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What's European about Europe?
Potential and weaknesses of the European Social Model

Briefing paper from
'Infowork' Accompanying Measure

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Introduction

During 2003, Europe defined itself against the USA over Iraq. While many European governments aligned themselves with the USA, public opinion in nearly all member states was massively opposed to the war. Even more striking was that commentators routinely talked of 'European public opinion' and even 'the European people': in front of our eyes a European *demos* may finally be being created.

In this context, it is worth asking, **what does make Europe European?** While questions of identity usually revolve around values, this paper starts from the 'harder' world of social structure, and in particular the world of work and employment. It suggests that Europe already provides a different model of socio-economic development to that of the USA; the USA does not offer the only viable model of development for the rest of the world.

The paper is preliminary. The first part is a rapid tour of existing social research: at many points sources are only briefly indicated and evidence summarised very quickly. Most of the research used is however already published in conventional academic form. By contrast, the second part makes much use of research funded by the European Commission's TSER and IHP programmes. In particular, the results of a series of projects on work, employment and information technology are currently being re-analysed for their implications for the 'European Social Model' by the 'Infowork' research project: this activity is ongoing and the arguments presented here are therefore necessarily cursory¹.

One important preliminary point is in order. A sense of identity always involves a sense of what we are **not**. For that reason, if Europe is going to have a distinct identity, it is time to face the fact that our key reference point, our key negative role model, is going to be the USA. Precisely because we are so similar to the USA in terms of economic development and basic political and economic systems, differences necessarily matter. To stress our differences with those with to whom we clearly closest is often seen as committing the sin of 'anti-Americanism', and much breast beating occurs about why European intellectuals are (allegedly) so anti-American.² Rather than engaging in such masochism, it is a more relevant task to ask in what ways Europe *is* different to the USA. On this basis it is then possible to form some value judgement about the extent to which these differences are valuable.

However, exactly what defines Europe in these terms is an open question, since in many ways the most 'European' countries are the original member states of the Union, while the UK and perhaps most of the accession states emerge as less 'European'. And finally, options for development do not exist for ever, they can be

¹ Accompanying Measure Contract: HPHA-CT-2001-60007

² Immediately after September 11th 2001, two leading French and German current affairs magazines published opinion pieces which castigated their respective national intelligentsias for their 'anti-Americanism'. Both argued that German or French 'anti-Americanism' was the consequence of specific national features of French or German society. See:

'Misère de l'antiamericanism' Jacques Julliard, *Nouvel Observateur*, 13.11.01

'Die Arroganz der Demut' Henryk M. Broder, *Spiegel* 47/2001 19.11.01

removed by the exercise of political and even military power: models can be imposed on countries, and we need to be aware of the extent to which the US model is already being imposed on Europe and the economic basis of the European social model undermined.

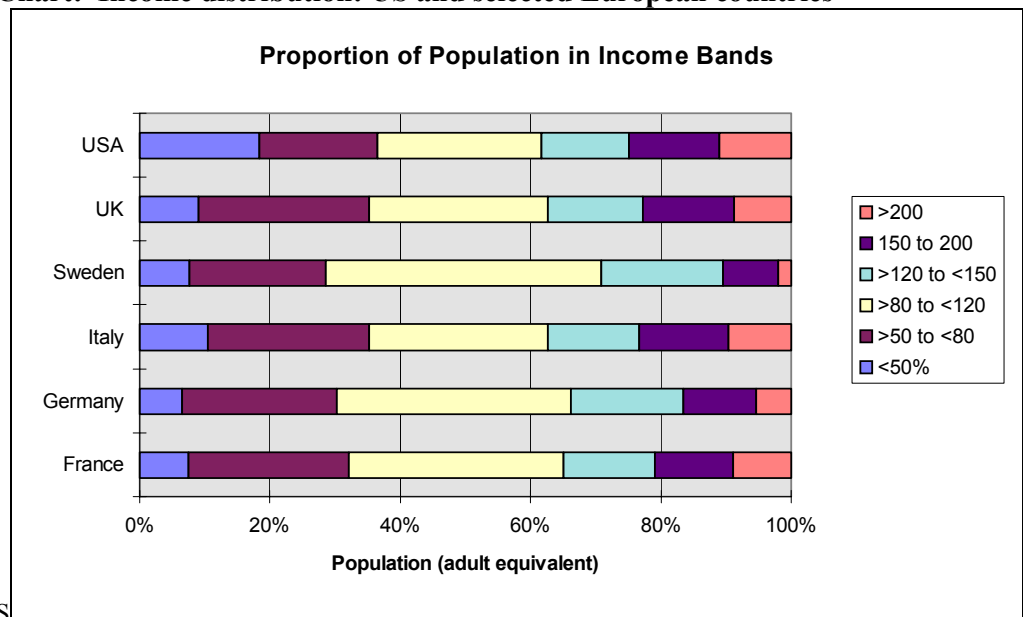
Part 1: Defining the European Social Model

Income equality

The simplest and most measurable difference between the USA and Europe is income distribution. As the chart demonstrates, no European country approaches the levels of income inequality found in the USA. Compared to Europe, the US has high numbers of very poor people. Thus whereas nearly 20% of the US population has less than 50% of the average income, in all European countries this applies to less than 10% of the population. Rather less obviously perhaps, the USA generates also greater inequality 'at the top'. The chart also shows the proportion of the population receiving more than twice the average income: in these terms, compared to some (but **not all**) European countries, income is more polarised in the USA. Finally (and not shown in the chart) the very rich in the USA (the top 1%) are further away from the average than is the case in Europe.

This inequality has other aspects. The US has the most prestigious (and the most expensive) universities in the world, but it also has some of the highest levels of adult illiteracy of all OECD countries. Literacy levels in the inner city ghettos make mockery of the claim that the USA is a 'knowledge-economy'. And above all, no European country puts such a high proportion of its poor people in prison; the number of people in federal prisons in the USA rose from .5m in 1985 to fully 1.7 million in 1999 (Parenti, 1999).

Chart: Income distribution: US and selected European countries



Source: calculated from Atkinson et al (1995).

Explanation: The chart shows the proportion of the population in each income band within that country. Thus in the USA nearly 20% of the population have an income of less than 50% of the average; no European country comes near this. At the other extreme Sweden has the largest percentage of the population with between 80% to 120% of the average income.

These inequalities have their subjective side. There is some evidence that there is more popular toleration of such extremes of wealth and poverty in the USA than in Europe. Conversely, Europeans are more likely than Americans to consider *some* level of income redistribution desirable.

Certainly, money can buy political power directly in the USA in a way that would still be unacceptable in Europe, most obviously in the extent to which politics is a rich person's sport.³ This is partly because American political parties have been much weaker than European ones, so wealthy individuals have more power in relation to party bureaucracies; it is also partly because political funding and political advertising are almost unregulated. Yet at the end of the day it is also the result of a situation in which there are not only a large number of very wealthy people, but such extremes of private affluence are regarded as acceptable.

The backbone state and the creation of public space

The European social model is only possible because Europeans accept the importance of the state. In the USA the state is often seen as bad in itself, as a necessary evil. Hence political extremists in the USA, such as the Minutemen, attack the state as such. By contrast in Europe the necessity of the state has much firmer acceptance, so that political extremists like the IRA are quite likely to murder people, but consider that the state is the *wrong* state.

³ Despite New Labour and Branson; despite Berlusconi in Italy. The case of Berlusconi shows how a politician can be popular **because** of his wealth.

In some countries the state is widely seen as serving the public good and incorporating principles of fairness and rectitude. The French *service publique* serves the public, the German *Beamte* is morally upright. Today there are different justifications for the state. In contemporary Germany the tradition of 'ordoliberalism' sees the state in instrumental terms, as necessary because of market failure (Smith, 2001), while by contrast in France the state and the nation are interwoven. Underlying these differences is however a fundamental belief in the state as a different area to the market, as above the clash of private interests, even perhaps as the backbone of society. Of course, there is yet again a wide variety within Europe in such popular conceptions of the state, and the state is frequently resented as well as supported. Italy is an interesting case, because notoriously Italians regard their state as inefficient, corrupt and even parasitical. Yet intriguingly, even in Italy the state is accepted: Italians may loathe it, but they seem unable to imagine doing without it. Long ago Karl Marx described the state in capitalist Britain as 'the night watchman state' - a state which maintained law and order, but did little else. Not only would the statement be absurd today, there are in Europe few who seriously wish that it were true.

Interwoven with the acceptance of the state is the acceptance of a public sphere – of an area of society which belongs to all citizens as of right. Here in the public sphere things are done not for profit, but for the general good. A public transport system may not actually be provided by the state, but it is provided **for the public**. 'Public service broadcasting' – a concept almost unknown in the USA – means that some media are considered too important to be run purely for profit, since citizens have a right to good quality entertainment and impartial news which the market cannot be trusted to deliver. Similarly, it is accepted that the state should play a major role in providing education and health, since these involve notions of equity which it would be difficult for a commercial company to apply. As Will Hutton remarks:

'This social capability is supported by a conception of the public realm whose underwriting of public science, public transport, public art, public networks, public health, public broadcasting, public knowledge and the wider public interest gives European civilization its unique character while offering many of its enterprises competitive advantage.' (Hutton, 2002: 258-259).

I will return to the question of 'competitive advantage' later. Here however it is important to acknowledge the double-edged nature of public service. Public services have traditionally meant public employees. As the state's duties expanded in the second half of the 20th century, so did the number of its employees. Given the security of employment, given the separation of the state from the market, but given also the decline of nationalist ideologies that could make serving the public good an end in itself, the (sometimes justified) view grew that state services were run not for the benefit of the public, but for the benefit of the people who provided them. The dominant response has been so-called 'New Public Management' (NPM), which attempts to bring into the state the alleged efficiencies of the private sector, not least through privatisation and contracting out. This approach is an example of *market totalitarianism*. It ignores the evidence that public sector managers are less motivated by financial rewards than those in the private sector, that people do not enter state

employment for exactly the same reasons as they enter jobs in the private sector.⁴ Far from simply revitalising the public sector, NPM risks further undermining any public service ethos.

The state is guarantor of two very European concepts, 'social cohesion' and 'social inclusion'. Although often treated as identical, it is useful to think of them as different to each other. The opposite of social inclusion is clearly social exclusion, the way in which some people and groups can be pushed out of society. Thus while 'poverty' simply **exists**, 'exclusion' is **created**. And if it is created, it can be reversed. While the poor may always be with us, the excluded can be integrated.

Social cohesion is another of those 'European' words that to its credit New Labour has brought into Britain but which you will not hear in the USA. In a socially cohesive society people take some responsibility for each other even if they do not share any personal links, while strangers are seen as fellow citizens who can be trusted.⁵ Cohesion is therefore the opposite of individualism.⁶ As in particular Islamic critics of 'Western society' have pointed out, total individualism, or what is increasingly termed 'North Atlantic libertarianism', cannot be the basis for a viable society. Indeed, some cohesion is necessary for any contemporary society to survive, even in the simple demographic sense, since in a completely individualistic society in which women can control their own fertility, there is no clear reason why anyone apart from a few eccentrics should want to have children (Taylor & Taylor, 2001). Such a society can only reproduce itself by **continued** immigration.

Social citizenship

The simplest difference between the USA and Europe⁷ is that we have welfare states, they do not. Citizenship in Europe includes *social* citizenship, i.e. that cluster of rights to education, health, social security that have been traditionally justified as necessary in order to make political citizenship a reality⁸. Such rights can be justified as ends in themselves, or as necessary preconditions for effective political citizenship (citizens can hardly be expected to participate in decisions if they cannot read or if

⁴ As shown for example in a study of British university graduates and their career aspirations (Brown & Scase, 1994).

⁵ Michael Moore's documentary film *Bowling for Columbine* gives a clear example. The film maker goes across the border from USA to Canada. In the USA it is normal to not only lock your door, but to protect your house against intruders with a loaded gun; in Canada Michael Moore discovers that most house-owners do not have guns, and many do not even lock their doors. The film maker walks uninvited into a normal Canadian house, discusses the situation with the inhabitants, and when he leaves remarks 'Thank you for not shooting me.' Americans' low trust of fellow citizens indicates low cohesion, Canadians' higher trust indicates high cohesion.

⁶ Imaginatively one can have an **inclusive** society that lacks **cohesion** – an egalitarian hyper individualism, the sort of individualistic anarchism found on the libertarian right in the USA. The only point is that it does not work 'in practice', because markets generate inequality, and such inequality rapidly generates exclusion.

⁷ 'Europe' here is shorthand for the current member states of the European Union.

⁸ The argument that citizenship developed through different forms of rights (civic, political, social) stems from Marshall. For recent discussion see Turner (1990).

they are starving). They are however rights, with the implication that they cannot be taken away and they are therefore enforceable.

Certainly, charity and voluntary work are also part of good citizenship, and Americans are justly proud of their traditional generosity in this area. However, the problem with charity is twofold. Firstly, it may be good for the donor⁹, but by itself not even the most supportive tax environment generates enough donations to make a big enough difference. In proportional terms, the entire US charitable expenditure is equivalent to the annual fluctuation of welfare payments between one budget and another in most developed European welfare states. Secondly, social rights cannot depend on the voluntary goodwill of others, since there is no necessary correlation between the extent of the recipient's need for social support and the intensity of the donor's charitable feeling.

Such rights necessarily have costs, not just in monetary terms but also in terms of restraints on the rights of others (Pagano, 2001). If there is to be free education, then taxpayers have to pay for it. My right to free education constrains your right to spend your income. And frequently, rights and obligations are imposed on the same people (my right to health means I have to pay higher taxes). Furthermore, once people have *rights*, they are also opened up to *duties*. The political right to vote was historically linked to the obligation of universal military service, while today welfare rights are defined as involving the obligation to look for work¹⁰. This density of rights *and obligations* in Europe means that Europeans are of necessity more entangled in the state than Americans¹¹.

Of course, there are within Europe many different forms of welfare state, and as the example of France shows, high levels of state social expenditure are compatible with a relatively high degree of income inequality. Famously, Esping-Andersen (1990) distinguished between Scandinavian social democratic, Continental corporatist and Atlantic liberal forms, to which has subsequently been added a fourth, 'Mediterranean', type. Such systems can focus relatively more on income transfers (as in Germany) or on the provision of services (as in Scandinavia); access to rights can be linked more or less to employment status; funding can be insurance-based or derived from general taxation, etc. The point is that even the British 'Anglo-American' version entails levels of state social expenditure – and levels of social rights – which are European rather than American. Hence all the well documented differences between European welfare states do not detract from the claim that the welfare state is a defining feature of Europe.

⁹ Most religions stress the value of charity, but they are more concerned with its value to the donor than to the recipient. When writers such as Putnam (2000) see charitable giving in terms of social capital they are adopting the same perspective.

¹⁰ The sociological discussion of citizenship of the early 1990s (cf. Turner, 1990) is more prepared to discuss rights than duties, in part because (at least in its Anglophone variant) it frequently conflates rights as normative aspirations and rights as legally secured competences. Arguably it itself was therefore part of the process whereby rights run ahead of duties.

¹¹ On European institutional density, see Therborn (1995)

Equally well known is the 'fiscal crisis of the state'. It is now over 20 years since the ending of any easy expansion of the welfare state. However, all the arguments about the need for efficiency and the growing demand for choice do not detract from the continuing massive public support for the European welfare system (Taylor-Goody, 2001). Indeed, elements of such systems are crucial parts of European national identity. The allegedly 'neo-liberal' British do not only have a state health system, they have a **National Health System** which is perhaps more important to their national identity than their monarchy.

The importance of social rights in European national identity also has its converse, the unimportance of group rights (Kymlicka, 1995). As individuals, citizens have social rights and these rights are by definition universal: they apply to all members of the society. Hence the defining characteristics of all members of the society are more extensive than in a society where social rights are limited. Furthermore, because social rights have substantial financial costs, they are only sustainable if they are interwoven with notions of mutual responsibility (I am prepared to pay taxes or even 'insurance' to finance my fellow citizen's health needs). Indeed, one of the more effective (and unusual) arguments **against** social rights is the claim that the individualistic USA is far more tolerant of cultural diversity and immigration than is socially cohesive Europe (see Hakim, 2000). Historically, inequality has been posed and challenged in the USA in terms of ethnicity and 'race', but in terms of social class in Europe. Even today, multi-culturalism turns out to be a curiously Anglo-Saxon perspective!

Economic citizenship

Unlike Britain (and to a large extent Ireland), many Continental European states have also developed institutions of **economic citizenship**. This involves rights of representation within the workplace. Employees' rights to health and safety at work, and even the common law concept of the employer's 'general duties of care' (Meenan, 1999: 388), are hardly specific to European countries. European employees do however seem to have more developed rights to be involved in the enterprise for which they work. Such rights can be simply rights to information (the right to be told what is going on), they can be rights to influence what occurs. The most developed form of such rights is represented by the German tradition of *Mitbestimmung* (co-determination), in which employees have rights to representation at both workplace and enterprise level. *Mitbestimmung* is an example of how rights and obligations go together: while German employees have the right to representation, their representatives are also bound to consider the good of the enterprise.

This is totally different to trade union representation. Here too rights involve obligations, the *right* to strike and the *duty* to keep a wage contract, but trade union representation remains traditional in that employees remain external to the enterprise, while *Mitbestimmung* makes them internal to it. Again there are of course massive variations across Europe in the extent of trade union *membership*, but it is often ignored that this variation is much smaller in terms of trade union *coverage*, i.e. the extent to which employees are covered by an agreement negotiated by trade unions (Krieger & O'Kelly, 1998). There are also differences between national industrial relations systems across Europe and differences in the extent to which trade union

membership has been declining. Nonetheless, taken overall, it remains true that trade union representation remains important and legitimate in Europe.

Representation *within* the enterprise (co-determination) and representation *to* the enterprise (trade unions) have been termed by researchers in the EPOC project 'indirect participation' to distinguish them both from 'direct participation' in which employees participate in the immediate organisation of their work. Such participation is particularly promoted by contemporary American-style human resource management ('high performance workplaces' etc.). Such direct participation can be much more important to employees and of course is claimed by its proponents to increase commitment and productivity. What matters here however is that direct participation *is not a right*. To paraphrase the Bible: Management giveth, and management taketh away. There is however, no reason in principle why direct and indirect participation should not be combined, and indeed the EPOC project suggested that precisely this combination is occurring and forms an emerging European model (Sisson, 1997).

Employment rights

Closely related to economic citizenship are employment rights. Here we reach the most contested area of the European social model, the debate on labour market flexibility. Compared to American workers, European workers enjoy protection against dismissal; they have rights to maternity leave and even parental leave; their working hours are regulated, as often is 'non-standard work' such as temporary contracts and agency working; their wages are usually fixed at national, regional or sectoral level. Furthermore, if they are unemployed or sick, they receive income support and so do not have to work at poverty wages.

It has now become an article of faith for many employers, economists, financial journalists and, above all, American commentators, that Europe's 'rigid labour market' is the cause of European unemployment. They claim that because European workers have such extensive rights, European firms are unwilling to take on new labour. Once employed, European employees are difficult to dismiss; they soon also acquire rights to maternal and even parental leave which are particularly difficult for small firms to accommodate. Furthermore, the regulation of working time prevents employers from adjusting hours to demand, while pay agreements mean that wages become inflexible and that national (or regional or sectoral) rates cannot be adjusted to take account of the enterprise's situation. Finally, since social welfare is so generous, the 'reservation wage' (i.e. the wage rate below which people will not work) is too high: many potential low wage jobs are simply not created.

In fact we are clearly dealing here with ideology of a particular virulent kind, since it seems quite impervious to rational discussion and empirical evidence. There are many different aspects of labour market regulation (regulation of working time, wages, employment security, etc.) and EU member states differ in the extent and in the way in which each of these are regulated. Furthermore, the relationship between overall labour market deregulation and overall economic growth is quite simply unclear. Thus the major changes occurred in the UK in the early 1980s, but the UK has not consistently outperformed more regulated economies since then. During the 1990s the largest growth in overall employment within the EU was in the UK, Ireland, Denmark and the Netherlands (Samek Lodovici, 2000; Auer, 2000). The UK was

(and still is) undoubtedly one of the least regulated labour markets in Europe; in Ireland all EU labour regulation has always been applied; Denmark and the Netherlands are much closer to 'European' models in terms of employment protection and levels of social welfare. More recently, there has been strong employment growth in France, despite its allegedly highly protected labour market. All of this suggests that the issue cannot be simply posed as 'regulation' versus 'deregulation'.

Different forms of regulation have different effects and some may be actually beneficial to employment. Thus a high reservation wage can improve 'job search'. If unemployed people are not compelled to take the first job offered to them, they will wait until they find a job more appropriate to their skills; they will not get locked into badly paid jobs where their training is not utilised. Equally, if employees cannot be easily dismissed, this may be the basis for training them to carry out a range of different tasks.¹² A restriction on 'numerical flexibility' (the ability of the employer to vary the number of workers) can be a precondition for 'functional flexibility' (Regini, 2000). For example, it is difficult for skilled workers to receive training if they do not have employment security; workers subject to hire and fire are unlikely to be committed and use initiative in work. Thus labour market regulation which constrains short term competitiveness pushes firms towards strategies which ultimately benefit them more. Equally, limits on working time can force management to make more efficient use of labour rather than treating it as an indefinite resource (Auer, 2001).

Working to live or living to work?

European economic growth has been less employment intensive than that of the USA. The Lisbon Council defined the 'Lisbon targets' of increasing the employment rate to an overall level of 70% (and 60% for women) by 2010. To the extent that these targets are met, Europe would certainly come closer to the USA, since another key definition of the USA is the simple fact that more of its population is in employment.

However, it is important to be clear that these targets cannot be ends in themselves. We have seen that the USA has far higher levels of poverty than Europe, despite having more of its population at work. Indeed, in Europe only the UK comes closest to the USA in the proportion of its population who are *both* working *and* poor – 'the working poor'. De facto, European societies have rejected the American view that any job is better than no job at all. It is important to remember that the alternative to paid employment is not necessarily unemployment: it can mean full-time education and training, it can mean early retirement, it can mean home-making. All of these things would seem to be more acceptable in Europe than low paid jobs. However, it is not the case that full employment can only be achieved by allowing large numbers of low wage service sector jobs: some European societies have managed to achieve high rates of employment without extensive income inequality – obviously

¹² Of course this does not necessarily happen, and it requires employees to be ready to change tasks and jobs within the same workplace. Most analyses consider Germany as a clear case where this does happen: German trade unions and German works councils have been concerned to protect overall levels of employment, but unlike British or Irish trade unions in the past, have not been concerned to ensure that their members continue in the same actual jobs.

Scandinavia, less obviously The Netherlands. A key area here is 'caring' jobs (elderly care, child care). EU-funded research¹³ shows how different European societies have configured such service sector jobs differently, so these are low paid and low skill in some countries but not in others.

Furthermore, European working time is rather different to that of the USA. Over the year total European working hours are lower, both because of the regulation of working hours and because of longer (statutory) holidays. If we all have to make a trade-off between earning money and having leisure, it seems that Europeans and Americans make different choices. One reason for this is very simple. The European welfare states ensure that some basic needs are free or subsidised for the user. This means that Europeans do not have to worry so much about paying for their basic pension or healthcare out of their earnings.¹⁴

This in turn relates to questions of gender and childbearing. The US commitment to gender equality is at least as strong as that of Europe, but unlike here, the issue has no links to the question of public childcare. Because the US solves childcare either informally or through the market, the main beneficiaries of gender equality are middle class women. Affluent women may now choose careers and pay other women to look after their children, while at the other extreme the poor (whether male or female) juggle jobs and children in complex and stressful ways. By contrast, some European states, in particular in Scandinavia, tend to provide some state childcare facilities which, like other elements of their welfare system, both make it easier for women to enter the work force and at the same time provide relatively secure good jobs for women¹⁵ (Gershuny, 2000). Overall, the European birth rate is lower than that of the USA (importantly, this applies to 'native born' Americans and not just to immigrants), so the European population is aging **unlike that of the USA**. In this sense it is true to talk of 'old Europe'.¹⁶ However, Europe's demographic crisis is

¹³ Projects NESY and CARING.

¹⁴ Obviously resources have to be generated to pay for these benefits. In Europe the welfare state redistributes these resources from those at work (and to a lesser extent, from those in well paid work) to those in need. It is also arguable that a more marketised system of health care, as in the USA, actually uses more resources to achieve the same level of basic health care. In other words, what welfare is provided in the US is actually more expensive than a similar level in some European countries.

¹⁵ This process has advanced furthest in Scandinavia. It does of course have the consequence that Scandinavian high rates of labour market participation also involve high rates of gender segregation – women are over-represented in state employment, men in private sector employment.

¹⁶ Here two common assumptions need challenging:

A) Some economic discussion seems to assume that a growing population is desirable in itself. It is completely unclear why this should be so. *Ceteris paribus*, more people mean more pressure on physical space and the environment. Especially since one aspect of rising affluence is that people need more space for housing, recreation etc., a growing population means more pressure on the European physical environment, more pressure on the quality of life for Europeans.

worst in countries such as Italy, where there is no public support for childcare **and** part-time jobs remain in short supply. In such countries women who have children are likely to be entirely dependent on their male partner – and decreasing numbers of women are prepared to make this choice (Bettio and Villa, 1998). Tackling the demographic crisis is therefore a powerful argument for changing Italian labour market regulations in order to facilitate part-time work.

Part 2: Competitiveness and the European Social Model

One response to the existence of the ESM is to see it as an outdated hindrance to competitiveness. Europe will only become more competitive if it becomes more like the USA, and the USA is taken as an unproblematic model. There are two basic flaws in this argument.

Firstly, the argument assumes that the USA and Europe compete in a neutral market place and on a 'level playing field'. It ignores therefore the power relationship between the USA and Europe – a relationship which partly defines this very market. I return to this issue in the conclusion.

Secondly, this paper has argued that what makes Europe distinctive is the European Social Model. If this is correct, and if the ESM is a hindrance to competitiveness, then we are being enjoined to give up precisely what makes Europe European. In many ways this is what has been happening. As in particular Manfred Garhammer (1998) has argued, through the Single Market strategy the European elites have undermined many of those institutions which provide the basis for what popular support does exist for a separate European way. If Europe is just going to be a carbon copy of the USA, why should anyone give it any loyalty? In fact Europe now risks destroying those institutions which have been the basis for our economic and social success, but without putting anything effective in their place. To use a metaphor: it is relatively easy to get a tram off one set of tramlines – it is much more difficult to put the tram onto new tramlines.

Finally, we do need consider whether GNP as conventionally measured is now the most appropriate measure of economic success. Unlike measures like the Human Development Index, GNP takes no account of how such wealth is utilised (for example, in education, health etc.). It notoriously takes no account of the economic 'externalities' of environmental damage. Indeed, there is now considerable evidence that 'subjective' indicators of well-being and even happiness are diverging from GNP, whereas in the past the two went broadly in tandem.

Against this background, there are several more specific aspects of the relationship between the ESM and economic growth that need discussing:

The shareholder value firm

Over the last decade it became axiomatic that Europe's enterprises needed to become more oriented to 'shareholder value' and hence to the stock market. Unfavourable

B) Easier immigration is often presented as a solution to the demographic crisis. However, studies show that immigrants adopt the fertility patterns of the 'host' population (see EU-funded project EFFNATIS). Immigration is therefore only a 'solution' if it is continuing and very substantial.

comparisons were made between the high ratio of stock market capitalisation relative to GNP in the USA and the much lower ratio in Europe.

This rests on the belief that a focus on shareholder value drives enterprises to greater innovation. This turns out to be very debatable. EU funded research projects on corporate governance¹⁷ have shown that the role of the stock market in innovation is far more complex than this. There is in fact no guarantee that funds raised on the stock market will actually be invested in innovation. Whether this occurs depends on who makes investment decisions and in what way they do so. Indeed the evidence suggests that the main role of the stock market has been simply to transfer ownership of assets between different groups of owners. In many cases the stock market merely confers post facto recognition of innovation that has already occurred; at worst an orientation to the stock market leads to the destruction of enterprise's innovative capability.

Shareholder value necessarily treats the enterprise as a bundle of assets. It therefore becomes important to define the **current** value of these assets, in order to ascertain the precise contribution they are making to profits (if this is not high enough, they should of course be sold)¹⁸; it is also becomes important to know the immediate financial benefits of all transactions with customers and suppliers. As in particular Hall and Soskice have argued (2001), an economic system based on such relationships (what they term a 'liberal market economy') generates a high demand for financial and legal expertise. Conversely such enterprises tend to undervalue technical knowledge that is generated at low levels of the employment hierarchy and to make commercial relationships antagonistic.

Where previously integrated state enterprises are privatised into separate companies, these relationships can take pathological forms. In the UK Railtrack PLC became the privatised owner of the railway infrastructure (track, stations etc.). At one stage Railtrack ensured that every signal box displayed the daily listing of the company's share value, while at the same time the company was ensuring that the signal operators had less and less contact with the staff running the trains or even maintaining the track – because these were now employed by separate companies whose interests were different to those of Railtrack. Such antagonistic relationships have been identified by commentators and by judicial enquiries as contributing to the recent spate of fatal accidents on Britain's privatised railways (Murray, 2001; Wolmar, 2001).

Entrepreneurialism and Information and Communication Technologies

Another widespread belief is that greater social inequality and a weaker welfare state are required in order to stimulate entrepreneurship, in particular in new areas such as information and communication technologies (ICTs). This is remarkable, given that Scandinavia not only has the highest take up in Europe of domestic ICTs, but is also the home of some of the most successful ICT companies (one need only think of Nokia in Finland). As Castells (1996) has argued, the economic structures of the

¹⁷ Projects CGEP and COPI.

¹⁸ See for example, Interview with Michel Pebereau, President BNP-Paribas, Le Monde 07.08.2002: Pebereau argues that the insistence on current value undermines 'le cohesion sociale'.

informational economy are compatible with a variety of different social structures. The case of Finland in particular shows that the social cohesion generated by the welfare state can become a resource, ensuring that social change is welcomed rather than feared. Finland's leadership in ICTs depends partly on its education system (characterised by a high level of basic education plus a strong technology orientation at third level). Finnish success also depends on the country's **narrow** income distribution and its **strong** welfare state (Castells and Himanen, 2002).¹⁹ Indeed, it is increasingly recognised that social cohesion and quality of life are themselves sources of competitive advantage (Turner, 2001).

This suggests that a crucial area for European policy is the reform of our higher education systems, but not in the naive sense of competition with the far better endowed elite US universities. It is also important to recognise that mass higher education generates a student labour force that can provide 'numerical flexibility' (variety of hours and contracts) without any of the social costs that often occur when such work is carried out by 'normal' adults.

Flexibility and internal cohesion

One strength of successful European enterprises has been that they have committed and learning workforces. Such workforces are **functionally flexible**: they are not only skilled, they are adaptable, able to learn new tasks and undertake new roles. Such functional flexibility normally requires mutual trust and mutual commitment between employer and employee. Indeed, many of the techniques of American-style Human Resource Management are designed to create forms of cohesion in the workplace that have already evolved in a more democratic manner in Europe. In a sense, the desperate American attempt to create social cohesion inside the workplace is the necessary correlate of the very lack of cohesion outside.

When commentators claim that the European labour market is 'inflexible', they are essentially referring not to this functional flexibility, but to **numerical flexibility**. At its simplest, this is the ability of enterprises the amount of labour that they purchase (by dismissing workers, by varying working hours, using part-time workers, agency temporaries, etc.). Yet in some cases, weakening job security (increasing 'numerical flexibility') runs the risk of undermining the existing trust and hence reducing functional flexibility.

Indeed, our review of EU-funded projects on work organisation²⁰ shows that in nearly all cases studied, numerical flexibility has been imposed on the workforces to the exclusive benefit of the employers. This suggests – and at this stage of the work the argument must be tentative – that the achievement of numerical flexibility is **increasingly** against the wishes of employees. Thus research on 'non-standard' forms of work in the early 1990s by the European Foundation showed that part-time work in particular was often mutually advantageous to both employers and employees

¹⁹ Castells and Himanem accept uncritically link between ICT and stock market capitalisation.

²⁰ The Accompanying Measure 'Infowork' focuses on a 'cluster' of six projects: Flexcot, NESY, NUEWO, Servemploi, SOWING, WHOLE (thematic network). Of these, all but NUEWO are completed. The Measure also involves a wider group of about ten further projects.

(Bielensky, 1994).²¹ By contrast, newer forms of numerical flexibility seem to be achieved by the one-sided exercise of market power – with the significant exception of the employment of students. All this suggests that the key labour market policy issue is not so much the achievement of numerical flexibility per se, but the achievement of considerably more functional flexibility and more mutually agreed numerical flexibility.

Socially sustainable work

Our review of projects on work organisation also raises the threat of what we term 'socially unsustainable work' (Webster, 2002). While employment policy focuses on increasing the extent to which people are in employment (the Lisbon targets), there is alarming evidence that people's work is **increasingly** undermining their ability to live satisfactory and rewarding lives.

One simple index here is that the rising levels of stress at work reported in the European Foundation's 'Quality of Work' surveys. For many people work is becoming more pressurised and more demanding; many people find that new demands in the workplace mobilise people's very personalities and private lives in ways which they find threatening. We have considerable evidence of work schedules which disrupt family life and make having and rearing children more and more difficult. And finally, working hours and working pressures make it more and more difficult for people to find the time and the energy for that social and political activity which maintains public life itself. Of course, such problems have always existed: the worrying issue is that they appear to be getting worse. Whereas work and non-work are potentially mutually sustaining and supporting, our review of the research suggests that changes in work organisation and above all in working time are having mainly negative consequences for people's lives outside of work.

Conclusion: *Die Primat der Aussenpolitik*²²

For the entire post-World War II period, the USA has been the undisputed dominant state of the free world. Immediately after World War II, the USA took the lead in rebuilding Western Europe. Here its primary objective, shared of course by most West Europeans, was defence against the perceived threat of Russian expansion. On a few occasions this did involve direct intervention in the internal affairs of European states,²³ but the key method was the rebuilding of the West European nation states. Paradoxically, this consolidation was continued by the development of the (then) European Economic Community (Milward, 1999). Of course, this new order allowed the penetration into Western Europe of US companies, it involved the creation of a world financial system which disproportionately benefited the USA. Of all the European states perhaps the one that benefited least was the UK, with its colonial

²¹ The research did however show significant variation in the extent to which this was the case, especially between countries. For one detailed analysis see Wickham (1997).

²² As Bismarck would have said, *the primacy of foreign policy*.

²³ Especially in sustaining the new Italian governments against the Italian Communist party (PCI); the US also ensured that Britain did not allow nationalisation of any heavy industry in the British occupied zone of Germany.

empire now opened to US influence and its overseas assets already liquidated to purchase US support against Hitler.

However, the role of the USA now is very different to its role in the Cold War. The problem is not just that the current administration of the USA pays little attention to those forms of global regulation that do not suit it (Kyoto etc.). The problem is that the 'global' market is increasingly structured in ways that consolidate US power, but which at the same time undermine the core institutions of the European state. This is particularly so in the case of GATS (General Agreement on Trade and Services) which potentially open all European forms of service provision (education, health etc.) to US companies. Such privatisation will inevitably lead to European middle classes 'exiting' from European social services and from core institutions of the European state itself. Talk of 'globalisation' is in this sense fundamentally dishonest, since it ignores the **new** asymmetries of power that such **Americanisation** brings:

Far from being just a collapsing of distance and widening of opportunities for all, the increasing mobility of information, finance, and goods and services frees the American government of constraints, while putting everyone else under tighter constraints. Globalization and the global supervisory organizations enable the United States to harness the rest of the world to its own rhythms and structure. (Wade, 2002).

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