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Fiscal Sustainability and Social Cohesion. Common and Specific in EU Sub-models[1]

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Abstract. *The European social model is characterized by a high heterogeneity degree, the member countries recording significant differences between the national redistribution systems. According to the existing gaps regarding the decreases of the poverty, the participation to the labour market and the protection against the labour market risks, we can identify five submodels within EU, the Northern one being the best adjusted to the structure of the European social model which has been modernized through the Lisbon strategy. Even though the finality of EU is represented by providing the social cohesion (the decrease of the poverty rate and of the income inequality), the progresses recorded during the period between 2000 and 2008 were quite low due to the evolutions of the Southern, Anglo-Saxon, Baltic and Romanian submodels. Within this study, we have explained why the increase of the state's resources, of the welfare does not constitute a necessary and sufficient condition for the consolidation of the social cohesion within the European Union. On the contrary, the increase of the redistributed financial resources is able to generate sustainability problems in the budget deficit when the economic activity goes through an economic recession period.*

Keywords: convergence, integration, european model, fiscal sustainability.

JEL Codes: E62, I38.
REL Codes: 8K, 20F.

By defining the types of welfare states, Esping Andersen (1990) justified the only existence of three variants of capitalist systems: the social-democrat system (which includes the Northern countries), the conservative system (the continental European countries) and the liberal welfare system, including the Anglo-Saxon countries. Besides the three submodels, there are two more models within EU – the Southern or Mediterranean submodel, which includes the Southern countries, and the „catching-up” submodel, which includes the ex-communist new member states(2).

Characterization of the economic and social submodels

Among the five submodels within the European Union, the Northern submodel is the most performant in achieving the objectives assumed through the Lisbon Strategy, as it has generated both macroeconomic efficiency, and also social equality.

The Northern (Scandinavian) submodel includes Denmark, Finland, Sweden and Netherlands, and it is characterized by a high redistribution degree, by promoting the social inclusion, the universality of the social assistance, of the social dialogue and of the cooperations between the social partners and the Government. These economies are among the most competitive European economies, although they provide economic and social cohesion to the citizens; the performances of the countries included within this submodel are explained by the elimination of certain trade-offs which exist between the economy’s functioning and the social effects (Figure 1).

The other four economy submodels are characterized by the existence of at least one of the three trade-offs presented in Figure 1.

The Anglo-Saxon submodel includes Great Britain and Ireland and it constitutes a mirror of a liberal approach for the welfare system in which the social assistance is limited and in which the private insurances of the individuals’ risks are encouraged (this means that the transfer of social responsibility is made from the state towards the individual, such as in the USA). The labour market is not regularized, and the responsibility of looking for a job belongs to the individuals (the budget expenses for the active policies which exist on the labour market are low). In contrast with the Great Britain, the state’s intervention is higher in Ireland, along with the transformation of this economy from a less developed country into the second developed economy in EU. With reference to the three trade-offs, the Anglo-Saxon countries apply a quite decreased taxation (this fact resulting in quite low labour costs) and quite low unemployment benefits as a share in the wage, which are paid for a shorter period of time. That is the reason why the employment degree is close to that existing in the Northern countries and the long-term unemployment is the lowest in the EU. The third trade-off only (the one referring to efficiency and equality) is characteristic to this submodel, under the terms in which the economic growth involves an increased inequality of wages and incomes in the society.

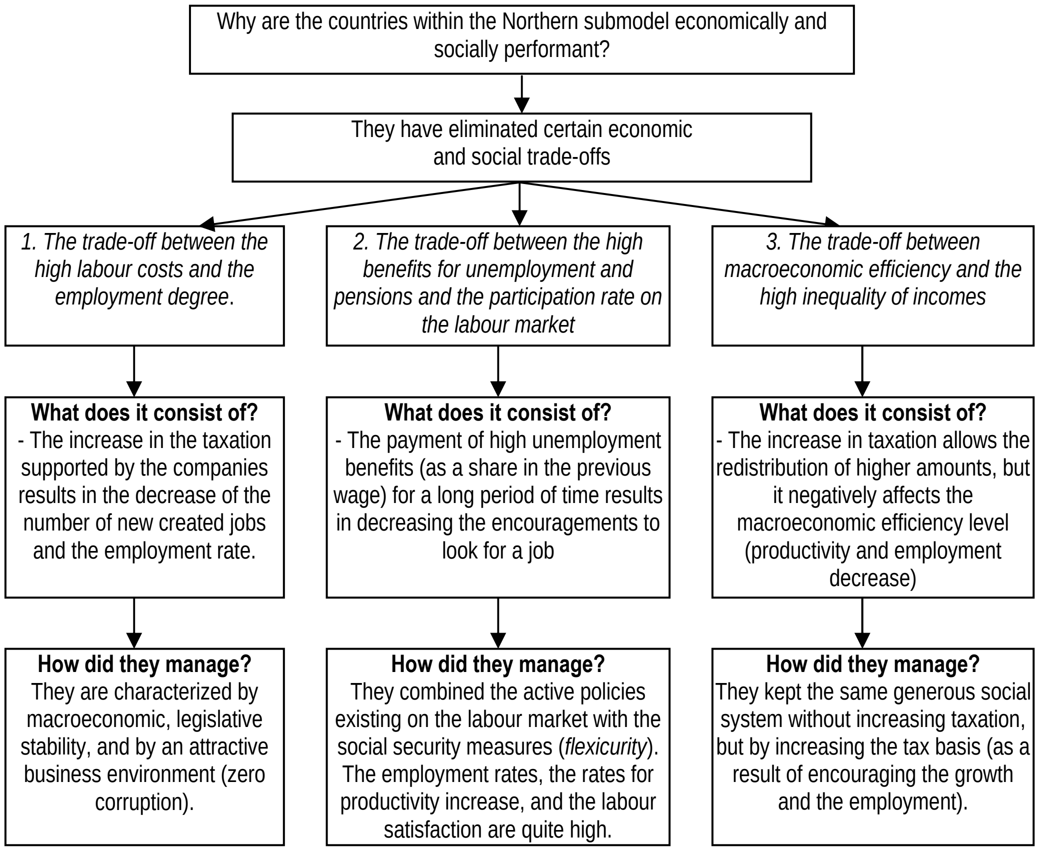


Figure 1. *The performances of the Northern submodel*

The continental submodel includes France, Germany, Austria, Belgium and Luxembourg. Within this submodel, employment constitutes the basis of the social transfers, and the paid benefits are lower than those given in the Northern submodel, depending on the level of the previously obtained income. As for the functioning of the labour market, it is regularized, without encouraging the labourers' flexibility, and the wage negotiations are centralized within it. The economic system's ability to eliminate the trade-offs included in Figure 1 is quite decreased for the countries belonging to the continental submodel. Thus, taxation is quite increased (if compared to the Anglo-Saxon countries), and this fact induced a lower capacity to create jobs in the private sector (especially in that of the services). Moreover, the benefits received by the unemployed and by the pensioners discourage them in looking for a job and in extending the participation to the labour market. In the absence of active policies on the labour market, these economies record high unemployment rates, the poorly qualified labourers, the young and the women constituting categories which are less integrated on the labour market. With reference to the trade-off between efficiency and equality, the countries within this submodel are characterized by a lower incomes inequality (if compared to those belonging to the Anglo-Saxon submodel), but this is not the result of the increase in employment and productivity, as in the Northern countries, but of the previous increase of the expenses for the social protection.

The Southern submodel includes Greece, Italy, Spain, Portugal, Malta and Cyprus. The state's role is residual, being limited to paying fragmentary social benefits, and the social expenses are directed towards the aged population and towards certain occupational groups, such as the employees in industry. The labour market is highly segmented and regularized, and the wage negotiations are centralized. Within this submodel, the state's responsibilities are taken over by the family, to a certain extent, and the family's role is both social and also productive (creating family businesses). From the point of view of the three trade-offs, the Southern economies have the characteristics of the Anglo-Saxon countries (quite low social expenses, low benefits for the unemployed), but they do not have their capacities to generate an increase of the employment rate, under the terms of a regularized labour market, especially for the men labourers. The labour force is less flexible, as in the continental submodel, this aspect involving the constancy of an increased rate of unemployment on a long-term, especially among the young people. Under the terms of a lower redistributive state and of an economic system which is incapable to significantly increase the employment rate, the inequalities between incomes are the highest within the European Union. Within countries such as Italy, Portugal and Spain, the differences between incomes are also explained by the existence of high regional gaps.

The catching-up submodel (the Eastern and Central Europe, ECE) includes the Czech Republic, Slovakia, Slovenia, Hungary, Poland, Estonia, Lithuania, Latvia, Romania and Bulgaria. Although all these economies passed through a process of transition towards a market economy, there are still significant differences with reference to the organization of the national welfare systems. Some countries, such as Hungary and Slovenia, have chosen the increase of the expenses for the social protection, while the others, such as the Baltic States, have based on keeping them low and on encouraging the recovery process for the development gaps by promoting a taxation which is close to that in the Anglo-Saxon submodel. However, the general analysis of the submodel suggests the existence of regularized labour markets, of a still less developed social dialogue institution and of a low social security level. Analyzing the catching-up submodel from the point of view of the three trade-offs, we can establish that it recorded high rates of economic growth, this aspect being characteristic to less developed economies, which, however, induced an income polarization, such as in the Anglo-Saxon submodel. The employment rates are the highest in the case of Slovenia and Czech Republic, its most significant increases being recorded in Bulgaria and in the Baltic States, where employment is close to the levels of the continental submodel. Within the catching-up submodel, we can identify two groups of countries, one of them including Visegrad and Slovenia, while the other one includes the economies which implemented the Unique Taxation Quota – the Baltic States, Romania and Bulgaria.

For a synthesis of the gaps between the redistribution systems of the five submodels, we have made a comparison between them, which is based on the presence or absence of the three trade-offs and on their capacity to eliminate them (Table 1).

Table 1

The heterogeneousness of the economy submodels within EU

Submodel/Trade-off	Northern	Anglo-Saxon	Continental	Southern	Catching-up
High labour cost and employment degree	Eliminated - high employment degree	Non-existent - lower costs; - high employment degree	Not eliminated - quite low employment degree	Non-existent - lower costs and employment degree	Non-existent - lower costs and employment degree
High benefits for unemployment and pensions and high employment degree	Eliminated - high employment degree among the young and the old	Non-existent - the benefits for unemployment are low; - high share of the private pensions	Not eliminated - low employment degree among the young and the old	Non-existent - low social protection	Non-existent - low social protection
Macroeconomic efficiency and income inequality	Eliminated - efficiency and equality	Not eliminated - efficiency without equality	Not eliminated - equality without efficiency	Not eliminated - nor efficiency or equality	Not eliminated - increase of efficiency, but without social equality

The three trade-offs are characteristic to the welfare systems of the Northern and continental submodels, but the first one has proved the capacity to eliminate them by means of promoted reforms, while the second one is less performant. The Northern submodel turned gradually into a submodel which is closer to the Anglo-Saxon one, by passing from welfare to workfare, which means from the state's responsibility to provide social security to the individual's responsibility for his own security against risks. However, the Northern submodel is extremely different from the EU liberal countries from the point of view of its social performances. Based on the comparison made in Table 1 we can reach the conclusion that *the features of the modernized European social model are largely characteristic to the Northern and Anglo-Saxon countries.* The result is that the homogeneousness of the European model is performed with difficulty, as the transfer of the common values which are specific to these two submodels towards the other three can encounter an institutional, social and even cultural barrier.

The structure of the EU redistribution systems

The increase in the welfare state is influenced by the shares of the budget income and of the budget expenses in the GDP, and its sustainability is given by the existence of a long-term balance of the budget balance, which is necessary to avoid the increase of the public debt. Table 2 presents a hierarchy of the European submodels according to their disposition for redistribution, by using the values recorded by them during 1995, 2000 and 2008. The first year corresponds to the starting of the nominal convergence process performed by 12 of the EU member states. 2000 is the year when the Lisbon Strategy was adopted, which settled the reform of the national economic and social systems. 2008 is the year when the first effects of the financial crisis upon the budgets of the European countries were encountered.

Table 2

The evolution of the budget incomes and expenses within the European submodels

	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)
Submodels/Years	**1995**	**1995**	**2000**	**2000**	**2008**	**2008**
Northern S.	52.66 (I)	59.86 (I)	52.44 (I)	49.34 (I)	51.22 (I)	48.95 (I)
Continental S.	47.08 (II)	54.50 (II)	48.28 (II)	48.24 (II)	46.51 (II)	47.96 (II)
EU-27	45.20	52.40	45.40	45.20	44.50	46.80
Anglo-Saxon S.	38.09 (VII)	43.66 (VI)	40.05 (IV)	38.45 (VIII)	41.58 (IV)	47.13 (III)
Southern S.	41.53 (V)	48.55 (IV)	42.26 (III)	43.58 (III)	42.09 (III)	45.15 (IV)
ECE S.	41.76 (IV)	46.90 (V)	38.31 (VI)	42.15 (V)	38.86 (VI)	42.09 (VI)
Visegrad Gr.	43.75 (III)	50.16 (III)	39.26 (V)	43.23 (IV)	40.31(V)	43.31(V)
Baltic States + Bulgaria Gr.	38.52 (VI)	39.12 (VII)	37.56 (VII)	39.31(VI)	36.48 (VII)	38.35 (VIII)
Romania	33.80 (VIII)	35.90 (VIII)	33.80 (VIII)	38.50 (VII)	33.10 (VIII)	38.50 (VII)

Note: the Roman figures in the brackets correspond to the descending hierarchy of the submodels, from the most redistributive ones to those which are less redistributive in the GDP.

Source: Eurostat (2009).

The most redistributive submodels are the Northern and the continental ones, the second decisively influencing the communitarian average. Compared to 1995, the Northern countries maintained approximately the same level of the budget incomes as a share in the GDP, but they have recorded a 10% decrease in the budget expenses, and this allowed them to obtain a 2.27% average budget surplus of the GDP. Among the Northern economies, Finland and Sweden have promoted the greatest adjustments of the welfare state, the first one decreasing the budget expenses by 13% of the GDP, and the second one by 12%. During the period between 1995 and 2008, the budgets of the two economies turned from a 6% budget deficit into an approximate 2% surplus of the GDP, for Sweden, respectively 4% of the GDP for Finland. These transformations are the result of promoting the reforms which are specific to flexicurity and to the adjustment to an innovative economy, both factors generating the economic growth, the increase of the employment degree and the relative decrease in the dependence of economy and society on the state's intervention.

The countries within the continental submodel recorded the same tendency to decrease the public expenses, but the quite low rates of economic growth allowed them to achieve budget surpluses only in 2000. With reference to their extent, the transformations were different within the economies belonging to this submodel: on the one hand, Germany and Austria recorded a decrease of 11%, respectively 8% in the state's expenses, while Belgium and France recorded only an approximate 2% decrease. Actually, in 2008, France was the EU economy which recorded the greatest share of the public expenses in the GDP, and this fact resulted in a budget deficit of 3.6% of the GDP. In 2008, which was a year of financial and economic crisis, the most affected was the Anglo-Saxon submodel, as Great Britain and Ireland are the European economies mostly depending on USA. Within this framework, the governments of the two countries intervened in order to support the financial sector and to encourage the real economy, and this fact generated the approximate 5% increase of the public expenses in Ireland, and the 3.7% increase in the United Kingdom, during 2008, compared to 2007.

The Southern submodel and that of the Eastern and Central European (ECE) countries are those which record the highest dispersion among the sizes of the welfare states. In Italy and Hungary, the budget expenses exceeded the EU-27 average by approximately 2% in 2008, and in Slovakia and Lithuania, the state's intervention in economy was 10% lower than the communitarian average. As a matter of fact, the state budgets of the two submodels were adverse during the analyzed period. If the state intervened in the Southern countries in order to encourage the real GDP under the terms of increase rates below 2%, in the new member states, the state's expenses aimed to modernize these economies subsequent to 2000, the average increase rates exceeding 5% during the period between 2001 and 2008.

Within the ECE submodel, we can identify two groups of countries, according to the role of the national redistribution system. On the one hand *the countries within the Visegrad group were convergent with the economies within the continental submodel during the first transition years, and, subsequent to that, they came closer to the direction which is specific to the Southern countries. The taxation decrease, which was promoted within these economies, generated the decrease of the budget returns in the first stage, and, afterwards, the decrease of the state's expenses*. On the other hand, *during the analyzed period, the Baltic States, together with Romania and Bulgaria, were characterized by a residual role of the state, similar to the one existing in the Anglo-Saxon submodel*. The increase strategy based on the lowest taxes in EU, and this resulted in the decrease of the budget returns within all five economies, during 2008, compared to 1995. Except Romania, the other four economies achieved budget surpluses during the period between 2002 and 2007, under the terms of an approximately 7% average annual increase rate. When these economies were functioning on the basis of the private capital inflows, the increase of the state's intervention in economy was not necessary. But, once the financial crisis has decreased these inflows, these economies should promote measures for increasing the public expenses for investments, in order to bring the economic recession to an end.

Among the public expenses, the state's social expenses are the most important, these ones including the expenses for the pensions, for health care, for the transfers towards families and children, the expenses for unemployment and those for preventing the social exclusion. Compared to 1995, the part distributed for social expenses increased by 5 percents (up to 57% in 2007), as a result of the pressures within EU with reference to ageing of the population and to the constancy of a high unemployment level. In 2006, among the EU countries, the Netherlands, Germany and Belgium were characterized by a developed welfare state, under the terms in which more than 60% of the expenses are distributed for the social component. Instead, the governments in the Baltic States and in Romania distributed less than 40% of the budget expenses for the social programs.

The five economy submodels are significantly different, both with reference to the volume of resources distributed by economies for social protection, and also regarding the distribution of these amounts, the comparison between them being included in Table 3. The difference may be due to the demographic evolution, to the economic development degree, to economy's exposure to the external globalization shock and to the internal shock of the population's ageing. Among the social policy domains, those referring to pensions and to unemployment have recorded severe transformations for the purpose of decreasing the population's dependence on the social insurance budget, the main reform measures aiming to decrease the quantum of the unemployment benefit, the period for paying it and to increase the pension age. As a matter of fact, in 2006, the expenses for pensions and for unemployment represented half of the budget which was spent for the social policy within EU-27. Compared to 1995, the expenses for health care increased from 8.1% to 9.5 % of the GDP, and those for unemployment decreased, as a result of the improvement in the functioning of the labour market during the period between 2000 and 2006.

Table 3

The structure of the social expenses within the European submodels (2006)

	Social expenses	Expenses for pensions	Expenses for health care	Expenses for families and children	Expenses for unemployment	Expenses for preventing the social exclusion
Northern S.	29.17 (I)	11.21 (III)	11.11 (I)	2.43 (II)	1.66 (II)	1.52 (II)
Continental S.	27.74 (II)	11.73 (II)	9.36 (III)	2.66 (I)	1.70 (I)	0.88 (III)
Anglo-Saxon S.	25.85 (III)	11.13 (IV)	10.33 (II)	1.66 (III)	0.65 (IV)	1.53 (I)
Southern S.	24.19 (IV)	12.31 (I)	8.23 (IV)	1.23 (VI)	1.37 (III)	0.32 (VI)
ECE S.	17.50 (VI)	8.83 (VI)	6.16 (VI)	1.24 (IV)	0.52 (VI)	0.37 (V)
Visegrad Gr.	19.43 (V)	10.15 (V)	6.52 (V)	1.27 (V)	0.61 (V)	0.44 (IV)
Baltic States + Bulgaria Gr.	13.91 (VIII)	6.73 (VII)	5.06 (VIII)	1.15 (VIII)	0.27 (VIII)	0.30 (VII)
Romania	14.00 (VII)	6.20 (VIII)	5.80 (VII)	1.20 (VII)	0.40 (VII)	0.20 (VIII)
EU-27	26.9	11.9	9.5	2.1	1.4	0.9

Note: the Roman figures in the brackets correspond to the descending hierarchy of the submodels, from the most redistributive ones to those which are less redistributive in the GDP. The difference between the total of the social expenses and the sum of the five components included in the table refers to the administrative expenses.

Source: Eurostat (2009).

Among the European submodels, the Northern one distributes approximately 29% of the GDP for the social policy, and the percentage corresponding to the continental one is 27.74% of the GDP. The most generous welfare states are France, Belgium (over 31% of the GDP) and Sweden with 30.7% of the GDP. Compared to 1995, the Scandinavian and the continental economies kept the share of the social expenses in the GDP quite constant. *As for the countries belonging to the Anglo-Saxon submodel*, a 2% increase has been recorded for the amounts distributed for the social policy during the last ten years, the most part of this increase being reflected in the financial resources distributed for the health care (10.33% of the GDP in 2006). Within these economies, the labour markets are flexible, and the unemployment benefits are more decreased, and this fact generated the extension of the active life and the decrease in the rate of unemployment on a long term. That is the reason why the Anglo-Saxon submodel is found on the last place among the 15 member countries of EU with reference to the expenses for pensions and for unemployment.

The continental and the Southern countries record the greatest share of the social expenses for the aged persons, and this fact results in a poor participation of these individuals on the labour market, and also in the anticipated retirement within these countries. As for the Southern countries, there are significant gaps between the pension schemes, which are generous for the public sector labourers and for the full-time labourers from the big private enterprises. Moreover, the young persons, who attend certain studies or who are looking for a job, receive a very low support from the state, as in the case of the families with little children. Within this submodel, Italy pays 60% of the social budget for pensions, and Greece pays 50%, the average being 51.5%. The amounts distributed for health care represent the second component of the social expenses (34% of the total), but there is a lower dispersion between the member countries, if compared to the budget for pensions.

The submodel of the new member countries is the only one which was characterized by a decrease in the budget distributed for the social policy during the period between 2000 an 2006. As a matter of fact, there is a pronounced divergence between the financial resources distributed by the old EU member countries and the new member countries, the average of the submodel being approximately 9.5% lower than the EU-27 average. The difference is mostly explained by the more decreased amounts distributed for pensions and for health care. Within this submodel, the group which includes the economies with a higher level of economic development (the Visegrad countries) distributes a greater share of the GDP for the social protection; thus, Slovenia and Hungary have a social budget of approximately 22.5%, and this fact make them come closer to the countries from the Southern submodel. Poland, which is the economy with the greatest share within the ECE submodel, distributes 60% of the budget of 19.2% of the GDP for pensions, within the framework of the existence of a quite aged population in the rural area. The EU economies which have introduced the unique taxation quota system (the Baltic States, Slovakia, Romania and Bulgaria) have the most decreased social budgets (below 16% of the GDP), the minimum percentage being 12.2%, in Latvia. The taxation strategy promoted within these economies has had the purpose of supporting the economic growth process, the increase in the employment degree and the decrease in the share of the underground economy. The simultaneous achievement of the three objectives would have resulted in the increase of the budget returns and in distributing higher amounts also for the social protection; otherwise, any measure taken for the increase of these expenses would have generated additional deficits of the social insurance budget.

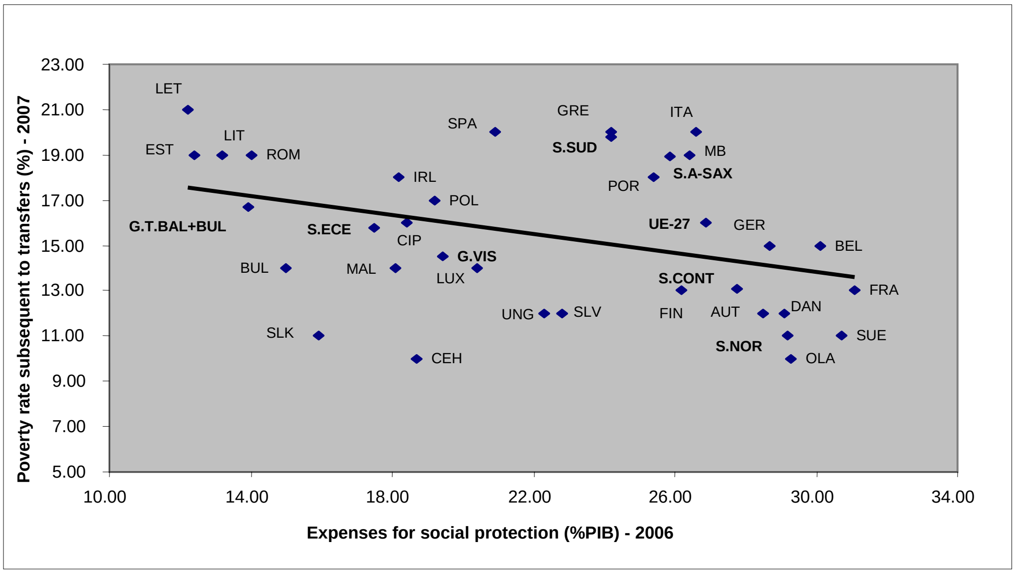
In conclusion, there is a significant gap of the ECE submodel if compared to the EU-27 average and also with reference to the submodels in which the state's role is smaller (the Anglo-Saxon and the Southern submodels); moreover, a pronounced divergence is recorded in the new member countries between the Visegrad Group, on the one hand, and the Baltic States, Romania and Bulgaria, on the other hand. The hierarchy of the European submodels also relieves a direct correlation between the development level and the share of the GDP which is spent for the social protection. The result is that countries such as Romania and Bulgaria will be able to significantly increase the social budget only when the incomes gap will be decreased in comparison with EU-27.

The impact of the redistribution systems upon the social inequalities

One of the basic characteristics of the European social model, assumed by the Lisbon Strategy, is constituted by the social cohesion, which supposes the decrease in the number of the individuals who are affected by poverty, in the inequality of incomes distribution and in the social exclusion. According to Table 3, the countries which redistribute the most through the social policy (the continental and the Southern countries) should record the lowest rate of poverty and the lowest level of inequality in incomes redistribution within the society. Moreover, the submodel of the new member countries would be the most inegalitarian, from the social point of view. *The social policy's capacity to decrease the poverty risk and also the level reached by the poverty rate subsequently to the redistribution constitutes proofs of the efficiency in distributing the social expenses in economy.*

The rate of the poverty risk represents the share of the persons whose available income is below the poverty threshold, which is considered to be equal to 60% of the national income median(3). In 2007, previous to the social transfers, EU-27 recorded a poverty rate of 26%, and subsequently to the redistribution, it was 16%, the difference being explained by the effect of the social policies promoted by the member states. Compared to 2000, the poverty rate previous to the redistribution increased by 3%, while the rate remained the same (16%) subsequently to the transfers. The result is that there have been no progresses in providing the communitarian social cohesion[(4)]. Among the EU member countries, Portugal and France recorded 3% decreases in the poverty rate (at the 60% threshold) in 2007, if compared to 2000, this rate being calculated subsequently to the transfers, but, in the case of the first economy, 18% of the individuals are below the poverty threshold. Instead, in Germany and Latvia, the share of the poor increased by 5%, the level in the second economy being the highest in EU. As for other member states, the variances of the poverty rate were maximum 2%, and Greece, Austria, the Great Britain and Bulgaria recorded no progress in social cohesion during the period between 2000 and 2007.

There should be an inverse correlation between the share of the social expenses in the GDP and the poverty rate subsequently to the social transfers (excluding the pensions) so that the welfare state could be efficient. This relation is obvious in the case of the Northern countries, which are characterized by a social system which is universal and generous from the point of view of the transfers. Moreover, the continental economies, which have a social budget which is 1.5% of the GDP lower than the Scandinavian countries, have a poverty rate which is 2% higher then them subsequently to the transfers. *According to the hierarchy of the submodels, made from the point of view of the redistribution, the ECE countries should have recorded a rate which is superior to that of the poverty, if compared to the Southern and Anglo-Saxon countries*. But, in Figure 2 we can notice that the poverty rate is approximately 3-4% inferior to them, as a result of the very low values recorded by the countries included in the Visegrad group, which, except Poland, have results which could be compared to those recorded by the Northern countries. The result is that the increase of the social expenses does not constitute a compulsory condition to decrease the percentage of the population which is below the poverty threshold. If an economy records a sustainable increase rate (such as the Visegrad countries during the period between 2002 and 2007), and its benefits are more equally distributed to the individuals, then an improvement of the social cohesion will be recorded, without the need to increase the redistributed budget resources.



Note: The last available data referring to the social expenses are from 2006, and those regarding the poverty rate are from 2007; the values from 2007 are very little different from those recorded in 2006, 19 of the member states recording the same percentage of the poor.

Source: Eurostat (2009).

Figure 2. *The relation between the social expenses and the poverty rate subsequent to transfers*

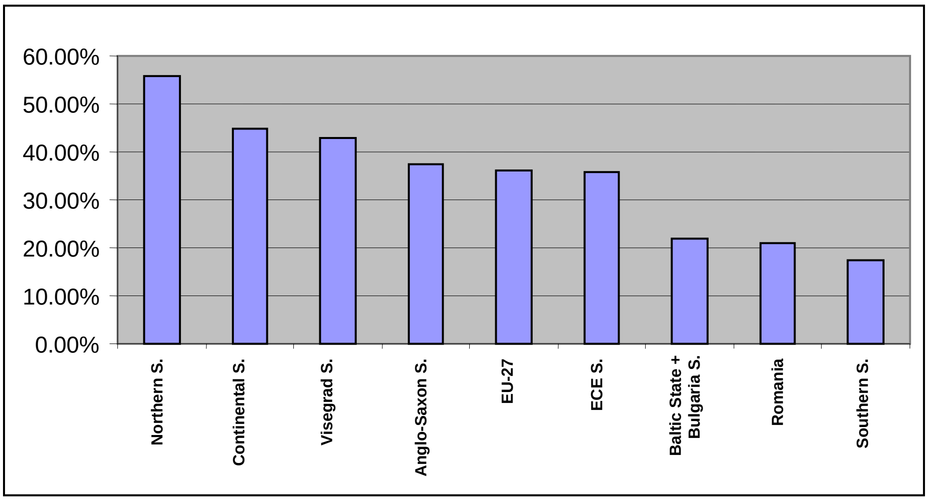
However, the correlation between economic growth and cohesion is not always validated, as the Baltic States, Romania and recorded an increase in inequalities, even though they obtained the highest rates of economic growth until 2008. A polarization of incomes has been encountered within the society, and this fact generated a quite stable constancy or even a slight increase (such as for Romania) in the percentage of those which are below the poverty threshold. Even though, implicitly, the income of the poorest increased during the periods of economic growth, they increased in a rhythm which is inferior to that of the incomes of the richest, and this fact has negatively affected the achievement of the social cohesion objective.

The comparison between the member states with reference to the percentage of those which are below the poverty threshold should only be interpreted relatively. Thus, in 2007 the maximum earning threshold for the poor was approximately 250 Euro in the Baltic States, Hungary, Poland and Slovakia, while in the Northern countries, Ireland, Luxembourg and Great Britain it was 900 Euro. With reference to the poverty threshold expressed in the purchasing power parity, it varied between a level of 280 Euro in the less developed countries and 947 Euro in the EU developed economies. The result is that the living standard of the poor individuals in the richest economies is 3.4 times higher than that in the less developed economies.

According to the previous analysis, the Southern and the Anglo-Saxon submodels are characterized by the lowest efficiency level of the redistribution systems, as they maintain the highest percentage of population which is below the poverty threshold. Nevertheless, *the efficiency of the social budget expenses must also be considered according to the capacity to decrease the poverty rate*. Theoretically, the higher is the budget for providing social protection, the lower is the poverty rate. Otherwise, that redistribution system could be considered inefficient, because it distributes too low financial resources to those which are below the poverty threshold.

The percentage of the decrease in the poverty rate varies between the EU member countries, as the social institutional arrangement differ, and also the intensity of the relation between the social policy and the labour market is different. After examining the social transfers' ability to decrease the percent-tage pf the individuals who are affected by poverty within the submodels, we have identified the following evolutions, which are also included in Figure 3:

- The Northern submodel is the only one which is characterized by more than a half decrease in the poverty rate (from 24.84%, to 11%), under the terms in which the social expenses (pensions excluded) record a percentage of 18% of the GDP.
- The social systems of the economies within the continental submodel decrease the poverty rate by 45%, this level being 2% superior to that existing in the Visegrad group; however, these economies' budget for the social protection is 6% lower than that recorded in the continental countries.
- The ECE submodel is the most socially performant, if compared to the Southern submodels, as it distributes the lowest amounts of money for the social policy and it decreases the percent of the poor to a greater extent.
- The less developed countries (the Baltic States, Romania, and Bulgaria) record the lowest poverty rate previous to the social measures, even though the percentage of the social expenses is two times lower than that recorded in the continental and Northern countries. The result is that the economy's functioning contributes to achieving the EU lowest percentage of the population which is below the poverty threshold, but the state's role in supporting them is low. This is the explanation for the decrease of only 20.83% in the poverty rate within Romania and of only 21.83% within the group including the countries which adopted the Monetary Council.



Note: On the ordinate, there is the percentage of decrease in the poverty rate as a result of the redistribution through social policy.
Source: Eurostat (2009).

Figure 3. *The redistribution systems' capacity to decrease the poverty rate (2007)*

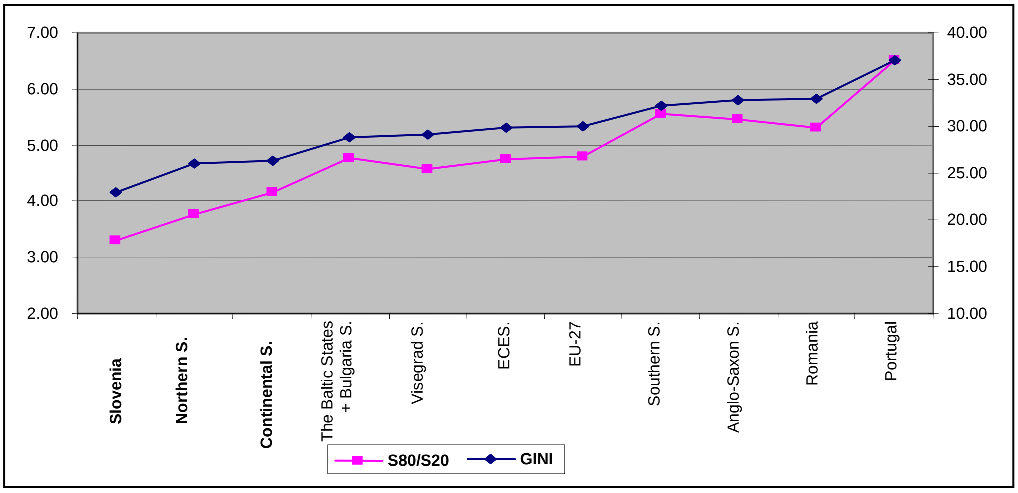
Incomes distribution within EU

Theoretically, the more developed an economy, the more available resource to the social insurance budget for supporting the poorest. Moreover, the quite less developed economies are prone to record an increase in the internal social disparities, and the high rates of their economic growth especially generate a polarization of incomes. The transformations suffered by most of the economies within the ECE submodel have not validated the previous hypothesis, with reference to the fact that their inequalities have varied very little during the last seven years, compared to the previous period, although the rhythm of the real GDP growth has increased during the last five years.

The inverse correlation between the economic growth and the more unequal distribution of the incomes should only be recorded on a short-term, being mainly caused by the quite lower labour productivity redistributed in certain activity sectors. On a long-term, the policies for encouraging the economic growth (investments, professional reorientation, access to new technologies) will contribute to decreasing the structural unemployment (which mainly affects those who are less qualified), thus generating a decrease in the incomes inequalities. Actually, the economic growth represents the most important condition in decreasing the social inequalities and of poverty rate. In the absence of this condition, the increase of the social transfers towards the under-privileged persons will immediately result in the increase of the social insurance budget deficit.

In order to emphasize the differences between the inequalities of the incomes distribution within the European submodels, we have used two indicators – the Gini coefficient and the ratio between the incomes of 20% of the richest citizens in a country and the incomes of 20% of the poorest persons (S80/S20)[(5)]. Compared to 2000, the inequalities within EU increased, contrary to the social cohesion objective included in the Lisbon Strategy. Thus, the ratio between the first 20% in terms of income level and the inferior 20% increased from 4.5 to 4.8, and the Gini coefficient increased by 1%. The EU weighted average has been decisively influenced by the increase in inequalities in Germany and Italy, two of the economies within which the labour market has been reformed by limiting the labourers' rights to receive unemployment benefit (the Hartz reform in Germany) and to have stable labour contract (the Biagi reform of the Italian labour market). These economies belong to the continental, respectively Southern submodels, which are characterized by a poor correlation between the social protection system and the labour market. In the absence of high labourers' flexibility and of the economy's capacity to create new jobs (aspects which have been encountered within the Northern economies), any reform will induce a decrease in income for a part of the labour force, and this effect will result in increasing the incomes inequality. As for Germany, the ratio S80/S20 increased by 42% in 2007, if compared to 2000, and the Gini coefficient decreased by 5%, reaching levels which are close to those existing within the Southern and the Anglo-Saxon submodels. Italy is characterized by an incomes inequality which is higher than the one existing in Germany, considering that the amounts distributed for the social transfers (excluding pensions) are quite lower; thus, the ration between the first 20% and the last 20% is 5.5, and the Gini coefficient increased by 3%, up to a value of 33.

When classifying the European submodels from the point of view of the incomes inequality, in Figure 4 we can notice that the hierarchy referring to the poverty risk subsequent to the transfers is mostly maintained the same.



Note: the values of the S80/S20 indicator are presented on the left axis, and those of the Gini coefficient are on the right axis.

Source: Eurostat (2009).

Figure 4. *The inequalities in the incomes distribution within the submodels (2009)*

The incomes inequality and the poverty risk increased within two of the Northern countries (Denmark and Finland), if compared to 2000, but they continue to be some of the most egalitarian economies, if we consider the distribution of the incomes to the individuals. The ECE submodel is more performant if we compare it to the Anglo-Saxon and Southern submodels, and, within it, as if we consider the social evolutions, there are economies which are comparable to the Northern economies, such as Slovenia (the most egalitarian EU economy), Hungary, the Czech Republic, Slovakia and Bulgaria. If Poland was excluded from the Visegrad group, this one being rather close to the Southern submodel, then the other four economies would record the lowest EU internal disparities of incomes. The evolution of these economies, of which GDP per capita is superior to the level of 65% of the EU average, is in contradiction with Kuznetz hypothesis, according to which the process of decrease in development gaps is accompanied by the increase in the social inequalities.

As for other new member countries, such as the Baltic States and Romania, this hypothesis is validated, in terms of the incomes which are more unequally distributed if compared to the economies included in the Southern and Anglo-Saxon submodels. Instead, the poorest EU economy – Bulgaria, is one of the most homogeneous economies in terms of income distribution, the values of Gini coefficient and of the S80/S20 ratio being similar to those recorded by the Scandinavian economies. The explanation consists in the existence of low regional gaps, which also involve a decreased dispersion of the unemployment rate, of the employment degree and, finally, of the income level. As a matter of fact, among the new member countries, Bulgaria records the lowest ratio between the GDP per capita of the richest region and that of the poorest region.

Based on the indicators referring to the percentage of the persons who are below the poverty threshold and on those which measure the inequality of the incomes distribution, the conclusion is that EU-27 (as an average) deviated from the objective to provide social cohesion during the period between 2000 and 2007. The reason for this evolution refers to the existence of groups of individuals which are affected by the poverty risk to a greater extent, such as the children, the young, the women and the aged persons.

Conclusions

1. Among the five submodels within the European Union, the Northern submodel is the most performant in achieving the objectives assumed through the Lisbon Strategy, as it has generated both macroeconomic efficiency, and also social equality.
2. Based on the comparison we can reach the conclusion that the features of the modernized European social model are largely characteristic to the Northern and Anglo-Saxon countries.
3. There is a significant gap of the ECE submodel if compared to the EU-27 average and also with reference to the submodels in which the state’s role is smaller (the Anglo-Saxon and the Southern submodels); moreover, a pronounced divergence is recorded in the new member countries between the Visegrad Group, on the one hand, and the Baltic States, Romania and Bulgaria, on the other hand. The hierarchy of the European submodels also relieves a direct correlation between the development level and the share of the GDP which is spent for the social protection.
4. The Southern and the Anglo-Saxon submodels are characterized by the lowest efficiency level of the redistribution systems, as they maintain the highest percentage of population which is below the poverty threshold. Nevertheless, the efficiency of the social budget expenses must also be considered according to the capacity to decrease the poverty rate.

Notes

(1) This article represents a partial dissemination of the exploratory research projects IDEAS, *Substantiating and Implementing an Econometric Model of Growth in the Efficiency of the Fiscal Policy with reference to Romania's Adheration to the Eurozone*, research contract no. 1766/2008, PNCD II, Program Ideas/ Exploring Research Projects program, 3 years, 3 stages, Project Manager Socol Cristian

(2) There are a few contradictions in the economic literature with reference to the countries included within the five sub-models. Thus, Italy has features which belong both to the continental sub-model (especially the Northern Italy), and also to the Southern one. Moreover, the Netherlands can be found at the border between the continental and the Northern sub-models, and Luxembourg proves characteristics which belong both to the continental sub-model and to the Anglo-Saxon one. This work includes the classification made by Sapir (2005), according to which Italy has been included within the Southern sub-model, the Netherlands within the Northern one and Luxembourg within the continental sub-model.

(3) The income median constitutes the statistic instrument which separates the distribution of the national income in two equal series. Obviously, in each country, the poverty rate is estimated according to its own poverty threshold, settled as the product between 60% and the median of the income distribution within that country. Thus, the individuals who are considered poor in a developed economy will not have the same status position in a less developed economy.

(4) When settling a poverty threshold of 40% of the income median, the percentage of the EU citizens below this level is 5%, which means a third of the poor population which has been previously calculated to 60%. Moreover, 10% live in poverty at 50%, and 24% of the population live at a level which is higher than the initial one, i.e. 70%.

(5) The Gini coefficient records values between 0 and 100, the first value corresponding to a perfect equality of incomes, and the last one to a perfect inequality, which means the case in which an individual (a group of individuals) possesses the entire income of the society. The other indicator is calculated as a ratio between the sum of the available incomes earned by the persons belonging to the first 20% (S80) and the sum of the incomes earned by the persons included in the inferior 20% of the distribution (S20). This fact emphasizes more exactly the tendency to polarize the incomes within the society.

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