Social Europe

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European Outlook 1
Annex to *State of the European Union 2004*

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SCP

Social and Cultural Planning Office
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From: *A letter of introduction*, CPB Report 1996/1

Social and Cultural Planning Office

As referred to in Article 9 of Royal Decree no. 175 of 30 March 1973.

The Social and Cultural Planning Office was established by Royal Decree of March 30, 1973 with the following terms of reference:

a to carry out research designed to produce a coherent picture of the state of social and cultural welfare in the Netherlands and likely developments in this area;

b to contribute to the appropriate selection of policy objectives and to provide an assessment of the advantages and disadvantages of the various means of achieving those ends;

c to seek information on the way in which interdepartmental policy on social and cultural welfare is implemented with a view to assessing its implementation.

The work of the Social and Cultural Planning Office focuses especially on problems coming under the responsibility of more than one Ministry.

As Coordinating Minister for social and cultural welfare, the Minister for Health, Welfare and Sport is responsible for the policies pursued by the Social and Cultural Planning Office. With regard to the main lines of such policies the Minister consults the Ministers of General Affairs, Justice, Home Affairs, Education, Culture and Science, Finance, Housing, Physical Planning and Environmental Protection, Economic Affairs, Agriculture, Nature Management and Fisheries and Social Affairs and Employment.

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Foreword

One of the more notable features of the public and political debate in the run-up to the Dutch General Elections in 2002 and 2003 was the lack of interest in the process of European integration. 'Brussels' does not figure large in public opinion, and the daily television update of the Dutch political scene, in the form of the programme *Den Haag Vandaag* is not matched by even a weekly counterpart on Europe. Although the attitude of the Dutch population to the European Union is positive in itself, the practicalities of European co-operation are seen primarily as the colourless outcome of the work of bureaucrats. An estimated 60% of all new Dutch legislation is in fact European in origin, but in everyday life the ordinary man in the street is less aware of this than of the convenience of open borders and the general use of the euro.

As part of the Lisbon strategy, in 2000 each of the Member States of the EU undertook – individually but also jointly – to work intensively over the next ten years to achieve a number of aims, including a 'Social Europe'. The fight against poverty and unemployment, and the renewal and improvement of the social security system are the central planks of this aim. This report outlines the current status with regard to the achievement of this objective in the countries of the EU, and the developments which have been initiated and may be expected in the coming years.

2004 is an important year for the European Union in many respects. No fewer than ten new countries will join the EU, and new elections will again be held for the European Parliament. For the Netherlands, there is the additional responsibility of assuming the presidency of the EU in the second half of the year; it is a special responsibility, and one which may never return, or at least not for many years.

Giving more attention to the process of European integration demands in the first place more knowledge and insight into developments in this area, and a comparison of the position of the Netherlands in relation to the other EU Member States, including the new entrants. Where do we stand today, and what does this mean for the policy priorities that the Netherlands sets, in this case primarily in the area of social policy? What consequences do agreements made at European level have for the Netherlands? How tenable – or how exceptional – is the model of the Dutch welfare state today?

These are a few of the questions that are addressed in this Annex to 'State of the European Union 2004'. This report is the result of an undertaking given by the then State Secretary Dirk Benschop when presenting 'State of the European Union 2002' to ask the planning offices to carry out a joint annual survey of European trends and developments which could be of importance for the Netherlands (memo from the Ministry of Foreign Affairs, 19 September 2001).

A first attempt at surveying the views on an appreciation of the European Union in public opinion and education appeared last year, at that time still under the sole responsibility of the Social and Cultural Planning Office (SCP) ('Leeft Europa wel?' SCP 2002).

The present survey was compiled jointly by the Netherlands Bureau for Economic Policy Analysis (CPB) and SCP. The intention for each the coming years is to present an in-depth examination of the economic, social and cultural aspects of a particular

theme. In addition developments in Dutch public opinion on European integration will be monitored and investigated in a comparative perspective.
Chapter 2 and chapters 5 to 8 inclusive were compiled mainly by the CPB, and chapters 1, 3 and 4 by the SCP. Both organisations are grateful to the Dutch Ministry of Foreign Affairs for the opportunity this publication offers them to bring together their expertise in the various fields pertaining to 'Social Europe' and to relate sociological and economic insights more closely to each other.

The authors wish to thank the Forward Strategy Unit of the Directorate General for European Co-operation at the Ministry of Foreign Affairs and the interdepartmental sounding board group for their many useful suggestions and their willingness to provide constructive comments on the text at short notice.

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Introduction and abstract

Discussions on social policy increasingly take place at European level. The European Union has for example formulated directives on working conditions, non-discrimination and various forms of labour market regulation. These directives are binding for the Member States. During the EU summit in Lisbon in 2000, moreover, a whole raft of social objectives was formulated for the Member States. Henceforth each Member State will draw up an action plan every two years, setting out the policy they intend to pursue in order to realise these objectives. This European Outlook seeks to provide a broad analysis of the various aspects of the social dimension of European integration. The aim is to contribute to the still limited discussion of this topic in the Netherlands and to stimulate the formation of a vision on the direction of developments.

The European Outlook is this year divided into two parts. Before turning to social policy, chapter 1 discusses public opinion in the Netherlands and Europe, focusing in particular on involvement with and views on European integration. How much support is there for this in the Netherlands compared with other Member States and what differences exist between groups within the Netherlands? This is a question which will return in future editions of the European Outlook. In addition, chapter 1 compares the views of European citizens on the subject of the rest of the report, which this year is 'Social Europe'. It turns out that there is relatively broad support for the European Union in the Netherlands. In common with other Member States, however, there is still a strong preference for national policy in typical areas of the welfare state.

Building a Social Europe is a process that has been exercising attention since the founding of the European Community in Rome; chapter 2 outlines the developments. The European summit in Lisbon in 2000 was an important milestone in this process; European government leaders committed themselves to working together through the 'open coordination' method to develop a policy to combat poverty and social exclusion. The open coordination approach means that countries exchange information and encourage each other to pursue policies geared to the realisation of their social objectives, but that the European Union does not itself play an active role in the way in which individual Member States set about achieving those objectives. It has however been agreed that Member States will draw up a National Action Plan every two years setting out the way in which they plan to realise their objectives.

Not all Member States start from the same place in seeking to achieve their social objectives. They differ in many respects in the way in which they have structured their social policy. Chapter 3 accordingly offers a useful description of the way in which the different European welfare states are constructed. The European welfare states are characterised in this chapter on the basis of a widely used typology which was developed ten years ago by Gøsta Esping-Andersen. Broadly, he identified three types of welfare state: the *liberal* welfare state, which has the least generous provisions (the United Kingdom and Ireland); the *social-democratic* welfare state, which is geared primarily to reducing income differentials (the Scandinavian countries); and the *corporatist* welfare state, which places the emphasis on social insurance for employees (Germany, Austria, France, Luxembourg and Belgium). The Netherlands has features of both the social-democratic and corporatist systems. Chapter 3 also shows that in the Mediterranean countries (Greece, Spain, Portugal and Italy), a particular type of welfare state is emerging in which the social safety net (e.g. national assistance benefit) is still under development.

These differences are also reflected in the policy pursued by the various countries. Thus the analysis of the National Action Plans in chapter 4 reveals that the Scandinavian countries strongly emphasise the creation of an 'inclusive' labour market (labour participation by everyone), whereas the Mediterranean countries explicitly seek to maintain family solidarity. Despite this, they – though this also applies for the corporatist countries – will be obliged by the Lisbon agreements to place greater emphasis on promoting employment participation. This will bring the Mediterranean and corporatist systems closer to the social-democratic and liberal systems.

The European Union is of course also – and even primarily – committed to achieving economic objectives. In Lisbon the EU government leaders pronounced their ambition to make Europe the most competitive and dynamic knowledge economy in the world, capable of achieving sustainable economic growth with more and better jobs and greater social cohesion. Objectives were formulated among other things on promoting employment and increasing productivity. Employment can also reduce social exclusion and improve the degree of support for social policy. The question is whether the economic objectives can always be reconciled with the various social objectives. Will the European ambitions come up against dilemmas where an increase in social cohesion can only be achieved at the expense of economic performance? The analysis in chapter 5 shows that the social-democratic welfare states have succeeded in combining an egalitarian income distribution with high productivity and high labour participation rates. It is thus not by definition the case that there has to be a trade-off between economic and social performance.

Nonetheless, there is evidence of a trade-off between social and economic objectives with regard to certain specific labour market institutions. Chapter 6 shows that individual welfare state arrangements, such as an extensive social security system, progressive income tax and stringent labour market regulation, generally have a favourable effect on social cohesion but reduce the incentive to participate in work. In order to achieve the objective of high labour participation rates, consideration might therefore be given to rationalising the welfare state. The price for this is greater income inequality. For many countries the challenge will be to structure the welfare state in such a way through the effective combination of regulation and for-reaching modernisation that social and economic objectives are in balance.

This challenge will become more urgent in the coming decades against the background of a number of national and international developments. Chapter 7 discusses these trends: ageing, immigration, information and communication technology, individualisation and increasing policy competition. All trends point in the same direction: they put the European welfare states under pressure and reduce the scope for reconciling economic and social aims. They thus pose a threat in particular to the social cohesion objectives of the European Union. The question is how European Member States will deal with this threat.

Do the trends referred to above also imply a greater role for 'Europe' in social policy? The principle of subsidiarity which applies within the European Union means that an active role for Europe can only be desirable if it produces demonstrative advantages for the Member States compared with national policy. The analysis in chapter 8 shows that this is currently the case only for the removal of institutional obstacles to labour mobility. In other areas of social policy it does not presently appear to be the case. For example, there are no indications of 'social dumping', where individual countries systematically wind down their social policy in order to attract businesses and talent from other countries. At the same time, the diversity in institutions within the EU is enormous, as is also evident from the characterisations in chapter 3. The expansion of the European Union, with ten new Member States joining in 2004, will increase this heterogeneity even more and thus boost the need for diversity in social policy. Harmonised social policy will then become less attractive. As public opinion in the European Union also provides no support for a common European social policy, the 'open coordination' approach would appear to be a better way of achieving the aim of a Social Europe.

1 Public Opinion

This chapter consists of two parts. The first part (1.1) discusses Dutch public opinion on European integration in a comparative perspective. This is a topic which will recur in future editions of the Outlook. The second part (1.2) compares public opinion on the specific theme of the Outlook – in this case Social Europe – in the different Member States.

The main topics in the first part are involvement, feelings and views about the European Union in the Netherlands: how do these differ from other countries and how do they differ between groups within the Netherlands? The answers to these questions are important for politicians and other policy makers concerned with Europe; which preferences, worries and sensitivities do they need to take into account? Providing information based on opinion research is more important in this policy domain than for policy on domestic matters, where politicians receive information more from media reports and interest groups, as well as feedback from policy executive agencies and professionals and their organisations. When it comes to European issues, these natural avenues for public discussion, the supply of information to policy makers and the formation of social support for policy are often absent. Besides, the supranational and international setting of European policy development, and the abstract and complex nature of the issues involved, do no encourage politicians and policy makers to consult or inform the general public.

The second part of the chapter explores and compares views in different countries on social inequality, government tasks with respect to the welfare state and the need for a European social policy. The primary aim here is to identify differences between EU Member States (present and future) which could be important for a better understanding of the cultural diversity within the Union, for the wishes of European partners and for their standpoints on politics and policy at European level.

This year, this chapter is based almost entirely on a secondary analysis of current population surveys.[1] With one exception, data are presented on all 15 current EU Member States on the basis of the regular *Eurobarometers*. These population surveys, commissioned by the European Commission, have measured public opinion in the Member States regularly since the 1970s, often twice a year. With the exception of the commitment to Europe and knowledge about and confidence in European institutions, these surveys rather less frequently ask more general questions about social problems and future expectations, and about respondents' views on individual policy domains. Gen-

1 New international information cannot be systematically gathered for this publication. In the 'trial report' published last year (Dekker et al. 2002) it was possible to present some additional information about Europe in secondary education curricula. In subsequent editions of the Outlook an attempt will be made to supplement survey data with other data and with more third-party research findings. As regards the use of questionnaires, it has to be assumed in this chapter that translations of questions and statements are not only correct, but also correspond in terms of sense conveyed and connotations. This has been broadly investigated for the English and Dutch formulations, but time and knowledge of the relevant languages were insufficient to enable everything to be checked.

erally accessible reports are published by the EU on each study and on specific topics,[2] but little attention is generally paid to these in the Dutch media.

1.1 European integration

This section first looks at a few general views about the European Union over a short period of time; a number of indicators of commitment to the European Union are then discussed and several aspects of public opinion concerning the introduction of the euro in 2002 and the imminent enlargement of the Union are examined. The section concludes with an investigation of differences between groups within the Netherlands.

1.1.1 Support and commitment

We begin with a few indicators for support for European integration in 2002 and early 2003, the latter on the basis of a first report of findings by the European Commission (EC 2003a).[3] Table 1.1 plots Dutch public opinion against that in the other 14 EU Member States, globally ranked from north to south.[4]

Table 1.1 Support for European integration, 2002 and 2003, percentage of the population aged 15 and older[a]

	year	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Thinks that it is generally a good thing that own country is a member of the EU	2002-1	71	40	38	60	32	78	52	37	58	81	47	69	64	66	62
	2002-2	69	41	43	61	31	74	58	46	60	83	52	61	62	68	56
	2003	73	42	41	63	30	67	59	34	67	85	50	64	61	62	61
All things considered, thinks that own country benefits from membership of the EU	2002-1	67	40	29	68	36	86	43	40	58	70	49	62	72	63	69
	2002-2	64	42	31	69	30	82	46	48	55	72	51	51	73	66	64
	2003	65	46	31	70	32	77	45	41	57	74	50	52	74	62	68
Thinks that there are personally more advantages than disadvantages from membership of the EU	2002-1	36	19	25	33	18	62	28	24	24	38	20	31	35	47	32
	2002-2	35	21	25	32	16	59	30	28	23	42	20	22	34	48	33
	2003	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Is in favour of European Monetary Union with a single currency, the euro	2002-1	75	64	49	52	31	78	67	72	82	91	67	87	80	80	73
	2002-2	67	66	51	55	28	80	62	75	81	89	71	76	71	77	70
	2003	67	75	41	53	24	76	70	72	85	88	75	82	70	75	75
Is in favour of the enlargement of the European Union with new Member States	2002-1	56	56	61	68	37	56	43	45	50	55	40	61	67	64	57
	2002-2	58	58	65	71	42	67	46	51	53	56	40	64	76	63	60
	2003	48	50	56	63	36	60	42	43	38	53	31	59	71	60	60

a The reported percentage, together with rejection of the statement and 'don't know' responses adds up to 100%.

Source: Data from Eurobarometer 57.1 (March-May 2002) and 58.1 (October-November 2002) and provisional report 59.1 (March-April 2003; EC 2002a); weighted results

2 See http://europa.eu.int/comm/public_opinion/.

3 For developments in the longer term see Janssen (2001) and the publications by the European Commission on the website mentioned in the previous note.

4 Abbreviated using Internet codes: Netherlands (NL), Finland (FI), Sweden (SE), Denmark (DK), United Kingdom (UK), Ireland (IE), Germany (DE), Austria (AT), Belgium (BE), Luxemburg (LU), France (FR), Italy (IT), Greece (GR), Spain (ES) and Portugal (PT).

Looking at the first three views in table 1.1, we see that there is broad support for the European Union in the Netherlands: only Luxembourg and Ireland show systematically greater support. This strong support for the EU in the Netherlands has remained relatively stable for several decades (Janssen 2001: 124 ff; SCP 2000: 147-148). Support for the euro and EU enlargement is however not great in the Netherlands; discounting the three countries that are not participating in the euro (Sweden, Denmark and the United Kingdom), Dutch support for the euro is on the low side. Nevertheless, a majority of the Dutch population are in favour of European Monetary Union with a single currency (67% in 2003). Dutch public opinion occupies a middle position on EU enlargement.[5]

Table 1.2 Associations when thinking of the European Union, spring 2002, percentages of the population aged 15 and older[a]

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
The freedom to travel, study and work anywhere in the European Union	48	56	59	51	35	43	47	39	47	57	52	63	50	54	41
Strong influence in the world	40	13	32	35	19	27	32	25	27	39	29	34	27	29	23
Economic prosperity	35	15	15	30	17	41	19	18	25	42	23	28	29	35	25
Peace	28	21	37	44	20	19	46	27	29	58	34	33	43	23	21
Cultural diversity	19	22	25	25	14	15	32	22	26	29	35	26	16	29	18
Social security	16	6	8	22	12	15	12	12	14	34	10	20	22	16	13
The euro	59	57	37	30	24	40	54	50	71	67	55	55	44	49	42
Unemployment	5	7	13	8	8	4	24	19	17	17	20	6	19	7	9
Loss of our cultural identity	11	9	19	13	22	8	8	12	9	12	22	7	20	5	7
Wasted money	14	22	51	22	23	4	28	31	20	25	26	6	8	7	6
More crime	16	23	35	13	8	4	30	25	21	33	16	8	11	3	10
Inadequate patrolling of EU's external borders	22	18	30	25	17	5	27	16	22	32	30	15	12	8	14
Bureaucracy	23	32	53	33	22	8	30	28	13	19	13	5	7	10	4
Other/don't know	9	6	5	5	21	11	5	8	6	1	4	5	5	9	15

a 'What does the European Union mean for you personally? Respondents can choose several possibilities from a list with which they are presented (with the exception of 'other'/'don't know'). The associations are listed in the Dutch order from most to least frequently positive; then comes the neutral 'euro', following which the order goes from least to most frequently negative.

Source: Eurobarometer 57.1 (March-May 2002); weighted results

Table 1.2 provides an insight into the thoughts that respondents said they had about the European Union. They have been arranged in order of ranking in the Netherlands, from the most popular association with freedom to travel, study and work anywhere within the European Union, to the most popular negative association, bureaucracy.

5 The first three opinions in table 1.1 were also submitted in modified form at the three survey moments to the population of the 13 countries which had applied for membership of the EU. In the ten countries that are likely to join the EU in 2004, 51%, 52% and 58%, respectively felt at the time of the survey that membership would generally be a good thing for their own country; 54%, 60%, and 64 % felt that, all things considered, their country could benefit from membership; and 39%, 41% and 44% expected to derive personal advantages from their country's membership. In all three surveys and at all three moments the population of Estonia was the least positive; the greatest support was found alternately in Hungary, Lithuania and Cyprus. In the three countries which are not yet being admitted to the EU (Bulgaria, Romania and Turkey), the statements tended to be consistently more popular than in the ten other countries (EC 2002a:9; 2003b:7).

Bureaucracy also turns out to be the greatest concern in the Netherlands if a completely different set of associations with the European Union is presented (Anker 2003: 10). Bureaucracy does not seem to be such a concern in the most southern Member States, nor in Belgium and Luxembourg (what is bureaucracy for one respondent is perhaps employment for another). Here, the views are focused more on the shortcomings in the patrolling of the EU's external borders. Sweden and the United Kingdom are the only countries where the negative associations dominate. The positive associations are the most dominant in Ireland and the four southernmost Member States. Freedom is placed at the top of the rankings almost everywhere.

Table 1.3 offers an insight into the feelings that the European Union and its hypothetical elimination can evoke. In both pairs of opposing emotions, the positive feelings dominate everywhere, again with the exception of Sweden and the United Kingdom, where distrust outweighs trust. The Netherlands is among the more positive countries, but the positive feelings are much more dominant in Ireland, Italy, Spain and Portugal. The same pattern is broadly repeated in the responses to the question of what feelings sudden scrapping of the EU would evoke. In most countries the disappointment would be greater than the relief, but in the United Kingdom, Sweden and now also Finland, these reactions struggle for precedence. Food for thought is provided by the fact that half or more of the respondents in most countries appear indifferent or uncertain about how they would react to the sudden disappearance of the EU. It should however be noted that the interviewers also make it difficult for respondents by forcing them to choose between great disappointment and no disappointment at all.

Table 1.3 Feelings about the European Union, spring 2002, percentages of the population aged 15 and older

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Feelings evoked by the EU: [a]															
Trust	43	27	18	36	11	18	28	23	32	42	27	46	28	37	26
Distrust	12	17	33	20	20	4	19	19	12	10	25	5	15	7	12
Hope	33	44	45	52	31	47	49	46	42	61	45	64	58	49	50
Anxiety	3	16	23	13	14	6	23	22	16	14	25	4	24	1	3
Feelings on scrapping of the EU: [b]															
• very disappointed	37	26	23	39	19	48	37	31	26	59	30	50	41	29	50
• indifferent/don't know	56	50	51	45	58	49	55	57	67	37	55	47	54	68	45
• relieved	7	24	27	16	23	3	9	12	7	4	15	4	5	3	5

a Does the European Union give you personally a feeling of ...?
Respondents may choose several options from a list containing three other 'feelings'.
b If you were to hear tomorrow that the European Union was to be abandoned, would you be ...?

Source: Eurobarometer 57.1 (March-May 2002); weighted results

Table 1.4 presents figures on the attachment to and identification with Europe. Compared with people's neighbourhood, region or country, the attachment to the European Union is low everywhere;[6] the greatest attachment across the board is to the respondents' country. Only rarely, and most prominently in Luxembourg, can inhabitants of Europe imagine that nationality will be replaced by a European identity in the foreseeable future.The figures differ little from those found in the 1990s (SCP 2000: 147-148). The inhabitants of the United Kingdom see themselves as the least European. In research with focus groups on the European Union, the United Kingdom also stood out because 'many respondents simply refused to regard themselves as European' (Optem 2001: 6).[7]

Table 1.4 Attachment to Europe, autumn 2002, percentages of the population aged 15 and older

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Attachment:[a]															
... to own town or village	76	84	89	84	85	94	89	89	85	85	83	92	94	81	94
... to own region	75	89	90	78	85	94	88	91	86	88	84	89	96	81	95
... to own country	83	97	95	97	88	96	89	91	85	93	92	94	96	81	97
... to the European Union	29	24	34	45	27	50	46	49	49	75	53	62	38	43	49
Sees self in the near future[b]															
• only as [nationality]	40	56	50	37	65	41	37	40	36	18	31	22	52	29	46
• mixed, don't know	57	43	49	62	33	57	60	57	58	68	66	75	46	67	53
• only as European	2	1	1	2	3	1	3	3	6	14	3	3	2	4	1

a People can feel more or less attached to their town or village, to their region, to their country or to the European Union. Could you say how strongly attached you feel ...'; the percentages shown are those for 'strongly' and 'fairly' attached; together with 'not very', 'not at all' and 'don't know', they add up to 100%.
b 'Do you see yourself in the near future only as [Dutch, Finnish, Swedish ...], as [nationality] but also as a European, as a European but also as [nationality], or only as a European?'

Source: Eurobarometer 58.1 (October-November 2002); weighted results

6 A comment needs to be made here about the sensitivity of the findings of opinion research to the terminology used. 'Europe' might have generated more identification than 'the European Union' and 'your municipality' probably less than 'your village' and 'your town'.

7 Comparing these findings to related qualitative reseach from 15 years earlier, the chief rapporteur for this study from 2001 (Optem 2001: 6-8) identifies a deepening of the gulf between north and south. In the north, and in particular the United Kingdom, the Netherlands, Denmark and Sweden – countries with a strong belief that they have developed a unique societal model with specific national values – the 'European feeling' is diluted by things such as irritation about the lack of work ethic and sense of order in the south, whereas in the southern European countries, which joined the EU later, the initial enthusiasm for joining the modernity of the countries from the North appears to have waned and people have increasingly distanced themselves from the sobriety and dullness of the North.

Table 1.5 compares the interest in news about the European Union with interest in other news. With the exception of foreign politics and international affairs in Portugal, the EU comes at the bottom in every country. The gap between the EU and other news categories is widest in the Netherlands.

Other data show that television is the most important source of information about the EU for citizens in Europe. Compared with the written press, however, television – at least in the Netherlands – devotes little attention to Europe. Recent research by De Vreese (2003) shows moreover that the television news is rarely presented from a European perspective. Instead, there is a preference for 'domestic' news, with a good deal of attention for the impact of Europe on the Netherlands and Dutch politicians. Moreover, the emphasis often lies on conflicts and focuses more on the interests and strategic considerations of those involved than on the issue itself. This strategic perspective engenders a cynical attitude in viewers. According to experimental research (De Vreese 2003), that cynicism does not take root and also has virtually no consequences for opinions on the issues involved in European integration, but it nonetheless does not provide a good foundation for the development of a commitment to and sense of involvement in Europe.

Table 1.5 Attention for European and other news, spring 2002, percentages of the population aged 15 and older[a]

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Social issues such as education, healthcare, poverty, etc.	47	61	54	60	53	42	34	56	42	58	60	72	78	50	44
Sport	35	42	36	33	29	45	29	42	31	35	31	37	47	37	30
The environment	35	52	42	52	45	38	28	55	36	57	50	63	67	44	28
Culture	33	26	27	29	24	30	18	32	27	38	39	59	47	44	24
The economy	30	35	39	43	34	37	26	46	22	31	28	39	64	23	20
Politics	28	27	34	47	24	23	32	42	17	32	23	40	32	16	10
Foreign political/international issues	28	31	35	43	22	17	27	34	17	31	25	31	46	18	9
The European Union	9	21	20	28	16	13	15	32	13	26	19	35	37	16	14

a 'Do you generally devote a good deal of attention, a little bit of attention or no attention at all to news about ...?
' The percentages shown are those for 'lots of attention' as opposed to little or no attention or no statement.
The results are ranked from most popular to least popular topic in the Netherlands.

Source: Eurobarometer 57.1 (March-May 2002); weighted results

Finally, table 1.6 completes this section by showing something other than survey data, namely the actual turnouts at European elections, from the first direct elections in 1979 up to and including the elections held in 1999. The next elections will take place in June 2004.

Table 1.6 Turnout at European elections, 1979-1999 (in percent)

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
1979	58	.	.	48	32	64	66	.	92	89	61	85	.	.	.
1984	51	.	.	52	33	48	57	.	92	89	57	83	77	.	.
1989	48	.	.	46	36	68	62	.	91	87	49	81	80	55	51
1994	36	.	.	53	36	44	60	.	91	89	53	75	71	59	36
1999	30	30	38	50	23	51	45	49	90	86	47	71	70	64	40

Countries with compulsory voting systems (Belgium and Luxembourg, and officially Greece and Italy and parts of Austria, though few if any sanctions are applied) have much higher turnouts, but everywhere the turnout for European elections is low compared with other elections. The Netherlands did not have the lowest turnout in 1999, but shows the greatest decline over the whole period. Among the four countries with the lowest turnout the Netherlands is the only pro-EU country among the 'Eurosceptics'. The latter group also includes Denmark, but here the referenda and social debates in the early 1990s mean that this is probably still to a greater extent than elsewhere a politically appealing theme which attracts voters. The extremely low turnout in the United Kingdom, however, illustrates that the controversiality of EU membership does not necessarily have a positive impact on turnout at elections. Differences in opinions about the EU must be projected along party political lines if they are to lead to electoral mobilisation about the issue itself. This hardly occurs anywhere, however: parties are in agreement about Europe, but are unable to explain the differences in a simple and appealing way, or have nothing to gain from placing their positions in domestic matters in the shadow of a debate about Europe.

Most of the differences in turnout can be explained by the same factors as those which are important in domestic elections: is there compulsory voting, on which day are elections held, is there something at stake in the view of the electors or do they have good reason to use what are deemed unimportant elections to make a statement about national politics?, etc. On top of this, European factors also play a role: the turnout is higher in countries where public opinion shows more support for the EU and where the country is a net recipient from rather than a net contributor to the EU (Mattila 2003).

In conclusion, we can state that people in the Netherlands (and other Member States) are in favour of the European Union, but without a great deal of interest or involvement. People recognise the advantages of the EU, but it does not appeal to their imagination. This is also the conclusion of other Dutch research, in which it is observed that the intensity of attitudes towards the European Union lags far behind what is usual in image research (Anker 2003).

1.1.2 The euro and EU enlargement

This section presents more data on two topics covered in table 1.1: the euro and the enlargement of the EU. In the Netherlands and some other countries, the euro is the first association people have with the European Union (table 1.2). Table 1.7 presents supplementary information on the twelve countries which switched to the euro in 2002. The view that the introduction has led to price increases receives massive support in all countries, but the general opinion preceding it shows variation. With one third of the population dissatisfied, the Netherlands is clearly among the less enthusiastic countries. In contrast to Germany, the satisfied group form the majority, but the difference compared with the much more positive views of the Benelux partners is considerable.

Table 1.7 Public opinion about the euro, autumn 2002, percentages of the population aged 15 and older

	NL	FI	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Opinion on the introduction of the euro:[a]												
• a very/fairly good thing	48	47	60	34	49	59	79	45	52	45	51	49
• neither a good thing nor a bad thing; don't know	19	25	16	29	32	27	11	28	25	26	32	28
• a fairly/very bad thing	33	28	24	38	19	15	10	26	23	29	16	23
General price movements due to the euro:[b]												
• rounded downwards	2	4	5	5	4	3	2	4	5	2	3	5
• remained the same; don't know	2	12	10	3	8	9	6	4	6	2	2	9
• rounded upwards	96	84	85	92	88	87	92	92	94	96	95	87

a 'On 1 January 2002 the [national currency] was replaced by the euro. Do you regard this as ...?
b 'Do you personally have the feeling that prices have generally been rounded downwards when converting to euros, rounded upwards or have remained the same?'

Source: Eurobarometer 58.1 (October-November 2002); weighted results

Table 1.8 offers more information on how people felt about the enlargement of the European Union at the end of 2002, but before the Copenhagen Summit which gave the green light for the admission of ten new Member States.

Table 1.8 Public opinion on the enlargement of the EU, autumn 2002, percentages of the population aged 15 and older

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Do you regard yourself as (very) well informed[a]	30	61	25	42	12	29	25	48	19	37	20	15	20	21	15
Involvement in the debate:[b]															
• little involvement to highly involved	62	63	60	75	36	45	62	64	59	61	61	63	39	38	33
• not involved at all	37	36	36	24	58	34	33	30	49	35	36	33	59	51	56
• don't know	2	1	4	0	6	20	5	6	2	4	3	4	2	11	11
Preference for expansion of the EU:[c]															
• with all countries wishing to join	17	21	34	15	21	36	12	18	17	15	12	29	21	27	27
• only with some of these countries	63	56	43	66	33	36	54	46	43	61	43	46	61	43	34
• with no countries at all	14	16	17	12	22	10	21	21	26	18	34	10	10	8	14
• none of the above/don't know	6	7	7	6	25	18	13	14	14	6	11	14	8	22	25
Agreement with the following statements:[d]															
'The more Member States the European Union has, the more peace and safety in Europe will be guaranteed'	56	58	65	67	46	52	55	51	49	50	38	55	75	50	55
'The more Member States there are, the more important the European Union will be on the world stage'	74	76	77	79	53	66	64	66	69	79	63	70	80	70	67
'The more Member States there are, the more unemployment will increase in [own country]'	39	36	30	27	42	43	51	48	45	50	54	34	49	36	52
'With more Member States, it will be more difficult to take decisions at European level'	78	80	76	78	60	55	68	72	69	86	71	62	50	64	60

a 'In your opinion, how well informed are you about the expansion, i.e. the fact that new countries will be joining the European Union?' The percentages shown, together with 'not very' and 'not at all' and 'don't know' add up to 100%.
b 'In your own opinion, how involved are you in the political debate about the expansion of the European Union?' The English parent list asks 'do you feel you are participating in'? Given the differences, the three response possibilities which do not reject the statement fully, namely 'a great deal', 'somewhat' and 'not very much' have been combined.
c 'Which of the following three proposals for the near future of the European Union would you prefer? The European Union must be enlarged ...'
d 'Thinking about the enlargement of the European Union with the addition of new European countries, are you more inclined to agree or disagree with the following statements ...?' The percentages 'tend to agree' together with 'tend to disagree' and 'don't know' add up to 100%.

Source: Eurobarometer 58.1 (October-November 2002); weighted results

Three out of ten Dutch people considered themselves well informed about the enlargement of the EU, while six out of ten felt involved in the political debate on this issue. In themselves, these are not particularly impressive figures for such an important issue for the future of Europe, but they still compare very favourably with the figures for southern Europe and the United Kingdom, where far fewer people say that they are well informed and over half the population feel totally uninvolved in the discussion. As regards the preference for the number of countries to be admitted and the support for two negative and two positive views on the enlargement, the Netherlands does not differ markedly from the rest. Some scepticism with regard to measured opinion is of course called for given the often low involvement and lack of knowledge that is admitted. The opinions will rarely be well considered views. Dutch research on public opinion on EU enlargement using focus groups at the end of May 2002 – i.e. shortly after the turbulent general elections of 15 May – shows that opinion formation at that moment was strongly defined by the general political mood (Anker 2002). Domestic issues dominate the group discussions; the main comments about the EU concern the euro and any interest in the enlargement appears to be focused mainly on the implications of the 'political revolution' or 'new political culture' for the position of the Netherlands in Europe. Opinions on European issues probably derive from opinions and discussions which have nothing to do with Europe. However, this does not make those opinions any less relevant for the support for European politics.

1.1.3 Groups in the Netherlands

In table 1.9 the support for the opinions expressed in table 1.1 is compared between different population groups in the Netherlands.

Men have a more positive opinion of the EU than women, except when it comes to the enlargement. Young people are slightly more in favour of Europe than older people, with support for the euro being a striking exception.[8] With the exception of enlargement, people with a higher education level and those who are still at school or studying, together with people from higher-income households, are more positive than people with a lower education level or people from lower-income households or whose income is not known. With regard to municipality size, the only striking feature is the greater support for the euro among people from small municipalities and the lower support for enlargement among people from medium-sized municipalities. Finally, two political characteristics are included: self-assessment on a political left-rightscale and satisfaction with the way in which democracy functions in the Netherlands. People who place themselves on the political right are less in favour of enlargement, while those in the political centre appear to be slightly less pro-Europe. In other countries the differences between left and right in opinions on Europe are often much greater. In the United Kingdom, for example, pro-European views are much more popular among those on the left, while in Sweden and Denmark, with the exception of support for enlargement, support for Europe is more likely to come from the political right. Much greater than the left/right differences in opinions on Europe in the Netherlands are the differences between people who are satisfied/dissatisfied with the functioning of democracy at home. People who are dissatisfied with Dutch democracy are markedly more sceptical towards Europe. This proves to be the case in all EU Member States,

8 The differences by sex, education and income correspond with earlier findings in European research (Gabel 1998). The age differences are less clear: young people or younger generations are by no means always more in favour of Europe (Janssen 2001: 201 ff.). Dutch research also reveals that the involvement is greater among older people (Anker 2003: 11).

with the exception of the United Kingdom, where little or no correlation is found. People's political views are of particular relevance in the Netherlands when it comes to their opinions on European enlargement. Of the 7% of the population who are dissatisfied with the functioning of democracy and place themselves on the political right, 28% are in favour of enlargement; this compares with 67% of the 46% of the population who are satisfied with the functioning of democracy in the Netherlands and place themselves on the political left or in the centre.

Table 1.9 Differences between groups in the Netherlands, autumn 2002, percentages of the population aged 15 and older[a]

Group (and % of the sample)	Membership good thing	Advantage for country	Advantage for self	In favour of EMU and euro	In favour of Expansion
Sex					
• male (49)	74	67	39	72	56
• female (51)	65	63	31	62	60
Age					
• 15-34 (36)	71	70	40	63	61
• 35-54 (36)	70	68	33	67	58
• 55+ (28)	67	53	31	70	56
Education level					
• still in education (12)	75	70	45	63	60
• education completed before age 18 (51)	64	57	29	65	56
• education completed after age 18 (37)	77	72	40	71	61
Household income					
• low (30)	64	60	26	65	61
• high (34)	78	73	42	73	63
• unknown (36)	67	61	36	62	52
Size of municipality					
• up to 20,000 inhabitants (30)	68	63	32	75	60
• 20-100,000 inhabitants (43)	68	65	38	62	52
• 100,000 or more inhabitants (27)	74	65	33	65	66
Political orientation					
• left (32)	72	69	33	69	62
• centre (41)	67	60	35	63	60
• right (26)	72	66	38	68	51
Opinion on functioning of democracy in the Netherlands					
• (very) satisfied (67)	77	70	41	73	65
• (very) dissatisfied (33)	55	53	22	53	44

a See table 1.1 for the opinions. The approximately 5% of respondents for whom there is no answer on one or more background characteristics except for income are left out of consideration.

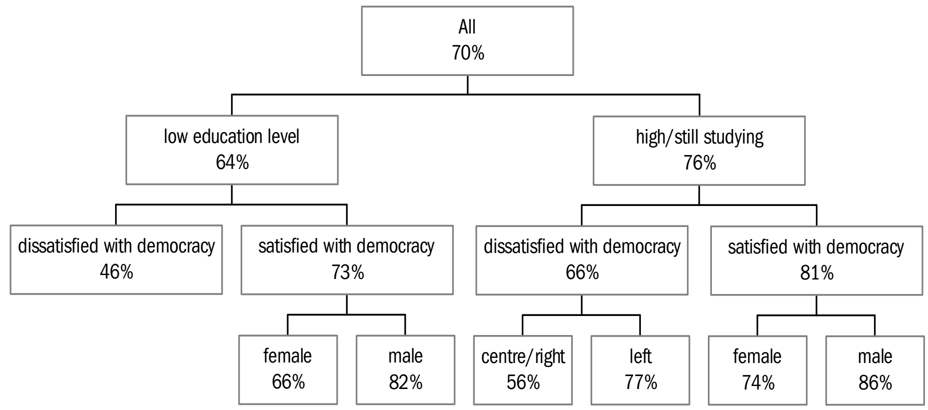
Source: Eurobarometer 58.1 (October-November 2002); weighted results

Figures 1.1 and 1.2 map out a number of salient differences by combining features, with priority being given to socio-democratic above political characteristics.[9] Figure 1.1 shows support for the statement that EU membership is good for the country. This statement is supported by fewer than half those with a low education level and who are

9 Results of 'Chi Automatic Interaction Detection' (chaid) analyses on the characteristics shown in table 1.9 with the exception of household income. For each group a distinction is sought which makes the biggest difference in support for the statement about the EU. Political characteristics are only used if the socio-demographic characteristics no longer produce a significant difference.

dissatisfied with the functioning of democracy in the Netherlands; this compares with four out of five people who have a higher education or are studying and who are satisfied with democracy.

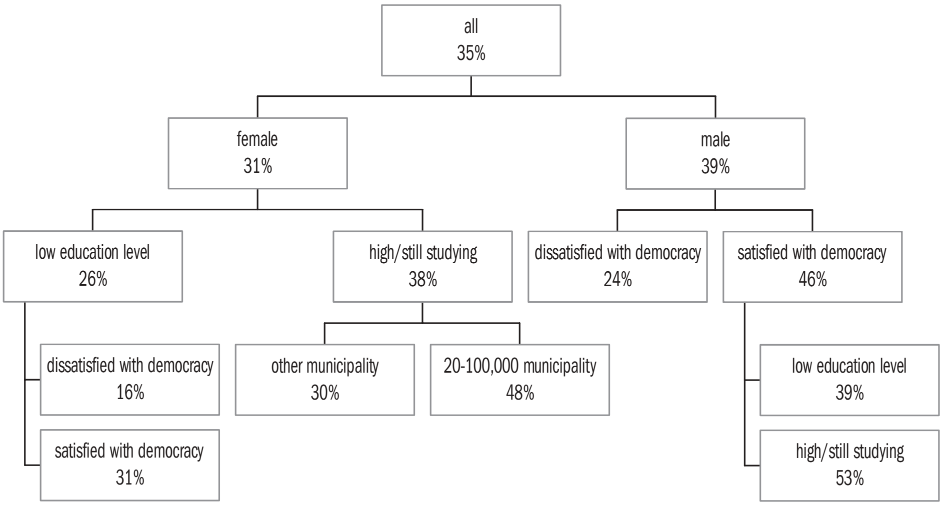
Figure 1.1 Believe it is a good thing that the Netherlands is a member of the European Union



Note to interpreting this figure: 70% of Dutch people believe it is a good thing that the Netherlands is a member of the EU. Of those with a low education level, 64% believe it is a good thing, compared with 76% of those with a high education level. Of those with a low education level who are also dissatisfied with democracy in the Netherlands, 46% believe it is a good thing that the Netherlands is a member of the EU, etc.

Figure 1.2 shows the agreement with the statement that people derive personal advantage from the fact that the Netherlands is a member of the EU. As in figure 1.1, men who are better educated or still studying and who are satisfied with democracy in their country show the most positive opinion on the EU; while 53% of this group see more personal advantages than disadvantages from the EU, among dissatisfied women with a low education level the figure is only 16%.

Figure 1.2 Sees personal advantage in membership of the European Union



It is likely that a more general political dissatisfaction underlies the dissatisfaction with the functioning of democracy. Nothing further can be said about this based on the Eurobarometer used here, but data from the National Electoral Survey 2002 also points in this direction: of the respondents in that survey who believe they have no influence whatsoever on government policy, 56% believe that European unification has already gone too far; of those who do believe they have an influence on government policy the figure is 34%; of the respondents who believe that ministers and state secretaries are primarily concerned with their own interests, 53% believe that European unification has already gone too far; among respondents who do not share this cynical view of politicians, the figure is 38%. To some extent such relationships form the basis on which 'populist' political movements in several European countries have successfully linked criticism of the political establishment with pleas for the maintenance and recovery of a strong national state in recent years. 'Europe', because of the scale and complexity of the political processes, seems ideally suited as a focus of diffuse political dissatisfaction.

1.2 *Social Europe*

No up-to-date country-comparative survey material is available dealing with opinions that cover the full breadth of the theme of this Outlook.[10] In this section, opinions on social justice, inequality and the tasks of the welfare state are first examined on the basis of slightly older data, as well as preferences and expectations with regard to a single area of social security, namely pension provisions. Data from the Eurobarometer from the end of 2002 as used earlier are then used to examine the preferences with regard to European cooperation in a larger number of policy domains.

10 The most suitable source would probably be the module 'Roles of government' from the International Social Survey Project from 1996, but the Netherlands is not included in that survey. For a comparison of other countries with these data, reference is made to Gelissen (2001).

1.2.1 *Social justice and welfare states*

Chapter 3 follows in the tradition of research by Esping-Andersen (1990, 1996, 1999) in distinguishing between different types of welfare state. Broadly speaking, a distinction can be made in the European Union between the Scandinavian countries which have high levels of public provision for the entire population and which are directed towards securing greater equality, the Anglo-Saxon countries with limited public provisions for citizens who are unable to secure adequate provisions via the market, Central European countries which operate mainly via employee insurance and semi-public arrangements, and Southern European countries which still have very limited provisions guaranteeing a basic income but which do operate generous schemes in some areas (see chapter 3). Do public preferences correspond with such a division (the Netherlands is positioned midway between Scandinavia and Central Europe)? Do opinions vary gradually with national wealth, or can a more general pattern in differences in public opinion be discovered?

Table 1.10 presents data from the European Values Study 1999 (see Halman 2001). This survey also covers the new Member States (apart from Cyprus).

Table 1.10 Opinions on fairness, 1999/2000, percentages of the population aged 18 and older

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT	EE	LV	LT	PL	CZ	SK	HU	SI	MT
Characteristics of a just society:[a]																								
'Guaranteeing that everyone's basic needs are met: food, housing, clothing, education, healthcare'																								
• very important	70	68	71	47	70	76	61	62	74	60	76	70	84	68	79	62	82	77	78	52	77	75	72	74
• important	21	25	17	23	21	17	30	25	18	29	15	19	12	21	12	22	11	15	13	27	20	23	21	21
'The elimination of large income differentials between citizens'																								
• very important	13	30	18	10	26	41	26	23	37	24	47	34	58	51	68	35	61	41	50	30	55	52	44	11
• important	28	36	27	18	26	27	33	34	26	38	22	26	23	29	16	24	18	22	23	26	30	33	22	23
Opinions on values and responsibilities:[b]																								
'Individual achievements must be better rewarded' (=0) ↔ 'Incomes must be more evenly distributed' (=100)	43	60	.	.	49	44	.	60	50	36	57	44	.	.	.	35	.	58	43	50	.	.	66	.
'Unemployed people must accept any available job. If not their benefit should be withheld' (=0) ↔ 'People who are unemployed must have the right to refuse a job that they do not want' (=100)	47	45	33	43	44	51	34	32	43	32	39	27	50	39	40	60	52	49	38	41	41	37	29	48
'People must take more responsibility for looking after themselves' (=0) ↔ 'The government must take more responsibility to ensure that everyone receives what they need' (=100).	41	40	36	38	38	40	36	33	46	37	34	51	51	52	43	56	63	49	53	43	60	56	61	46

a 'What conditions should a society meet in order to be regarded as 'just'?' Opinions on the statements are arranged on a five-point scale from 'very important' to 'very unimportant'. The first two response categories are shown and, together with the other three and 'don't know', add up to 100%.

b Respondents are asked to position themselves on a ten-point scale between two opposing statements('don't know' is regarded as a central position).

Source: European Values Study 1999; weighted results. The new Member States added in this table are Estonia (EE), Latvia (LV), Lithuania (LT), Poland (PL), Czech Republic (CZ), Slovakia (SK), Hungary (HU). Slovenia (SI) and Malta (MT); (Cyprus is absent).

Guaranteeing that basic human needs are met is regarded as an important or very important condition for describing a society as just by a large to very large majority of the population everywhere. The Danes and Czechs are slightly less convinced of this, but this country combination provides no reason to search for a general pattern or explanation. Elimination of large income differentials as a characteristic of a just society is less widely supported and shows greater differentiation. Denmark and Malta, followed by the Netherlands and Sweden, are the least convinced. Against this are large majorities in the southern Member States, with the exception of Italy and a number of new Member States. In the current EU there appears to be something of a north-south split, albeit along different lines from what might be expected: in those countries with a long tradition of seeking to attain equality, less importance is attached to the elimination of large income differentials. Seen in an international perspective, however, the income differentials in those countries are significantly less marked.

Public opinion in the Netherlands is not exceptional with respect to the three statements on values and responsibilities. No patterns emerge, except that in the third statement the southern Member States and the new Member States are more in favour of government responsibility than the northern and central Member States. In the majority of new Member States, it could be surmised that this greater support for government responsibility has to do with a late appreciation of the care provided by the government under the communist regimes before 1989, but within the present EU it is precisely in the most highly developed welfare states that government-provided care is the least popular.

Table 1.11 follows two sets of opinions on income inequality and two opinions on the unemployed with a number of views on the tasks of the welfare state. The size of income differentials is seen as less of a problem in the Netherlands and Denmark than elsewhere, while in Greece they are seen as more of a problem; however, there is little to suggest that there is a general pattern corresponding to the different types of welfare state. The same applies for the opinions on the unemployed.

As regards the various government tasks which are usually associated with the welfare state, there are some differences between the countries, but striking across the board is the wide support for the welfare sate in the European Union. This was also the most striking finding of research into public opinion in this area in the early 1990s (Gelissen 2001: 57 ff). The preferences show a strong correlation in all countries, and to facilitate an overall comparison they have been added up to provide an aggregate measurement of support for the welfare state. This support is lowest in Germany, Denmark and the Netherlands and far and away the greatest in Greece.

Table 1.11 Opinions on inequality and the welfare state, 2001, average agreement by the population aged 15 and older[a]

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
'Income differentials in [own country] are too wide'	69	84	81	60	77	80	81	78	80	77	83	84	92	81	84
'In our society the rich get richer and the poor get poorer'	70	84	83	62	81	82	83	77	82	78	82	82	91	79	84
'The unemployed should be forced to accept a job quickly, even if it is not as good as their previous job'	75	69	77	68	71	70	75	72	74	79	74	74	85	71	75
'The unemployed must be given time and opportunity to improve their training and skills'	75	82	87	84	82	85	79	74	80	78	81	72	88	83	76
'It is the responsibility of the government to reduce the differences between people with high and low incomes'	69	82	72	61	70	79	71	74	75	75	74	79	88	80	78
'The government should provide a reasonable living standard for all children'	78	89	86	84	86	90	80	77	84	88	85	88	94	90	85
'The government should provide everyone with a guaranteed basic income'	68	84	61	63	74	80	64	66	79	83	77	77	89	80	69
'The government should provide reasonable housing for everyone who cannot afford it themselves'	69	80	69	70	75	84	69	60	73	74	77	75	89	76	76
'The government should offer employment to everyone who wants to work'	66	68	70	69	73	79	76	71	78	85	78	78	94	82	79
'The government should provide a reasonable living standard for the unemployed'	66	80	76	67	66	78	61	53	70	66	70	69	90	77	71
Support for the welfare state[b]	69	80	72	69	74	82	70	67	77	78	77	78	91	81	76

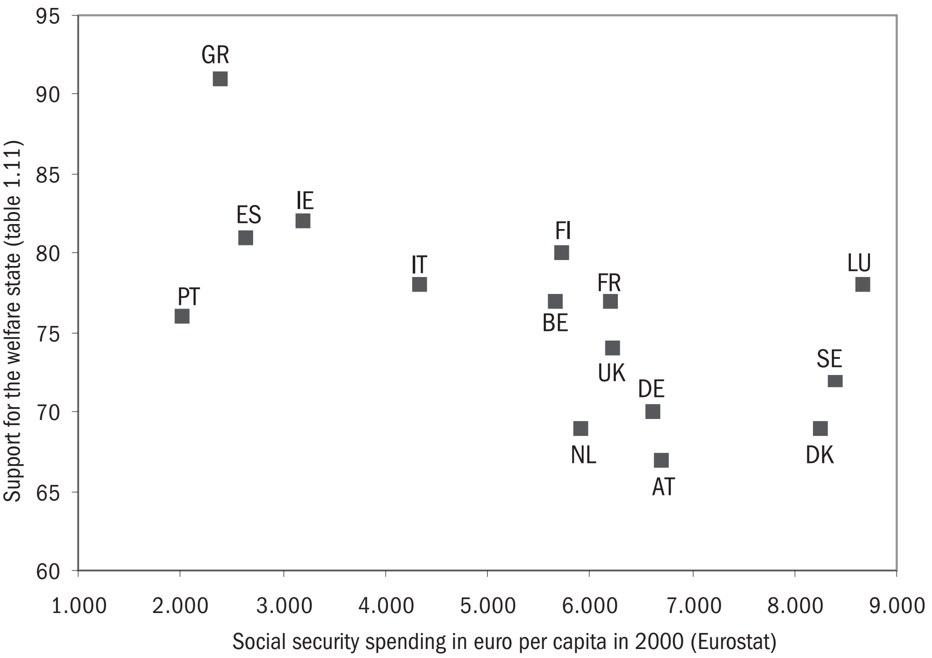
a 'Could you say to what extent you agree or disagree with each of the following statements?' The answers shown are average values on a five-point scale ranging from 'disagree strongly' (=0) via 'neither agree nor disagree'/'don't know' (=50) to 'agree strongly' (=100).

b Scale of the six preceding preferences for government tasks (Cronbach's alpha is 0.67 in Portugal and greater than 0.70 everywhere else).

Source: Eurobarometer 56.1 (September-October 2001); weighted results

In figure 1.3 the average support is plotted against social security expenditure per head of the population. Support for the welfare state proves to be *greater* in countries where this expenditure is lower. Lower support for the welfare state in countries which already have a strong welfare state regime suggests a ceiling effect.

Figure 1.3 Support for the welfare state and social security spending in EU Member States



To conclude this section, table 1.12 presents opinions on pensions and the potential effects of the ageing population. Spain and Portugal, Sweden and Denmark and Belgium, Luxembourg and Austria have the largest groups in favour of a state pension; Finland is the only country where a joint employers' and employees' scheme is the most popular. Compared with the responses to the same question in 1992, the preference for a state pension has fallen in a number of countries (but not the Netherlands). A pattern along the lines of Esping-Andersen's classification cannot be discovered in these differences.

In all countries there is only a minority who expect pensioners to be better off in the future as a result of the ageing of the population. In some Member States (Finland, Austria, France) a majority expect to see both an increase in the retirement age and a reduction in pensions. Almost everywhere, a majority of the population expects at least one of these negative developments. The exceptions are Greece, Spain and Portugal – which are also the only three countries where only a minority expect the government to play a more minor role. The 'optimistic' views in these three countries could be related to the relatively generous pension provisions in the 'Mediterranean welfare state' (see chapter 3, section 6), but their optimism is not shared in Italy, and the opinion differences also cut right across the distinction between welfare state types.

Table 1.12 Opinions on ageing and pensions, 1999, percentages of the population aged 15 and older[a]

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Preferred method of pension payment:															
• mainly by the government, funded from premiums and taxes	37	27	53	52	39	49	41	52	64	52	45	41	39	61	66
• mainly by employers, funded by themselves and by employee contributions	29	54	23	25	31	23	41	23	16	21	30	23	37	14	13
• mainly through private insurance taken out by people in work with a pension fund or insurer	23	9	13	18	20	14	10	16	11	15	15	18	14	5	5
• don't know	11	10	11	6	11	14	9	9	9	13	11	19	10	20	16
Expected consequences of ageing:[a]															
The system of social provisions will develop further and pensioners will be financially better off than now	16	20	9	15	16	31	20	13	24	27	13	17	37	21	34
People will have to retire later	51	67	36	54	32	26	41	68	41	41	61	40	6	20	25
People will receive less pension for the contributions they have paid	64	76	73	69	68	38	66	80	65	64	81	57	34	42	41
Pensions will be paid mainly from private insurances and the government will be less important	77	66	81	83	81	50	59	62	54	53	67	58	42	37	35

a In the future there will be more older people than there are now. Do you think that ...?' Several responses possible.

Source: Eurobarometer 51.0 (March-April 1999); weighted results

All in all, the welfare state types described by Esping-Andersen and related researchers are not readily recognisable in the data presented here on public opinion on inequality and social policy. Gelissen (2001) does recognise these types more in his analysis of older opinion data, but both in his work and here it seems that public opinion is more a mirror image than a reflection of reality. Social policy receives more public support in countries where it is less well developed, and this is perhaps not entirely surprising or, as Gelissen (2001: 214) suggests: 'In countries where the role of the government is limited, citizens benefit more from increasing government intervention, whereas citizens of countries where the government already plays a major role are aware of the costs of an extensive social security system.'

1.2.2 *Preferences for European policy*

Table 1.13 shows the views on common European policy for a number of policy domains and social problems.[11] For the sake of clarity, the domains have been ranked by the extent to which a preference for European policy exists in the Netherlands, the changing numbers of 'don't know' responses have been left out of consideration and scores above the national average have been printed in bold.

11 Note that respondents are asked to express a preference for policy 'within the European Union', and that need not necessarily be 'Brussels'. The formulation of the question, at least in the Dutch and English versions, does not rule out the possibility of collaboration between several EU Member States, separate from the institutions of the EU itself.

Table 1.13 Preferences for common European policy, autumn 2002, percentages of the population aged 15 and older[a]

	NL	FI	SE	DK	UK	IE	DE	AT	BE	LU	FR	IT	GR	ES	PT
Foreign policy on countries outside the EU	**79**	**65**	**59**	**62**	**63**	**78**	**80**	**68**	**87**	**83**	**81**	**88**	**71**	**83**	**74**
Scientific and technological research	**72**	**57**	**54**	**67**	**61**	**79**	**64**	**66**	**79**	**86**	**76**	**83**	**84**	**81**	**66**
Environmental protection	**72**	**38**	**50**	**51**	**53**	**58**	**66**	**54**	**63**	**63**	**67**	**67**	**72**	**71**	**61**
Aid to regions with economic problems	**69**	**56**	**59**	**69**	**62**	**81**	**67**	**61**	**72**	**80**	56	62	**77**	**77**	**66**
The fight against drugs	**62**	**65**	**57**	**70**	**51**	**73**	**71**	**67**	**74**	**64**	**80**	**78**	**77**	**77**	**70**
Defence	**62**	7	19	**43**	35	36	**53**	**48**	**60**	**65**	51	62	41	57	52
Tackling poverty and social exclusion	**59**	**52**	**52**	**57**	**58**	**70**	**66**	**59**	**62**	**66**	**68**	**76**	**77**	**74**	**66**
Agriculture and fisheries policy	**57**	27	**40**	**55**	40	52	**63**	44	**63**	53	48	49	58	57	56
Immigration policy	**57**	16	29	39	28	46	41	36	**59**	45	**63**	**76**	**68**	**69**	57
Admission of refugees	51	17	29	32	29	45	50	35	**59**	46	**67**	**76**	62	**70**	**63**
Tackling unemployment	39	29	**38**	37	35	55	46	**51**	51	39	**57**	**66**	**68**	57	**60**
Justice	37	22	18	17	25	46	30	25	35	37	38	51	44	46	43
Cultural policy	35	**33**	20	19	**46**	45	40	33	43	42	43	61	53	60	51
Health and social security	33	9	9	16	31	39	28	25	34	31	26	46	60	45	49
Tackling the problem of the ageing population	32	27	23	25	**43**	**64**	51	**59**	56	**56**	**65**	**72**	**75**	**72**	**60**
police	25	20	17	26	17	36	29	24	30	34	35	43	40	42	43
Education	24	18	22	25	20	38	31	31	28	31	31	50	53	44	41
Average preference for European policy	51	32	35	42	41	55	51	46	56	54	56	64	63	63	57

a ‘Can you say for each of the following areas whether you think that decisions should be taken by the [national] government or within the European Union?’ The percentages shown are for ‘within the EU’; together with the responses ‘[national] government’ and ‘don’t know’ they add up to 100%. EU preferences above the national average are printed in bold. The (selected) areas are presented in order of decreasing popularity of EU preference in the Netherlands.

Source: Eurobarometer 58.1 (October-November 2002); weighted results

As in earlier surveys (SCP 2000: 150) a majority of people everywhere, and often a large majority, are in favour of European decision-making for international and large-scale problems. There are however some exceptions, such as the Finns, who are very resolutely against allowing foreign influences on defence policy and also prefer to keep their environment policy national. When it comes to traditional areas of the welfare state such as health care and social security, education and culture, there is rarely if ever a majority in favour of European policy. This also applies for the police and justice systems. However, a great deal appears to depend on the terminology used: even where people are reticent on a particular policy domain, a specific problem or ambition (the fight against drugs, tackling poverty) can still produce a majority in favour of European decision-making. This is generally not the case, however – including the Netherlands – when it comes to the issues of unemployment and the ageing population.[12] Across the board, the Netherlands occupies a middle position between the conservative Scandinavian countries and the pro-European southern countries.

12 It should be pointed out yet again that it has to be assumed in this chapter that translations of questions and statements are not only correct, but also correspond in terms of the feelings they evoke. This is a somewhat heroic assumption. An example from table 1.13: the Dutch questionnaire uses the term ‘probleem’ in relation to the ageing population, whereas the English parent list uses the term ‘tackling the challenges of an ageing population’. We simply have to assume that the terms ‘problem’ and ‘challenge’ prompt a national or European preference to an equal degree in both languages.

1.3 Conclusion

The second part of this chapter reveals no clear demand in Dutch public opinion for more European social policy. The need for European coordination in tackling large and international problems is acknowledged, but the Dutch – and others – still prefer national policy in typical areas of the welfare state. To a lesser extent than in the south of the EU or in the new Member States, the Dutch public have no major ambitions regarding the redistribution and development of collective provisions which would require European initiatives. The Netherlands does resemble other developed welfare states in Northern and Western Europe in terms of the limited ambitions for the welfare state, but beyond this no clearly distinct welfare state types are evident.

In the first part of this chapter, the Netherlands again emerged as a country with a relatively positive public opinion about the European Union. However, this positive attitude appears to be more a result of pragmatism and a weighing of advantages and disadvantages than an expression of the embracing of an idea of Europe or the result of particular ties with other European countries or peoples. Of itself this benign pragmatism towards Europe, coupled with a certain disinterest on the part of the population, gives politicians and policy makers the scope to act at European level. From the standpoint of democracy and based on the desire to acknowledge the importance of Europe, however, they cannot be satisfied with this. An extremely low turnout such as that at the European elections in 1999 shows a deficiency of domestic democracy and is internationally embarrassing. Where there is a lack of involvement in Europe and in a broad social debate, there is also the constant danger that Europe will suddenly become an 'issue' and will be hijacked as a vehicle for diffuse political dissatisfaction.

After the turbulent year that was 2002, with its strong focus on domestic politics, there now appears to be greater scope in the Netherlands for turning attention to cross-border matters. With European elections due in June and the Dutch assuming the presidency of the EU in the second half of the year, 2004 offers good opportunities for promoting the social debate on Europe and on the Netherlands within that Europe. Stimulating this debate will probably not be achieved by better public information on the importance of Europe, but is much more likely to require political controversies that are played out in public (cf. De Swaan 2003). To date the development of 'Social Europe' is hardly a public political issue in the Netherlands. Like other European developments, it is more a process in which people are *carried* along than a project which the people help to *carry* along.

2 From Rome to Lisbon[1]

The desire to give Europe a social as well as an economic face has a long history. And yet social policy in the European Union is still largely left to the individual Member States. This chapter shows how European social policy has evolved over recent decades, and in doing so outlines the context in which the subsequent chapters should be read.

2.1 *The development of European social policy in the last century*

The idea of a European social policy is not new; even during the run-up to the Treaty of Rome, in 1957, the French prime minister and socialist Guy Mollet attempted to have the harmonisation of social regimes ensconced as a condition for the unification of Europe. We can therefore justifiably say that the idea of a Social Europe is as old as the road to Rome.

The French proposal was prompted by fears that increasing trade liberalisation would lead to social dumping, with possible negative consequences for the already weak competitive position of the French industry. This idea was not supported by the five other founder members of the European Economic Community, though by way of compromise a clause was inserted in the Treaty containing a commitment to closer cooperation in the areas of training, employment, working conditions, labour relations and social security. Explicit reference was also made to the possibility of harmonising legislation with a view to achieving equal pay for men and women, and the social security rights of migrant workers were also covered. It was expected that the national welfare states would eventually converge towards a uniformly high level of social protection, but no compulsory mechanism was attached to this expectation.

The promise of harmonisation was not fulfilled in the subsequent 15 years. A key reason for this was the requirement of unanimity, which meant that progressive proposals had little chance of success. In addition, this was a time of steady economic growth, and citizens were therefore less concerned about jobs being lost to low-wage countries. When the economic tide turned after the first oil crisis, attention once again turned to the idea of limiting competition in the area of social regulations. This led to the first Social Action Programme (1974), which focused on the equal treatment of men and women, employment laws and improved working conditions. The reawakened ambitions of harmonisation of social policy were however quashed by the entry of the new Member States Ireland, The United Kingdom and Denmark, all of which set great store by their autonomy.

In the 1980s the European Community expanded southwards. This led to renewed fears of social dumping in the more developed economies of Northwestern Europe, with countries with higher levels of social protection being unable to compete with countries with lower standards. As a result, from the mid-1980s onwards, partly under the influence of the increasing integration *en route* to the internal European market, the idea of a pan-European social policy once again gathered momentum. The Single European Act (1986) introduced decision-making based on a qualified majority in a number

1 In writing this chapter use was made of WRR (2003) and of various publications by the European Commission.

of areas of social policy. This led to a considerable strengthening of the competence of 'Europe' to act in the social domain: the European Commission could now circumvent threatened British vetoes, for example, and a great deal of legislation on working conditions was produced, such as minimum safety standards at the workplace. In 1989 the idea of a pan-European social policy led to the 'Social Charter' (the Community Charter on Fundamental Social Rights), which further developed the ideas of harmonisation and mutual recognition. The United Kingdom did not participate, because it refused to tolerate any intervention from Europe in its social policy.

The development of a European social policy was continued in the 1990s in the 'Dutch Treaties' (Maastricht and Amsterdam). In the latter Treaty, social policy was included in the Treaty for the first time, as the Social Chapter, and ratified by all Member States of the EU, including the United Kingdom. Among other things, this Social Chapter set out guidelines on the role of the social partners, protection in the event of mass redundancies, working hours, parental leave and proportional payment for part-timers and full-time workers. The fight against social exclusion was also explicitly included as one of the policy aims of the EU (Articles 136 and 137 of the Treaty of Amsterdam). This did not mean that from that time on the Member States of the European Union were committed to complete harmonisation of social regulations. In fact limits were set for this by embedding the subsidiarity principle in the Treaty of Maastricht. This underlined yet again that, despite all the steps towards European unification, social policy remained primarily a national affair.

2.2 *The Lisbon process*

In March 2000 a new dimension was added to the Social Chapter, when the European Council in Lisbon launched a ten-year strategy for the European Union directed towards economic, social and environmental renewal. The aim of this strategy was to enable Europe '*to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*'. This required an overall policy which included a commitment to modernising the European social model in addition to encouraging knowledge and innovation, strengthening competitiveness and promoting sustainable development. Ultimately the strategy was – and is – intended to create the conditions for full employment in the European Union and to reduce differences in prosperity across Europe.

Since the Lisbon Summit, the European Council has translated the overarching strategic aims into an ever-growing list of more concrete targets (currently around 190). These targets cover a host of areas such as investment in training, research and development, innovation, entrepreneurship and environmental protection. A ten-year programme has been drawn up for the achievement of these ambitions, which includes reforms of the labour, capital and goods markets. Each year the progress of the Member States in achieving the targets is evaluated by the European Commission and discussed by government leaders during the spring European Council.

The European Council stressed in Lisbon that everything turned on Europe's inhabitants and that the strategy therefore had to be focussed on investments in human capital and the development of an active and dynamic welfare state. The number of residents of the EU living below the poverty line is regarded as unacceptable, and the Council stated expressly that the strategic aim of securing the world's most competitive knowledge-based economy must not be accompanied by a worsening of the existing problems in the areas of unemployment, social exclusion and poverty. The European Social

Agenda was adopted during the European Council in Nice. This Agenda is intended to lead to the modernisation of the European welfare state. Social policy is defined as 'policy to combat poverty and social exclusion'.

As in other areas of the Lisbon process, a number of core social policy ambitions have been agreed by the Member States. The first is the promotion of employment. Being in work is regarded as the best insurance against social exclusion. Moreover, high employment rates can increase the supporting base from which social protection can be funded for those who are unable to work. This is also important in the light of the ageing of the population.

Another core objective of European social policy is to reduce the number of people at risk of poverty and social exclusion. During the recent European Summit in Brussels in the spring of 2003, this commitment was emphasised yet again. In order to demonstrate the genuine desire to achieve this ambition, individual Member States must set explicit targets for the reduction of poverty up to the year 2010.

The European Summit in Lisbon deliberately made no agreements on the way in which the objectives should be attained; this is regarded as an individual policy matter for Member States. The European Council in Brussels reaffirmed that the objectives had to be achieved 'with full account being taken of the subsidiarity principle and the national competences relating to the organisation and funding of social security.'

This is in line with the Open Method of Coordination which is being applied in more and more policy domains in the EU. This method gives countries the freedom to choose the measures that best fit their particular society and welfare state model. The correspondence between the performance of the Member States and the objectives set is assessed by the European Commission and by periodic 'peer reviews'. The aim of these evaluations and reviews is to enable national policy to be adjusted by confronting it with standards and practices in other countries. If necessary the European Council can issue recommendations. Although there are no sanctions, political pressure means that this method goes further than non-obligatory forms of benchmarking.

The translation of the European objectives into national policy is thus of crucial importance for the success of the Open Method of Coordination. All countries accordingly compile National Action Plans every two years in which they set out how they intend to combat poverty and social exclusion in their country. Chapter 4 looks in more detail at the Plans of the various Member States for the coming years. First, however, the following chapter looks at the diversity of European welfare states.

3 *Welfare states in Europe*

The regulations governing social security and the labour market differ in every Member State of the European Union. In some Member States, for example, pension provisions are mainly in private hands, while others regard this as an important task of the government. There are also differences in the minimum wage, the legislation covering dismissal, the level of benefits and the conditions for receipt of social security benefits. Despite these differences, however, it is possible to classify the different Member States broadly on the basis of their social security legislation and labour market policy. This chapter looks at the classifications devised by Esping-Andersen, following which we subject this classification to empirical testing and give a description of the different types of welfare state.

3.1 *Esping-Andersen*

Although all Member States of the European Union have a different social security system, they can nonetheless be grouped into a number of clusters or types. An example is the classification adopted by Esping-Andersen (1990, 1996, 1999). Gøsta Esping-Andersen has become the most-quoted sociologist in the field of research on the welfare state since he developed his typology of welfare states more than ten years ago. He argued that three types of welfare state can be distinguished in Europe. First there is the *liberal* welfare state, which in Europe includes the United Kingdom and Ireland. In Esping-Andersen's typology these countries offer fairly limited collective provisions and the target group of those provisions is limited to those who cannot meet their own needs in any other way. The better-off groups have to cover their own risks through private arrangements or employee benefits provided by their company. The government often encourages such schemes through the tax system.

In addition to these liberal welfare states, Esping-Andersen also identifies the *social-democratic* welfare states; this category mainly includes the Scandinavian countries (Denmark, Sweden and Finland). Reducing income differentials is a prime objective in these countries, and their social security systems are largely universalist, in that all inhabitants are entitled to collective provisions for a large number of social risks. The conditions for access to the system are generous and benefits are generally high. The policy in general is strongly geared to encouraging people into work, since high employment is an absolute necessity in this type of welfare state. An active integration policy is in place to help the unemployed and incapacitated for work back into employment quickly, and according to Esping-Andersen there are also good leave arrangements which make it easier for women to accept jobs. Not surprisingly, therefore, the labour market participation of women is high in these countries.

Esping-Andersen's final category is the *corporatist* welfare states; within the EU Germany, Austria, France and Belgium are the main examples of this. According to Esping-Andersen, these countries are characterised by schemes specifically aimed at different occupational groups. Civil servants are privileged because of their links with the state. Because of these separate programmes for different occupational groups, the various schemes are funded mainly through the levying of premiums; employees pay collectively for their own provisions. This also means that the relationship between contributions paid and benefits received later is stronger than in the liberal and social-democratic countries. Another feature of the corporatist countries cited by Esping-

Andersen is the low labour market participation rate of women compared with the social-democratic countries. This is partly because of the limited availability of provisions like parental leave schemes.

The Netherlands was initially regarded as a social-democratic country according to Esping-Andersen's typology. Other authors, however, such as Castles and Mitchell (1993), Siaroff (1994), Ferrera (1996) and Bonoli (1997), place the Netherlands among the corporatist countries. In a later work Esping-Andersen accordingly qualifies the Netherlands as a 'hybrid', a country with both social-democratic and corporatist features. For example, the Netherlands has a fixed basic pension to which every inhabitant is entitled, something which is a common feature of the social-democratic countries; on the other hand, leave arrangements in the Netherlands are relatively limited and supplementary pensions are organised on an individual sector basis; these are typical corporatist features. The activity rate is on the low side.

Esping-Andersen says nothing in his discussion about the Mediterranean countries or the new EU Member States. Italy is the only exception, being characterised as corporatist because many arrangements are organised on a sectoral basis. Ferrera (1996), however, argues that the Mediterranean countries Greece, Portugal, Spain and Italy could be regarded as a separate welfare state type. A key characteristic is that these countries generally have no clear social safety net in the form of a subsistence benefit. On the other hand, pensions are relatively high, mainly because of the widespread patronage and clientelism in these countries (Arts and Gelissen, 1999), whereby politicians sought to gain the favour of the electorate by promising good pension provisions.

In addition to these countries, ten new Member States will join the European Union in 2004. The four most important countries in this group, Poland, Hungary, the Czech Republic and Slovakia, formed part of the Eastern Bloc until 1989, where full employment was an important objective. In addition, these countries had a strong equality ideal. As a result, social provisions made no distinction according to employment history or occupational status. After the revolution in 1989, however, the affordability of these schemes came under great pressure. All the countries have been forced to overhaul their social regimes and the weak economic situation means that they can now generally be described as meagre. For example, the subsistence benefits in these countries are among the lowest in Europe (OECD 2002a).

3.2 Empirical typology

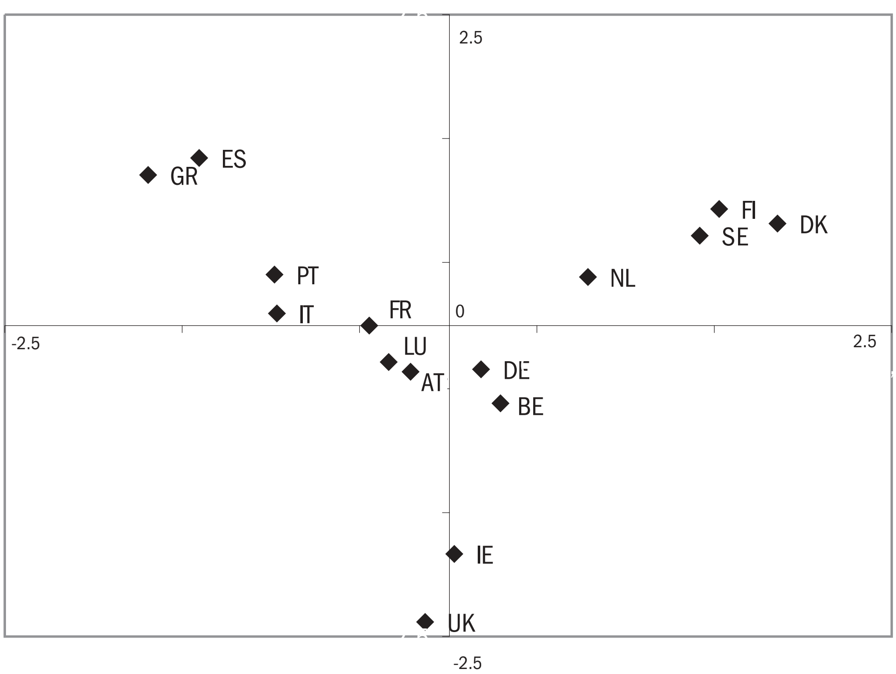
In order to test Esping-Andersen's theoretical classification of welfare states, several areas of the systems operating in the present 15 EU Member States were analysed: labour market, (state) pension, widow's pension, unemployment, incapacity for work, leave arrangements, subsistence benefit and the funding of provisions.[1] In view of the lack of empirical material, the acceding EU Member States could not be included in this analysis. The main features of all the systems, such as level, scope and duration of benefits were reviewed and entered in a database. A number of statistical data were also included, such as average unemployment benefits and the amounts spent on the

1 This analysis was also carried out by the SCP in Wildeboer Schut et al. (2000), where it related to data on the social security systems in the early 1990s. A total of eleven countries were analysed in that survey (seven EU Member States plus Norway, Australia, the Unites States and Canada). The study confirmed the classification described by Esping-Andersen; however, it did not include any Mediterranean countries.

various provisions as a proportion of GDP. The data describe the situation in the various countries in the years around 2000. A total of 52 features were included in the analysis; they are listed in the Appendix.

One technique for analysing the relationships between different characteristics is the Princals.[2] This method seeks out the most characteristic dimensions of the data collected. Consequently, these dimensions can be regarded as a characterisation of the welfare state of a particular country. This means that countries which have much in common in the area of social security and labour market will achieve roughly similar scores for those dimensions. By contrast, countries which deviate strongly in these areas will receive different scores. The scores for the first two dimensions are shown in figure 3.1.

Figure 3.1 Typology of the EU countries



Source: Princals analysis (SCP)

It is not always possible in analyses of this type to establish a uniform relationship between the scores obtained by the countries and specific aspects of their welfare states. The analysis shows that the first dimension on the horizontal axis correlates to the size of the total welfare state, the level of taxes, the amount spent on labour market programmes, unemployment benefits and the degree of universalism in the schemes. The Scandinavian countries score fairly highly in these areas, while the Mediterranean countries achieve generally fairly weak scores. On the basis of this analysis, the

2 Princals (Principal Component Analysis by Alternating Least Squares) is a non-linear principal components analysis. Data are reduced to a limited number of uncorrelated dimensions which explain the data set as adequately as possible. In the analysis performed here, the first component has an individual value of 0.38, while the second component has a value of 0.19.

Netherlands has a reasonably large welfare state with a fairly large number of universal provisions compared with the rest of Europe. The vertical axis is less clear as regards the first score. This axis mainly reflects the level of state and compulsory retirement pension. The Scandinavian and Mediterranean countries generally have relatively good provisions here, while the other countries generally score less highly.

The figure shows that four types of welfare state that can be distinguished, as well as a few countries which are not easy to classify. In the centre of the figure are Germany, France, Belgium, Austria and Luxembourg. These corporatist countries emerge from this analysis as 'moderate'; compared with the other countries, they do not achieve any extreme scores. The upper right-hand square contains Denmark, Finland and Sweden; these represent the social-democratic cluster, with a large welfare state, universal schemes and good pension provisions. Based on this figure, the Netherlands can be characterised as both corporatist and social-democratic. Greece and Spain are the clearest representatives of the Mediterranean model. Finally, in the lower part of the figure we find Ireland and the United Kingdom. The government in these countries provides a relatively low state pension. Although these countries have a smaller welfare state than most of the corporatist countries, they achieve roughly the same scores as the corporatist countries on the horizontal axis because many of their schemes are universal.

There are three countries which cannot be easily classified. First, the Netherlands is positioned between the corporatist and social-democratic countries, thus agreeing with the discussion by Esping-Andersen. Portugal and Italy are situated between Spain and Greece on the one hand and the corporatist countries on the other. The provisions in these two countries are thus generally less obviously 'Mediterranean'. Italy has higher tax rates than the other three countries, while Portugal has slightly higher unemployment benefits. In both countries, pensions are on average lower than in Spain and Greece. Since both countries are generally closer on the first dimension to the average for Greece and Spain than to the average for the five corporatist countries, Italy and Portugal are regarded as Mediterranean in this report. In the following sections the different characteristics of the clusters are discussed in more detail on the basis of the data gathered for the analysis.

3.3 Social-democratic countries

According to this analysis, Denmark is the clearest representative of the social-democratic model. A key reason for this is that Denmark has relatively extensive provisions, spending more than 1.8% of GDP on reintegration programmes for jobseekers, for example – the highest percentage in Europe. Unemployed people are thus helped back into work by the government as rapidly as possible. Moreover, unemployment benefit in Denmark is relatively high: based on figures from the OECD, an average employee in Denmark receives 81% of his most recently earned salary during the first five years after becoming unemployed (OECD 2002a). Denmark thus pays a relatively high percentage of salary for a long period, whereas in many other countries unemployment benefit is stopped or reduced after a shorter period.

In addition to the reintegration programmes, the social-democratic countries also seek to encourage employment participation by leave arrangements. Each country accordingly has forms of parental leave in which the government reimburses part of the costs. The three social-democratic countries are also relatively generous when it comes to disability benefits. In all three countries all working people, including the self-employed, are insured for employment disability and receive benefits totalling more than 60% of their most recently earned salary. In most other countries of the EU a lower percentage is paid or the benefit is set at a minimum level.

The Scandinavian countries generally offer reasonable pensions. All three have a separate scheme for older people without an employment history, so that these people are not forced to rely on subsistence benefit. Only Sweden has a fixed pension for older people; in Denmark and Finland the pensioner's other income and assets are first assessed before the pension is paid, and as a result the distinction between the pension these countries and the subsistence benefit paid in other countries is somewhat limited. Pensions for people with an employment history are however relatively high on average in Sweden compared with the other countries, at around 74% of the average salary (state pension) (OECD 1998). In Denmark and Finland the percentage is 56% and 60%, respectively, putting these two countries considerably closer to the European average than Sweden. As a result of the high pension costs, Sweden modified its pension system in 1999; in addition to the basic pension, there is now also a compulsory defined contribution system for the employment-related part of the pension.

An obvious consequence of the relatively generous schemes is the high cost of the social security system. Not surprisingly, therefore, tax and insurance rates are high in the social-democratic countries. In 2000, tax and premium revenues by the governments of these three countries exceeded 55% of GDP, higher than anywhere else in the EU. The figure for the Netherlands is 47.4% while the average for the EU is 46.7%. Another feature of the social-democratic countries is that the lion's share of the costs of social security are funded through taxes. This is because the schemes apply for all citizens and no specific distinction is made between different (occupational) groups. This makes collection via the tax system the simplest option.

3.4 Liberal countries

In the liberal welfare states – the United Kingdom and Ireland – the state pension is considerably lower than in the other countries of the European Union. Older people without an employment history are dependent on a means-tested subsistence benefit. In addition, both countries have a relatively small employment-related pension scheme which is implemented by the state and is compulsory for all employees. As the employment-related state pension is relatively low, many employees are members of a private pension fund via their employers. A key difference compared with the Netherlands is that these schemes are not compulsory.

The maximum national assistance benefits payable in the United Kingdom and Ireland are comparable with the EU average; they are generally lower than those in the social-democratic countries but substantially higher than in the Mediterranean countries. The amounts roughly correspond with those in the corporatist countries Belgium and Germany, and are lower than in the Netherlands; unemployment benefit in the United Kingdom is much lower than in the Netherlands. The level of benefit is not dependent on most recently earned salary in the two liberal countries, but is a fixed amount which is slightly higher than the subsistence minimum. As a result, the drop in income on becoming unemployed is very severe. On top of this, the duration of unemployment benefit is limited; in Ireland unemployment benefit is converted to national assistance benefit after 15 months, while in the United Kingdom this happens after only six months. In addition, the availability of reintegration programmes is very limited in these countries; the United Kingdom spends around 0.36% of GDP on job reintegration programmes, the lowest in Europe. The liberal countries prefer to use financial incentives such as 'employed person's tax credits' in order to boost the labour supply.

An important consequence of the lower pensions and unemployment benefits is that the costs of the social security systems in the liberal countries are limited. This means that tax and insurance rates are lower than in the EU countries: total government revenues amount to less than 45% of GDP in both countries. It should be borne in mind, however, that the costs of the private schemes are not included in this figure.

3.5 Corporatist countries

The corporatist countries (Germany, France, Belgium, Austria and Luxembourg) emerge as moderate in the dimensions found in the analysis in figure 3.1. The most important areas of the social security system, such as pensions, unemployment or parental leave arrangements, are generally neither particularly generous nor particularly mean in these countries; accordingly, they are situated in the middle of the figure.

Typical for the corporatist countries is the relationship between occupation and entitlement to provisions. As a result, the coverage can vary from one sector to another. The system is thus geared mainly towards sustaining a standard of living that has already been achieved, rather than on reducing income differences. This also means that social security is funded mainly via premiums, which account for more than 70% of social security funding in all these countries. Only Spain and Greece equal this percentage. France scores highest with 83%, while the Netherlands is at the European average of 52%.

Since the schemes are often related to occupation, unemployment benefits in the corporatist countries are reasonably high, and are particularly striking because of the length of time for which they are paid. In France, for example, an unemployed person can receive benefit for five years, while in Belgium there is no time limit at all. As unemployment benefit lasts for a long time, the national assistance benefits can in turn be fixed at a lower level, since the target group for these benefits is already considerably smaller. As a result, national assistance benefits in the corporatist countries are lower on average than in the United Kingdom and Ireland.

3.6 Mediterranean countries

In contrast to the Scandinavian countries the Mediterranean countries such as Spain, Portugal, Greece and Italy have small social security systems. This is apparent *inter alia* from the national assistance benefit levels in these countries: Portugal and Greece do not have this provision at all, while in Spain and Italy the standard amounts for a single person are among the lowest of the present 15 Member States. Unemployment benefits are also low, especially in Italy and Greece: in Greece an employee has a right to 40% of his most recently earned salary for one year; in Italy the same employee has a right to 80% of salary for six months. Unemployment benefit in Portugal is more generous: here, an unemployed person receives 65% of most recent salary for a period of 30 months.

The Mediterranean countries are also characterised by the nature of their leave arrangements. All Mediterranean countries have paid maternity leave systems, but only Spain also offers paid paternity leave, which allows the father to take two days off after the birth. The parental leave arrangements are limited to entitlement to unpaid leave. Another characteristic of the Mediterranean countries is the low level of child benefit; none of these countries spent more than 1.2% of GDP on child benefit in 1998, considerably less than in the social-democratic and corporatist countries.

In contrast to the other provisions, retirement pensions in these countries are high. For example, an employee in Spain can build up a full old age pension in 35 years which is equivalent to 100% of his salary. He can then retire on this pension at age 65. On average, therefore, these three countries spend a higher proportion of GDP on pensions than the rest of the EU. The fact that these countries in particular are confronted with an ageing population means they are likely to face relative difficulties in keeping their pensions affordable. For this reason Italy has already pushed through a number of reforms in its pension system, for example switching to a defined contribution rather than a defined benefit system. This means that the ultimate pension will no longer be calculated on the basis of the most recently earned salary, but on the basis of contributions paid during a person's working life. This represents a clear reduction in the generosity of the pensions system.

3.7 Conclusion

At present, Europe is by no means uniform in terms of social security and labour market arrangements. Four different types of welfare state can be identified in the present day EU. First there is the social-democratic type, in which income differentials are kept as small as possible and labour participation rates are high. This type of system is found in Denmark, Sweden and Finland. Then there are the corporatist countries France, Germany, Luxembourg, Belgium and Austria. The social security system in these countries is geared to maintaining the standard of living that has been achieved. Each occupational group has its own system. The liberal type of welfare state, in which provision is made only for the most necessary benefits to combat poverty, is found in the United Kingdom and Ireland. Finally there is the Mediterranean type. This system has corporatist characteristics, except that national assistance levels are low while pensions are high. Spain and Greece are the clearest representatives of this model; Italy and Portugal an be regarded as more moderate. The Netherlands combines elements of the social-democratic and corporate type of welfare state.

4 Objectives of social policy

The present welfare states in the European Union can be classified into different types, each with its own characteristics. In the light of ongoing European integration, the question is whether this situation will continue. After the European Council in Lisbon in March 2000, in December of that year the European Council of Nice agreed a number of core objectives relating to social policy, as a 'policy to combat poverty and social exclusion'. The objectives agreed at European level will in time undoubtedly have consequences for the provisions in the different types of welfare state.

Although all countries wish to achieve the same objectives, it is likely that the emphases will be different in individual Member States. In order to analyse this, the National Action Plans to combat poverty and social exclusion (NAP/incl) from 2001 were examined for the purposes of this study.[1] Use was also made of the report 'Social protection in Europe 2001' and the 'International Reform Monitor' (Bertelsmann, 2003).[2] To a lesser extent use was also made of the National Action Plans for employment (NAP/empl) and the National Action Plans for pensions (NAP/pens).

4.1 European social policy objectives

During the European Summit in Nice the following core objectives for social policy to combat poverty and social exclusion were agreed by the Member States of the EU (EC 2002b, p32 ff):[3]

1 To facilitate participation in employment;
2 To facilitate access by all to resources, rights, goods and services;
3 To prevent the risks of social exclusion;
4 To introduce measures to help the most vulnerable groups;
5 To mobilise all relevant bodies.

Given the emphasis on universal employment, the high level of social protection and the preventing of poverty and exclusion, these objectives appear more in line with the social-democratic type of welfare state than a liberal, corporatist or Mediterranean system. This begs the question of how far it will be possible for the social policy proposed in the NAPs/incl to be given the same priority in practice by the various Member States, with their different welfare state types. The main correspondences and differences between the EU countries are discussed below for each objective. It should be borne in mind that existing policy to combat poverty and social exclusion is by no means always included in the National Action Plans. This means that countries are compared only on the basis of their policy proposals as set out in those Plans.

4.2 Higher labour market participation

All Member States regard participation in employment as a fundamental right and as the best guarantee against poverty and social exclusion. In large degree their views with

1 The Member States will publish a new Action Plan in 2003.

2 This section will not continually refer to these sources.

3 The objectives agreed in Nice leave out of consideration one of the core objectives agreed at the Summit in Lisbon, namely 'raising productivity'. This topic is however discussed in chapter 5.

regard to this first objective of social policy correspond with what is described in their National Action Plans for Employment (NAP/empl), in which they set out how they intend to meet the EU target of an overall employment participation rate of 70% in 2010, a female participation rate of 60% and a participation rate for older workers (55-64 years) of 50%. The Member States will seek to achieve these objectives mainly by facing more emphasis on reintegration, or providing a comprehensive programme for all unemployed people, increasing the attention for specific target groups and making it easier to combine employment and care tasks.

More emphasis on reintegration, stricter sanctions policy

Most National Action Plans have undergone a shift in recent years from passive income support to active support to help get people into work, both by helping them look for work and by increasing their employability (e.g. through training or work experience placements). In many countries, participation in employment reintegration schemes has become a condition for receiving unemployment benefit. And where in the Netherlands, for example, a proportion of national assistance benefit recipients are still exempt from the duty to seek work, in Finland and Sweden registration at an employment exchange is an absolute condition for the receipt of national assistance benefit. And in Portugal, people who cannot be placed in work are required by law to participate in socially useful activities.

The sanctions applicable for non-participation in job integration schemes have become more stringent in many countries. In the United Kingdom in particular, sanctions are more frequently imposed on young people, but the number of sanctions has also increased markedly in Luxembourg and Finland. By contrast, some countries have favoured positive financial incentives. In Sweden, for example, the bonus payable for participation in job integration schemes has been greatly increased, while in Austria benefits are increased by 20% for the performance of 'public service jobs'. The Netherlands also pays premiums for participation in social integration schemes, and in Spain older unemployed people are eligible for reintegration benefit on completion of a reintegration programme.

Most countries are seeking to improve the cooperation between benefits agencies and reintegration bodies, so that a more customised reintegration service can be provided. The Netherlands recently made sweeping changes here by privatising the reintegration service and outsourcing it to commercial reintegration companies. Viewed over the period 1992-2002 as a whole, it has to be said that the results of these reintegration efforts have not been as good as had been hoped (Hoff and Jehoel-Gijsbers, 2003).

Comprehensive strategy

All Member States have stepped up their efforts to offer some form of reintegration (employment, training, trainee placements, etc.) to registered job seekers. According to EU standards, young people must be offered such a programme within six months of becoming unemployed, with the period for adults being 12 months (the 'Comprehensive Strategy'). In some countries the standard has been set even higher: in Finland, Germany, France, Spain, Ireland and Portugal the reintegration efforts begin even earlier during the unemployment period, while in Denmark, jobseekers are offered a tailor-made programme after a short period on national assistance benefit; this programme is agreed together with the client.

There are some differences of emphasis between countries with relatively high and relatively low unemployment rates. The first group (e.g. Spain, France, Belgium) direct their policy more towards creating jobs and increasing the employability of the long-term unemployed and the young. The second group of countries, which (until 2002) were faced with a tighter labour market (Luxembourg, the Netherlands, Denmark, Sweden, Austria and Ireland) gear their efforts more towards increasing the labour market participation of specific groups such as older people, members of ethnic minorities and the disabled, with the main aim being to increase the supply of labour.

Although all Member States are committed to full employment, only Denmark has an explicit aim of creating an 'inclusive labour market', which means that people who cannot (always) meet the applicable achievement standards must nonetheless have full and unrestricted access to the labour market. Quite a number of methods have been developed to achieve this in Denmark.[4] Finland and Sweden also have a number of such measures, which are typical of a social-democratic welfare state: achieving the highest possible labour market participation through the deployment of collective resources.

Target group policy

The integrated labour market policy is strongly characterised by a target group approach. In particular, specific measures have been developed for the *long-term unemployed*, aimed both at employers and employees.

Increasingly, policy is also being developed to reintegrate people with an *incapacity for work* (especially in Sweden, Finland, Denmark, the Netherlands, Austria and Luxembourg), and in some cases the benefits system is being changed. The days when people with an employment disability were not required to seek work or were not encouraged to work have gone, not only in the Netherlands, but also in other countries. Like the Netherlands, the United Kingdom is engaged in a drastic reform of the laws governing incapacity for work with the main aim being to promote participation in work. In Sweden, a major legislative amendment has already been implemented with regard to incapacity benefits: in the past these formed part of the pensions system, but have been replaced by sickness benefits, thus maintaining the focus on the labour market. In addition, Sweden has created a new benefit ('reintegration benefit') for young people aged up to 30 with an employment disability; this benefit enables them to seek work without financial risk. Denmark is currently creating flexi-jobs for those with an employment disability, who in the past made wide use of a special early retirement scheme. The 'early retirement benefit due to reduced capacity for work' was also abolished in Austria in 2000. It was mainly unskilled workers who used this scheme, because they were generally not eligible for incapacity benefit. Special training programmes have however been developed for this group and a quota scheme has been introduced in Austria – and in Germany, too – making it mandatory for employers to ensure that at least 5% of the workforce are people with an employment disability. Exemption from social insurance premiums or employers' subsidies when taking on disabled workers form part of the policy in a number of countries (including Italy and Spain).

4 These include arrangements in collective bargaining agreements to include people with limited capacity for work; reducing employers' costs for certain groups of unemployed and low-skilled people; outsourcing public tasks on the condition that they are carried out by the long-term unemployed or other disadvantaged groups (e.g. ethnic minorities); expansion of sheltered and subsidised employment and work experience places; and the encouraging of social enterprise.

The problem of low participation in employment by *older people* is regarded as very serious by the EU, and combating this problem is accordingly one of the directives of the European Employment Policy. In a number of countries (including the Netherlands) the problem is addressed mainly by offering retraining to older people and by abolishing early retirement schemes; the Scandinavian countries, by contrast, focus more on flexible arrangements for employees at the end of their career (a combination of work and early pension instead of full early retirement). The possibility of a partial pension has also been introduced in Spain, France and Austria for employees aged between 60 and 64, on the condition that an unemployed person is taken on to fill the hours released by the partial retiree. Germany has a similar system, except that it is no longer compulsory for employers to take on an unemployed person to fill the vacated hours.

Some countries have raised the retirement age for women to 65, increased the minimum age for early retirement, or increased the number of years needed to build up a full pension. In Denmark, however – against the trend – the retirement age has been lowered from 67 to 65, and efforts are directed towards combating early retirement (among other things by paying a tax-free bonus to people who retire after the age of 62). At the same time, Sweden has created the possibility of delaying retirement until age 67.

While the majority of EU countries acknowledge that the low activity rate of *ethnic minorities* is problematic and also often have specific reintegration measures for this group, only Denmark and the Netherlands have included targets for labour participation in their NAP/empl. Greece, confronted with large numbers of illegal immigrants, gives them a temporary residence permit for six months, during which time they can try to obtain a work permit for one year.

Combining work and care tasks

All Member States have measures to promote the participation of *women* in employment; creating the possibility of combining work and care tasks is seen as the most important instrument for achieving this. All Member States accordingly devote a good deal of attention to this in their NAPs, but the Mediterranean countries place particular emphasis on the fact that women must not seek employment at the expense of their families. They therefore set the explicit condition that adequate provision must be made for looking after and caring for those at home, to ensure that those who are vulnerable are adequately cared for. 'Vulnerable' here refers not only to children, but also to other dependants such as parents. With this in mind, Greece is not only working towards the setting up of childcare facilities, but also day care facilities for older people.

Expanding the childcare provision has high priority in many countries, including the Netherlands, while countries where childcare is already well organised (Denmark and Sweden) are focused more on measures which enable both men and women to combine work and care tasks more effectively.

The support for families with children – in the form of tax breaks, child benefit, childcare facilities, maternity and parental leave, care leave, etc – has greatly increased in all the EU Member States in recent years. However, this does not alter the fact that the level of support varies greatly from one country to another, while the objective (a more equal division of responsibility between men and women and more possibilities for combining work and family) is the same in all these countries. In France, for example, parental leave for men has been increased to eleven days, to be taken during the first four months following the birth/adoption, while in Sweden parental leave has been increased from 450 to 480 days for both partners together.

Austria introduced a generous system of 'care payments' in 2002 (EUR 436 per month for a period of 2.5-3 years, to which all parents – working or not – are entitled. The idea is that parents should be able to care for their children themselves, which again fits in with the corporatist system. Denmark also introduced a *de facto* 'care wage' in 2002, but this was based on the fact that the government, in view of the overly long waiting lists, is no longer able to guarantee a childcare place for all children. Parents receive a substantial financial contribution if they do not use the childcare facilities subsidised by the local authority, but this does have a negative influence on the participation of women in employment. This measure is therefore seen in Denmark as an important step in the policy of the new (right-wing) government of offering citizens greater freedom of choice. This may be a sign that the social-democratic system is shifting towards a system with more liberal features.

A group of women for which many countries have developed specific policy is *single mothers*. This is especially the case in countries where the activity rate of this group is low: Luxembourg, the United Kingdom and the Netherlands. In Luxembourg single mothers with children aged under six are no longer exempt from the duty to seek work. In the United Kingdom a specific reintegration policy has been developed for single parents with children aged five years or older. The chief aim is to reduce uncertainty and fear of loss of income on accepting work. In the Scandinavian countries the activity rate of single parents is much higher than in the other EU Member States, and the poverty rates of this group are much lower. As a consequence, no new policy has been developed in these countries for this group.

4.3 Better access to social provisions

Many provisions in the European Union are specifically aimed at certain target groups. An important principle here is that every citizen should have access to the social protection systems they need in the areas of minimum income, retirement provision and healthcare.[5]

Minimum protection

Virtually all Member States have a universal system of minimum protection for all legal residents of the country, though restrictions sometimes apply. Only Austria excludes citizens from outside the EU. Whereas most EU Member States provide a guaranteed minimum income, such a system is still being developed in the southern countries. As the guaranteed minimum income is the safety net on which everyone who needs it must be able to fall back, attention is being turned to reducing non-take-up of income provisions aimed at the low-income groups (e.g. housing benefit). This applies in all types of welfare state (the Netherlands, Denmark, Finland, Sweden, France, Spain, Portugal and Austria).

The Scandinavian countries have an extensively individualised and generally accessible (universal) system of social security and healthcare, which offers a fairly high level of

5 The EU has also taken on objectives in the fields of education, housing, justice and social services. However, since these objectives bear a less clear relationship to social policy, they are not discussed here.

minimum protection and which – according to the European Commission – has proved to be an efficient means of combating social exclusion.

It is generally recognised in the EU that the guaranteed minimum income must be set at such a level that it still pays people to go to work. The European Employment Strategy Directives accordingly state that the benefits and tax system must be reformed in such a way that the poverty trap[6] is reduced and that incentives are provided to encourage unemployed and economically inactive people to look for work. Most countries have made working more attractive by increasing the net income from employment and not by reducing benefits. In a number of countries, for example, the tax rate for low-paid jobs has been reduced and/or a bonus is paid on resumption of work (France, Netherlands, United Kingdom,[7] Belgium, Spain, Italy and Sweden).

In some cases, going out to work does not offer a way out of poverty (the problem of the 'working poor'). In response to this, Ireland and the United Kingdom have introduced the statutory minimum wage, while Germany, Austria and Sweden have introduced measures to include part-time workers and 'atypical workers' (e.g. newly self-employed people) in the social security system.

The improvement in the economy (up to 2002) made it possible for the Mediterranean countries in particular to improve their benefits systems. The level of unemployment benefits was raised in Greece by 10% in 2000, though they are still relatively low, at 51% of the minimum wage. In Italy the benefits went up from 30% to 40% of most recently earned salary, while the length of time benefit is paid was extended for those aged over 50. The benefit duration was also increased in Portugal, depending on age, and ranges from 12 months for young people to a minimum of 30 months for the over-45s. Spain increased the duration of benefit for the over 45s. In countries other than the Mediterranean Member States, too, however, the benefit conditions improved: unemployment benefits were increased in Finland and the amount of partner's income that is ignored in calculating means-tested benefit was raised fivefold; in France, the employment history requirement was weakened and benefit no longer reduces as the length of unemployment increases; in the United Kingdom, where housing costs are very high, housing benefit has been increased, as has the contribution to the interest payments for benefit recipients with a mortgage.

Pension provisions

The affordability of pensions is a cause of great concern in all EU Member States. Consequently the majority of EU countries, across the different types of welfare state, have introduced reforms to their pension systems in recent years; these include:

– discouraging early retirement
– increasing the number of years needed to build up a full pension
– reducing the amount of pension
– reducing the index-linking

6 The poverty trap describes the situation where the transition from benefit to work is not accompanied by an improvement in income (and may even lead to a drop in income). The poverty trap can occur due to the loss or reduction of income from means-tested provisions (in particular housing benefit).

7 An important reform was introduced in the United Kingdom in 2002, in which all means-tested support for families and low paid workers was replaced by two tax credits (the 'Integrated Child Credit' and the 'Employment Tax Credit'). This has widened the gap between income from employment and benefit and thus encourages people to seek work.

– moving towards private pensions
– starting a 'savings fund'
– encouraging income from employment in addition to (partial) pension

In many cases these measures are combined. A clear trend can be observed in which the discrepancies in the entitlements of different groups are being evened out and entitlements are being brought more into line with the contributions paid. Sweden and Italy, for example, have introduced a defined contribution system in recent years, in which the amount of pension is based entirely on the contributions paid. The consequences of these changes will become more and more evident in the years ahead. In addition, pension reforms in Greece in 2002 mean that pension benefits are now more dependent on the recipient's employment history.

Many countries are now seeking to save for the forthcoming ageing of the population. The first means of doing this is by reducing the national debt. In addition Belgium, the Netherlands, Spain, Greece, Portugal and Ireland are currently creating new reserve funds, the aim being that the assets generated in these funds will keep pensions affordable in the future. A big problem in reforming pensions in some Member States is the fundamental change it entails from a pay-as-you go scheme to an insurance-based system. Changing the system is proving to be complex, as illustrated by the fact that the German federal court declared the new pension system to be unlawful (in March 2002), because of the difference in tax levies between civil service pensions and pensions of other employees. In Denmark, the government introduced a reform in 2002 which eliminated the redistributive effect of the 'Special Pensions Savings System'; this effect had been deliberately introduced in 1998 to limit inequality among pensioners and in particular to protect those on low incomes. This abolition can be seen as a weakening of the social-democratic welfare state.

In order to promote the accessibility of pensions, the Mediterranean countries are opting to continue guaranteeing a minimum pension, or even to increase it. In particular Italy, Greece and Portugal state in the National Action Plans for pensions that they regard this as a high priority.

Healthcare

Although all EU Member States share the aim of ensuring that everyone has access to basic healthcare, there are wide differences in the coverage and quality of the healthcare provided. Moreover, the Member States apply different systems for the contribution by the public; in some countries (Scandinavia, United Kingdom and Ireland), the state provides care that is accessible to everyone and is paid for from taxes; in other countries, the healthcare system is paid for through (income related) insurance contributions. Increasing efforts have been made in the United Kingdom in recent years to privatise the public services, especially in the areas of healthcare and education. The aim is to improve the quality of the service by allowing market forces to operate (an idea which fits in with a liberal system). In Denmark, too, efforts have recently begun to increase the amount of private-sector care (healthcare, home care, care for the elderly, childcare), though the main motive here is to reduce waiting lists. Contrary to the United Kingdom, the fear here is that quality will be lost if public services are increasingly left to the private sector (social-democratic model).

France introduced a major reform in its health insurance system in 2000, as a result of which everyone now has access to healthcare, including those elements which were previously covered only by supplementary insurance. This change is of particular help to those on low incomes. In Belgium, people on low incomes are protected by the introduction of a maximum limit to the patient contribution to healthcare costs.

In the Mediterranean countries (and Ireland) in particular, the government is seeking to make the healthcare sector more efficient by devolving responsibilities from regional to local level, with the aim of creating a better match between supply and demand.

4.4 *Prevention of social exclusion*

Social inclusion of all citizens is a key objective of the Lisbon process. Everyone must be able to participate in society. The Mediterranean and corporatist countries, in particular, are also strongly focused on the maintenance of family solidarity. Increasing the familiarity with ICT can also contribute to the prevention of social exclusion; it is for this reason that 'eInclusion'[8] has also been explicitly included as a policy objective in the Lisbon process.

Maintaining family solidarity
It is particularly those Member States where the family has traditionally been seen as an important instrument for maintaining social cohesion that maintaining family solidarity is regarded as a policy priority (Portugal, Spain, Greece, Italy, Germany, Ireland and Austria). All these countries recognise the structural trends which lead to weakening of the function of the family and increase the risk of social exclusion. They see this as an additional reason to support the institution of the family. This may mean strengthening the economic stability and improving living conditions, for example by offering favourable treatment to families in the tax and social security system; it can also mean offering family support and help with bringing up children, support in cases of domestic violence, better financial support for single-parent families and improving alimony payments, measures to ensure that both parents remain involved in the upbringing and care of their children, preventing children being placed in institutions, subsidising local initiatives for vulnerable families in disadvantaged neighbourhoods, and providing support and training for informal carers.

Promotion of 'eInclusion'
At EU level, eInclusion is seen as a key element in combating social exclusion. In practice, this means something quite different for the wealthier countries than for the poorer Mediterranean Member States. In the Scandinavian countries and Netherlands there is already a high level of familiarity with ICT (including a high Internet density), even in the lower income groups. These countries therefore have less general policy in this area than the other countries and focus more on certain specific disadvantaged groups (such as older people and the homeless). In countries such as Spain and Portugal, with a low Internet density, the government has by contrast set up broad programmes aimed at large sections of the population: the aim in Spain is to reach one million people, while the target for Portugal is that two million people should have an ICT qualification by 2006.

8 The term 'eInclusion' is used to mean access to ICT (Information and Communication Technology), in particular computer skills and access to the Internet.

4.5 *Help for the most vulnerable groups*

General policy measures are inadequate in reaching the most vulnerable groups, a fact illustrated by the high level of non-take-up of provisions. The EU regards supplementary policy as necessary for groups such as the disabled, psychiatric patients, drug and alcohol dependants, ex-prisoners and prostitutes. The policy in the Member States is geared primarily to the integration of the disabled, mainly through education and participation in employment. The assimilation of disabled children into mainstream education is encouraged and subsidised in many countries (the Netherlands, Austria, the United Kingdom, Germany, Spain), based on the assumption that a mainstream education will help develop the social and occupational skills needed for participation in the employment process. In some countries, however, special education is still the preferred option for these children; in Belgium the number of children in special education has even increased.

In order to prevent the social exclusion of children, attention in the policy is focused strongly on their early development. In most Member States good quality pre-school and primary school education which is universally accessible is regarded as a policy priority. New measures have been taken in several countries, particularly the Netherlands, Greece and the United Kingdom, to help identify learning and developmental problems at an early stage.

Preventing problematic debts and homelessness
A majority of EU Member States (the Netherlands, Germany, Belgium, Finland, Austria, France, Ireland, Luxembourg and Portugal) have developed measures to combat problematic debt. Budget training and budget management for 'risk households' are important instruments in this respect. Many Member States have also developed policy specifically for debt redemption schemes and debt restructuring. With the exception of Portugal, the Mediterranean countries have however formulated no explicit policy in this area.

As regards the problem of homelessness, many EU Member States focus on prevention: policy to prevent eviction and rent arrears through an integral approach at local level (particularly in Denmark, the Netherlands and Germany). In addition many countries devote attention to more and better (housing) facilities for the homeless. The Mediterranean countries generally have little specific policy on this issue.

4.6 *Mobilising relevant bodies*

Motivating the relevant parties is seen at EU level as the most important condition for an integrated and participative approach to the development and implementation of social policy (in the form of combating social exclusion and poverty). The term 'relevant parties' is defined very broadly here, and includes national, local and regional governments, representatives of both sides of industry, social services organisations, NGOs, universities and research institutes, national statistical agencies, the media and above all the socially excluded themselves. In most Member States to this latter group have little involvement in the development of policy in practice. In the Netherlands the 'Social Alliance' (Alliantie voor Sociale Rechtvaardigheid) has been set up, made up of benefit recipients, churches and trade unions. The Alliance holds periodic consultations with the national, provincial and local authorities. The European Commission sees the Alliance as a positive example of the way in which relevant parties can be motivated.

A key difference between the countries of the EU lies in the distribution of responsibilities between central, regional and local authorities. Most countries recognise that national plans need to be supplemented by an integrated approach at regional and local level. In the Scandinavian countries, where the development of social policy has traditionally been highly decentralised, local and regional actors have for a long time provided most of the input for social policy. In countries with a federal structure, too (Germany, Austria, Belgium), or a strong regional structure (Spain, Italy and the United Kingdom), the federal/regional governments play a key role in the formation of national policy.

All Member States are convinced that the policy results need to be improved and that policy needs to be matched more closely to the needs of the citizen. On the other hand, citizens need to shoulder more of their social responsibility and play a more active part. In a number of countries (the Netherlands, Ireland, Denmark, Germany and Spain), voluntary work and other socially useful activities is encouraged for this reason. In Denmark and the Netherlands, in particular, these activities are also seen as a stepping stone to subsidised or mainstream employment.

Conclusions

The fact that the European Council has imposed the same objectives on all Member States does not mean they all pursue the same social policy in order to achieve those objectives: the prevailing social situation differs greatly from one country to another and demands different measures in each case. Nevertheless, it cannot be concluded that there is a strong correlation between the type of policy pursued and the type of welfare state to which a country belongs. Given their common objectives, the countries are tending to converge with their policy, but their individual (national) character can still be clearly seen.

For example, in the social-democratic Scandinavian countries the emphasis is placed heavily on the creation of an 'inclusive' labour market (participation by everyone), whereby the deployment of collective provisions and government measures play an important role, including – and–particularly – in creating (even) better opportunities for combining work and family. This policy, which is also largely developed at local level, fits in entirely with the typology of the social-democratic welfare state. These countries are continuing on the path on which they have embarked, although tendencies can be detected in Denmark – under the influence of the new government – towards greater liberalisation (healthcare, home care, childcare).

In the central European (corporatist) and Anglo-Saxon (liberal) countries, the emphasis is also on promoting participation in employment, including by women, but the deployment of collective resources is more limited and more is left to the market. With their emphasis on participation in employment these countries do resemble the Scandinavian Member States (social-democratic), but the use of collective provisions is much lower. In the United Kingdom the shift 'from public to private' in healthcare and education has made the liberal character of this welfare state clearly visible once again.

The Mediterranean countries are also focused on participation in employment and emphasise (re)integration measures. However, they also still have a long way to go to catch up in terms of social policy. The current policy in these countries is still strongly focused on providing financial support and a guaranteed minimum income, especially for older people. In some of these countries benefits have been increased in recent years and their duration extended, whereas in many non-Mediterranean countries precisely the reverse is happening, with thoughts turning towards limiting benefits. The Mediterranean countries also give more attention to the role of the family as a key to social inclusion. Labour participation in these countries is not an ambition which is to be pursued at any price; caring for children and older people remains a priority.

The Netherlands, described in chapter 3 as a 'hybrid' welfare state type, continues in its policy plans to display a mixture of social-democratic, liberal and – to a slightly lesser extent – corporatist characteristics. As regards the policy to promote the combination of work and care tasks, the Netherlands is moving towards the social-democratic model, with a good deal of attention for improving the availability, quality and affordability of childcare facilities. The retention of a publicly funded basic pension also reflects this social-democratic character. Supplementary pensions continue to be arranged on a sector-by-sector basis, however, which is a corporatist characteristic. Then again, new policy in the Netherlands is increasingly showing signs of liberal characteristics; this is illustrated among other things by the privatisation of the reintegration market, the proposed changes to disability benefits and the plans to abolish the distinction between private and compulsory state health insurance, with a view to reducing the burden on collective resources and leaving more to market forces.

5 *Social policy and economic performance*

The previous chapter examined the European objectives of social policy and the national policy priorities as laid down in the National Action Plans. In addition to these social objectives, the European Member States have also formulated a number of mainly economic objectives in the light of the Lisbon process. This chapter examines the feasibility of the ambition of creating a socially responsible and highly productive Europe.

5.1 *Three objectives from Lisbon*

In this chapter the emphasis will lie mainly on three aspects from the strategic Lisbon agenda, viz.:[1]

1 Productivity
2 Employment
3 Social cohesion

Like the European Commission, we will translate these three aspects into verifiable objectives, which will serve as a basis for further analysis.

Productivity

The first element in the Lisbon objective is: '*To become the most competitive and dynamic knowledge-based economy in the world….*'. This objective is generally given a central role when discussing the Lisbon agenda. Formally, the European Union has not defined any specific targets in this regard; however, the European Council does state that annual economic growth averaging 3% should be attainable if the measures set out in the Lisbon agenda are implemented. Given the reference to other countries in the world, it is logical to compare the productivity levels in Europe with those in the United States. This is also what the European Commission itself does in its report on the progress of the Lisbon Strategy (EC, 2003c).

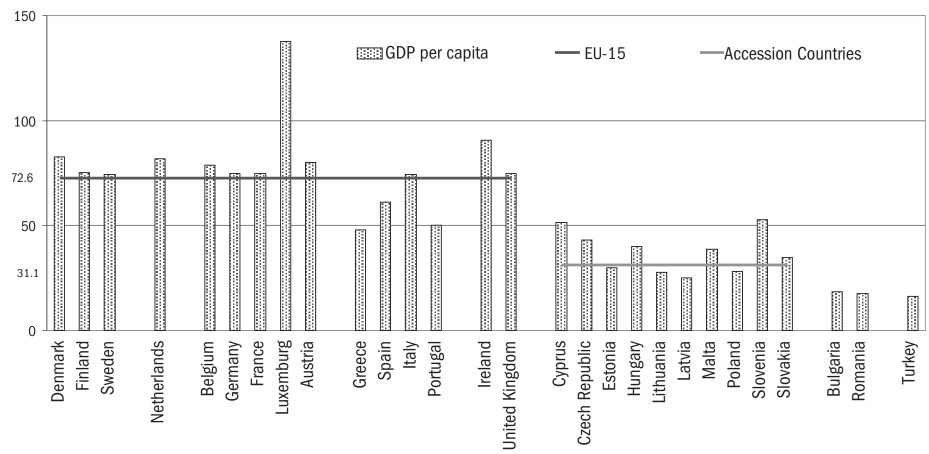
Figure 5.1 shows that per capita GDP in Europe (measured by purchasing power parities) lagged a long way behind that in the US in 2002. The countries are grouped in the figure in accordance with classification described in the previous chapter: first the social-democratic countries, then the Netherlands, which occupies an intermediate position, followed by the corporatist, Mediterranean and liberal countries. These are then followed by the ten countries which will be joining the European Union in May 2004. Finally, there are other countries which are scheduled to join the EU in 2007: Bulgaria and Romania, with which detailed agreements have been reached, and finally Turkey, which is currently still awaiting approval for its entry.

The Member States of the European Union trail the US by more than 25% on average in terms of per capita GDP. Luxembourg is a positive exception, with a GDP per inhabitant that is actually higher than in the US. The Mediterranean Member States Spain, Portugal and Greece, by contrast, are well below the European average. The new entrants have a per capita GDP that is more than 50% lower than the average for the EU and is approximately a third of that in the US. Slovenia and Cyprus form positive

1 The aspect 'sustainability' is left out of consideration here. For an analysis of the reconciliation of economic growth and environmental sustainability in the light of the Lisbon objectives, see e.g. De Mooij and Van den Bergh (2002).

exceptions among the new Member States, with a per capita GDP that is higher than in Greece and Portugal. Bulgaria, Romania and Turkey lag even further behind, with a per capita GDP that is only a quarter of that in the current 15 EU Member States (EU-15).

Figure 5.1 GDP per capita in several countries compared with the US (2002)



GDP is measured in purchasing power parities and set at 100 for the US. Data for Malta and for the Accession Countries as a whole relate to 1999. Data for both the other Accession Countries as well as the EU-15 countries are for 2002.

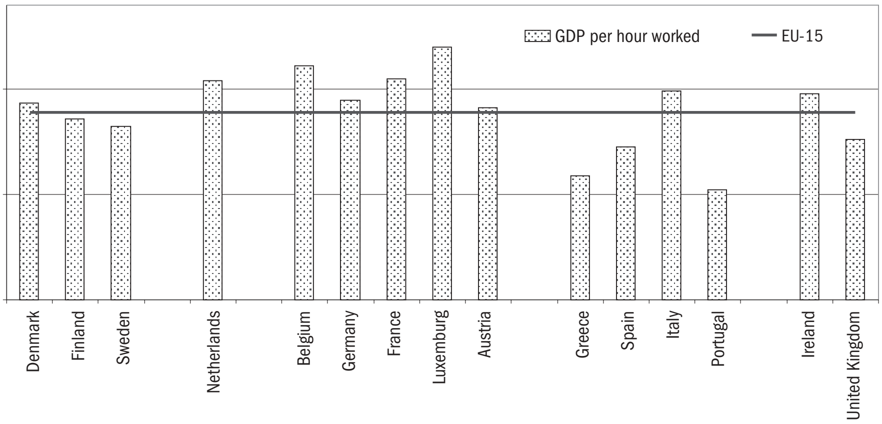
Source: Eurostat and own calculations

GDP per head of the population is considerably influenced by the labour participation rate, and is therefore not entirely suitable as a criterion for measuring differences in the productivity of workers. A better indicator for this is GDP per worker. Figures from Eurostat for 2002 show that the distance between Europe and the US is then considerably smaller, with GDP per worker averaging around 85% of that in the US. Measured in this way, Belgium and Ireland join Luxembourg in having a higher labour productivity than the United States. GDP per worker is also closer to that of the US in the new Member States than the per capita GDP. However, with a relative level of slightly over 40% the gap is still wide.

However, GDP per worker is still not the most suitable yardstick for measuring comparative productivity rates. Differences in productivity measured in this way can be distorted by differences in hours worked per employee, something which is often a free choice and partly reflects differences in preferences. A better way of measuring progress in achieving the Lisbon objective is therefore to correct for the number of hours worked and to look at the GDP per hour worked. Figure 5.2 provides an insight into the productivity differences measured in this way between different countries, again compared with the US.[2] We now see that a number of European countries do not score so badly in comparison with the US; on average, GDP per hour worked in the EU is 11% below that in the US. It is mainly the Mediterranean countries Spain, Portugal and Greece which record a relatively low productivity level. The same applies, though to a lesser extent, for the social-democratic and liberal countries in Europe. By contrast, the Netherlands and a number of corporatist countries – Belgium, France and Luxembourg – score well. In fact these countries score better than the US in terms of productivity per hour, making them the most productive countries in the world.

2 These figures are not available for the new Member States.

Figure 5.2 GDP per hour worked in European countries compared with the US (2002)



GDP per hour worked is set at 100 for the US.

Source: Eurostat and own calculations

Is Europe as a whole now closing the gap relative to the United States? According to McGuckin and Van Ark (2002), labour productivity in the EU rose considerably faster than in the US in the first half of the 1990s; Europe was thus in the process of catching up. Between 1996 and 2001, by contrast, labour productivity in the US grew by an average of 2% per annum compared with 1.3% in the EU, so that Europe lost ground again relative to the US. This is partly the reason for the creation of the Lisbon agenda. The reason for the slower productivity growth in Europe in the second half of the 1990s is often sought in the ICT sector. Nahuis and Van der Wiel (2003), for example, show that this sector accounted for 8% of GDP in the US in 2000, compared with less than 6% in the EU. In addition, productivity growth in Europe was considerably lower than in the US in the ICT-intensive services sector: 1.1% in the EU compared with 4.6% in the United States. According to McGuckin and Van Ark (2002), the main reason for the latter fact is the slower diffusion of ICT within Europe.

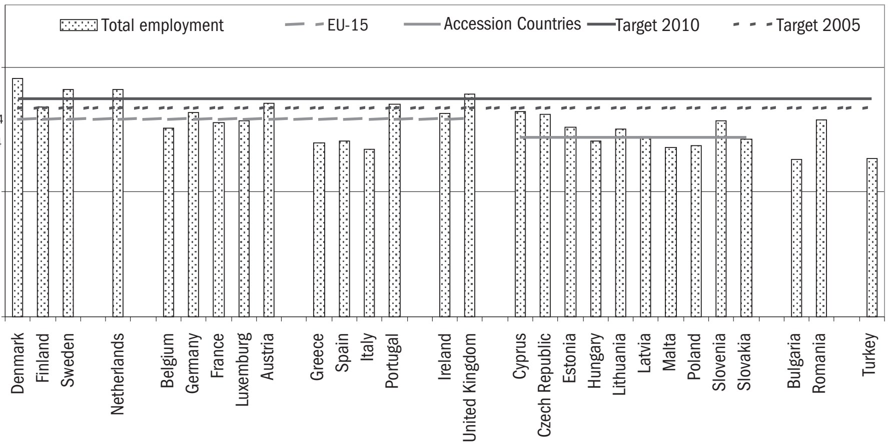
Employment

The second element in the Lisbon strategy refers to: '*... with more and better jobs ...*'. This objective is also translated into the achievement of 'full' employment by reducing unemployment and promoting labour market participation. During the European Councils of Lisbon (2000) and Stockholm (2001) the following tangible employment objectives were formulatedfor the European Union as a whole:

– Raising the general employment rate to 70% by 2010 (and 67% by 2005)
– Raising female employment to at least 60% by 2010 (and 57% by 2005)
– Raising the employment rate of older persons (55-64 years) to 50% by 2010.

Figures 5.3-5.5 show how far away the European Union was from these objectives in 2000. Figure 5.3 shows the total employment rate in the countries of the European Union and the new Member States. On average the general employment rate in the EU-15 is slightly above 63%. This means that an increase in employment averaging 4 percentage points is needed in order to achieve the interim target for 2005.

Figure 5.3 General employment rate for the European countries in 2000



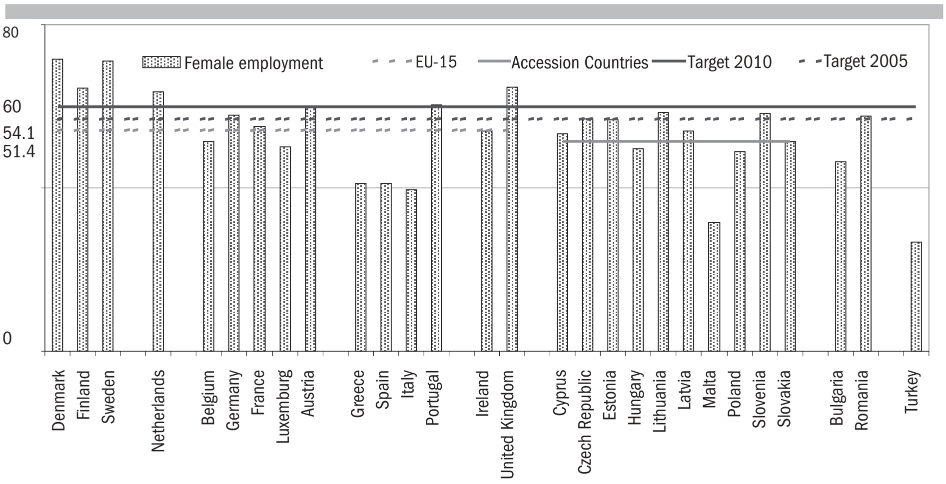
The employment rate is defined here as the number of working persons in the age category 15-64 as a percentage of the total number of persons in that age category. The data for Malta and Turkey relate to 2001.

Source: Eurostat

Although the target does not apply for the individual Member States, it is interesting to see how the different countries score. In seven countries the employment rate is above 67%, while four countries (including the Netherlands) have an employment rate which is already above 70%, the target for the whole of the EU for 2010. The Scandinavian countries, in particular, score relatively well on this point. On the other hand the southern European countries, with the exception of Portugal, are still a very long way from achieving the ambitions of Lisbon. The new Member States also have lower employment rates: in Poland it is only 50%, for example. On average, the employment percentage in the countries which will be joining the EU in 2004 is slightly more than 57%.

The female employment rate in the European Union is almost 10 percentage points below that of the population as a whole (see figure 5.4). There is a strong correlation between the two participation rates: the seven European countries with a relatively high total employment rate also already meet the target for 2010 of 60% female employment. The high position of the Netherlands presents a slightly distorted picture because of the large number of women working part-time: expressed in full-time equivalents, the Netherlands falls back to slightly below the EU average. The good performance of the seven leading countries is offset by the relatively large shortfall with respect to the target for Greece, Spain and Italy. If the Lisbon objective were to apply for each country individually, these three countries would need to raise female employment by almost 20 percentage points in the coming years in order to meet the target. The new Member States also face a challenge on this point, with female employment rates averaging almost 10 percentage points below the target figure for the EU as a whole. There are however wide differences between the new entrants: whereas Slovenia, Lithuania and Romania have already achieved the target figure for 2005, Malta fails by more than 25 percentage points, while Turkey is even further behind.

Figure 5.4 Female employment rate in 2000

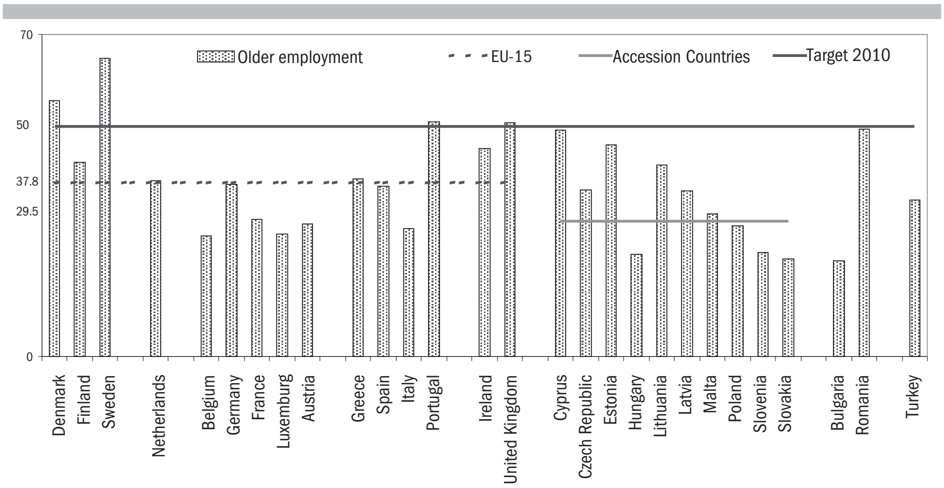


The female employment rate is defined here as the number of employed women aged 15-64 as a percentage of the total female population of the same age group.

Source: Eurostat

Employment rates for people aged between 55 and 64 are a source of worry in many European countries (see figure 5.5); on average, only 38% of older people in the European Union are in work. The Netherlands is no exception to this, with an employment rate that is only 0.4% above the EU average. A relatively large number of older people is in work in the social-democratic Scandinavia, while the figure is particularly low in the corporatist countries. The performance of the new Member States in this respect is even less rosy on average: the percentage of older workers is generally below 30%. However, the individual differences are wide: countries such as Cyprus and Estonia as well as Romania have relatively high employment rates for older persons, while in Hungary, Slovenia, Slovakia and Bulgaria fewer than a quarter of older people are in work. It will prove to be a difficult task for the European Union as a whole to change this picture in the years ahead and to meet the Lisbon target of 50% by 2010.

Figure 5.5 Employment rate among older people (aged 55-64) in 2000



The employment rate is defined here as the number of working persons in the age category 55-64 as a percentage of the total number of persons in that age category. The data for Malta and Turkey relate to 2001.

Source: Eurostat

Europe will thus have to make a substantial effort in order to achieve the Lisbon employment targets. The number of people in work has in fact grown significantly over the last decade, with female employment growing particularly strongly from 49% in 1994 to 55% in 2001. The number of working women is expected to continue growing in the years ahead, though the growth is likely to flatten slightly. In the Netherlands, for example, this is because the activity rate of women aged 25-29 is simply reaching the limits of expansion (see Kuipers 2001). Yet the target for female employment for the EU as a whole would appear to be quite attainable. There is also some perspective that the Lisbon target on general employment will be reached. If the growth of 1% per annum seen the last decade is continued in the years ahead, the ultimate figure in 2010 will be close to the target. However, the OECD's medium-turn scenario is less optimistic than this and predicts employment growth averaging 0.5% per year for the eurozone. This would make the target unattainable. As regards employment among the older population, the target appears to be too high under all circumstances. Although the percentage of working older people did increase between 1994 and 2001 from 36% to 39%, this is still more than 10 percentage points below the target for 2010. In order to achieve the target for older workers, growth of 3% per annum would be needed in the years ahead.

Social cohesion

The third element in the Lisbon objectives relates to: '*... and greater social cohesion*'. Chapter 4 looked in some detail at the design of European policy to combat poverty and social exclusion. In order to measure progress in the area of social cohesion, the European Commission looks among other things at indicators for inequality of the income distribution. In 2003 the Commission concluded that there are still wide differences between Member States in terms of income distribution (EC, 2003c). The indicator used shows the ratio of the income of the 20% of the population with the highest incomes to the income of the 20% with the lowest incomes.

Many indicators for measuring income inequality are found in the literature. To obtain a clear picture of the relationship between the types of welfare state described and the degree of income inequality and poverty, it is important to incorporate several indicators in the comparison, and we therefore constructed a number of indicators for this study. The data used were drawn from the European Community Household Panel (ECHP) 1999. The ECHP is conducted by Eurostat with the chief aim of gathering comparable information within the EU on issues such as income and the labour market behaviour.[3] In the Netherlands, SCP has in the past performed country-comparative research (Wildeboer Schut et al. 2000) on poverty and income inequality. That research covered the first half of the 1990s and also included the United States, Canada and Australia in the analysis. A relationship was also established between poverty and inequality and the typology of the Danish sociologist Esping-Andersen.

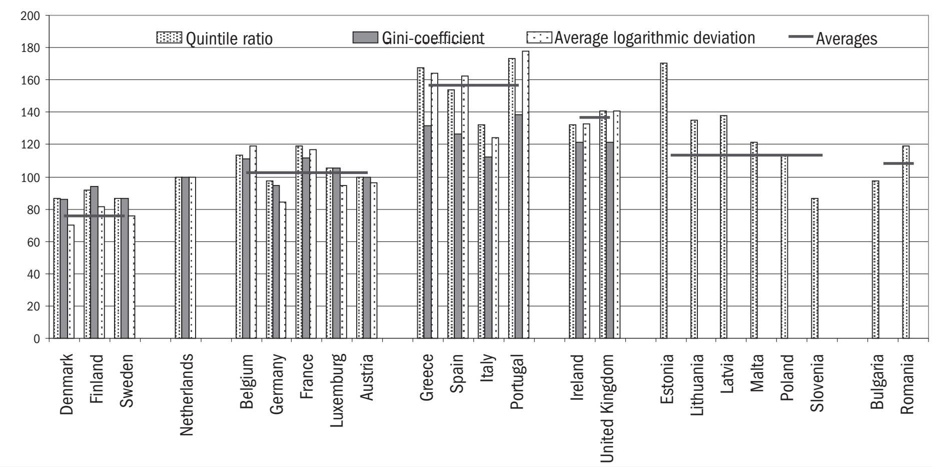
3 In order to measure poverty and income inequality, use is often made in the Netherlands of the Income Panel Survey (IPO) from Statistics Netherlands. The IPO is a large-scale sample of data originating from the tax authorities. The great advantage of the IPO compared with survey data such as those collected for the ECHP is that there is no non-response, since respondents are not asked to cooperate in this administrative sample. On the other hand, the usability of the IPO is limited because of the small number of variables. For example, it is not possible to determine whether someone is formally unemployed. As the data are reweighted in this section to take account of the structural unemployment rates in order to make the effect of the type of welfare state clearer, the IPO has not been used.

Differences in inequality and poverty between countries may be caused by all manner of factors. As well as differences in economic structures in the different welfare state types, there are also differences in demographic structure and in the economic stages which the countries were going through when the income measurements were carried out. We attempt to correct for this latter factor by adjusting the unemployment in the measurement years to the structural unemployment as established by the OECD when calculating the income inequalities and poverty rates (OECD, 2000).[4]

Income inequality

Figure 5.6 provides an insight into the income inequality in the European Union. Summarising income inequality in a single figure means that certain information is by definition ignored. An attempt is made by using several indicators to shed light on different aspects of the income distribution. As well as the income quintile ratio, the figure also presents the Gini-coefficient and the average logarithmic deviation. The different coefficients all point in the same direction.[5] This suggests a certain robustness of the results.

Figure 5.6 Income inequality in Europe (1999)



The different inequality indicators have been rescaled, with the Dutch inequality level being set at 100. Both here and in the following graphs, the averages per welfare state type are calculated as unweighted averages for the countries in that particular cluster.

Source: Eurostat and own calculations

4 In order to obtain the best possible approximation of the wealth situation of each respondent, disposable household incomes were standardised. This was carried out using the 'modified OECD method'. This means that household income is divided by a given factor so that wealth levels between different households are comparable. Using this method, the head of the household is given a weight of 1; each subsequent adult counts as 0.5; each child is allocated a 'score' of 0.3. When the household income is divided by the resultant factor, this produces an average wealth level; this is then allocated to every member of the household.

5 The correlation between the indicators used is more than 95% for each pair. For more information on the definition and properties of the various indicators, see Wildeboer Schut et al. (2000).

The figure reveals wide differences between individual countries. The degree of inequality is far and away the lowest in the social-democratic countries. Wildeboer Schut et al. (2000) cite the relatively equal distribution of returns on capital and labour, as well as the high level of redistribution from economically active to economically inactive persons as the chief reasons for this.

The liberal countries are to some extent the mirror image of the social-democratic category. Workers in liberal countries are less well organised and have less statutory protection. This encourages a more unequal distribution of market incomes. The lower, income-dependent benefits and a less progressive tax system mean that the redistributive effects are relatively small. The inequality in Ireland and the United Kingdom is relatively great.

The corporatist countries are situated between the liberal and social-democratic clusters. Although the redistributive effects of the tax and social insurance system are less pronounced than in the social-democratic welfare states, the distribution of market incomes appears less unequal than in the liberal states. Germany's position here is however striking; Germany achieves a better score on all three indicators than the Netherlands and in terms of inequality resembles the Scandinavian countries more than the other countries in the corporatist cluster. In addition the inequality in the Netherlands, Luxembourg and Austria is comparable with and considerably lower than in Belgium, France and Italy. Based on these indicators, the French income distribution is a good approximation of the average for the European Union.

As stated in chapter 3, Esping-Andersen does not say anything explicitly about the countries of Southern Europe. In particular the lack of an official guaranteed minimum income appears to foster high inequality levels in these countries. The figure shows that Greece, Spain and Portugal have the highest inequality in the EU.

Also striking is that income inequality in Slovenia is at the same level as the Scandinavian countries. In the other new Member States for which data are available, the inequality is greater, though is still a good deal lower than in the Mediterranean countries.

Based on the data used, the typology of Esping-Andersen broadly appears to have an empirical basis as regards income inequality: inequality is lowest in the social-democratic countries, followed by the corporatist, liberal and Mediterranean welfare states.

Poverty

International comparative research often uses relative poverty thresholds, or poverty lines. These are dependent on time and place and reflect the general level of prosperity of the society to which they relate. This means that in principle households at the bottom of the income distribution are regarded as poor. The threshold used here has been applied for a number of years by the European Commission to enable the percentage of poor households in the different Member States to be compared.[6] In order to determine the level of the threshold, incomes are first standardised.[7] The median of the

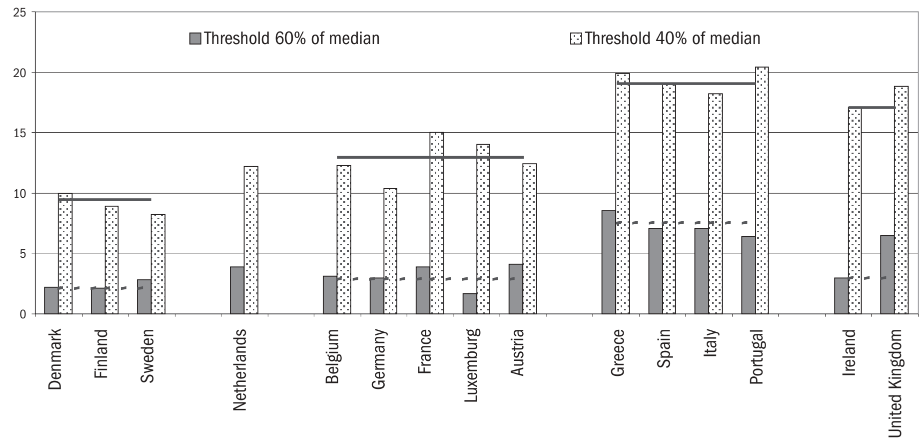
6 During the European Summit in Laeken (2001) the Member States agreed a number of indicators of social exclusion. One of these indicators is the percentage of households below 60% of the median standardised income. The percentages of households below 40%, 50% and 70% of the median were taken as additional indicators.

7 The same procedure as above was used to measure the inequality in incomes.

standardised income distribution is then calculated. This median divides the income distribution into two halves: the number of people earning more than this median amount is precisely the same size as the number of people earning less. The poverty line is usually drawn at 60% or 40% of the median value.
A number of objections can be levelled against this approach (cf. Wildeboer Schut et al. 2000). First of all, it is not clear what the relationship is between a given percentage of the median income and people's needs. In particular, it is not made explicit whether people are able to make ends meet with the amount represented by the poverty line. In the second place, the height of the poverty line in different countries may differ so much that the poverty rates found say little more than that the households considered poor are at the bottom of the respective income distributions. Thirdly, the poverty line is maximised: it is never possible for more than half the total number of households to be considered poor, since the median line divides the total distribution into two equal halves. It is not clear whether this assumption is realistic for Third World countries, for example.

Figure 5.7 shows the percentage of poor people in each country according to both indicators.

Figure 5.7 Poverty in the EU (1999)



Source: European Community Household Panel 1999; SCP treatment

If we look at the percentage of poor people below the 60% threshold we see the ranking of country clusters found with the scores on the inequality indicators return to some degree. In general the Southern European countries have the highest poverty rates, followed by the liberal cluster (especially the United Kingdom). The social-democratic countries have the smallest number of poor people according to this indicator. The corporatist states occupy an intermediate position. However, the ranking is less clear than with the scores for the inequality criteria. The Netherlands has a higher percentage of poor people (over 12%) than the social-democratic countries, and according to this indicator appears to resemble the corporatist cluster more, occupying the middle ground along with Belgium, Luxembourg and Austria. The relatively low poverty rate in Germany is again striking; for a corporatist country Germany has relatively few poor people.

The 40% threshold divides the countries roughly into two groups. In the United Kingdom, Italy, Greece, Spain and Portugal, more than 5% of the population are below this poverty line. For the other countries the figure is lower, sometimes several percentage points lower. The fact that the percentages below this threshold correspond much less closely with the typology of Esping-Andersen may well be due to the fact that the institutional minimum income schemes in some countries are just above or just below this threshold. In this respect the 60% threshold differentiates more, because the distance from minimum income schemes is much greater.

5.2 *Can the Lisbon objectives be reconciled? A first exploration*

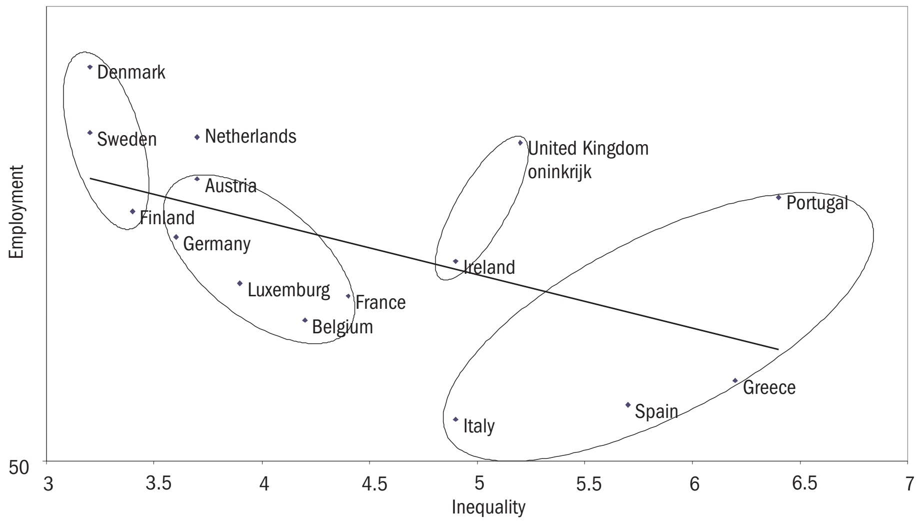
The trade-off between equality and efficiency is deeply rooted in economic theory. Okun states for example: '*The pursuit of efficiency necessarily creates inequalities. And hence society faces a trade-off between equality and efficiency.*' (Arthur Okun, 1975; p.120). This could mean that the different Lisbon objectives are irreconcilable with each other, since it suggests that promoting employment and raising worker productivity (= *efficiency*) are diametrically opposed to reducing income inequality (= *equality*). What can we say about the socio-economic achievements of EU Member States?

Equality and employment

The idea of a trade-off between income equality and employment receives a great deal of support in the literature: the extensive welfare states in Europe achieve good results when it comes to income equality, but discourage participation in employment (Lindbeck, 2001). Redistribution of income from economically active to inactive people reduces the incentive for people to undertake activities and to become or remain active in their own right.

The trade-off is often substantiated by a comparison between the US and the EU. The United States combines a relatively unequal income distribution with a relatively high employment participation rate. Figures from the Luxembourg Income Survey 1995 show that income inequality is greater in the US than in any European country, while the employment rate is 75%, well above the Lisbon target for the EU. The question is whether this relationship between equality and participation also systematically applies within the EU. To illustrate this, figure 5.8 shows the performance of the present EU Member States on total employment, as well as an indicator for income inequality as presented in the foregoing section, namely the income quintile ratio between the highest and lowest 20% of the population. The figure shows that in European countries with an equal income distribution, the employment rate is generally relatively high. This suggests a positive correlation rather than a trade-off. In fact in the European country with the least income inequality, Denmark, the employment rate is actually higher than in the United States. The other Scandinavian countries and the Netherlands have also been successful in getting people to work in a relatively egalitarian society. The Mediterranean countries, by contrast, score less well on both aspects, with the exception of Portugal, where the employment rate is relatively high.

Figure 5.8 Income inequality and employment (1999)



Inequality defined as the Income quintile ratio (top 20%/lowest 20%).

Source: Eurostat

The table below shows the correlations with other indicators for social cohesion. The observation from figure 5.8 is found to hold for other indicators as well. The table also shows the correlations with the labour participation rate of women and older people. The correlations for women turn out to be the same, but for older people they are less clear-cut.

Table 5.1 Correlations between employment and various indicators for social cohesion

	Inequality (80/20)	Gini-coefficient	Average log. deviation
Total employment	–0.53	–0.54	–0.53
Female employment	–0.59	–0.59	–0.58
Older employment	–0.04	–0.14	–0.08

Source: Eurostat; own calculations

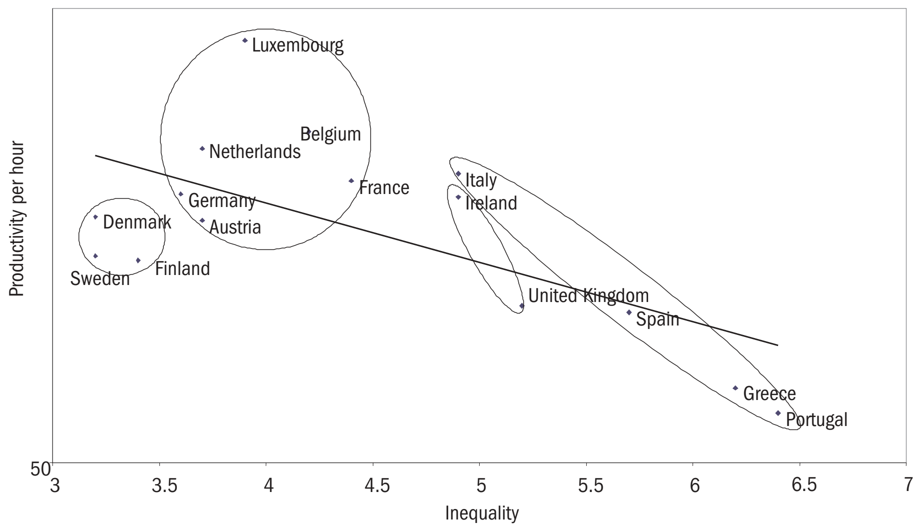
Equality and productivity

It is also often thought that social cohesion cannot be accompanied by high productivity growth. Productivity growth, it is argued, depends on innovation, entrepreneurship and knowledge-building, and these activities can only flourish if people and businesses are able to respond flexibly and rapidly to new developments. European institutions are sometimes accused of undermining the vital dynamism of the economy and discouraging innovation and entrepreneurship. This could perhaps explain why productivity growth in the United States was faster in the second half of the 1990s than in the EU (see section 5.1).[8]

8 For an analysis of the economic dynamics of the EU compared with the US, see also OCFEB (2003).

Yet not all economists are convinced of this trade-off between productivity and equality. Several authors have investigated whether there is a systematic correlation between the inequality in different countries and the growth of their GDP. Studies by different researchers, including Persson and Tabellini (1994) and Alesina and Rodrik (1994) show that greater equality can be accompanied by high growth (see Aghion et al., 1999, for an overview). Several reasons are put forward for this. For example, productivity growth and social cohesion can go hand in hand because rich countries can afford greater solidarity. Income equality is a luxury good, as it were, which only a wealthy society can afford.[9] Secondly, political economics suggest that in a more unequal society a relatively greater number of electors benefit from redistribution through higher taxes. These taxes reduce the return on investments, and in very unequal societies thus ultimately result in fewer investments and lower growth. It should be remembered here that this is 'pre-tax inequality'. The reason why equality and productivity can be reconciled is that there must be sufficient public support for policies aimed at improving economic efficiency – consider the issues of European integration, liberalisation of trade or privatisation. Such policies are often accompanied by substantial economic reforms. Public support for these reforms can be increased by creating a system of social protection which protects the losers from the painful consequences of those reforms. Finally, the endogenous growth theory argues that more unequal societies invest less in training, because capital market imperfections imply that not everyone can borrow money to pay for their studies. The inequality therefore leads to lower investments in knowledge-building and thus slows down growth.

Figure 5.9 Income inequality and productivity



Data for 1999.

Source: Eurostat.

9 Some observers suggest that there is a 'U-shaped' relationship between income inequality and productivity. In other words, as societies become more productive, income inequality first decreases, but will begin to rise again after a certain point. According to Atkinson (2003), however, there is no convincing evidence for this theory.

The theoretical evidence of a trade-off between equality and productivity is thus not as clear as is sometimes assumed. Attention over the last decade has therefore shifted somewhat towards empirical evidence. Figure 5.9 gives an impression of the correlation between productivity and equality in the EU using a scatter diagram for 1999. We see that productivity in more egalitarian EU Member States is higher than in less egalitarian Member States.[10] As with participation, this does not suggest a trade-off but indicates that productivity and equality go hand in hand. The empirical literature shows that this correlation with inequality not only applies for productivity levels, but also for economic growth (see Aghion et al., 1999).

The following table shows that this result still holds when other indicators are used. Both high labour productivity and a high per capita GDP show a good correlation with a high level of social cohesion. The relationship with per capita GDP is also found by Fouarge (2002), though he also shows that the high level of economic growth and the rise in labour market participation during the 1980s and 1990s in the Netherlands, Germany and the United Kingdom did not lead to a reduction in poverty in those countries.

Table 5.2 Correlations between productivity and inequality indicators (1999)

	Inequality (80/20)	Gini-coefficient	Average log. deviation
GDP per hour	–0.65	–0.53	–0.61
GDP per worker	–0.48	–0.37	–0.46
GDP per capita	–0.56	–0.46	–0.57

Sources: Eurostat, SCP, own calculations

Employment and productivity

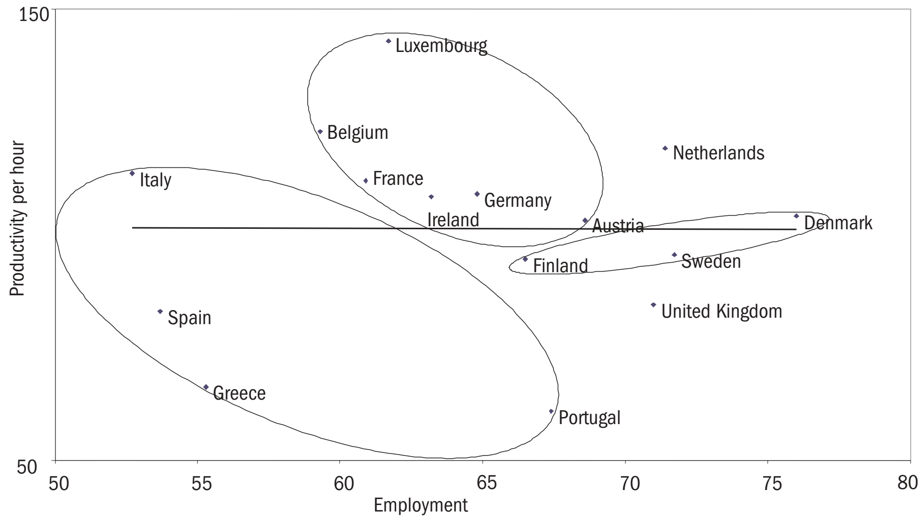
Discussions about trade-offs in the strategic Lisbon agenda usually focus on the question of whether economic performance is achieved at the expense of the social face of society and vice versa. This opposition manifests itself most clearly in the relationships as discussed earlier between productivity and employment on the one hand and the social dimension of income inequality on the other. However, a third relationship between these three objectives is also possible, namely that between employment and productivity. Work is regarded by the European Council as the best insurance against social exclusion, and encouraging participation in employment is therefore a core aim of European social policy. In this sense, therefore, there may also be a trade-off between economic and social policy, i.e. a highly productive economy versus a society in which everyone has a job.

Figure 5.10 shows the correlation for the countries of the European Union. It is striking that Ireland appears to be situated in the corporatist cluster in the figure: productivity and employment are at about the same level as in Germany. The Netherlands combines relatively high productivity with a relatively high employment rate. The figure reveals neither a directly positive nor a directly negative relationship between the two aspects. Nevertheless, there is some suggestion of a possible trade-off between employment and productivity. If the Southern European countries are left out of consideration, a clear negative correlation becomes evident, and a negative correlation is also found within the cluster of Mediterranean countries. This provides some empirical support

10 This result is determined largely by the Southern European Member States. Without these countries there is no statistical correlation between productivity and equality.

for the idea that increasing employment within the EU is achieved mainly using relatively unproductive labour.

Figure 5.10 Employment and productivity



Data for 1999.

Source: Eurostat.

Trade-off or not?

The United States combines wide income differentials with high productivity and high employment participation rates compared with the EU. This suggests that there is a trade-off between equality and efficiency. Within Europe, however, this trade-off appears to be largely absent; countries with an equal income distribution, such as the Scandinavian countries and the Netherlands, in fact have relatively high levels of employment and productivity. The American model may therefore not be a panacea. This offers some perspective for the Lisbon agenda of reconciling social cohesion with more employment and higher productivity. The question is, how is this to be achieved? There are no hard and fast relationships, and not every policy aimed at achieving social cohesion is automatically beneficial for employment participation and productivity.

The above analyses mask any trade-offs that may be occurring with respect to specific institutions. The following chapter therefore looks in more detail at possible trade-offs within specific labour market institutions.

6 The influence of labour market institutions

The Lisbon agenda embraces a broad policy agenda. Social policy is just one part of this agenda, aimed mainly at promoting participation, insuring social risks and reducing inequality in income distribution. Other components of the Lisbon agenda are directed more towards productivity and promoting employment. The empirical analysis in the previous chapter suggests that the overall raft of policies pursued by individual countries need not imply a trade-off between the objectives for productivity, employment and social cohesion. There may however well be trade-offs with respect to specific labour market institutions. This chapter discusses the effect of specific instruments on the Lisbon objectives and illustrates the importance of the different institutions on the basis of recent data for the European Union.

6.1 Social security

In essence, social security comes down to insurance of risks. It offers certainty to people that they will be able to continue living at a reasonable subsistence level if they should become unemployed, ill, incapacitated for work or old. Although people benefit from greater certainty, it is perhaps not immediately clear why the private insurance market could not cover the risks to which people are exposed. Private insurance could work perfectly well if the risk distribution is known and is an independent variable for the different individuals. In practice, however, particularly as regards the unemployment risk, the probabilities are interdependent. Compulsory, state-run social insurance resolves this problem at source. This is why insurance against unemployment cannot be left to the private market.[1]

Social insurance also introduces risk solidarity between good and poor risks. Those who run little risk have to pay the same premium as people with a high risk: social insurance does not in principle differentiate between individual risk profiles. Moreover, social insurance implies redistribution of income: *ex-ante* insurance is in effect *ex-post* redistribution; fortunate people who are not struck by disaster pay for their less fortunate fellow citizens who have not managed to avoid their fate. This reduces income differentials in the society concerned.

While social insurance is good for income equality, it can also influence the stimuli for participation and innovation. This is because people who are insured before an event takes place behave differently from those without insurance. This can have a favourable effect; for example, people may be inclined to take more risks, such as starting a business, undergoing training or accepting a job, because if things should go wrong they are still assured of a reasonable income. This fosters the dynamism of the economy and benefits productivity. However, the impact on behaviour can also be unfavourable; for example, workers see their bargaining position improve if their loss of income is limited if they should become unemployed. This could lead to higher wage demands and rising unemployment. In addition, social insurance may mean that people or

1 Government intervention is also justified in the case of correlated risks. If an eventuality affects many insured parties at the same time, the insurance company is no longer able to spread the risk over a large group of people. In addition high transaction costs, fundamental uncertainties or risks with a probability close to 1 may be reasons for government intervention.

businesses make less effort to avoid an unpleasant event: for example, companies will be less concerned with preventing workers from becoming incapacitated for work, while workers no longer give their best at work because if they are dismissed they are still assured of a reasonable income.

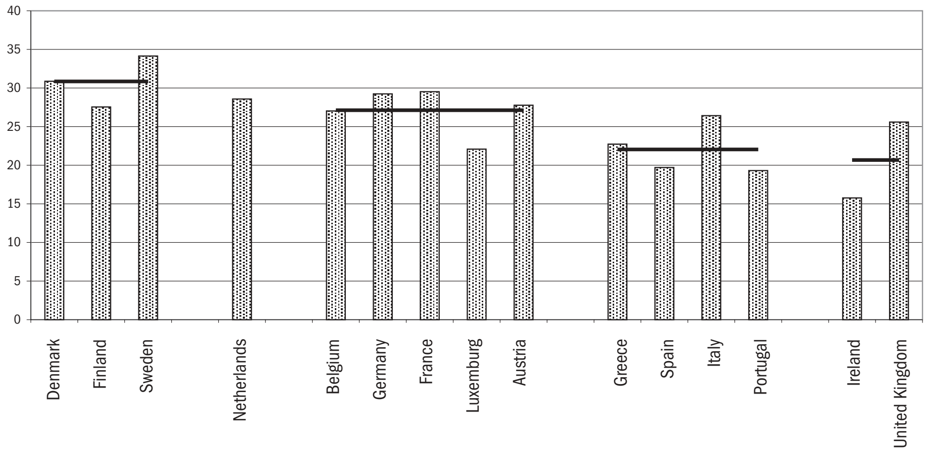
Social insurance can also elicit different behaviour from people after an event has taken place. For example, people in receipt of benefit may be less inclined to seek work and become more choosy in accepting job offers. Abuse of the social security system is also a risk. For the government, it is difficult in many cases to verify whether people are making genuine claims to benefit because this (privacy-sensitive) information is not easy to obtain.

Risk solidarity and income solidarity in the social security system also imply that people will perceive social insurance contributions as a tax, since the relationship between the compulsory contributions and the expected benefit is blurred by the compulsory solidarity. The tax-like nature of social insurance premiums affects the decision by households on whether to offer their labour: social security thus reduces employment. The trade-off between equality and participation is thus an unavoidable consequence of social security.

Empirical research illustrates the consequences of social security for employment. Van der Horst (2003) shows that the replacement rate, defined as the ratio of net unemployment benefit to net wages, puts significant upward pressure on wages in France, the United Kingdom and the Netherlands, among others. Other studies reach similar conclusions. High benefits lead to an increase in (equilibrium) unemployment.

De Grauwe and Polan (2003) look at the influence of social security spending on the competitive position of the countries concerned, where productivity is a key factor. They find no empirical substantiation for the trade-off: social security spending thus appears to have no adverse effect on competitiveness. The explanation for this may be twofold. On the one hand, a good competitive position facilitates higher levels of social security; on the other hand, social security spending implies less social unrest and more opportunities for investing in high-risk projects.

Figure 6.1 Social security spending as a percentage of GDP, 1998

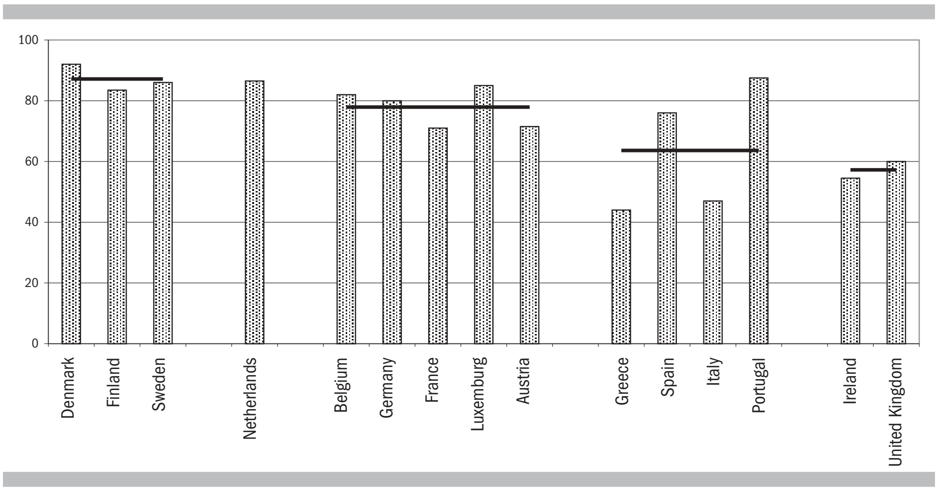


Source: OECD

Figure 6.1 gives an impression of social security in the EU in 1998. It presents social security spending as a percentage of GDP, with social security spending being defined as the sum of public spending in respect of pensions, sickness and disability, surviving dependants, unemployment, healthcare, national assistance, children, housing and active labour market policy. It should be noted here that the comparability of figures of this sort often leaves something to be desired. For example, benefits for the Netherlands are shown gross, whereas in many other countries they are net amounts. Nevertheless, the figures do provide some insight into the differences between countries. We see for example that social security spending is lowest in the Mediterranean and liberal countries. As expected, social security spending is relatively high in the social-democratic and, to a slightly lesser extent, corporatist welfare states.

Figure 6.2 gives an impression of the replacement rate in the EU Member States, calculated as the average for single persons and families at the minimum income level. Here again we see the highest values in the social-democratic countries and the lowest values in the liberal and Mediterranean countries – with the exception of Portugal, which has a strikingly high replacement rate. The replacement rate in the corporatist countries is somewhat lower than in the social-democratic welfare states.

Figure 6.2 Net replacement rate at minimum level, 1999



The figures presented are the averages of the replacement rates for single persons and families at minimum income level.
Source: OECD and CPB calculations

6.2 *Progressive taxes*

In addition to the social security benefits system, progressive taxes also play a role in the redistribution of income. They imply by definition that people with a high income will pay proportionately more tax than people on a low income. Using the MIMIC model developed by the Netherlands Bureau for Economic Policy Analysis (CPB), we can show how redistribution through progressive taxation influences productivity and labour participation rates. MIMIC is a general equilibrium model specifically developed to enable the influence of labour market institutions on the economy to be analysed (see Graafland et al., 2001). The model is calibrated for the Dutch economy, but the economic mechanisms modelled also feature in other European countries. While the quantitative results apply to the Dutch situation, therefore, the qualitative conclusions are also applicable to the other Member States of the EU.

Table 6.1 shows the results of two simulations. In both variants the general tax credit is increased, with a total budgetary impact of EUR 0.5 billion. This loss of revenue is compensated for in a budget-neutral way by an increase in the rates in the first two tax bands and by raising the highest rate.

The higher progression coefficient in table 6.1 means the tax system becomes more progressive, and thus leads to greater redistribution between high and low employment incomes. The fiscal progression increases because both experiments imply more redistribution from rich to poor. This is because the higher general tax credit is the same for all taxpayers, whereas the tax increases weigh relatively more heavily on the higher incomes.

The fiscal progression has negative consequences for the labour supply. It reduces the incentives for people to work harder because free time becomes more attractive than consumption. The employment rate of women also falls in both variants because the average tax rate on employment increases; this makes it less attractive to swap economic inactivity for a small part-time job.

Table 6.1 Economic effects (change in %) of more redistribution through the tax system in two budget-neutral variants[a]

	Higher tax credit Higher rate 1st band	Higher tax credit Higher top rate
Fiscal progression[b]	0.6	3.6
Labour supply	–0.4	–0.7
Participation of women	–0.3	–0.1
Employment	–0.7	–0.8
Labour productivity	0.1	–0.3

a In each variant the general tax credit is increased by around EUR 200. The measure is compensated for in a budget-neutral way by applying a different method of tax increase in each case.

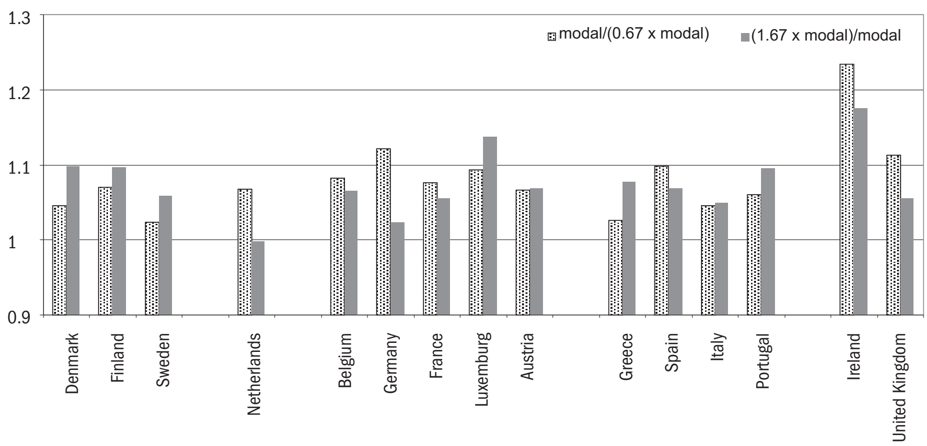
b This is defined in such a way that a higher coefficient indicates more fiscal progression. The precise definition is (1-Ta)/(1-Tm), where Ta represents the average rate and Tm the marginal rate. This indicator is thus the inverse of the coefficient for relative income progression which is usually used in the economic literature.

Source: Graafland et al. (2001) and CPB treatment

A more progressive tax system also has an unfavourable impact on investments in human capital, since it makes it less attractive for employees to undergo training because the rewards of that training in the form of a higher future salary are largely siphoned off by the government in taxes. This will ultimately lead to a decline in labour productivity. We see in table 6.1 that this is particularly the case when the top rate of tax is increased. The increase in the first tax band has precisely the opposite effect, boosting labour productivity because in this variant it is mainly employment among the low-skilled which falls; as a consequence, the average productivity per employee increases.

The simulations in table 6.1 suggest that fiscal progression is attractive from the perspective of equality, but can also have negative effects on employment and productivity. This implies a clear trade-off.[2]

Figure 6.3 Fiscal progression in 1999



The figures show the relationship between the average tax and social insurance premium rates for different income levels.
Source: OECD

Different European countries make different choices with regard to this taxation trade-off. Figure 6.3 illustrates this using two indicators of fiscal progression: (i) the relationship between the average tax and social insurance contribution rate for people with a modal income and people with an income of 0.67 x modal, and (ii) the same ratio, but this time between people with an income of 1.67 times modal and modal income. Since the average tax rate generally increases with income, these ratios are generally larger than 1 in figure 6.3. The degree of fiscal progression in fact says nothing about the average tax and social insurance contribution rates. The liberal countries have a relatively low tax burden but the highest fiscal progression, particularly below modal income. The fiscal progression rate is also relatively high in the corporatist countries. The Mediterranean and social-democratic countries have somewhat less progressive tax systems, though the average tax rate is rather higher in the social-democratic countries than in the Mediterranean states.

6.3 *Labour market regulation*

Social policy not only involves expenditure, but also regulation, among other things with regard to health and safety at work, working hours, dismissal protection and the minimum wage. These regulations protect workers against unsafe situations at work and against exploitation by employers, or are intended to avoid high transaction costs. Having clear rules means that individual workers do not need to familiarise themselves individually about the rights and obligations arising from an employment contract or about the working conditions in a company.

2 This trade-off becomes less clear-cut if market failures are not resolved in other ways. Van Ewijk et al. (2003), for example, show that failing labour, capital or insurance markets can make fiscal progression attractive from the point of view of efficiency.

Labour market regulation can also affect the three Lisbon objectives. Strict dismissal protection, for example, makes it more difficult and more expensive for businesses to lay off staff.[3] This reduces the number of dismissals and can thus lead to a fall in an unemployment. On the other hand, it also makes employers more cautious in taking on new staff, and this makes it more difficult for the unemployed to find work. Dismissal protection is therefore attractive for those who have a job, but unfavourable for job seekers. The strengthened negotiating position it gives people in work can lead to higher wage demands and rising unemployment. The ultimate effect on the labour market is therefore ambiguous on the basis of theoretical arguments.

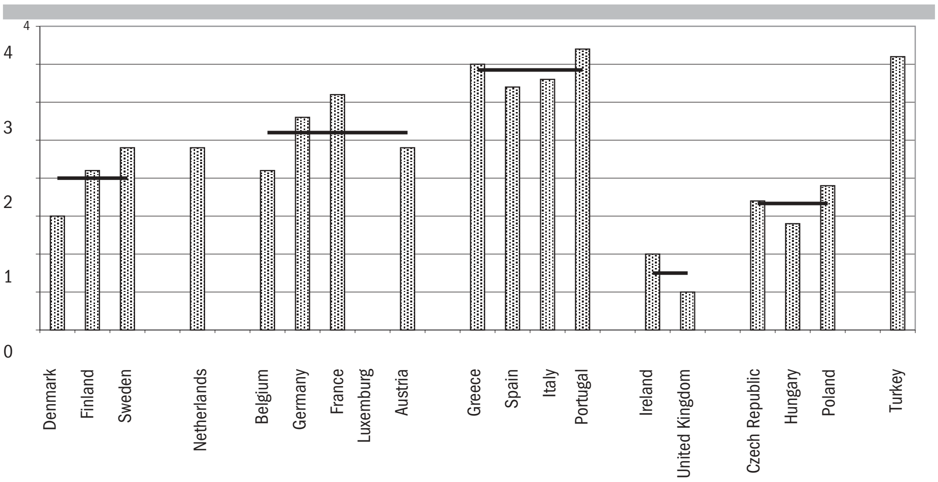
Empirical research into the effect of employment protection on the labour market also fails to reveal any uniform effects. Boeri and Jimeno-Serrano (2003) discuss eleven studies, only three of which report a significant negative impact on employment and two a significant positive impact on unemployment. Most of the studies reach non-significant or ambiguous conclusions. Employment protection does appear relevant for the dynamics of the labour market: according to virtually all available empirical studies it leads to fewer dismissals and lower recruitment. Although the level of unemployment does not appear to change significantly on balance, employment protection does lead to a significant increase in the length of unemployment, and thus widens the gap between those in work and the unemployed.

It is also not immediately obvious how employment protection effects productivity. On the one hand the reduced dynamism of the labour market resulting from employment protection can have a negative impact on productivity because people continue working for too long in companies that are doing badly. Dismissal protection can also exacerbate the depreciation of knowledge and skills on the part of jobseekers, by lengthening the average duration of unemployment. On the other hand, employment protection encourages employers and employees to invest in company-specific knowledge and skills; employers and employees have to rely on each other more, so that it pays to invest in the long-term relationship. Moreover, the flexibility within companies can increase if the flexibility between employers reduces. When it comes to employment protection, therefore, there is a trade-off between flexibility and stability.

Figure 6.4 gives an impression of the extent to which European workers are protected. Although employment protection is the main element here, the indicator presented is broader. The figures are taken from Nicoletti et al. (1999) and are also used by the OECD. We see that worker protection is relatively important in the Mediterranean countries; in the liberal countries, by contrast, there is very little employment protection. The other European countries are situated between these two extremes, with the social-democratic countries having less worker protection than the corporatist welfare states. Figures are also known for this indicator for a number of new entrants, as well as Turkey. The employment protection legislation in the new entrant states is not very strict and compares well with the protection offered in the social-democratic countries. Turkish workers, by contrast, enjoy a high level of protection, comparable with that in the Mediterranean welfare states.

3 According to Boeri (2002), employment protection is an alternative form of insurance against labour market risks. He shows that there is a trade-off between employment protection (particularly relevant in the Mediterranean countries) and social security (mainly relevant in the corporatist and social-democratic states).

Figure 6.4 Employment protection legislation in various countries (1998)



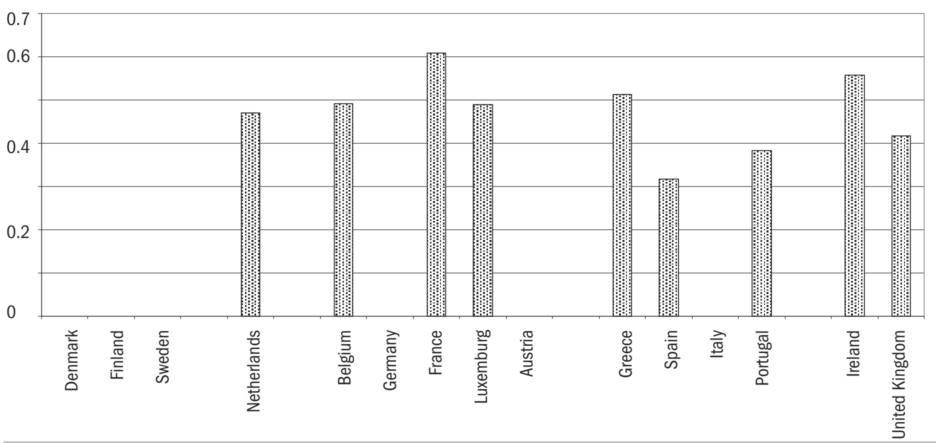
The scale ranges from a minimum of 0 (least restrictive) to a maximum of 6 (most restrictive).
No figures are known for Luxembourg.

Source: Nicoletti et al. (1999)

Another form of labour market regulation is the minimum wage, which contributes to reducing income differentials. Its influence is not limited to low wages: Teulings (1999) shows that minimum wages exercise a major influence on pay distribution up to median wage levels. It is therefore important for the income distribution of a large number of workers.

According to economic theory, a minimum wage leads to a reduction in employment. Employers find it too expensive to continue employing low-skilled workers at a wage which is higher than their productivity. This may explain why unemployment among the low-skilled is higher than among skilled workers. Despite this theoretical prediction, empirical literature from the United States suggests that the minimum wage has few effects on employment levels. Time series analyses show that an increase in the minimum wage of 10% leads on average to a fall in employment among teenagers of 1-3 percent, i.e. a fall in total employment of between 0.1% and 0.3% (Brown et al., 1982). Cross-sectional studies show even smaller effects (Card and Krueger, 1995).

Figure 6.5 Ratio of statutory minimum and median wage in EU countries, 2000



The six EU Member States without a minimum wage are also included in the graph.

Source: OECD

Figure 6.5 shows that six countries in the EU do not have a minimum wage. In the other EU Member States the statutory minimum wage varies from 31.8% of the median wage in Spain to 60.8% of the median wage in France. In most EU Member States the statutory minimum wage is higher than in the United States (roughly 35% of median wages). The fact that American empirical research finds that changing the minimum wage has virtually no effect on employment may be related to its low level there: even if the minimum wage were increased by several percents, it would still be low. It may therefore be that the minimum wage has a greater effect in the EU Member States. Empirical estimates for the Netherlands by Van Opstal (1990) do indeed suggest greater employment effects in the 1980s. More recently, Van der Horst (2003) also finds that the minimum wage has a substantial effect on unemployment in France and Spain. In the Netherlands, the minimum wage was for a long time nominally frozen after the 1980s, so that in real terms it has fallen. In 1975, for example, the statutory minimum wage in the Netherlands was more than 60% of the median wage; in 2000 it had fallen to 47%. A comparable trend has occurred in Belgium, Spain and Greece. The question is whether the minimum wage still has a marked effect on employment in the Netherlands. According to Gelauff and Graafland (1994) this is not the case; they use the MIMIC model to simulate a reduction of 10% in the minimum wage in the Netherlands, though without reducing the benefits that are linked to the minimum wage. Their findings suggest an increase in total employment of only 0.1%, an effect that is comparable with the empirical findings for the US. The main reason for this is that the minimum wage lies below the lowest pay scales negotiated in most collective bargaining agreements, and therefore has no direct relevance for most employers.

6.4 *Active labour market policy*

An active labour market policy can take various forms. In the first place it involves the creation of jobs for certain groups of unemployed people in the public sector. In the Netherlands, for example, these are jobs created within the framework of the Jobseekers Employment Act (WIW) and the Entry-level and Step-up Jobs Scheme (*Regeling Instroom- en Doorstroombanen*). Active labour market policy also includes wage cost subsidies for specific forms of employment in the private sector. For example, the Netherlands pays subsidies under the Long-term Unemployed Reduction Act (*Wet Vermindering Langdurig Werklozen*).

Active labour market policy can be seen as an instrument which is complementary to the welfare state arrangements. The threat of falling into the poverty trap makes it less attractive for low-skilled people to go to work. In order to ameliorate these negative consequences of the policy, the government can actively seek to help people get back to work. This is a way of avoiding unemployed people remaining outside the employment process for long periods and their human capital being written off. The policy is usually focused explicitly on disadvantaged groups, such as the long-term unemployed and low-skilled.

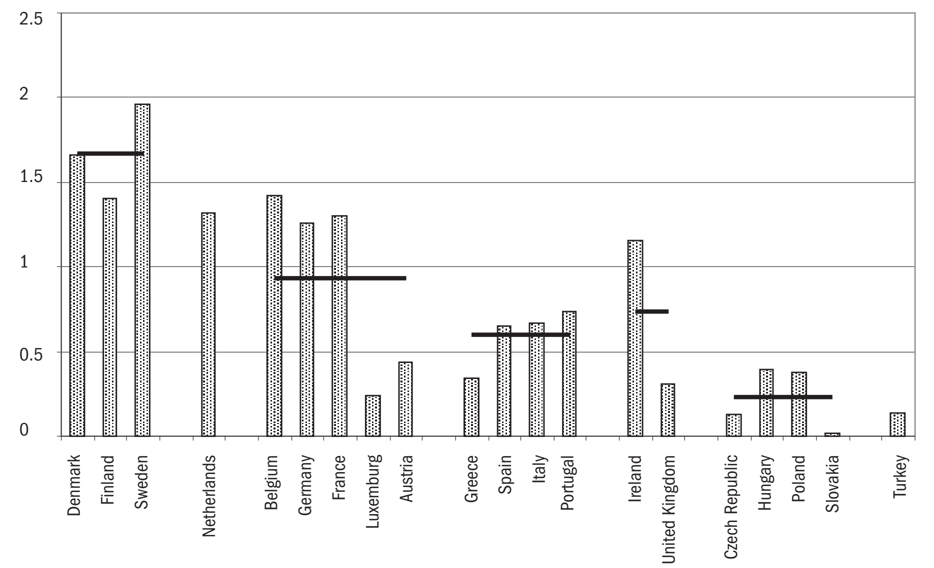
Active labour market policy is attractive from the perspective of social cohesion, since tax revenues are used to help disadvantaged groups to improve their position on the labour market. However, research shows that active labour market policy ultimately generates less sustained employment than is initially created. Extra employment in the public sector, for example, leads to a reduction in employment in the private sector because vacancies there become more difficult to fill. Dahlberg and Forslund (1999), for example, reach the conclusion for Sweden that the ultimate net employment effect of the active labour market policy is 35% of the number of jobs created. For the

Netherlands, Jongen et al. (2003) find a net employment effect of between 31% and 48% of the number of jobs created in the public sector. Account is taken here of the costs of active labour market policy, i.e. the higher taxes needed to fund the policy (and which discourage participation in employment).

Active labour market policy is thus potentially an effective instrument for combining social cohesion with the promotion of labour participation. It does after all have a net positive effect on employment and mainly benefits disadvantaged groups. Whether it also increases productivity is by no means certain, however. On the one hand the human capital of disadvantaged groups is sustained by promoting (on-the-job) training; on the other hand, employment is encouraged which is less productive, thus depressing the average labour productivity of workers.

Figure 6.6 gives an impression of the expenditure on active labour market policy in various EU countries as a percentage of GDP. Although this says nothing directly about the effectiveness of active labour market policy, it does give an impression of its importance in the various Member States. We see that active labour market policy is particularly relevant in the Scandinavian countries, the Netherlands and three corporatist countries. Spending is lowest on active labour market policy in the Mediterranean countries. The figure also includes data on a number of candidate Member States. These countries also pursue an active labour market policy, although they spend only a small percentage of GDP on it – though in Hungary and Poland that percentage is higher than in the United Kingdom or Greece.

Figure 6.6 Spending on active labour market policy as % of GDP, 1998



Source: OECD and own calculations

6.5 *The method of wage formation*

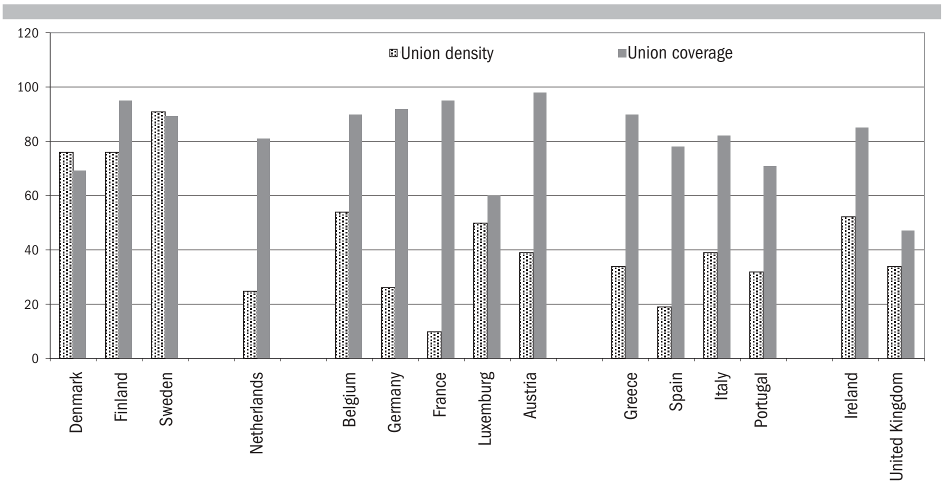
Wage formation in the Netherlands is determined by the interplay of employers' and employees' organisations. On the one hand this structure fosters the efficiency of the labour market, for example reducing the transaction costs in pay negotiations between employers and employees and potentially contributing to investments in company-specific knowledge. This in turn promotes productivity (Teulings and Hartog, 1998). It can also have a positive effect on social cohesion; for example, the empirical literature shows that more central wage bargaining results in a substantial reduction in wage inequality between different sectors and regions (Flanagan, 1999).

On the other hand, trade union power can have a negative impact on employment. For example, if trade unions have a strong bargaining position vis-à-vis employers, they can exploit this to push up wages and thus claim part of the company profits. This can lead to higher unemployment.

Smaller regional pay differentials as a result of more central wage bargaining also imply that unemployment can rise sharply in certain regions, since wages in the productive regions will not correspond with regional productivity levels. As a result of this phenomenon, we see that unemployment is very high in some Spanish and Italian regions as well as in Eastern Germany, for example.

Figure 6.7 shows two indicators which reflect the importance of different organisations in wage formation in European Member States. The left-hand column shows the percentage of workers who are members of a trade union. The figures show that this percentage is particularly high in Scandinavia. The coverage of collective bargaining agreements shown in the right-hand column is high in virtually all Member States, with the exception of the United Kingdom. In most countries, the number of people who are member of a trade union does not say much about the importance of collective bargaining agreements, because the coverage of those agreements often varies considerably, partly due to the high degree of organisation of workers and whether or not collective bargaining agreements have been declared generally binding.

Figure 6.7 Union density and coverage



Data for different years, 1994-1998. The coverage in Greece has been set at 90% based on information from the European Industrial Relations Observatory (2003).

Sources: Borghijs et al. (2003), Belot (2003)

6.6 *Labour market institutions and the Lisbon objectives: conclusions*

This chapter has shown that the Member States of the EU make different choices with regard to their labour market institutions and social policy. This mirrors the differences between the four clusters of welfare states described in chapter 3. To a large extent these choices reflect differences in social preferences. Although institutions can have different effects in practice, however, a number of general statements can be made about the impact of different welfare state arrangements.
The discussions in this chapter reveal that there may well be a trade-off in individual labour market institutions between equality and economic efficiency. All labour market institutions discussed are capable of increasing social cohesion. In many cases, however, this may take place at the expense of employment. Thus social security reduces inequality in society, but high and long-lasting benefits have a negative impact on employment. Increasing the progressiveness of the tax system and raising the minimum wage also imply a similar trade-off, although the empirical effects on employment of increasing the minimum wage are small. Only active labour market policy appears to avoid this trade-off: it has a positive impact on both employment and equality. Against this is the fact that it has to be paid for in some way. Here again, therefore, we see that there is no such thing as a free lunch.

Several authors have carried out direct empirical research on the extent to which labour market institutions affect the functioning of the labour market. The findings of Nickell and Layard (1999) and De Groot et al. (2003) confirm the effects on employment as revealed in our analysis. However, most studies look only at the influence of labour market institutions on unemployment. Table 6.2 summarises the main findings of five of these studies. An upward arrow in the table means that the variable concerned leads to rising unemployment; a downward arrow implies the reverse, and an 'equals' sign means that the variable in question has no significant effect. Where a cell is left empty, no variable was included in the analysis.

Table 6.2 Labour market institutions and unemployment

	Nickell et al. 1999	IMF, 2003	De Groot et al., 2003	Nickell et al., 2002	Belot, 2003
Social security					
replacement rate	↑	=	↑	↑	↑
duration of benefits	↑			↑	
Progressive taxation					
average wedge	↑	↑	=	↑	↑
Labour market regulation					
employment protection		↑	↑	=	↓
minimum wage					
Active labour market policy	↓		↓		
Method of wage formation					
trade union membership	↑	↑	=	↑	↑
coverage of collective bargaining agreements	↑		↑		
coordination	↓	↓	↓	↓	↓

Table 6.2 shows that a generous social security system and a high tax on labour lead to more unemployment. The effect of employment protection is not the same in all studies. This reflects the ambiguous results from the empirical literature on worker protection. As regards active labour market policy, two studies find a significant negative

impact on unemployment rates. All studies find that stronger trade unions (more members) result in high unemployment, but that coordination in wage bargaining implies lower unemployment. One explanation for this is that in coordination processes, employer and employee organisations take more account of the external effects of their wage demands (Calmfors and Driffill, 1988).

It can be concluded that specific labour market institutions have a contrary effect on the various Lisbon objectives. Nevertheless, the analysis in chapter 5 shows that some countries do succeed in reconciling these objectives. Apparently the right mix of social and economic policy can enable countries to combine an equal income distribution with high employment and high productivity. The question is whether such a mix will be sustainable in the future in the light of a number of trends.

7 Trends and the Lisbon agenda

The possible trade-offs between the Lisbon objectives or combinations of them are not static givens. All manner of international, technological and social developments can influence both equality and efficiency and the ability to combine them. They may therefore necessitate reforms of (social) policy. We examine a number of these trends below. Some of them have been under way for some time and will continue in the coming decades. Other trends which could manifest themselves are new and could reinforce other trends.[1]

7.1 Internationalisation and ICT

Globalisation and European integration are leading to growing international trade. The fruits of this manifest themselves in a more efficient allocation of production and better exploitation of advantages of scale. All countries can ultimately benefit from this, as both income and production increase. The process of internationalisation will continue in the coming years; the rate at which this happens will depend on the willingness of countries to cooperate and to dismantle the barriers to further integration. This internationalisation will lead countries to specialise more and more in the activities where they can derive a comparative advantage. For the wealthy EU countries these are generally knowledge-intensive economic activities; developing countries and the newly acceding EU Member States will concentrate mainly on labour-intensive products. If the rich EU countries do indeed become more knowledge-intensive, the demand for highly trained employees will increase relative to low-skilled workers. This process could be greatly reinforced by technological developments, such as ICT, which demand adequate knowledge and skills in order to use them.

Internationalisation and ICT can thus have a major influence on income distribution as the growing demand for skilled workers makes them more scarce, and thus more expensive, so widening the pay gap compared with low-skilled workers. Whether this actually happens will depend on the development of the supply of skilled workers. In the last decade, for example, the skills level of the workforce in the Netherlands has steadily increased. This has enabled the growing demand for skilled labour to be accommodated by a growing supply and has limited the growth in wage inequality between skilled and low-skilled workers (Stegeman and Waaijers, 2001). In the coming decades, however, this trend is expected to level off. If globalisation and technological development continue, therefore, the growing demand for skilled workers could widen the gap in pay between skilled and low-skilled workers in the decades ahead (see also Nahuis and De Groot, 2003).

Although internationalisation and ICT can be good for productivity, they reduce the equality in income distribution. Countries can seek to avoid or compensate for this through the use of labour market institutions. Wage inequality could for example be avoided by providing more training to low-skilled workers. Jacobs (2004), however, shows that this instrument is not very effective as a means of combating rising wage inequality. Avoiding inequality via labour market institutions could moreover lead to higher unemployment among low-skilled workers as they price themselves out of the

1 The trends are taken from CPB (2003).

market. Compensating for higher wage inequality would require that countries redistribute more income, for example via a more progressive tax system. However, this has adverse consequences for the activity rate, the number of hours worked and training efforts. In short, technological development and internationalisation offer the prospect of increasing productivity, but reduce the scope for the EU to even out income inequality.

7.2 Economic integration and policy competition

If different government authorities compete with each other for the same investors or the same talent, we speak of policy competition. This is good from the perspective of efficiency of policy, since inefficient policy is punished by the departure of businesses. Policy competition thus makes government authorities more efficient and more reliable, and less susceptible to lobbies by specific interest groups. However, policy competition can be unattractive from the point of view of equality. Welfare state arrangements aimed at income redistribution come under pressure because they redistribute from mobile to immobile factors (Sinn, 2003). Policy competition thus reinforces the trade-off between equality and efficiency.

Economic integration intensifies policy competition. For example, the Economic and Monetary Union has resulted in greater capital mobility within Europe. This makes investments more sensitive to differences in policy. Governments can take advantage of this by continually stepping up the policy competition. This will put more and more pressure on social policy and redistribution of income within EU Member States.[2]

Capital mobility and policy competition are relevant for Lisbon. For example, Gianetti et al. (2002) suggest that the integration of capital markets via the EU action plan for financial markets could generate an extra growth of around 1% per annum over the next decade. Heightened policy competition will also produce more efficient government policy, which again could benefit employment growth. On the other hand, policy competition will limit the scope for income redistribution, by making reducing income inequality more 'expensive' in terms of productivity and participation.

7.3 EU enlargement and immigration

The EU will be enlarged in 2004 by the addition of ten new Member States,[3] swelling the population of the EU by a total of 75 million inhabitants. The average income in the new entrants is less than 40% of the average in the EU-15. These wide income differentials could spark off a migration flow as soon as free movement of persons in the other EU Member States applies for the new members. For many Poles, Hungarians and Czechs, entry to the EU offers the opportunity to go to work legally in the richer EU countries. It is difficult to estimate how great the flow of immigrants will be. A number of studies has attempted to do this on the basis of historical migration patterns, although the figures they produce are hedged in by great uncertainties. On average,

2 The literature on the new economic geography suggests that economic integration could also lead to less policy competition as agglomeration effects become more important because of integration, so that businesses will be less likely to leave a core area even if they are relatively heavily taxed. See De Mooij et al. (2003).

3 Other countries in the queue are Bulgaria and Romania, with which negotiations on entry are already under way; and Turkey, with which negotiations have not yet commenced. The total population of these three countries is 96 million.

these studies suggest that around 3 million migrants will enter the EU-15 over the next 15 years. The majority will settle in Germany and Austria; the number of immigrants expected to enter the Netherlands is approximately 30,000.

These calculations take no account of any restrictions which Germany and Austria may apply – for up to seven years – when accepting immigrants from the Accession Countries. This could boost the number of immigrants coming to the Netherlands. In addition, the number of immigrants from other regions could also increase; for example, Turkey could join the EU. Estimates suggest that this would lead to an influx of a further 3 million immigrants to the EU, of whom more than 100,000 would move to the Netherlands (De Mooij and Nahuis, 2003).

What will immigration in the EU mean for the Lisbon objectives? The effect on participation rates in the Western European Member States will depend on the profile of the immigrants. Recent experiences in the Netherlands with non-western immigrants offer little promise, given the relatively poor labour market position of this group (Roodenburg et al., 2003). It remains to be seen, however, what the profile will be of the new immigrants from Eastern Europe. If they are young, highly trained workers who are able to find work easily, this could lead to an increase in the activity rate.

The consequences of immigration for the equality of the income distribution are not overly rosy. In the first place, immigrants often end up in low-paid jobs and thus exert downward pressure on the wages of low-skilled workers. Immigration then exacerbates the trend referred to earlier towards greater wage inequality. In addition, immigration can put pressure on the welfare state. A study by Roodenburg et al. (2003) shows for example that the existing non-western immigrants in the Netherlands place heavy demands on social provisions, and on balance cost the government more than they contribute. Whether this will also apply to the immigrants from the Accession Countries is difficult to assess in advance.

7.4 *Ageing of the population and Baumol's Law*

The ageing of the population is inevitable in the EU. It will lead to a drastic fall in participation rates. In 2040, for example, there will be 4.3 pensioners for every ten people working in the Netherlands; at present the figure is 2.2. As a result, spending on state pensions will double over the coming decades, from 4.7% to 9% of GDP. The situation in other countries is even more worrying because pensions are funded to a greater extent by pay-as-you go systems.

The ageing population will also increase the costs of health care. This will be exacerbated by the fact that productivity in the health care sector grows more slowly than elsewhere in the economy, while wage costs continue to grow at the same rate.[4] Since the rising price of care will not lead to a major downturn in its take-up, the substitution opportunities are limited, and spending on health care will accordingly account for an increasing share of the economy. This trend is known as Baumol's Law.

Together, the ageing of the population and Baumol's Law imply a sharp rise in public spending in the next few decades (CPB, 2000). This will have to be funded by tax revenues collected from a steadily shrinking labour force. This suggests that we are

4 ICT may offer opportunities for increasing productivity in the services sector.

heading for an intergenerational conflict, in which the shrinking working generation has to meet the costs of public provisions for a steadily growing older generation. The question is how this potential conflict can be averted. This is of crucial importance for the Lisbon agenda. Increasing the tax burden on the working generation will lead to an increase in tax avoidance and discourage formal economic activities. This will jeopardise both the participation and the productivity objectives. Moreover, it will become more difficult to sustain public spending for the younger generations if spending on older people increases. The scope for social provisions will then be undermined by the growing costs of pensions and health care. This in turn will jeopardise the social cohesion objective.

In short, the ageing of the population and Baumol's Law make it more difficult to reconcile efficiency and equality.

7.5 *Individualisation and flexibilisation*

European welfare states are faced with the challenge of individualisation. The last few decades have seen greater variety in forms of cohabitation, women have become more independent on the labour market, and people are choosing to spend their lives in increasingly different ways. This is changing the need for security (social insurance and social provisions). The growing labour market participation of women, for example, is making families less vulnerable to labour market risks because partners are better able to accommodate loss of income by a family member. Against this, new needs are arising, for example in the area of childcare and care leave.

The labour market is also becoming more flexible. A growing proportion of employment consists of part-time jobs or jobs with a flexible contracts. This flexibility has in fact created a substantial increase in the labour supply. People change jobs more frequently and are better able to choose the number of working hours that suits them best. As a result, however, the labour supply can also become more sensitive, among other things to taxation. This increases the costs of redistribution.

Individualisation and flexibilisation are the driving force behind the growing labour participation of women in particular in recent years. They thus bring the participation objective of Lisbon within reach and help reduce social exclusion and poverty. The consequences for the scope for redistributing income to those left outside the employment process are however less favourable, especially if the costs of social policy increase.

7.6 *Challenge for social policy*

Table 7.1 summarises the consequences of the five trends referred to above for the achievement of growth in productivity and participation and reducing income inequality. A plus sign in the table means that the trend brings the achievement of that objective closer; a minus sign means this is made more difficult. If a cell is empty, the effect is unclear or absent. It is clear from table 7.1 that it will be more difficult in the future to guarantee an equal income distribution within European Member States. The consequences for productivity and participation are not always clear.

Table 7.1 Influence of trends on the Lisbon objectives

	Productivity	Participation	Equality
Internationalisation/ICT	+		–
Policy competition/capital mobility	+		–
EU enlargement/immigration			–
Ageing/Baumol's Law		–	–
Individualisation/flexibilisation		+	

The trends will therefore demand a response in the form of policy innovation. In order to reduce income inequality, the most efficient means of redistribution will have to be sought. Although this is desirable anyway, the trends described will make it more urgent in the coming decades; the challenge of Lisbon of marrying social cohesion with greater productivity and higher participation demands this. Analysis of precisely what form such policy innovation would need to take falls outside the scope of this study. However, the next chapter does look at what role Europe could play in the quest for the required policy innovation.

8 Social Europe

8.1 The subsidiarity principle

Since the signing of the Treaty of Maastricht in 1992, the EU Member States have applied the subsidiarity principle in arranging the division of competencies between individual Member States and the EU. This principle means that the EU should only be given central powers if there are solid grounds for assuming that this will produce better results for the Member States than a decentralised policy. Since countries differ from each other in their history, culture, preferences and circumstances, competencies are in principle situated at the lowest possible level. Moreover, a decentralised policy has a number of other advantages. Decentralised governments are closer to their citizens and therefore better able to gather information about people's preferences, enabling policy to respond more effectively to local preferences and circumstances. In addition, the public choice literature argues that central policy leads to more government failures than decentralised policy (Brennan and Buchanan, 1980). Decentralised policy thus implies better democratic control, because politicians can be held accountable for their actions more quickly. Where policy is centralised, defective democratic control is more likely to lead to an overly large government as politicians, under the influence of pressure groups, seek to promote interests that do not correspond with those of the median voter. Politicians will then be more inclined to listen to small interest groups asking for transfers or subsidies. The costs of this policy are spread out over the largely unorganised group of silent taxpayers. If democracy fails to punish this behaviour by politicians adequately, policy competition can supplement the disciplinary function, temper the natural tendency of governments to expand, and make the government more reliable and efficient. At the international level, finally, decentralisation makes the method of open coordination possible, in which countries experiment with policy and learn from each other's experiences. This can make policy both more efficient and more effective.

However, subsidiarity is not the same thing as decentralisation. There may be solid arguments for centralised European coordination, for example in relation to scale effects or external effects. Scale effects occur when policy is more effective and more efficient if implemented jointly. External effects arise when policy in a particular Member State has consequences for other Member States and countries take no account of these cross-border 'spillovers'. As an example, the labour costs associated with social policy, such as social insurance premiums or costs relating to labour market regulation, account for an estimated 40% of total wage costs in EU Member States (Chen and Funke, 2003). These indirect wage costs can influence the decisions of businesses in deciding where to settle. Governments can respond to this by pursuing a less generous social policy which reduces the indirect wage costs; they will then attract investments which can boost the prosperity of the population as a whole. If all countries operate in this way, however, they may become bogged down in a competitive battle which ultimately leads to social dumping. To free each other from the grip of policy competition, therefore, countries can agree to harmonise their policy.

The arguments in favour of centralisation must ultimately be weighed against the disadvantages. In making this judgment, not only should centralisation or harmonisation of policy be analysed as an alternative to national policy autonomy, but also less far-reaching alternatives such as minimum standards or other basic rules within which the process of policy competition can take place.

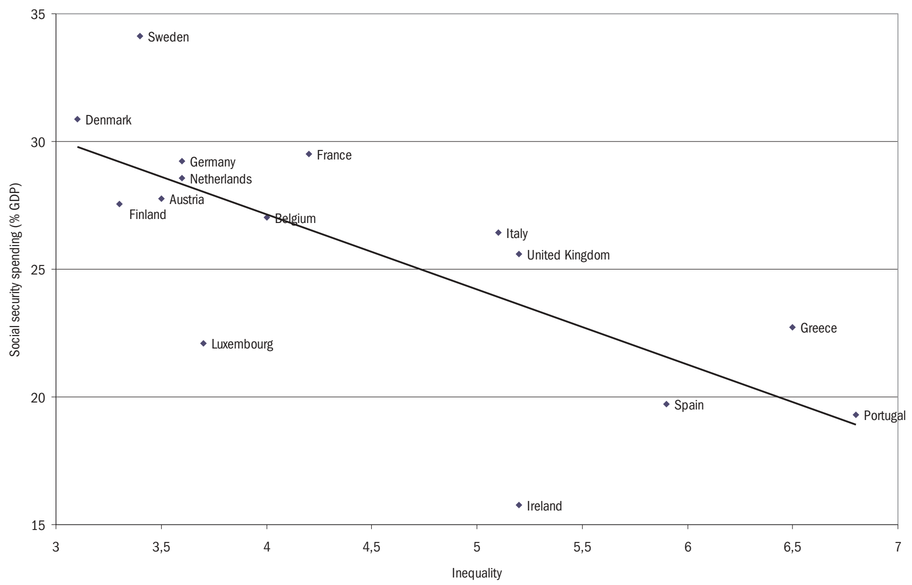
8.2 *Subsidiarity and social security expenditure*

How does the subsidiarity test turn out if we apply it to social security? To answer this, we need to weigh any scale effects and external effects against the importance of heterogeneity in social policy.

Scale effects

Scale effects occur when the social security system is more effective and efficient when operated at European scale than at national scale, for example because of lower implementation costs or better insurance. With regard to this latter aspect, countries could insure themselves at European level against asymmetrical macroeconomic shocks by means of a European unemployment fund, for example. A country that was hit by a negative macroeconomic event would then receive money from this fund, to which countries where unemployment does not increase would contribute. In this way the fund would stabilise shocks occurring in specific EU countries. Insuring against asymmetrical shocks also raises potential problems with its implementation, however, and creates moral hazard, i.e. the risk that governments could become less alert to the need to prevent unemployment because the unemployment benefits are paid by someone else (Beetsma and Oudshoorn, 1999). It is therefore not clear whether the benefits of such an insurance scheme outweigh the disadvantages.

Figure 8.1 Social security spending and inequality (1998)



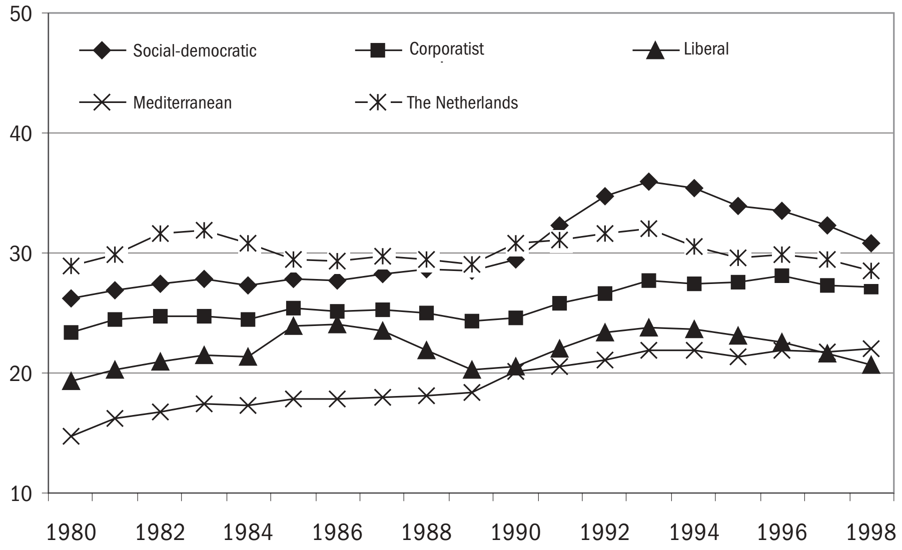
Another scale effect could arise in the implementation of social security. We investigated whether there are any empirical indications for this by examining whether large Member States achieve more efficient redistribution than small Member States. Figure 8.1 shows the relationship between social security spending and income inequality in the countries of the European Union in 1999. The downward sloping line shows that countries with high social security expenditure have a more equal income distribution. It is important to note that the four largest countries in the EU are all above this regression line; compared to the average in the European Union, therefore, they spend a relatively large amount on social security in order to achieve the same degree of equality.

This offers no empirical support for the idea of scale effects in the implementation of social security.

External effects

Might policy competition in social security lead to social dumping as a result of cross-border external effects? Figure 8.2 shows the trend in social security spending as a percentage of GDP between 1980 and 1998. The EU Member States have been classified according to the categories described in chapter 3. On average, social security spending in the EU rose from 21.5% of GDP in 1980 to 25.8% in 1998. This percentage has been falling since the second half of the 1990s, especially in the social-democratic and liberal countries, though to a large extent this is related to the decline in unemployment over this period.[1] All in all, there are no indications of social dumping in the EU. This observation finds broad support in several studies (Bean et al., 1998). For the time being, therefore, cross-border external effects offer no convincing argument for the harmonisation of social policy.

Figure 8.2 Trend in social security spending as a percentage of GDP, 1980 - 1998



Source: OECD

Heterogeneity

As we saw in chapter 3, there are considerable differences between countries in terms of their welfare states. On the other hand, countries can converge over time. For example, policy competition can give governments the feeling that they cannot afford to deviate too markedly from other countries; this can prompt a process of spontaneous convergence. Figure 8.2 gives an indication of the degree of convergence in social security spending. Particularly striking is the strong increase in social security spending in the Mediterranean welfare states. While social security spending as a percentage of GDP rose by an average of 20% in the EU over the period 1990-1998, it grew by 50% in the Mediterranean countries. This gives a first indication that spending on social policy in the EU has converged.

1 The correlation coefficient between social security spending and unemployment is 0.7.

In order to investigate convergence in a more scientific way, the empirical literature mainly uses the concepts of â-convergence and ó-convergence. The first concept refers to the relationship between the initial level and the growth in the subsequent years. There is evidence of â-convergence if social security spending in the period 1981-1998 increased relatively sharply in countries with a low social security spending quotient in 1981, and vice versa. This can be measured by regressing the growth rate to the initial level of the spending quotient. The term â-convergence refers to the coefficient σ in this regression. Our estimate shows that there is significant â-convergence in social security quotients. The estimated coefficient suggests a convergence of 4% per annum, i.e. the deviation between a particular country and the EU average reduces by 4% each year. In other words, an arbitrary European country will have made up half the difference between its social security spending and the EU average after approximately 17 years.

It is possible that, although social security spending has grown faster in the Mediterranean countries than in the social-democratic countries, the spread of the distribution has not decreased. For example, the figure shows that social security spending in the liberal countries has fallen so sharply in recent years that the spending quotient has dropped below that of the Mediterranean countries. There is no assurance that the spread in the distribution has also decreased. This is precisely the essence of σ-convergence (σ is often used as a symbol for the standard deviation). If social security spending in different countries displays less variation over time, we can speak of σ-convergence. This proves to be the case: the spread between countries in terms of social security spending has reduced considerably. The variation coefficient (the standard deviation divided by the average) fell from 27% in 1981 to 19% in 1998. Although there are still substantial differences in the level of social security spending, the heterogeneity has reduced over time. This lowers the costs of harmonisation. However, the forthcoming enlargement of the EU will increase the heterogeneity of social security spending once again.

Judgment

Scale effects and cross-border external effects appear to be irrelevant at present for social security spending. They therefore offer hardly any justification for harmonisation of social policy. External effects could become more important if increasing labour mobility in the EU leads to intensified policy competition between national governments. A large influx of immigrants, for example from the Accession Countries, could also put pressure on social provisions, particularly if generous provisions were to act as a magnet to new immigrants.[2]

Harmonisation of social policy becomes even less attractive following the enlargement of the EU; enlargement will increase the heterogeneity of the EU, thus increasing the need for diversity.

2 In order to prevent social dumping after EU enlargement, Sinn and Ochel (2003) suggest that newcomers should only be eligible for social provisions after a long period of delay. Employment immigrants would then be entitled to social insurance schemes immediately in the country where they work – unemployment and disability benefit, for example – but would have to wait several years before gaining entitlement to provisions funded via the tax system, such as national assistance benefit, child benefit or housing benefit. This could prevent the immigration wave following the entry of the Accession Countries from putting too much pressure on the European welfare states.

Redistribution via the Cohesion Policy[a]

Solidarity between European Member States is expressed in the European Cohesion Policy. The aim of this policy is to reduce the wealth differentials within Europe by subsidising projects that promote economic growth in disadvantaged regions. A number of simulation studies suggests that the Cohesion Policy can make an important contribution to this aim. In practice, however, the Cohesion Policy is all but ineffectual. Econometric estimates show that the actual effect of Structural Funds on economic growth in poorer regions has been zero. The reason for this meagre effectiveness must be sought in the design of the policy. For example, the distribution of the cohesion budget is decided every six years during the budget negotiations, following which regions may submit projects to absorb the budget already allocated. This procedure carries a number of inherent risks. In the first place, rich countries are able to corner a substantial part of the aid during the budget negotiations; as a result, more than half of all cohesion aid ultimately goes to countries with a per capita income that is above the EU average. This reduces the effect of the policy on convergence. Secondly, central governments tend to reduce their support for poor regions as soon as money is released from Brussels. The requirement of cofinancing by the recipient countries is evidently unable to prevent the fact that national support for these regions partially dries up. This again reduces the growth effect of cohesion aid in disadvantaged regions. Thirdly, regional governments have no incentive to select the most viable projects; often they are simply concerned with absorbing subsidies that have already been allocated. The most viable projects are either already being undertaken, or are avoided precisely because this can lead to the ending of cohesion aid in the next period. Finally, the involvement of Brussels leads to a great deal of bureaucracy, with concomitant high implementation costs, and reduces the flexibility of regions in selecting projects. The poorest regions in particular therefore have difficulty in actually absorbing the aid allocated to them.

The problem with the Cohesion Policy is that it tries to serve two masters. On the one hand it is used in the budget negotiations as an instrument to adjust the net position of Member States. On the other hand, the Cohesion Policy seeks to contribute to reducing the wealth differentials within Europe. The lesson of Tinbergen that it is impossible to achieve two objectives with a single instrument appears to have been forgotten. It would be more consistent to make a choice either to use the Cohesion Policy as a redistribution instrument between national governments, or as an instrument to reduce wealth differentials permanently. If the EU decides to use the Cohesion Policy as an instrument to ensure that the budget negotiations proceed smoothly, the involvement of the European Commission is in reality no longer necessary. The endless pumping round of money could then cease; the Cohesion Policy would need to do no more than facilitate net income transfers between national governments. If on the other hand the EU wishes to realise its objective of convergence, the Cohesion Policy would have to be redesigned and aid distributed on the basis of objective criteria, not of political negotiations on the budget.[b] Moreover, the process of selecting projects for aid would have to be designed in such a way that governments were encouraged to select projects with a high potential return. This could be achieved, for example, by allocating subsidies on the basis of competition between different projects, with effectiveness being a key assessment criterion alongside the degree of wealth in a particular region.

a For a detailed analysis of the European Cohesion Policy see Ederveen et al. (2002).
b See also Sapir et al. (2003).

Ultimately, subsidiarity demands a political judgment. The costs of collaboration are for example also determined by the perceived disadvantage of giving up one's own sovereignty. In chapter 1 we saw that European citizens have little enthusiasm for a European social security system, which means that these costs are evidently high. This reinforces the above conclusion. Whether this will change depends on the extent to which European citizens display solidarity. This solidarity currently manifests itself in the form of the EU Cohesion Policy (see the box 'Redistribution via the Cohesion Policy').

8.3 Subsidiarity and labour market regulation

The same subsidiarity test as that used for social security spending can also be applied to labour market regulation. The EU has already agreed a number of (minimum) standards here, relating among other things to working hours, holidays, health and safety at work, and various other worker rights (see chapter 2). These harmonised rules have been developed in response to fears of social dumping. However, it is unclear how relevant the threat of social dumping would have been if the rules within the European Union had not been harmonised. There are no clear indications of such external effects in this area. But how important are scale effects and heterogeneity?

Scale effects

The creation of an internal European market could be interpreted as a scale effect. This not only applies for goods, services and capital, but also for labour, because the creation of an internal European labour market through the removal of institutional barriers to labour mobility can increase prosperity in Europe. It implies that people are able to respond better to wage differentials and can more easily go to work in the country where they are able to achieve the highest return on their knowledge and skills. This fosters competition on the labour market, improves the efficiency of the allocation of labour in Europe and increases productivity. In addition, migration can reduce regional inequality in unemployment and boost the flexibility of the labour market by enabling the labour volume in a particular region to adapt more quickly to changing circumstances.

At present, however, labour mobility within Europe is low, for example in comparison with the United States. This is caused on one hand by language and cultural differences between countries, which hamper European labour migration. On the other hand, there are institutional obstacles to labour mobility. These barriers are both financial – pensions, for example – and information-related. For example, an employee with Dutch nationality who goes to work in another EU Member State falls under the regulations of the host country. The complexity and diversity of those regulations tend to prevent people from looking for work outside their own national borders.[3]

How could Europe achieve the goal of an internal European labour market by promoting labour mobility? An analogy can be made here with the goods market. The institutional barriers to labour mobility can then be compared with the technical trade barriers in product markets, such as differences in product standards. The internal market has removed these trade barriers through harmonisation and mutual recognition. Harmonisation of labour market regulations and social policy appears to be a step

3 See SER (2001) for a detailed analysis of the obstacles to cross-border labour mobility in the EU.

too far in the light of the heterogeneity of the EU. However, in parallel with the internal market for goods and services, it would be possible to introduce a system of mutual recognition on the labour market. Padoa Schioppa (2002) has developed this idea further, suggesting that social provisions should no longer be based on the host country principle, but on the home country principle. Migrants could then go to work anywhere in the Union under the conditions and with the social provisions that apply in their home country. This could help promote labour mobility. On the other hand, the home country principle would lead to unequal treatment of indigenous and foreign workers, making this a very controversial proposal.

Heterogeneity
Harmonisation of regulations ignores the fact that countries differ from each other. EU enlargement will increase those differences. The harmonised social regulations will be expensive for the majority of new Member States and will not match their level of economic development: the preferences for social standards are simply different for rich and poor countries. Differences in regulations need not in fact be harmful; they can help the economic development of new Member States because they will be able to attract more capital and strengthen their competitiveness with lower social standards. Western European consumers will ultimately also benefit from this through increased trade and specialisation. Convergence could then subsequently lead to adaptation of social policy to the EU norms. If on the other hand high social standards are imposed on the new Member States immediately, this could make it more difficult for them to achieve the growth necessary to catch up with the West. The enlargement of the EU thus exposes the disadvantage of harmonisation of social policy. Differences between countries create a need for a cautious approach in transferring powers to the EU.

8.4 *International coordination by trade unions*

Trade unions in Europe are under pressure. Membership has been falling since the 1980s, while pay negotiations are increasingly held at local and regional level. On top of this, the environment in which trade unions operate is becoming more international. This weakens their relative bargaining position vis-à-vis employers. In response to this trade unions in the EU Member States have suggested that they should cooperate more.

Wage coordination can have major consequences for the European labour market, although the form that coordination takes is crucial. Borghijs et al. (2003) show that internationally coordinated wage demands can strengthen the bargaining position of trade unions vis-à-vis employers. This could lead to higher wage demands, thus depressing profits and boosting unemployment. Yet this need not happen; joint wage demands can also mean that trade unions take more account of the consequences of those demands for inflation in Europe and the policy of the European Central Bank. This can give rise to more sustainable wage increases and lead to a fall in unemployment. The net effect of wage coordination on unemployment is thus not fixed in advance.

There are however other potential dangers of wage coordination. For example, it can have consequences for the flexibility of wages: if wage demands are formulated in international consultation, individual countries lose their autonomy to fix wages as they see fit. The question then is whether sufficient regional flexibility remains to enable country-specific shocks to be accommodated. Another danger is that international wage coordination can lead to smaller differentials in wage levels between countries. Empirical literature shows that centralisation of wage bargaining within countries leads to a substantial reduction in regional wage differentials. In Spain, Italy and the former East Germany, this has led to high unemployment in some regions. If European wage coordination also reduces the wage differentials between European countries, this will have serious consequences for countries with lower productivity levels.

8.5 *Lisbon and Social Europe*

Do the Member States need a Social Europe in order to realise their ambitions as expressed in Lisbon? Economic integration in Europe, achieved *inter alia* through the further completion of the internal market and the creation of the Economic and Monetary Union, has made a significant contribution to the increased wealth of the Member States. However, growing competition and restructuring of economies means there are not just winners. Some businesses or sectors will be unable to withstand the force of competition, while other economic activities will relocate. This could give rise to resistance against the integration process. A social component in Europe can increase public support in the EU for economic integration. This is important for Lisbon. The alternative of stagnating economic integration is considerably less attractive.

The question, however, is to what extent this social component of Europe requires centralised European competencies. After all, social security systems within the individual Member States will be able to accommodate a large part of the consequences of economic restructuring. Moreover, the European Cohesion Policy already reflects the solidarity between rich and poorer Member States. Ceding more powers to 'Europe' has important disadvantages, particularly as the heterogeneity in the EU increases as a result of enlargement. It is therefore to be hoped that the Open Method of Coordination will prove to be an effective means of giving Europe a social face and will offer a framework within which policy competition can be given tangible form. Particularly in the light of the pressure on social cohesion which appears unavoidable in the coming decades, it is all the more important to combine the national approach to social problems with a successful European coordination approach.

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Appendix: List of indicators used in section 3.2

Occupationalism	Source
Frequency of schemes for special occupational groups	Missoc (2002)
Frequency of schemes for civil servants	Missoc (2002)
Funding	
Return on social insurance premiums (% GBP) 2000	Eurostat (2002), p 180
Total government revenues (2000)	Eurostat
Marginal tax and premium rates (married couples with two children) 2000	OECD (2002b), p 87
Average tax and premium rates (single persons without children) 2000	OECD (2002b), p 84
Marginal tax and premium rates (single persons without children) 2000	OECD (2002b), p 87
Average tax and premium rates (married couples with children) 2000	OECD (2002b), p 84
Labour market	
Spending on active labour market policy (% GDP)	SOCX (2001)
Standard dismissal compensation (20 years of service)	OECD(1999), p104
Regulations for temporary contracts	OECD(1999), p103
Spending on labour market policy (% GDP)	Melis (2002)
Spending on state pensions (% GDP)	SOCX (1998)
Retirement pensions	
Official retirement age for men	ISSA (2002)
Implicit tax rate on continuing to work beyond age 55	OECD (1998), p186
Coverage of retirement pensions: residents with no employment history	MISSOC (2002)
Minimum employment history for employment-related pension	ISSA (2002)
Aims of employment-related pension	ISSA (2002)
Gross replacement rate of state and compulsory occupational pension	OECD (1998), p184
Surviving dependant's pension	
Spending on surviving dependant's pension (% GDP)	SOCX (2001)
Coverage of surviving dependant's pension for residents	ISSA (2002)
Coverage of surviving dependant's pension for employees	ISSA (2002)
Means test for surviving dependant's pension	ISSA (2002)
Child benefit	
Spending on child benefit schemes (% GDP)	SOCX (2001)
Spending on family-related schemes (% GDP)	SOCX (2001)
Coverage of family-related schemes	ISSA (2002)
Amount for first child	OECD (2002a), p 16
Means test for child-related schemes	OECD (2002a), p 16
General incapacity for work	
Spending on disability schemes (% GDP)	SOCX (2001)
Coverage of general disability schemes	ISSA (2002)
Minimum percentage of incapacity for work	MISSOC (2002)
Minimum employment history for benefit	MISSOC (2002)
Level of benefit with full employment history	ISSA (2002), MISSOC (2002)
Employment-related disability	
Spending on benefits (% GDP)	SOCX (2001)
Coverage of employment-related disability	ISSA (2002)
Level of benefit with full employment history	ISSA (2002)

Occupationalism	Source
Minimum percentage of incapacity for work	MISSOC (2002)
Indexation of benefits	ISSA (2002), MISSOC (2002)
Unemployment	
Spending on benefits (% GDP)	SOCX (2001)
Percentage of unemployed receiving unemployment benefit	Standing (2000)
Minimum employment history for benefit	OECD (2002a)
Benefit as percentage of salary	OECD (2002a)
Duration of benefit in months	OECD (2002a)
Difference between first payment and subsequent benefit (%)	OECD (2002a)
Average gross replacement rate for three family situations	OECD (2002a)
National assistance	
Maximum benefit (net amount for single person)	OECD (2002a)
Maximum benefit (net amount for family with two children)	OECD (2002a)
Spending on benefit and other provisions	OECD (2002a)
Leave arrangements	
Duration of maternity leave	Moss and Deven (1999)
Amount of maternity benefit	Moss and Deven (1999)
Payment during parental leave	Moss and Deven (1999)

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The list below contains a selection of recent publications from the Netherlands Bureau for Economic Policy Analysis (CPB) and the Social and Cultural Planning Office (SCP) on the subject of Europe which deal with the theme of this European Outlook (Social Europe). A complete list of publications can be found on the websites of CPB (www.cpb.nl) and SCP (www.scp.nl).

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