectives.

This synthesis is summarised in Table 2 below.

**Table 2: Inputs into and outputs of economic and social models**

	Indicators of policy quality					Indicators of policy outcomes						
	Size of government	Social Spending	Flexibility of labour markets	Product market regulation	Capital market regulation	Sustainability of public finances	Growth performance	Employment	Labour productivity growth	Educational performance	Income equality	Size of capital market
<i>Score based on chart/table no.:</i>	Chart 1	Chart 1	Chart 9	Chart 12	Chart 13	Table 1 (column 4)	Chart 4	Chart 7	Chart 12	Chart 3	Chart 6	Chart 13
<b>Anglo-Saxons</b>												
Ireland	+	+	0	+	0	0	+	+	+	0	0	-
United Kingdom	+	0	+	+	+	-	+	+	0	+	-	0
United States	+	+	+	+	+	n.a.	0	+	+	0	-	+
<b>Continental and Mediterranean States</b>												
France	-	-	-	-	0	0	-	-	0	0	0	0
Germany	0	-	0	0	0	-	-	0	0	0	0	0
Greece	-	0	0	-	-	-	-	-	+	-	-	-
Italy	-	0	0	-	-	0	-	-	-	-	-	-
Portugal	0	0	0	-	0	-	0	0	0	-	-	-
Luxembourg	-	0	0	0	+	-	+	+	+	-	+	0
<b>Continental and Mediterranean Reformers</b>												
Austria	-	-	0	0	0	+	0	+	0	0	+	-
Belgium	0	-	-	0	0	0	+	-	0	0	n.a.	-
Netherlands	0	0	0	0	+	+	0	+	-	+	+	0
Spain	+	0	0	0	0	0	0	-	0	-	-	0
<b>Nordics</b>												
Denmark	-	-	-	+	+	+	-	+	0	-	+	n.a
Finland	0	0	-	0	+	+	+	0	+	+	+	0
Sweden	-	-	-	+	+	+	-	+	+	0	+	0
<b>Other</b>												
Japan	+	+	+	0	-	n.a.	0	+	n.a	+	0	0

"+" is assigned if a country lies within the best third of the country range for a particular indicator  
"0" is assigned if a country lies within the middle third of the country range for a particular indicator  
"-" is assigned if a country lies within the bottom third of the country range for a particular indicator  
The most recently available year of an indicator is used for the ranking



Table 2 shows the location of individual countries, comparing the major indicators used in this study to assess policy outputs (sustainability of public finances, growth performance, employment and labour productivity growth, educational performance income equality, and size of capital markets) against policy inputs (size of the public sector, social spending and flexibility of the labour market as well as product and capital market regulation. The relative comparison shows that, with very few exceptions, a well-performing economic and social model (in terms of comparatively high output scores) is only to be had if the policy inputs are reasonably well in place. While no single model excels in all inputs at once, it appears that the Anglo-Saxon and Nordic experiences show realistic cases of successful input combinations. This experience is contrasted by the very visible relationship of poor policy inputs and weak output performance of a number of Mediterranean and continental countries. However, we note that a group of reform-minded countries has distanced itself from this situation and has gained ground, sometimes remarkably so, both in terms of policy inputs as well as economic and social performance.

From a more horizontal and policy-oriented perspective, the study suggests that public sectors may be much smaller in many European countries without necessarily implying very unequal income distribution while boosting growth and fiscal sustainability. Better designed social safety nets may enhance the efficient allocation of resources and facilitate an economy's adjustment to economic shocks without undermining much equalisation of incomes and social protection. Good regulatory policies in factor and product markets help economic efficiency and labour market performance and, thereby, also help finance more generous social systems without putting at risk fiscal sustainability. Furthermore fiscal reforms that go together with comprehensive structural reforms have shown to result in significant improvements in the fiscal and economic performance without much cost in terms of social equality.<sup>19</sup>

This supports calls for the comprehensive reform of fiscal policies and all markets – product, labour and financial, to support the growth potential of the euro area. Furthermore, it suggests that cross-effects of structural reform are significant and that success in one policy domain may facilitate reform in others. Predictions about the sustainability of “economic and social models” in the future are, of course, difficult to make. Not only demographics but also intensifying global competition over talents and capital is likely to put pressure in particular on high social spending, coupled with high tax rates and labour market inflexibility.

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<sup>19</sup> Schuknecht and Tanzi (2005) and Hauptmeier, Heipertz and Schuknecht (2006).

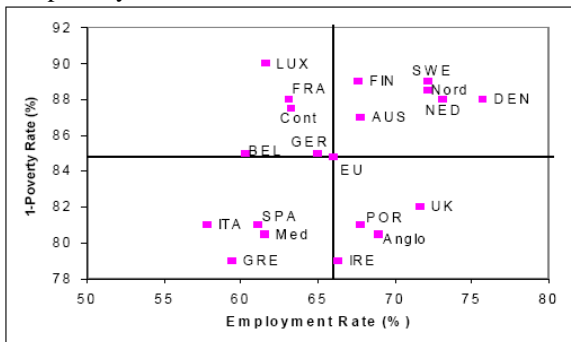
**Annex 1**

The current discussion on social and economic models at times suffers from confusion about the meaning of government performance versus efficiency. For example, Sapir (2005) finds that Nordic countries report high employment rates, interpreting this as an indication of efficiency. However, the employment rate is an *output* indicator that provides one measure of economic *performance*. It is not possible to say anything about *efficiency* without looking at this performance relative to the *inputs* used (for example, the amount of public spending on government employees as well as active labour market policies and the degree of labour market protection).

Secondly, the findings on the performance of governments frequently depend on the choice of indicator. If, for example, total employment as performance indicator is replaced by private employment (i.e. an alternative output measure) the above-mentioned picture by Sapir looks very different, especially for the Nordic countries (see Chart 13). The right-hand panel shows that this alternative choice of indicator yields an alternative country grouping, reflecting the fact that the apparent labour market success of the Nordic countries is to a large part due to inflated public sector employment. Some of the reform-minded continental European countries (here Austria and the Netherlands) look comparatively more successful in the fight against poverty and unemployment than those countries that have to foot an enormous public wage bill in order to attain their overall satisfactory employment performance.

**Chart A: Employment as an indicator of performance (not efficiency)**

Social model grouping according to total employment and poverty rate



Source: Sapir 2005, p.8

Alternative grouping according to private employment and poverty rate (2000 or nearest)



Source: OECD, AMECO

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