“Anglo-Saxon” versus “European Social” models of European economies - Argument by caricature?

Briefing prepared by the European Movement Senior Expert group

It is often suggested that there are two wholly separate and competing economic models evident within the European Union: the “Anglo-Saxon” model of liberal markets, flexible labour laws and limited government spending; and the “European Social” model built around welfare protection, high governmental public spending and inflexible labour markets. This alleged distinction has been used by those on both sides of the argument to portray a schism between the economies of – to borrow another caricature – “old Europe” (or even “Europe”) that are deemed to be ailing or failing, and those of “new Europe”, such as Britain, Ireland and the new Eastern European member states, that are deemed to be flourishing because of the liberal free market values that drive them.

This sharply defined “either or” approach to the EU’s economic future is neither helpful nor accurate. The challenges of globalisation will not be met by debating whether one identical economic model is desirable or viable for all EU member states. Pigeonholing particular countries or groups of countries as advocates of liberalism or protectionism ignores the fact that all EU member states agree on the need for economic reform. As recently as the March 2005 European Council, every EU head of government agreed a number of measures to speed up implementation of the Lisbon Agenda, which aims to make the EU economy the most competitive in the world by 2010. These included steps to improve research and development within the EU; to develop the single market in services; to reduce State aid and to increase competition; to reduce the regulatory burden on business; and to support small and medium-sized enterprises.

However, the image of an EU divided by the economies of its members has undoubtedly become a powerful tool for those seeking to disparage both the European Union and particular member states, namely Germany, France and Britain. This technique is particularly evident in UK media coverage of domestic political affairs of these countries. In France, the Interior Minister, Nicolas Sarkozy, is depicted as the standard bearer for the type of liberalism Britain is alleged to want to instil across the whole of the EU. By contrast, President Chirac and Prime Minister, Dominic de Villepin, are seen to embody a staid, protectionist economic methodology in need of some British-style liberalisation. These are caricatures, yet ones undoubtedly fuelled by President Chirac, who recently condemned the economic vision of unlimited free markets “as bad a communism”.

Likewise, in the recent coverage of the German election, the incoming Chancellor Angela Merkel was portrayed as the antidote to the economic sclerosis brought about by the “Old Europe” economic policies of the outgoing Chancellor, Gerhard Schroeder. *The Sun* notably carried a commentary piece accusing the German public of being a “sick patient that wouldn’t take their medicine” because they had not voted in Merkel outright. Again, this is a gross over-simplification, yet the outgoing Chancellor’s comments earlier this year are equally divisive and misleading:

"There is a special European social model to protect that has developed on the continent," Schroeder said in June, adding: “"Those who want to destroy this model due to national egotism or populist motives do a terrible disservice to the desires and rights of the next generation."

Two models?

The economies of EU member states said to be “Anglo-Saxon” or “European Social” are aligned to a far greater degree than these generalisations acknowledge. Any attempt to regard the “Anglo-Saxon” and US models as homogenous is also particularly misleading. All EU economies share the common features of governmental intervention to improve equity of income and opportunity via the existence of pension systems, health and long-term care, social protection for the poor and disabled and the redistributive function of taxation. Two particular aspects of the US model are anathema to any perceived European model: the lack of a national health service and the absence of a credible safety net for those out of work.

It is also important to note that in the World Economic Forum’s annual study of global competitiveness, Finland heads the league table with Sweden and Denmark at positions three and four. According to the WEF, all the Eastern European states, apart from Estonia, are less competitive than France or Germany. The Nordic model involves a high degree of state support for those out of work combined with greater flexibility for employers to hire and fire.

Also significant is that the supposedly ailing “European Social” German economy is currently running a trade surplus of $157 billion whilst the UK has Europe’s largest trade deficit. Germany’s exports were the highest in the world last year, with $900bn worth of goods sold, and the slight economic upturn apparent in Germany is undoubtedly due to this strong export base.

GDP and public spending[1]

Bloated public spending is often seen as a key fault of the “European Social” model. Britain’s social welfare spending is, at 22% of GDP, lower than that of Germany and France (27-29%), according to the OECD. However, the Nordic economies all fall within this Franco-German 27-29% band, and, significantly, British social welfare spending remains well ahead of that of the US, which accounts for only 15% of GDP.

Public spending in total amounts to 44% of GDP in Britain, only a little less than in Germany (47%), according to Commission figures. UK public spending is also on the rise – in contrast to the Eurozone where it is falling. Although the “European Social” model French state budget accounts for well over half of its GDP (54%), and the “Anglo-Saxon” Irish only 35%, there is not great divergence across the EU-25 from the Eurozone average (48%). Poland, one of the key Eastern European economies said to be aligned with liberal British thinking, has a public spending rate higher than the Eurozone average.

The UK budget has in fact moved from a big surplus (almost 4% of GDP in 2000) into a deficit of 3.2% in 2004-05, resulting in a rebuke from the Commission last month for breaching the 3% limit required under the EU’s Growth and Stability pact (although as a non-Eurozone country Britain will not face any economic sanctions).

[1] See further **“Liberal versus social Europe” by Katinka Barysch, CER Bulletin , Issue 43**
www.cer.org.uk/articles/43_barysch.html

Unemployment and labour markets

The key indicator that underpins the argument of those postulating the dichotomy is that of unemployment. It is regularly quoted – in relation to both individual economies and the policies of the EU as a whole – that current economic thinking is failing because 20 million people are unemployed within it. Although there are signs of some convergence, France and Germany (both 9.6%) have unemployment rates twice that of the UK (4.6%), with this disparity put down to the greater opportunity afforded to workers from groups such as women, young and older people and unskilled workers – the flexibility of labour markets advocated by Britain[2]. The difficulties of hiring and firing, though apparent in most member states, are particularly acute in France and Germany, where this inflexibility is believed to be increasingly discouraging inward investment. Former Dutch premier Wim Kok's 2004 report regarding the progress of the Lisbon Agenda was also scathing about this inflexibility. It is important to note, however, that different methods of calculating unemployment may be partly responsible for the giving the impression that some countries have a greater problem of joblessness than others.

A basis for debate?

The idea of two absolutely distinct "Anglo-Saxon" and "European social" models within the European Union does not stand up to scrutiny. The EU's approach to facing up to the challenges of globalisation would be better served without recourse to such caricatures.

October 2005

[2] Ibid, p 2