Brussels Economic Forum

Session 3 "Social Models : Fostering Faster Growth"

Alexander Italianer, Deputy Secretary-General of the Commission (replacing Catherine Day) opened the session on 'Social Models: Fostering Faster growth'. The questions on globalisation and its impact needed to be put in a wider context, that of the confidence of European citizens in Europe and in its institutions. Each time when a new stage of globalisation opened up (such as in the seventies with Japan, and now with China), Europe embarked on a search for a new strategy (some would call it soul-searching). The original version of the Lisbon strategy, which aimed at providing an answer to the most recent globalisation challenge, had a too optimistic view on what could be achieved and therefore was revised. A fundamental question was how the 'European social model' could survive. While systems among Member States were very different in many respects, a common feature of the European economies was that they were based on a desire to build society on key values, such as solidarity and access to key public services for all. That feature made Europe different from its international partners. Policies to enhance growth and competition on the one hand and modernisation of social security systems were two sides of the same coin. Reforming our economies was mainly a task for Member States, but they could learn from each other as they face similar challenges. At the EU level, too, there was a need to ensure that Europe had a social face offering choice and opportunity. The proposal by President Barroso for a globalisation adjustment fund, while small in numbers, had a large symbolic value in this respect.

Brigitte Ederer, chair, recalled that the meeting was about facing globalisation while maintaining the European social model. The EU had to regain its level of competitiveness as it was lagging behind the US. Europe was not a single block, but had different models, from the Scandinavian one over the continental model including countries such as Austria, Germany and Belgium to the Anglo-saxon economies where market functioning was dominant and only a minor role was given to regulation. The growth rates showed a dramatically different picture, with the Anglo-Saxon model performing best, and the continental model performing worst. Growth in Europe could therefore be achieved only on the basis of a long-term drive to reform. A mix of the different models would be a necessary requirement.

Olivier HENIN, Director of Cabinet of Minister Reynders, shared Belgium's experience in dealing with globalisation and gave a detailed overview of recent fiscal measures taken in Belgium that would help to foster job-friendly growth that went hand in hand with a reform of the social benefit system. Underlying this drive was an understanding that too high tax rates were detrimental to growth and led to a destruction of jobs. Belgium managed to lower personal income taxes while realising the highest revenue in taxes in years, testimony of the fact that lower tax rates were not inconsistent with sound budgetary policies.

Under the heading 'Protecting People versus Protecting Jobs', **Poul Rasmussen** thought there was no possibility to reform without protection, and no protection without reform. A global economy would give very big possibilities, but the consequences of globalisation implied a higher permanent and even accelerating change. A major requirement was to have a more consistent action and consensus oriented approach, both at the national and European level, to ensure that people would accept the changed environment. Citizens needed to be given tools to cope. And leaders needed to tell people what needed to be done, and not hide from this sometimes painful message. Moving from the industrial age to the global age required mixing rights and obligations in a different way than in the past. Reform should not always be sold as 'taking away' something from people. Combining social security with competitiveness was the main challenge and required a new active deal between citizens, institutions and public authorities. The Danes, Swedes and Finnish were moving along those lines, and copying this philosophy to continental Europe would be possible.

Rasmussen subsequently elaborated on the Danish change of policies in the early nineties during the period in which he was prime minister. For instance, the period of entitlement to unemployment benefits was shortened from ten to four years, but was combined with an active labour market policy. Essential was to convince the trade unions and the population that reform of the benefit system would be combined with results – to higher growth and more employment. The end-result was that Denmark presently combines high employment with maximum social security. He proposed that Commissioner Almunia would present to the Ecofin the idea that each Minister would commit for the next four year to spend an additional 1 percent of GDP in research, education, active labour market policy and child care. This would help to boost growth and lower unemployment, while only temporarily increasing the fiscal deficit. The Broad Economic Policy Guidelines were not sufficiently used by Ministers, while they could be used to ensure a coherent policy package along the lines of the Nordic example.

Susanne Ackum-Agell recalled the challenges of globalisation and stressed that the phenomenon was not new. While empirical studies showed that protectionist policies would lead to low growth, some people were nevertheless loosing out on the globalisation process. Risk management was key, in particular in active labour market policies. Deregulated labour markets were not the only possible scenario, as illustrated by the Nordic model. One size did not fit all. The Swedish experience proved that it was possible to emerge from a crisis situation with good policies. People could accept harsh policies if they are properly told what the stakes are. Moreover, politicians needed to accept that people are risk averse and had to feel that all were contributing.

In the panel discussion, **Pervenche Beres** questioned whether the experience of the small economies would also work for larger economies. Small countries had always had the need to adjust, which was not the case before in Germany and France, the two sick countries of Europe. There was a need for both more policy coordination instruments and social dialogue to create growth. **Hans-Olaf Henkel** elaborated on the axes of freedom versus equality and how they contradicted each other. There was no single social model that would fit Europe. The 25 European societies were in competition with each other – that was the main underlying rationale of the internal market. **Andrew Watt** saw a lot of consensus among the speakers. He emphasised that there was no clear evidence that the European social model as such was detrimental to growth – and the latter was not the only indicator of welfare. Structural reform should not always be associated with the adjective 'painful'. **Henri Malosse** suggested larger countries to look carefully at the example of the smaller Nordic ones. There was a need for more cooperation at European level instead of misplaced protectionism.