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Socio-economic Models During the Period of Crisis

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Abstract. *The article analyses the state involving importance in finding the solutions for getting over the present economic crisis through responsibility, the labor relations and the affairs environment regulation and the income redistribution. Into this work, are analyzed the 4 socio-economic European models: the Anglo-Saxon liberal model, the Scandinavian universalistic model, the continental corporatist model, the Mediterranean model and the European Union countries position into these models. Also, are pointed out the EU countries economic performances by analyzing the rankings of these countries on base of Global Competitiveness Index 2010-2011 and the evolution of this index during 2009-2011.*

The article follows to underline the necessity of the state action for durable, healthy, sustainable economic growth, capable for getting over the economic crisis and for ensuring the social welfare and economic competitiveness.

Keywords: socio-economic models; european economic models; the states' involving in the economics; the incomes redistribution; social welfare; economic competitiveness.

JEL Codes: G01, P51.
REL Codes: 8C, 20F, 8N.

Knowing the past mistakes and learning from them, we have the chance for taking the right decisions for the present and the future.

Taking into consideration all the challenges raised by the present world economic crisis, becomes natural the concern for finding the crisis get over solutions and for warranting the premises of a healthy and durable economic growth, able to ensure social welfare and a competitive affairs environment.

There is a vast literature in the domain which offers different visions about the European social model. Although the European states are different from point of view institutional and social, the existence of an European social model (Kleinman, 2002), has been questioned. Most authors agree on the particularity of the European social model. "The European Social Model […] is understood as a specific combination of comprehensive welfare systems and strongly institutionalized and politicized forms of industrial relations" (Ghral-Teague, 1997). This definition draws the attention on the importance of the state as mediator between the individual and the market, and between worker and employer. However, opinions differ regarding the characteristics diversity of the European models, the number of the economic models, and which countries can be subsumed under which model. According to Aiginger-Guger (2005) definition of the European model starts from the following terms: responsibility, regulation and redistribution.

Responsibility. The society takes the responsibility of ensuring individual welfare and reduces the individual risks, such as: poverty prevent, providing support in case of illness, disability, unemployment, old age. Also, the society has to take care and encourage the education, health and family.

Regulation. This term refers to the fact that the labor relations are institutionalized, are based on the social dialog and are negotiated on the labor laws and collective agreements. Also, the business environments are shaped by social partners and the legal regulation for this domain (on the branch or firm level).

The income *redistribution* between the social classes during the life cycle: taxes and the income tax are social financial support and social services.

These three characteristics reflect the fact that the European model is much more than a social model in the restrictive sense. This model influences on one hand, production, employment, productivity and, on the other hand, the economic growth, competitiveness, all the objectives of economic policy. Hence, it is more appropriate to name it the European socio-economic model (Guger et al., 2007). This perception is not new and it coincides with the traditional notion whereby the economic and social spheres are closely interlinked, and the interests which rule them are the same. In the 19^{th} century, Bismark settled up the bases of the first alliance between state and enterprises, between social protection and production. This synergy has mainly aimed the growth of the social side importance, but also to demonstrate, in the same time, that the effect of this is the growth of efficiency and competitiveness of the economies. Today, when the objective of the developed post-industrialist countries is to become much dynamic and competitive, their attention is focused on learning, creation and diffusion of knowledge ways. According all these, the European socio-economic model contains the economic reality, the social security, the culture institutions and the innovation system.

Trying to answer to the question: Which economic model could the best get over these challenges?, it is essential to speak about the four EU welfare states economic models defined by the Dutch sociologist Esping-Andersen (1990), which are: the Anglo-Saxon liberal model, the Scandinavian universalistic model, the Continental corporatist model and the Mediterranean model(1).

1. The Scandinavian model is the most comprehensive one, with a high degree of emphasis on redistribution, social integration and universality. These goals are pursued through a generous infrastructure of social services, which are designed to be affordable and of high quality as well. The dependence of the individual on the labor market is lowest. Unemployment benefits, which are characterized by high replacement rates, and the health system are financed through the tax system. Taxation is very progressive and includes elements of property taxation, while business taxes are rather low. The countries that can be subsumed under this model (Denmark, Finland, Sweden and, outside the EU, Norway) are characterized by a strong social dialogue and close cooperation of the social partners with the government. Trade unions are strongly involved in the administration of unemployment insurance and training, and the model is characterized by an active labor market policy and high employment rates. The Scandinavian countries have been successful at obtaining high employment rates and at reducing inequalities on the labor market.

2. The Continental model emphasizes employment as the basis of social transfers, benefits are at a more moderate level and they are linked to income. Accordingly, social transfers are financed through the contributions of employers and employees. The redistributive efforts of the fiscal system are less pronounced than in the Scandinavian countries as the tax system contains some regressive elements (i.e. low wealth and high income and consumption taxation). Social partners play an important role in industrial relations, and wage bargaining is centralized. The institutions of social dialogue as well as parts of the economic regulatory framework bear the imprint of a corporatist system. Countries which, undisputed, could be situated to this model are: France and Germany, which are the two biggest continental countries, Belgium, Netherlands, Austria and Switzerland, four countries with top positions in per capita GDP.

3. The liberal Anglo-Saxon model put the accent on the responsibility of individuals for themselves, and the labor market is not regulated. Social transfers are smaller than in the other models, more targeted. Accordingly, social policies usually satisfy to a clientele consisting of low-income groups. The state encourages market actors to co-provide services, and leaves recipients (low-income groups) the possibility to opt between public and private providers. Private insurance and savings schemes are supported by complementary state policies (e.g., tax credits, tax shelters). Labor relations are decentralized, and bargaining takes place primarily at the firm level. The Anglo-Saxon model is represented in Europe by the United Kingdom. Having a low degree of regulation and the social system, Ireland exhibits a certain degree of similarity to the United Kingdom, despite the fact that here there are more intense policy interventions. This can be ascribed to the particular position of Ireland, which has rapidly moved from a low-income country position to one of the most expansive European economies by economic growth rate[(2)].

4. The Mediterranean family-oriented model. In the Mediterranean countries, social transfers are smaller than in the rest of other European countries. The low level of social transfers is partly counterbalanced by the strong supportive role of family networks. Families still play a significant role in the provision of security and shelter. At the same time, a paternalistic society and pronounced gender inequalities characterize these countries. Employer representatives and trade unions are important to the rather centralized bargaining process for wages and work conditions. Employment rates, specifically those of women, are low. The Mediterranean group of countries comprises Spain, Italy, Portugal and Greece.

Table 1

The EU-15 Member States in framing the 4 socio-economic models

Scandinavian model	Continental model	Liberal Anglo-Saxon model	Mediterranean model
Denmark	Germany	Ireland	Greece
Finland	France	United Kingdom	Italy
Sweden	Belgium		Spain
Norway	Holland		Portugal
	Austria		

Source: Processed by author according to Alois Guger, Thomas Leoni, Ewald Walterskirchen; European Socio-Economic Models: Experiences and Reform Perspectives; Annex 3 – EUROFRAME-EFN Autumn 2007 Report.

Taking into consideration the socio-economic diversity of the EU member states the questions are rising up: how efficient is The European Union and what capacity has it for getting over the provokes of this time economic crisis?

In the past few years, the EU economic performances represented the subject of much political unease. There are big concerns that Europe is not sufficiently prepared to face new global challenges such as rise of world economies competitiveness, the need of energetic efficiency and security or the fast rhythm of the technological innovation. These worries seem exaggerated because European economies are generally faring well in relative terms(3). But many will agree that Europe is not reaching to its full potential and that the unprecedented current crisis magnitude is imposing seriously problems to it get over. The European Union has proposed a new strategy – Europe 2020 – for smart and sustainable growth. The strategy consists of consolidating public finances while promoting economic integration, investing in energy and transport infrastructure, and developing further information and communication technologies. A strong emphasis is also put on upgrading skills and promoting innovation.

Even as the Europe 2020 strategy was being adopted, the severe financial difficulties of the Greek government triggered a confidence crisis regarding the financial and monetary stability of the entire euro zone. The public perception was that a few southern countries – Greece, Italy, Portugal, and Spain – were facing unsustainable public deficits that reduced their growth prospects to the point of potential insolvency.

These appreciations were not so accurate, taking into account that the Greece situation was a particular one. It did, however, remind us of the fact that the European Union is not a homogeneous area and that Member States vary in the degree of their competitiveness. The Global Competitiveness Index(4) detects these differences and helps us to better understand the strengths and weaknesses of individual EU members and of Europe as a whole. The table shows the global competitiveness ranking of EU Member States. Is observed leading position of the Scandinavian countries, Germany, the United Kingdom, France, and the Benelux (Belgium, Netherlands, and Luxembourg), all in the top 20 most competitive economies in the world. But the source of their strength varies somewhat. The Benelux and the Scandinavian countries compensate for the small size of the market with excellent skill sets, sound institutions, and, particularly in the case of the Scandinavian countries, a strong capacity for innovation.

Most of the other EU Members States are among the top 50 performers globally, but there are five Member States well below this mark. Greece shows a dismal performance in 2010 due to the severe deterioration of its macroeconomic environment, to a particularly poor institutional setup and low efficiency of markets. It is notable that the group of countries in the middle ground distinguish themselves from the leading positions countries particularly in that they have substantially less innovation and a much poorer institutional environment. On the other hand, their performance with respect to macroeconomic stability and their population’s basic skills are similar. But Member States within this middle group also have different strengths. Member States from Eastern Europe have bet especially on open and flexible markets for both goods and labor, while Italy and

Spain have relied instead on the economies of scale their markets can provide. Spain has also made a notable effort of investment in infrastructure.

Although the Member States are facing with different situations which need different strategy for tackling them, Europe as a whole faces common challenges. There is still possibility for increasing structural reforms to increase market flexibility. More importantly, European Union can enlarge the market area easily accessible to businesses through integration process. Also, except for a small subset of countries, European Union does not provide an environment that is sufficiently conducive to innovation. Market size, flexible labor markets, and strong innovation are at the core of the US competitive advantage; Europe as whole meets all three. China shares with mid-range European countries the relative handicap of rigid institutions and very low innovation. But the country is quickly catching up on infrastructure and market efficiency and will increasingly benefit from its expanding market size.

Table 2

Rankings of the EU-27 in the Global Competitiveness Index 2010–2011

Economy	Rank	Score
Sweden	2	5.56
Germany	5	5.39
Finland	7	5.37
Netherlands	8	5.33
Denmark	9	5.32
United Kingdom	12	5.25
France	15	5.13
Austria	18	5.09
Belgium	19	5.07
Luxemburg	20	5.05
Ireland	29	4.74
Estonia	33	4.61
Czech Republic	36	4.57
Poland	39	4.51
Cyprus	40	4.50
Spain	42	4.49
Slovenia	45	4.42
Portugal	46	4.38
Lithuania	47	4.38
Italy	48	4.37
Malta	50	4.34
Hungary	52	4.33
Slovak Republic	60	4.25
Romania	67	4.16
Latvia	70	4,14
Bulgaria	71	4,13
Greece	83	3.99

Source: The Global Competitiveness Report 2010-2011 © 2010 World Economic Forum.

As infrastructure and market efficiency levels converge among the main global players, Europe cannot afford to lose out on the potential of scale economies and innovation. The priorities of the Europe 2020 strategy should contribute to increase European competitiveness by eliminating further barriers to the European Single Market, encouraging investment in better skills, and supporting innovation. The data highlight the fact that many countries still need to take measures to improve basic competitive requirements, such as their institutional setting and infrastructure levels; they must also improve their market efficiency, technological readiness, and level of skills. It will take the combined effort of all European and national authorities to improve the economic potential of the European Union so that it remains a prominent player in the 21st century.

Analyzing the top 10 countries from the Global Competitiveness Index side for 2010-2011 and 2009-2010 we observe Sweden has risen from 4th position in 2009 on 2nd position in 2010, while USA have dropped two positions from 2nd place in 2009 to 4th place in 2010.

Conclusion

As a conclusion, we might say that social market economy with highest accent on the social protection represented by Sweden can provide solution for taking over provokes of the present global crisis, while liberal USA socio-economic model doesn't prove its efficiency. In this order, The EU authorities should maintain the position for its specific social-economic model approach and even continue and focus on uniforming the institutional regulation system.

Notes

(1) Which Esping-Andersen proposed later than the firsts three ones.
(2) Assessment was done according to economic indicators at the year 2007.
(3) According to Joaquin Almunia, Vice-President and Commissioner for Competition Policy, European Comition; The Global Competitiveness Report 2010-2011 © 2010 World Economic Forum.
(4) Where competitiveness is defined as being the institutions set, policies and factors which determine a country productivity level. All these components are grouped in 12 pillars of economic competitiveness: 1. institutions; 2. infrastructure; 3. macroeconomic environment; 4. health and primary education; 5. higher education and training; 6. goods market efficiency; 7. labor market efficiency; 8. financial market development; 9. technological readiness; 10. market size; 11. business sophistication; 12. innovation.

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