

The "European Social Model" and the USA

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1. The concept: What do we mean by a "European Social Model"?

The "European Social Model", though frequently referred to in politicians' speeches, is rarely defined with any precision. One of the perhaps clearest attempts at an official definition may be found in the Presidency Conclusions of the Nice European Council meeting of December 2000, where annex 1 describing the European Social Agenda states: "The European social model, characterised in particular by systems that offer a high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values."¹

Here we find four elements: (1) a high level of social protection with services of general interest; (2) the social dialogue, referring to coordinated policy making with collective agreements negotiated by the social partners; (3) an emphasis on social cohesion; (4) a set of common core values. Article I-2 of the Treaty establishing a constitution for Europe specifies which common values are meant exactly, i.e. "pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men".² In addition, Article 2 of the Treaty establishing the European Community lists five further key elements: a high level of employment, sustainable and non-inflationary growth, economic competitiveness, an elevated quality of life, and a high level of the quality of the environment.³

These official statements make it clear that the term European social model is to encompass more than a mere model of social policy. The documents rather make reference to embrative characteristics in the dimensions of state, economy, and society.⁴ Implicitly - and in more recent times also explicitly - the term is often used to distinguish a European type of society from the type of society in the United States (cf. Albert 1992). References with a competitive edge to the United States may now be found rather frequently in official EU documents.⁵ A first, still more implicit example was contained in the conclusions of the 2000 Lisbon European Council setting the strategic goal for the Union "to become the most dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".⁶

Here as in other documents the idea seems to be that the European Union should be conceived of as an "USA *plus*", i.e. as a type of society which delivers everything the United States have to offer, but also some elements in addition which make a society worth living in. In the

¹ European Council, Presidency Conclusions, Nice European Council Meeting, Annex 1, European Social Agenda, § 11.

² Official Journal of the European Union C 310/11.

³ The article reads as follows: "The Community shall have as its task (...) to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States." (Official Journal of the European Union 2003)

⁴ Vaughan-Whitehead (2003) lists even 15 components of the European Social Model.

⁵ See for example the two most recent editions of "Employment in Europe" (European Commission 2004, 2005) dealing with the EU-US employment gap.

⁶ European Council, Presidency Conclusions, Lisbon European Council, § 5.

dimension of the economy, this means that Europe combines the growth dynamic of a market economy with the coordinating social dialogue of the collective bargaining partners. In the dimension of the state it means that European countries are not only free democracies, but also redistributing welfare states which supplement the market with a second sphere of the distribution of life chances where social inequalities are smoothed. In the dimension of society in the more narrow sense, it finally means, that in addition to providing opportunities for the individual pursuit of happiness European societies promote solidarity bonds between individuals which strengthen social cohesion. The essence of this European superiority claim was once captured in a nutshell by Anthony Giddens (2005) when he stated that the European social combines economic dynamism with social justice.

The purpose of this contribution is to find out to what extent these assumptions actually hold true empirically. An empirical clarification of the communalities and differences between Europe and the United States is conceptually and politically important for two reasons. First, in European policy debates, the United States practically always provide the implicit or explicit reference category: Whereas liberals usually stress American strengths which are supposedly lacking in Europe - i.e. freedom, openness, flexibility, dynamism - those on the political left usually claim unique European strengths such as a high degree of social integration combined with a low degree of repressive controls. Second, reservations against using the concept of a European social model are being voiced, because some political observers see the very concept as an element of social closure which seeks to delimit Europe from the rest of the world thus undermining a much more fundamental unity between Europe and the United States. Thus, Samuel Huntington (1993) expects future cleavages rather along the lines "the west against the rest". In a similar vein Europeans like Timothy Garton Ash (2005) or Ralf Dahrendorf (2006) warn against emphasizing European peculiarities by referring to the joint tradition of freedom and enlightenment in Europe and America. For them it is even no longer the concept of "the west", but the more embracing concept of the "free world" which provides the most appropriate point of departure for defining collective identities in a globalized world. This was echoed by British politicians such as Tony Blair (2005) or Gordon Brown (2005) who recently warned against an "*inward-looking Europe*" which would primarily seek to deepen its internal integration and advocated an open "*global Europe*" instead which does not seek to protect Europeans from global markets but rather aims at enhancing their ability to compete and to cope with globalisation.

The following sections will clarify which features Europe and the United States have in common and to what extent they differ by looking at three types of data in a longitudinal perspective. First we will take a look at demographic and economic *growth dynamics*, then we will examine the changing *role of the state*, and third we will inspect the degree of *social inequality* in society. All comparisons will focus on a common set of key questions: How big are differences between Europe and the United States compared to differences within Europe? Are there converging tendencies in the most recent period of globalisation? Are there several social models rather than just one in Europe, and to what extent has the recent enlargement contributed to making Europe and the United States more or less similar?

In order to reduce the complexities of the empirical world the following data will not be presented for individual countries. Instead Europe will be subdivided into various families of nations by distinguishing between the new member states (NMS) on the one side, and five groups of older member states on the other. The grouping of old member states departs from the distinction of different worlds of welfare in the comparative welfare state literature (Titmuss 1968; Esping-Andersen 1990, 1996; Ferrera 1996). Denmark, Finland, and Sweden are combined to a group of Nordic or Scandinavian countries which have encompassing

social security institutions with universal coverage and generous social benefits, financed to a large degree from general taxation Ireland and the United Kingdom are grouped together as Atlantic or Anglo-Saxon countries representing a liberal approach to welfare policies in which social programmes are primarily targeted on needy persons, leaving more affluent groups free to opt out for private provision. Austria, Belgium, France and Germany form a joint category of Continental European countries which are in between these two polar types, as social policies are similarly generous and inclusive as in Scandinavia, but rely more on income-replacements than on services and are more focussed on dependent workers with a heavy reliance on social insurance contributions levied on earnings from work. Greece, Italy, Portugal, and Spain are grouped together to form a distinct family of Southern European nations with more residual and also more fragmented social provisions.

The Netherlands and Luxembourg were not assigned to any particular group, but combined into a separate category. With respect to the Netherlands, there is no consensus in the comparative literature on welfare states as to what type of policy regime the country represents. Whereas some authors see them as a representative of a Social-Democratic or Scandinavian type of welfare state (e.g. Goodin, Headey, Muffels, Dirven 1999; Sapir 2005), others count them as representing a Christian-Democratic or Continental welfare state model (van Kersbergen 1995; Hay 2006). Luxembourg was not assigned to the family of continental welfare states, because its role as a centre of European policy making and of international financial transactions has given the country a peculiar growth dynamic which should not be booked for any specific family of nations and which in combination with its small size would impinge heavily on any group average. Hence, the following comparisons refer to (unweighted) average developments in six families of European nations and to the United States. The distinction between several types of European nations will also allow us to inspect to what extent similarities they may have in common as coordinated market economies as described by Hall/Soskice (2001) have recently become more conspicuous than the differences between them which comparative welfare state typologies highlight.

2. Empirical data: Unity and diversity in Europe following enlargement and the comparison with the United States

2.1 Growth dynamics and macroeconomic performance

Population development is perhaps the most basic element of the change dynamics in a given society. If the population is growing, there is also growth potential for markets, where it is shrinking, investors are inclined to turn away if other conditions are similar. In this sense we may expect a linkage between economic growth and population growth, especially if the population at working age is growing.

Demography is a key area where Europe is losing ground compared to the United States. The U.S. were able to reverse the trend towards shrinking fertility rates around the middle of the 1970s. Presently their fertility rate stands close to the level of 2.1 which is frequently taken as the standard for a successful replacement of the population under current conditions.⁷ In the

⁷ However, there are big differences in the fertility rates of different population groups, and the total fertility rates of Non-Hispanic white American women (1.86) is currently also well below the level of population replacement. According to most recent data, the total fertility rate of "whites" was higher than the one for "blacks" in 2002 (2.028 compared to 1,991 - U.S. Census Bureau 2006: Table 77), but the category of "whites" includes Hispanic women whose total fertility rate of 2,79 for 2003 compared to 1.86 for Non-Hispanic whites (Martin et al. 2005: Table 9, pp. 42 and 44).

EU fertility rates declined steeply until the mid-1990s. Although they started growing again in subsequent years they are still far below the replacement level of 2.1. The diversity within Europe is just as noteworthy as the difference to the United States, however (**figure 1**). In the New Member States (NMS) the post-socialist transformation was coupled with a steep and continuous decline in birth rates. Today the NMS join the Southern European countries in having fertility rates far below the European mean.⁸ On the other hand, the Anglo-Saxon nations and the Scandinavian countries come closest to the American standard, achieving fertility levels far above the European mean. The Continental European countries are close to the average, but within this group there are big differences between France on the one side and Germany on the other. Luxembourg and the Netherlands have similar levels of fertility as the Nordic countries. The differences within Europe have been fairly persistent without any clear signs of convergence, and the Eastern enlargement contributed to even growing diversity.

The huge differences in fertility translate into widely discrepant forecasts for future population developments (**figure 2**). According to the world population prospects of the United Nations (medium variant), the American population will grow by roughly one third until 2050, from almost 300 million to almost 400 million. In contrast, the population of the EU-25 will shrink by 2 per cent. Given the vast differences in national developments, this crude average conceals widely discrepant patterns. A more or less sizable shrinkage of the population is projected for six old member states - Austria, Belgium, Germany, Greece, Italy, and Spain – as well as for the eight post-socialist new member states. In contrast, at least moderate population growth is expected for eleven countries. The American pattern of dynamic population growth is followed not only by the two Atlantic countries, but to some extent also in Scandinavia and in Luxembourg and the Netherlands. This is a first indication that there are not only different social models with widely discrepant growth dynamics in Europe, but also different kinds of models with similar growth prospects despite their considerable differences in institutions and policy traditions.

A similar pattern appears if we look at recent developments in the economy (**figure 3**).⁹ The basic fact here is that the United States clearly outpace Europe with respect to the achieved standard of living. Measured at purchasing power parities the GDP per capita of the United States is about 50 % higher than the EU-25 average. Within the EU Luxembourg is the only country to surpass the American level of living. If we abstract from short-term fluctuations of the business cycle, the U.S. have basically preserved their comparative advantage over European countries during the past decade. Among the New Member States those undergoing the post-socialist transformation had to transgress a much deeper and longer lasting economic slump than Western European countries experienced during the Great Depression of the 1930s (**figure 4**). After the turn of the millennium, however, they were able to catch up somewhat with growth rates far above the EU-mean. The Anglo-Saxon countries as well as Luxembourg and the Netherlands have particularly favourable growth records. Growth in the Scandinavian nations was slightly higher than in the old EU at large, allowing the Nordic nations to preserve a more or less constant distance to the EU-25 mean as well as to the United States. In contrast, sluggish growth prevailed in the four Continental European

⁸ The terms "mean" and "aggregate" are here used to refer to official aggregate data on the EU-15 or EU-25 as a whole, whereas the term "average" is used to refer to calculated averages for a given number of countries which are not weighted by population size thus counting each nation equally as a political unit.

⁹ The time-series displayed here do not always cover the same period because of problems of data availability. The target was to present data from 1990 to the most recent year covered in official series, but there are remarkable gaps in official statistics even for this fairly recent period as well as ruptures in statistical definitions from various sources which impede straightforward comparisons over an always identical time-span.

countries which continuously fell behind. The group of Southern European countries slightly improved its relative position in the most recent period. On the whole European countries did not converge under the competitive pressures of globalisation, but rather diverged, as the relative success stories in Luxembourg and the Netherlands as well as the Anglo-Saxon countries contrasted sharply with the relative decline in the Continental Europe countries which were ahead of the Scandinavian nations up to the mid-1990s but fell behind subsequently.

Recent employment records confirm that there are widely discrepant patterns of development in Europe with rather different models of success. Most European countries still lag far behind the strategic goal of the Lisbon European Council to raise the employment rate to 70% by 2010. In contrast, the United States surpassed this target already a long time ago and continued to remain above it even during the most recent downswing (**figure 5**). In the old EU-15 the emphasis on employment translated into an increase of the aggregate employment rate by almost five percentage points between 1994 and 2003. The employment gap separating the EU-15 from the U.S. was more than halved. Nevertheless the American employment level is still more than five percentage points higher. Employment levels in the Continental European countries remained close to the EU-15 mean throughout the observed period, whereas the Southern European countries could somewhat catch up. After witnessing a steep decline of employment after the post-socialist transformation the New Member States experienced basically jobless growth during the most recent period, when their employment level stagnated below 60 % on average.¹⁰ In the remaining three groups of countries employment records are more favourable. The Anglo-Saxon countries and Luxembourg and the Netherlands pulled far ahead of the EU-mean during the past ten years. The highest level of employment, however, continues to be achieved in the Scandinavian countries which had temporarily shrinking job numbers during the early 1990s, but surpassed not only the Lisbon target, but even the American employment level in the most recent period.

Within Europe, there was a trend towards slight convergence on growing levels of employment. The Eastern enlargement did not interrupt this trend because employment levels in the New Member States are roughly similar to those in Southern European countries. Ranging from 51 % in Poland to 75 % in Denmark the magnitude of cross-country variations within Europe continues to be striking. The range of variation within Europe is much bigger than the rather moderate difference between the United States and the European mean (8 points including the NMS). The remarkable fact beyond the high degree of European heterogeneity is, however, that there are distinct models of relative success. In addition to the liberal Anglo-Saxon countries - to which liberal economists usually draw attention -, not only Luxembourg and the Netherlands, but also the Scandinavian countries managed to create jobs at a rate far above average. The fact that these countries achieved similar trajectories of employment on the basis of widely discrepant welfare state arrangements suggests that even under the pressures of globalisation a fairly wide array of different policy choices remains viable. Since Article 2 of the Treaty establishing the European Community lists not only a high level of employment and a sustainable development of economic activities among key goals which the Community seeks to promote, but also a high level of social protection, the next section takes a closer look at the development of state activities and recent social policy efforts.

¹⁰ Providing longitudinal data for a longer period the grey dotted line for the NMS in figure 5 gives an impression of the profoundness of the transformation - which is partly due to hidden unemployment under communist rule. Due to a discrepant statistical definition this level of employment is not comparable to the other levels, however, as the employed population is here expressed as a percentage of the population aged 15-59, rather than of the population aged 15-64 as in all other cases.

2.2 *The scope of state activity*

An analysis of the changing role of the state in Europe requires first of all to draw attention to the positive impact which the EU enlargements to Southern and Eastern Europe had on the proliferation and consolidation of democracy. Democratic regime change is really the most successful export article of the European Union. A second trend throughout Europe consists of the shrinkage of state activities. After reaching an all-time high in the early 1990s, the level of public expenditure was reduced in all EU member states. The aggregate public expenditure ratio of the EU-15 shrank by six percentage points between 1995 and 2004. Since the state sector is distinctly smaller in the New Member States, recent national developments combined with enlargement to bring European spending levels closer to the United States (**figure 6**).

Departing from peculiar high levels, the Scandinavian countries witnessed a particularly steep decline of public outlays in the 1990s, which was brought to a halt after the turn of the century. With spending levels above 50 % they still have by far the highest level of government expenditure in the EU. At the other side of the European spectrum, Ireland and the United Kingdom come closest to the United States with spending levels of 39 % and 44 %, respectively. However, in both Anglo-Saxon nations the long-term decline in public outlays has ceded to renewed growth after the turn of the century. The other European countries are in between those polar types, with the group of Continental countries closer to the Scandinavian levels, and the other three groups all below the aggregate level of the EU-15. The widely discrepant levels of public spending in the Scandinavian and Anglo-Saxon countries are remarkable, because they did not impede these countries from having similar relative success in terms of macroeconomic performance.

For two reasons it would be misleading to interpret the fairly steep decline in public expenditure ratios after the mid-1990s as a race to the bottom. First, the downward trend in public spending was reversed in most recent years. Secondly, on the revenue side we find persistence rather than shrinkage. In 2004 taxes and social contributions in the EU-15 claimed the same share of GDP on aggregate as in 1995 (39.9 %). The New Member States saw a minor shrinkage of the revenue share between 1995 and 2000, but this was brought to a halt and even slightly reversed after the turn of the century (**figure 7**). Hence Europe did not follow the American pattern of shrinking state revenues. The downturn of public spending was accompanied by a rather stable revenue share which meant diminishing public deficits. Within Europe there was no convergence to lower or higher levels of state revenues, but a rather constant degree of variation.¹¹ With a range from 28 % in Lithuania to 51 % in Sweden, differences within Europe are once again bigger than the difference between the United States and the European mean (which amounts to barely 14 percentage points).

Measured by the social expenditure ratio, the development of the welfare state in Europe surpassed its peak in the middle of the 1990s (**figure 8**). After shrinking by roughly one percentage point after 1993, the aggregate spending ratio of the EU-15 has remained fairly stagnant in the most recent years. Hence there are no signs of a general race to the bottom. With a reduction of five percentage points, welfare state shrinkage was most pronounced in the Scandinavian countries which moved closer to the European mean and now have similar spending levels as the Continental European countries.¹² The Anglo-Saxon countries and

¹¹ This refers to the development of the range and the standard deviation in the period 1995-2004.

¹² This clearly contradicts the findings reported by Colin Hay (2006) who states that "it is the Nordic welfare states that have grown the most" and that under globalization "the most generous welfare states have thrived"

Luxembourg and the Netherlands also reduced their spending levels by several percentage points during the 1990s, but reversed the downward trend after the turn of the century. The Southern European countries stand out for an upward trend in social spending which was particularly marked in Greece and Portugal. Since joining the EU, the social policies of these countries were marked by attempts to "catch-up" rather than by a strategy of social dumping (cf. Guillen and Matsaganis 2000; Guillen and Palier 2004). The New Member States have distinctly lower levels of social spending so that the Eastern enlargement contributed to making the EU somewhat more similar to the United States in this respect.

From a policy perspective two aspects are particularly noteworthy. First, the similarity of spending levels in the Scandinavian and the Continental European countries is remarkable, because it shows that even states with similar levels of social spending can have widely discrepant records of macroeconomic performance. What matters is less the aggregate level of spending, but rather the concrete mix in terms of transfers and services, of active and passive measures, and of outlays for social investment and social consumption. A second trend worth noting consists in the reversal of social spending patterns in the Anglo-Saxon countries, because it contradicts the image of strictly liberal policies aimed at unleashing market forces in these countries.

Within the old EU-15 there are no clear-cut signs of convergence, as both the range and the standard deviation of spending levels were roughly the same in 2002 as twelve years earlier. Differences within the enlarged Europe are once again more marked than the difference between the European mean and the United States. Estonia and Lithuania have now joined Ireland as countries with lower levels of social spending than the U.S. which are thus not completely outside the margin of variation we find within social Europe.¹³

The differences between European countries and the United States become even smaller when we follow a procedure developed by Willem Adema and others at the OECD (Adema 2001; Adema and Ladaique 2005) and move from the usual data on gross social spending to figures on net spending. The latter takes tax credits, mandatory private benefits and taxes on benefits into account. In terms of gross social spending Denmark and Sweden have almost twice the expenditure ratio of the United States and Ireland is the only European country to undercut the American level of social spending (**figure 9**). In terms of net expenditure, however, the U.S. are on par with Denmark and five other European nations, ahead of another five EU-countries and surpassed by only three nations in Europe.

The policy implications of this result can hardly be overstated. Obviously a limitation of welfare state responsibilities can not be equated with a liberation from social costs. Social risks which are not or no longer provided for by the state, impinge either on firms which have to provide occupational welfare or on private households which have to carry the costs from their private purse thus curbing their disposable income. Thus, social costs accrue anyhow, but they are merely borne at another level which usually means that they are less equally distributed than in the case of public schemes with universal coverage. The next section will take a closer look at distributional outcomes by inspecting data on income inequalities and the distribution of educational skills.

(Hay 2006: 7). However, Hay's insights are based on time series data which begin in the 1960s or 1970s and end in the mid-1990s thus leaving the most recent period of welfare state adaptations to competitive pressures out of consideration.

¹³ This comparison between Ireland and the United States is based on OECD-statistics (rather than on Irish data from Eurostat).

2.3 The degree of social inequalities

Whatever the concise meaning of the European social model may be, its downside clearly lies in the persistence of mass unemployment. The European unemployment rate of 9.1 per cent on aggregate (in 2003) compares unfavourably to the American rate of 6 per cent (**figure 10**). For five consecutive years from 1993 to 1997 the EU-15 mean had hit double-digits, whilst the American unemployment rate fluctuated between 4.0 and a maximum of 6.9 per cent from 1993 to 2003. In the most recent year covered by the statistics only seven European countries had unemployment rates below the American level (Ireland and United Kingdom, Denmark and Sweden, Luxembourg, Netherlands, and Austria). Particularly high jobless rates prevailed in the New Member States, in the Southern European countries and in the Continental European countries with the exception of Austria. Ireland and the United Kingdom stand out for their particularly successful reduction of during the 1990s. Almost similar success was also recorded in the Nordic countries, however. Departing from above-average unemployment rates in the early 1990s, the Scandinavian countries approached the American level after the turn of the century. Thus they were almost as successful as the Anglo-Saxon countries in curbing unemployment despite of their much larger public sectors and their more generous welfare state schemes.

Crude unemployment rates even understate the comparative advantage of the United States over Europe because they conceal massive differences in the structure of unemployment. Only 12 per cent of the unemployed in America, but 36 % of their peers in Europe have been out of work for more than one year. In the New Member States roughly one half (47 %) of the jobless have been without a job for this long.¹⁴

There are some indications that the European employment strategy begins to bear fruits, because after reaching peak levels in the mid-1990s the rate of long-term unemployment has recently been shrinking almost everywhere (**figure 11**). Particularly high levels of long-term unemployment still persist in the New Member States and in Southern Europe. The long-term unemployment rate in the Continental European countries corresponds almost exactly to the EU-15 mean. The two Anglo-Saxon countries were most successful in almost eradicating their originally high levels of long-term unemployment. Together with Luxembourg and the Netherlands they now come closest to the American low level. Once again the Scandinavian countries are in close vicinity to the Anglo-Saxon nations. In the light of concerns about disincentive effects of generous social benefits this is remarkable, because Denmark or Sweden have unemployment and social assistance benefits which are even higher than those in Continental European nations like Germany (for a comparison of benefit levels see European Commission 2005b).

Whilst the high and persistent level of unemployment must be considered the downside of the European social model, a low degree of social inequality and poverty rank among its relative merits. Compared to the United States European countries have a much more equal income distribution. The decile ratio - which shows how much more income those at the 90th percentile have compared to those at the 10th - is a telling summary measure of the degree of inequality separating the rich from the poor. In 2000, this ratio was 5.5 in the United States, as compared to an EU-average of 3.6 (**figure 12**). Only five of the twenty Europe countries for which data are available exceed the factor 4, and Estonia is the only case to come close to the American level of inequality above factor 5. The other New Member States have moderate

¹⁴ In the NMS the percentage of long-term unemployment ranges from 25 % in Cyprus to 65 % in Slovakia (calculated from the appendix tables in European Commission 2004: 237-266).

degrees of inequality comparable to the situation in Western Europe. In the old EU-15 the highest degree of inequality prevails in Ireland and the United Kingdom, followed by Spain and Italy. In contrast the three Scandinavian countries and the Netherlands are the nations where the gap between the rich and the poor is smallest. While approaching the Anglo-Saxon countries in terms of macroeconomic performance, the Scandinavian countries thus combine their relative success with much lower levels of income inequality.

Once again differences within Europe are even more pronounced than the difference between the United States and the European average. Over time, however, European countries have converged somewhat as inequalities increased particularly in the more egalitarian Scandinavian countries (**table 1**). Table 1 compares the degree of inequality in the early 1980s and around 2000 by showing Gini coefficients as a summary measure of income dispersion as well as two ratios which measure the gap between top and middle incomes on the one hand and between middle and low incomes on the other. The latter comparisons help to determine if inequality increased primarily because those at the top pulled further ahead or because those at the bottom fell behind. Among the twelve European countries for which change data are available we find increasing inequality in all but four nations (France, Germany, Netherlands, and Ireland). In five countries inequalities increased to an even higher degree than in the United States. The top incomes pulled ahead of those in middle positions in nine European countries as well as in the United States. In addition, those at the bottom of the income distribution fell increasingly behind in all European countries except Sweden, while not losing further ground in the United States. Over the past two decades Europe has thus moved closer to the United States in terms of income inequality, but the degree of inequality in America is still much higher, as Estonia is the only EU-country to approximate the American level.¹⁵

The rate of relative income poverty rate showing which percentage of the population has to cope with less than half of the national median income also distinguishes Europe from the United States. The American income poverty rate of 17 % is matched nowhere in Europe (**table 2**). According to Eurostat-data the variation within the enlarged EU is from 4 % in Denmark to 16 % in Slovakia. Double-digit levels of relative income poverty prevail in Ireland and the United Kingdom, in Southern Europe, and in four of the New Member States. Once again, we find that the relative success of the Anglo-Saxon countries in terms of growth dynamics is coupled with an over-proportionate preponderance of social problems, whereas the Scandinavian countries and Luxembourg and the Netherlands combine a similar degree of success with much lower levels of poverty and inequality.¹⁶

¹⁵ While most European countries have become more unequal in terms of the income distribution, the relationship to policies is not clear, as there are also structural effects such as the trend towards increasing homogeneity which is related to the expansion of higher learning among women (Esping-Andersen 2006). As Giddens (2005) points out it must also be noted that many countries have at the same time taken steps to alleviate or abolish inequalities in other dimensions such as women and minority rights.

¹⁶ When comparing relative income poverty rates in various countries one must keep in mind that apparently identical poverty thresholds defined as a percentage of the mean or median equivalent income in a given country combine with widely discrepant levels of income. Thus according to Eurostat data a person living at the 60%-relative poverty threshold in Luxembourg has about seven times the income of a person in the apparently same relative position in Estonia (Eurostat 2005). Regional disparities are thus much bigger in the European Union than in the United States, where the nationally defined poverty level amounted to roughly 1200 \$ per month for a family of three persons in 2002, and poverty rates ranged from a minimum of 5.6 % in New Hampshire to a maximum of 18 % in Arkansas (U.S. House of Representatives 2004; Tables H-2 and H-10). Similarly, per capita GDP at purchasing power is five times higher in Luxembourg than in Latvia, whereas in the U.S. rich states such as Connecticut or District of Columbia have only about twice the per capita income of poor states such as Mississippi or Arkansas.

In addition to having low poverty rates, Finland and Sweden also avoided the recent European trend of growing relative poverty. In nine of the other ten countries for which there are change data relative income poverty increased over the past two decades. This is in stark contrast to the United States where relative poverty even diminished somewhat between 1986 and 2000. Whilst the poverty rate among elderly people shrank in five of the twelve European countries, the poverty rate of households with children increased in all countries except Finland. In the United States in contrast, the poverty rate for households with children shrank, while poverty among the elderly increased.

Income inequality is not the only relevant type of social inequalities. Since life chances in knowledge societies depend increasingly on learning, educational poverty and inequalities in cognitive and educational skills must become a growing concern. If we consider those who have less than upper secondary education to be at risk of educational marginalisation, European countries do not compare very favourably with the United States (**figure 13**). While educational poverty in this sense diminished throughout Europe so that the gap to the United States could be reduced among younger age cohorts, only the Scandinavian countries keep the percentage of younger people who fail to get a secondary level grade similarly low as the U.S.. At the opposite pole we find the Southern European nations with the extreme case of Portugal where almost two thirds of the younger generation do not achieve this level. The Anglo-Saxon countries and Luxembourg and the Netherlands fall also short of universal higher education as more than one in four of their younger people leave school without an upper secondary degree. Once again there is a high-degree of nation-specific variation in Europe which is particularly strong in the New Member States where only 6 % of the young in Slovakia, but 43 % of their peers in Poland leave the educational systems without higher credits. The margin of variation within Europe is thus once more bigger than the gap separating the United States and the European average.¹⁷

A high output of credentials does not necessarily indicate satisfactory outcomes in terms of acquired skills. Thus, according to the International Adult Literacy Study the high percentage of young people with upper secondary education in the United States is coupled with a high proportion of people with only modest reading skills in the population. Also in some European countries a considerable proportion of the population must be considered at risk of cognitive marginalisation. However, the percentage of educationally handicapped people with only elementary reading skills is kept more within limits than in America and at the same time the gap separating those at the top and at the bottom of the skill distribution remains smaller (**figure 14**). Once again there are noteworthy differences within the EU. In Scandinavian and Continental European countries, less than 15 % of adults fail to get beyond the most basic level in document literacy while those at the 5th percentile of the skill distribution are at least half as good as those at the 95th percentile. In the Anglo-Saxon countries and in the United States around 25 % do not get beyond the most elementary level while those at the top are more than twice as proficient as those on the bottom. Among EU-countries only Portugal and some of the New Member States have even higher proportions of educationally marginalised

¹⁷ Unfortunately, different editions of the OECD publication "Education at a Glance" give sometimes very discrepant information on the percentage of people with at least upper secondary education. For example, edition 2003, p. 41, gives the proportion in the age-group 25-34 for year 2001 as 85 % for Germany, and 92 % for Switzerland. In edition 2005, p. 36, data for the same age-group are given for year 2003 as again 85% for Germany, but 76 % for Switzerland, so that the two countries change rank orders (with the Swiss data now being significantly lower for all age brackets than in the earlier edition). Similar discrepancies show up for the United Kingdom and Poland, where the proportion of those with completed upper secondary education is given as 86 and 88 % for 1995 (in edition 1997, p. 39), but as 71 % and 57 % for 2003 (in edition 2005, p. 36). Country rank-orders may thus change significantly depending on which year and edition of the source is being used.

people and higher degrees of inequality. This implies that differences within Europe are once more bigger than differences between the European average and the American level.¹⁸

A final question is to what extent the more equal European societies are also more cohesive and thus less dependent upon coercive controls than the U.S.A. Judging by the proportion of the population in prisons, the high degree of poverty and inequality in the United States has its price in a comparatively huge prison population (cf. Western and Beckett 1999).¹⁹ The bigger the low wage sector is, and the lower wages in this sector are while the degree of inequality in society is high, the more incentives there probably are to substitute crime for work. In 2002 the American incarceration rate of 700 imprisoned persons per 100.000 people compared to an average of 136 for the 24 European countries for which there are data (**figure 15**). In the European Union the three Baltic nations are the only ones to surpass the level of 300. Average incarceration rates are higher in the New Member States than in the old ones, but in all groups of countries which we have distinguished here, there is a very high degree of nation-specific variation. In the old EU-15 the three Scandinavian countries and Greece (1995) stand out for their relatively small prison populations of less than 10 % of the American magnitude. Portugal and the United Kingdom as the countries with the most densely populated prisons reach about one fifth of the American level. Ranging from 56 in Slovenia to 363 in Estonia, the variation within Europe is in this case much less marked than the difference between the EU-average and the American figure. Together with a high degree of income inequality and relative poverty, the strong reliance on incarceration as a method of social control is thus one of the few key features which clearly distinguish the United States from European nations.

3. Conclusion: What remains of the idea of a European social model

Our empirical analysis shows that the notion of a European social model is not only imprecise but also misleading in a triple sense. First, it implies a fundamental difference between the United States and Europe which most data fail to sustain. In most respects we find the United States located well within the social space spanning the societies of Europe (**figure 16**).²⁰ The range of variation separating the polar countries in Europe is frequently bigger than the distance between the European mean and the United States. If state level variations within the United States were taken into account, many differences would blur even more. Yet, there are five instances in which the U.S. stand at least somewhat apart from all member states of the European Union: The percentage of the *imprisoned population* is far out of bounds; the *degree of inequality* as measured by the decile ratio, the gini coefficient or the relative poverty rate is higher, whilst the share of *public revenues* is lower than anywhere in Europe; *long-*

¹⁸ There are some noteworthy discrepancies between the results of the International Adult Literacy Study (OECD and Statistics Canada 2000) on the one hand and the PISA study (OECD 2004d) on the other. Whereas the United States are similarly situated in both studies - around average performance levels coupled with a high degree of inequality - some other countries fare either much worse in the PISA study than in the IALS (Germany) or much better (Ireland). An embracive comparison of inequalities in Europe and the U.S. would also require taking the degree of integration of immigrant families into account. According to journalistic accounts, the jobless rate of non-nationals is almost identical to the average in the U.S., but more than twice the rate for nationals in Europe (Giddens 2005).

¹⁹ In a cross-sectional analysis there is a fairly strong and robust statistical association between the degree of inequality as measured by the gini index and the relative size of the prison population in various countries ($r = .61$ for 15 European countries and the United States, $r = .67$ within Europe). Over time, however, the vast increase in the U.S. prison population after 1970 was not accompanied by a similar upsurge in inequality.

²⁰ In figure 16 all variables were standardised from 0-100 in a way such that the value for the maximum country comes close to 90. Data on public revenues are here consistently taken from OECD (2004c) for all OECD-countries, and from Eurostat (2005; as in figure 7) for the six New Member States which are not in the OECD.

term unemployment is less frequent, and the *fertility rate* exceeds any level found within the European Union. However, even in these cases the distance separating the U.S. from the most similar country within the EU is not very big, and with respect to inequality Europe has recently moved closer to America. This leaves the incarceration rate as the only example where the United States and Europe stand clearly apart. It is a matter of debate if this one noteworthy difference justifies speaking of two distinct social models. It may be concluded, however, that in their pursuit of social integration European societies achieve somewhat higher levels of equality and rely much less heavily on coercive control than the United States.

The second conclusion is that the notion of a European social model cannot be grounded on a set of key features which all member states of the European Union would similarly have in common. The variety within Europe is so vast that the difference between the European mean and the United States usually pales beside the magnitude of differences found within the EU. Impressive differences also prevail between countries which are assigned to a common type or family of nations. Clearly the distinction between liberal and coordinated market economies in Western Europe does not capture the remarkable differences between Scandinavian, Continental and Southern European nations to which the comparative welfare state literature has drawn attention and which the data presented here confirmed. However, even countries with similar sets of welfare institutions - such as Austria and Germany, for example - are frequently found to display widely discrepant patterns of development. Hence when we look at single countries the variety within Europe becomes even more stunning, as remarkable national peculiarities within known families of nations come to the fore.

Over time there is no consistent evidence of convergence. Judged by the range and the standard deviation European countries have become more similar on growing levels of employment and shrinking levels of unemployment, but they have become even more dissimilar with respect to public expenditure, public revenues and net social expenditure. In this sense there is no sign of globalisation pressures translating into increasingly uniform policy outcomes.²¹ Instead of a unique European social model we find a pluralism of nation states with an impressive degree of unique national features and trajectories which persisted up to the most recent period. The Eastern enlargement has increased the degree of heterogeneity within the EU even further. In some respects it contributed to making Europe more similar to the United States - for example with respect to the now more limited scope of public and social expenditure. In some other respects it also contributed to enhancing differences between Europe and the U.S., however - for example with respect to the discrepant levels of unemployment and long-term unemployment.

The third and most important insight in terms of policy conclusions is that we find two rather successful social models in Europe rather than just one. In terms of population dynamics, macroeconomic performance and standard of living not only the Anglo-Saxon countries - to which liberal economists usually draw attention -, but also the Scandinavian countries stand out as successful models. Whilst the economic success of the Anglo-Saxon countries is coupled with bridled welfare states and relatively high social inequalities, the similar success story in Scandinavia is combined with more redistributive social policies and with a higher degree of equality - not only in terms of income, but also in terms of educational skills.

There are two different, yet not necessarily mutually exclusive explanations for the similar macroeconomic success stories - especially in the field of labour market developments - of

²¹ This is based on a comparison of EU-15 countries in the early 1990s and around 2003, because data for the earlier period are frequently missing for New Member States.

these two otherwise so different groups of countries. One of them draws attention to similarities, the other one highlights differences in national policies. A similarity Anglo-Saxon and Scandinavian countries have in common is that they both pursue activating social policies with an emphasis on individual responsibilities. In many respects the "Third Way" propagated in Britain by Anthony Giddens (1998, 2001) and Tony Blair (2006) was merely a rediscovery of the rather old Scandinavian idea originating in union-controlled social funds that social policy should be enabling, and that generous social benefits should be coupled with flexible labour legislation, as well as with active labour market policies combining rather strict controls against benefit abuse with a supply of public works and of vocational training for the unemployed (cf. Esping-Andersen 2002).

A second explanation draws attention to the differences in policies which may produce similar success in terms of employment trajectories. Thus Fritz Scharpf (1986, 2000) has pointed out that there are two distinct pathways to full employment in the service economy. The first one, characteristic of liberal countries with high income inequalities and a big low wage sector, promotes private sector employment in personal services because even middle class households can afford to purchase an ample supply of cheap services. The second one, characteristic of Scandinavian countries with high levels of taxation, relies on expanding public services and creating jobs in the public sector. Continental European countries, situated mid-way between these polar types, cannot pursue either strategy, because strong unions keep income inequalities low, while the high tax and contribution rate is used for financing welfare state programs which primarily centre on cash benefits as replacements of lost earnings. Hence these countries are less successful in compensating job losses due to de-industrialisation with an expansion of service sector jobs.

In a similar vein, labour market economists like Calmfors and Driffill (1988) have drawn attention to the fact that both, countries with centralized collective bargaining and those with decentralized wage-setting at the firm level, achieved similarly positive records of macroeconomic performance. Their explanation is that at a low level of centralization individual firms have sufficient flexibility to adapt to market forces whilst at a high level of centralization encompassing organizations take macroeconomic considerations into account and help to internalize external effects of wage increases. On the intermediate level, in contrast, special interest groups are powerful enough to distort market forces, but not sufficiently encompassing to internalize the social costs of their actions which means that the negative effects of cartelization outweigh the positive effects of coordination.

These explanations have the idea in common that there is a u-shaped relationship between social models and macroeconomic performance so that countries of the middle way are most prone to be faced with difficulties (**figure 17**). To the extent that this is true it has important implications for the open method of coordination practised within the EU and for the chances of learning from best practice. If there are really different pathways to success, the adoption of isolated policy instruments may not fit into the institutional setting or the specific policy mix of a given country, and a mutual approximation of polar types towards the middle might turn out to produce undesired effects.

Given the difficulties in filling the notion of a European social model with precise empirical meaning, it has recently been proposed to see the concept as a deliberately ambiguous and elastic political metaphor which aims at fostering an epistemic European policy community with a shared view of social problems (Jepsen and Pascual 2005). The concept is thus primarily seen as a rhetorical resource helping to shape cognitive maps among decision-makers and to legitimize the identity-building project of the EU agencies. In this perspective,

the European social model would be a project and a process rather than a concrete substance, based less on common institutions or joint values than on a way to perceive and define policy challenges.

This idea is probably more realistic than the assumption that the notion of a European social model could serve as a fundamental "*idée directrice*" to which all national policy makers would subscribe leaving only the concrete ways to reach the common objective at their discretion. The more political objectives are cast in fundamental, symbolically or ideologically charged ways, the more difficult it presumably gets to find consensus and to forge coalitions. Recent speeches by Tony Blair (2005) or Gordon Brown (2005) on the one side, and Jacques Chirac or Gerhard Schröder (2005) on the other have made it quite clear that British ideas of an open "global Europe" and Franco-German ideas of a "social Europe" resisting pressures of globalisation have little in common on principle. Hence it is difficult to define a substantive goal or vision for the enlarged EU (cf. Ash 2005). In this situation fundamental debates about the "*idée directrice*" which Europe should follow are likely to produce little more than political stalemate or lofty rhetoric.

More momentum will probably be achieved if concrete problems are put on the agenda of incremental reform in a more pragmatic vein. During the Second World War Lord Beveridge (1942) described the post-war challenge as a fight against the five giants of want, disease, squalor, ignorance and idleness. At least a substantial part of this fight has been won in European welfare states, but today all European societies are confronted with four new challenges which can be summarised as four capital Cs: Children, Care, Careers and College education. In ageing societies with pay-as-you-go pension schemes the sustainability of pensions requires first of all that more children are born so that the growing mismatch between the size of the pensioner generations and the generations of contributors will be alleviated. More children will only be born, however, if extended child and elderly care services make it easier to combine work and family life. Coping with the demographic imbalances in pension schemes will furthermore require to boost the number of employed people and to increase their productivity. In the knowledge society career opportunities and productivity increasingly hinge upon educational skills. Hence efforts must be made to increase enrolment in higher learning and to generalize college education in order to promote better career opportunities. Given that educational poverty is at non-negligible levels in several European countries, it is remarkable how little explicit reference official EU documents make to universal access to higher learning as a desirable key element of the European social model.

It will probably be easier to achieve pragmatic consensus on how to meet the four major challenges if fundamental debates among proponents of different social models are avoided. In the enlarged European Union it is not the choice between the welfare state and the liberal market economy which is at stake. Instead states with different types of welfare state arrangements are in search of appropriate solutions for the four major new challenges. When decision makers exchange information on best practice in dealing with these challenges they should keep three insights in mind: (1) There are different pathways to success. (2) Similar policies may produce different effects in different contexts, hence proposed policies must fit into the institutional set up of a given country. (3) Convergence towards a middle way is not always the most promising key to success, but may sometimes prove to be the road to even aggravate problems. To the extent that these insights are born in mind, the open method of coordination can provide useful opportunities for policy learning among European decision makers.

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