

**Social investment in Europe:  
bold plans, slow progress and  
implications for Korea**

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**Peter Taylor-Gooby**  

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**University of Kent, UK**  
**([p.f.taylor-gooby@kent.ac.uk](mailto:p.f.taylor-gooby@kent.ac.uk))**



## Summary

- Recent social policy and labour markets debates in Europe, responding to the difficulties faced by the traditional neo-Keynesian welfare state settlement, stress the value of positive investment alongside de-regulation and greater flexibility as a way of achieving both economic and social goals.
- Patterns of policy reform are complex and reflect differing national circumstances. A general move towards deregulation, constraints on entitlement to passive benefits, programmes to enhance employment, particularly among high-risk groups such as single parents and young people, targeted subsidies for low earners and case-management may be identified.
- In relation to investment in education, research and development and combined training and benefit programmes to enhance mobility between jobs the picture is less clear. Education standards continue to rise, but research and development spending stagnates and few countries have developed substantial ‘flexi-curity’ programmes to support job mobility.
- The labour market tradition in much of Europe has been one of conflict between labour and employers. As labour grows weaker, new approaches develop. These tend to stress productivity agreements and greater flexibility in work practices within firms and reforms to passive social security systems more broadly, but movement to support the more challenging investment and flexi-curity policies is slow.
- In general, social and labour market policies in Europe stress deregulation and negative activation more strongly than social investment and ‘flexi-curity’. The countries with high growth and employment achieve that goal by different routes: Sweden has a closely integrated social democratic corporatism with high spending on benefits and training programmes and the UK a more liberal market-oriented system, with lower spending, highly targeted benefits and less mobility support.
- Europe has something to learn from Korea in achieving high investment in human capital and R and D, while Korea may have something to learn from Europe in social investment, particularly flexi-curity and equal opportunity policies.

## **Social investment in Europe: bold plans, slow progress and implications for Korea**

Welfare states distribute resources and opportunities. Market capitalism achieves high rates of economic growth but, if unmoderated, also generates inequalities that are unacceptable to citizens. This may lead to internal friction, industrial unrest and undermine work motivations. The objective of capitalist welfare states is to combine economic dynamism with social cohesion, prosperity with social justice. They have been largely successful in doing so in European countries for much of the post-war period.

Broadly speaking, welfare states in Western Europe have developed through three phases (Huber and Stephens, 2001; Pierson 2001; Scharpf and Schmidt, 2000; Swank, 2002):

- Confident and continuous expansion in the 1950s, 1960s and 1970s,
- A period of uncertainty and challenge during the late twentieth century, and
- More recently, movement towards a new welfare state settlement.

The second phase was characterised by a decline in the authority of governments over key elements in the economy, which made it more difficult to finance welfare state services, just as demand for such provision was rising. The key features of the third phase are a shift towards the view that the role of government is to promote national competitiveness in an increasingly international market, and away from a passive providing state to one which seeks to enhance self-activity, responsibility and mobilisation into paid work among citizens. Social policy is shifting from social provision to social investment.

These developments raise interesting issues about comparisons between European and East Asian welfare states. The latter are often described as distinctively ‘developmental’ or ‘productivist’ (Goodman and White 1998; Gough 2001; Holliday 2000; Kwon, 2005). Western welfare states themselves originated in productivist concerns in the nineteenth and early twentieth centuries, particularly about the efficient working of free labour

markets and about the quality of industrial labour and of recruits for the armed forces in struggles between imperialist powers (Briggs 1961; Rimlinger 1971). The emerging settlement re-emphasizes the contribution of the welfare state to economic goals. This time the stress is on social investment rather than Poor Law measures to regulate those whom the labour market cannot absorb.

This paper falls into four sections that: discuss the reform programmes and how they are understood and justified; trace the approaches currently pursued within a social investment logic in different national contexts; draw conclusions about the nature of the transition to a social investment strategy in Europe; and make tentative comments about the relevance of the approach in the Korean context. In the empirical discussion, we will focus discussion on developments in six countries: France, Germany, Poland, Spain, Sweden and the UK. These are chosen because they are large, and because they represent the various varieties of Western welfare regimes as identified in the literature (Abrahamson, 1999).

## **I. Towards a new welfare state settlement?**

A new welfare state settlement may now be emerging across much of Europe, at varying speeds and by different routes in different welfare state and policy-making contexts, and perhaps most clearly articulated at the EU level. The new settlement rejects the loose monetarist conclusion, that welfare states are at best irrelevant and at worst counter-productive. It seeks to maintain the traditional range of highly popular mass services, with continued pressures for cost-efficiency. This leads to new management systems (Rico, Saltman and Boerma 2003) and pressure on spending (Hinrichs 2000). The key feature is a strong emphasis on welfare as social investment rather than as simply a burden on productive sectors of the economy. This points the finger at labour market policies to improve flexibility and to enhance the quality, adaptability and availability of labour through welfare state spending (Clasen and Clegg, 2005).

The new approach is supported by arguments that stress both economic benefits and social outcomes.

## *The Economic Case for a Social Investment Strategy*

The experience of high levels of unemployment in the 1980s and 1990s in developed countries led to the EU's *Growth Competitiveness and Employment* White Paper (EU 1993b) and the OECD's *Jobs Strategy* in 1995 (see OECD 1996). The key themes of both documents were similar: the most successful economies in terms of employment and growth are those where employment regulation and the benefit system allow wages to follow market conditions and where the availability and level of relevant training is high. The EU document placed particular emphasis on unfavourable comparisons between the highly regulated labour markets of most European countries and the 'jobs machine' of the US, less regulated but apparently more effective in producing employment (see also Kok, 2004 15). Both EU and OECD stressed the contribution of a stable macro-economic environment where policy is directed primarily at price stability and the importance of creating and diffusing technical know-how (OECD, 1996, 14).

Price stability is the central goal of the European Central bank ( ECB, 2004a) and is seen to have social and political, as well as economic, benefits:

Price stability prevents the considerable and arbitrary redistribution of wealth and income that arises in both inflationary and deflationary environments. An environment of stable prices therefore helps to maintain social cohesion and stability. Several cases in the twentieth century have shown that high rates of inflation or deflation tend to create social and political instability (ECB 2004b, 42),

By 2000, the EU's Employment Strategy had evolved to place a greater emphasis on two areas alongside the existing stress on de-regulation, activation of the benefit system and enhanced research and development investment: education and training to improve human capital and 'flexi-curity' This refers to an enabling training and benefit environment, so that individuals are able to move quickly between jobs and are willing to do so, confident that support to enable entry into new employment is available. The Lisbon European council in 2000 set the goal that the EU should 'become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' within a decade.

The draft Employment Strategy guidelines for 2006 stress ‘the crucial importance of developing skills’, and also recommend (EU 2006a, 2):

- attracting and retaining more people in employment, ...based on lifecycle approaches to facilitate swift employment transitions throughout a career;
- the importance of further measures to improve the adaptability of workers and enterprises is frequently neglected. Greater attention should be given to establishing conditions of "flexi-curity" and better links between the tax and benefits systems, and to actively involve the social partners;
- although the crucial importance of developing the skills needed in knowledge-based economies is acknowledged, the need of stepping up investment ....;

Three streams of evidence support the move to flexi-curity: first, high levels of employment regulation, for example, in France, Germany and Spain, are not necessarily linked with low levels of unemployment or high levels of employment (Tables 2, 3 and 5). Sweden, where regulation is combined with support to access new jobs, is an exception. The UK combines relatively low levels of unemployment and of employment protection. An OECD survey of workers’ experience also shows that workers feel less secure in their employment in countries with a high degree of regulation (2004, 4). OECD conclude ‘investment in human capital is the key to improving employment prospects and job security over the longer term’ (OECD 2004, 5). The argument has shifted from a simple emphasis on de-regulation as the route to labour market flexibility to a recognition that it is the interaction between employment opportunities, social security for those out of employment, human capital and social investment policies that enable individuals to avoid long periods without work in a flexible economy.

Secondly, there is strong evidence that the rate of mobility between jobs correlates highly and positively with the employment rate. In high employment countries, such as Denmark, the UK and the Netherlands, workers are roughly twice as likely to move

between jobs in any given year as in low employment France, Italy and Belgium (EU, 2004; Schmid, 2005, 17).

Thirdly, much interest has been displayed in the experience of the Netherlands and Denmark in the later 1990s and early 2000s, when relaxation of employment security combined with activation and training, integrated with benefits, produced positive outcomes (Visser and Hemerijck, 1999; Esping-Andersen 2002 ch.1; OECD 2004b, 64; European Commission, 2003). Both score relatively low on the OECD employment protection index (1.4 for Denmark, 2.1 for the Netherlands) but have unemployment rates of 4.4 and 4.5 per cent for men – the lowest in the EU 25. While labour market flexibility remains at the core of policy, there is a now considerable stress on the integration of social benefits and training programmes to enhance high value-added employment, rather than simple reliance on greater freedom for market forces.

### ***The Social Case for a Social Investment Strategy***

The social case stresses that poverty is concentrated among those without paid work, and that access to employment is linked to education level, age and gender. Poverty rates are highest in most countries among the groups outside the labour market, first older people and then younger people. However, the share of poverty is largest among younger age groups. This results from the improvements in old age pensions achieved by the pressures from this group within the framework of the traditional welfare state settlement, and the difficulties in gaining access to paid work among labour market entrants.

Table 1 closes the link between poverty and employment for households with children. Poverty rates vary between countries, being highest in the liberal and Mediterranean countries and lowest in social democratic Sweden. Everywhere they are dramatically higher in households with no workers. The presence of more than one worker has a positive impact (Förster and Mira D'Ecole, 2005, 27). This reinforces the economic case for mobilisation into paid work discussed above. The higher poverty rates among single-parent mainly female-headed households brings home the relevance of child-care to ensure access to employment. These household are at the intersection of gender disadvantage in the labour market, the age and skill dimensions of access to paid work and the conflict between responsibilities for care and provision (OECD, 2002, 105).



Unemployment rates, both immediate and long-term, vary substantially, being lowest in social democratic Sweden and liberal UK, and rather higher in core corporatist and especially the post-communist countries (Table 2). Everywhere education level is strongly correlated with risk of unemployment, those with university education being between two and three times more likely to be in paid work. Young people, particularly the low-skilled are much more likely to be unemployed. In most countries unemployment is somewhat higher among women, the exceptions being the Sweden and the UK, where the gender gap is smallest.

Turning to employment rates, Table 3 indicates sharply lower employment rates among younger and older people and general rates lowest in Mediterranean countries, moderate in corporatist and post-communist and highest in both Sweden and the UK. Women are much more likely to work part-time than men, especially in Germany, the UK and Sweden, less so in Mediterranean countries and Poland. The very different social models of Sweden and the UK both perform relatively well in relation to employment, while the legacy of mobilisation of women into work in Poland remains influential. It should be noted that much of women's employment in the most successful countries is on a part-time basis, again indicating that improved child-care could release more women into the work-force.

The social case for the social investment strategy is reinforced by evidence that such investments produces substantial returns during the life-course. An important study by Esping-Andersen and others (2002) argues for investment in childhood on two grounds. First, investment at an early stage is linked to success in employment in later life, an argument widely used by advocates of early schooling and child-care interventions (for example, Danziger and Waldfogel, 2000). Secondly, such investment is likely to improve parenting when the children themselves become adults and produce benign results for succeeding generations. The outcome is again emphasis on developing child-care, particularly targeted at vulnerable groups and designed to improve opportunities for mothers to work. Esping-Andersen links the arguments to produce a social case for investment in women's employment opportunities and in children: 'a social inclusion strategy for Europe depends ..on a combined work and income support policy ..the mobilisation of the less-educated female reservoir is quite urgent...the obviously most

effective preventive strategy is to invest heavily in the resources of our children today' (2002, 50).

The economic arguments that are currently gaining most attention at OECD and EU level argue for more spending on research and development and a combination of training and education policies, together with a reduction in regulation and a redesign of social security to facilitate labour market mobility, but do not simply advocate a rolling back of welfare provision to enhance market freedoms. The social arguments stress the value of employment in reducing poverty and in improving life chances.

From the viewpoint of policy-makers who wish to increase the proportion of the population in paid work as a means of both enhancing national economic competitiveness and reducing poverty, the groups to target are younger and older people, those with low education and training standards, and younger women working on a part-time basis or out of employment, particularly those doing so because they have care responsibilities. Investment in research and development and in human capital is designed to improve the value added in employment and has become more prominent in policy debate, alongside continuing emphasis on de-regulation and a shift from passive to active policies.

We move on to consider how policies in these areas have developed in various European contexts.

## **II. The Strategy in Practice**

The overall aim of low inflation has been secured by the ECB through policies that include enforcing strict limits on government debt and budget deficits *contra* neo-Keynesian approaches to intervention. These limits have been breached by most major EU countries on various occasions, but in general deficits have fallen and price stability improved. In relation to the specific strategies, research and development spending and improvement of human capital has been in most cases unimpressive, and varied greatly between countries; labour market regulation has generally been moderated, and there has been an emphasis on more active labour market policies. However, the most prominent theme has been activation through benefit redesign rather than positive support for mobility between jobs. The new policies have in most countries targeted the specific

groups highlighted above, most significantly the low-skilled, young people and women with some attention to older workers.

### ***The Knowledge Base: R and D and Training***

The target of a 'dynamic, knowledge-based economy' directs attention to education and research. EU countries have made considerable progress in improving education standards, particularly in Sweden and the UK. The proportion of the population with at least upper secondary education has increased from 56 to 66 percent between 1995 and 2005. For those aged 20 to 24, the proportion is from 69 to 75 per cent, with rates above 90 per cent in the new post-communist EU members. Higher education enrolments have increased by some 35 per cent since 1992 with the biggest increases in the new members and the UK. Production of science and technology graduates, especially in the Nordic countries, the UK and France, has improved sharply, from 10.2 per cent of all graduates in 1998 to 13.1 by 2003, considerably ahead of the US and on a par with Japan.

Access to lifelong learning has roughly doubled during the past decade. By 2005, 12 per cent of the workforce have experienced some education or training in the month before interview, with big variations between countries. In the UK and the Nordic countries, the level approaches 30 per cent, while in the main corporatist conservative countries it is less than 10 per cent.

However, when it comes to the measures most closely related to economic goals (applied research and knowledge-based employment) progress seems more limited (Table 4). Movement towards the EU target of increasing investment in research and development to 3 per cent of GDP is slow, with an EU-15 average of 1.95 per cent in 2004, against 3.15 in Japan and 2.59 in the US and an annual growth rate of 1.4 per cent against 2.2 and 0.79. Both European and US investment has stagnated since 2000 (Archibugi and Coco, 2004, Table 3). Sweden has the highest applied research investment, followed by the corporatist countries. In the Mediterranean and post-communist world investment is low, and in the UK it is moderate and declined somewhat during the period.

Employment in knowledge-intensive manufacturing is rising, but in services has actually fallen in the EU-15 from 6.3 to 5.8 per cent of the work force between 1995 and 2004.

The decline appears to be continuous, indicating that it is not simply the result of the collapse of the dot-com ‘bubble’ in the late 1990s. Again employment is highest in Sweden and the corporatist countries, relatively high in manufacturing in the UK, but here there is a sharp decline in the proportion of knowledge-intensive service employment.

### ***Activation: Mobilising the Work-Force***

These arguments have led to policy developments which proceed through different stages and at varying speeds in different European countries, but in the same general direction: encouraging and supporting a greater proportion of the population into paid work as a route to both economic and social objectives. The details of activation policies are discussed elsewhere (Taylor-Gooby, 2004, 2005, Lodomel and Trickey, 2000; Armingeon and Bonoli 2006, Barbier and Ludwig-Mayerhofer, 2004). Here we point to some of the main features. These include: de-regulation; policies to make work more attractive for those on low wages; cutbacks in passive benefit schemes that don’t require recipients to pursue jobs, such as early retirement or job-creation; greater use of regulated social assistance and case management; specific programmes for high-risk groups (young low-skilled people, single-parents); and more child-care, particularly for those on low incomes.

### ***More flexible labour markets***

Table 5 shows scores on the OECD’s Employment Protection index which combines evidence on rights in relation to regulation of procedures, direct costs of dismissal and trial and notice periods for temporary and more established workers using a complex weighting procedure derived from factor analysis (see Niccoletti et al, 2000, 40-45 for details). In general, scores in countries which previously had very high standards of protection have fallen, while lower scores have increased slightly. A further relevant factor is the expansion of short-term working so that many workers in countries with high standards of employment protection, are covered by more permissive legislation. In Spain this now applies to over one-third of the workforce. The increase in strictness in France is likely to refer to the legislation limiting the standard working week to 35 hours, introduced ostensibly to reduce pressures on employment in the later 1990s, but now substantially weakened. The improvement from a low base in the UK is the result of new measures to conform with EU minimum standards.

### ***Encouraging the lower-paid into work***

Various measures encourage individuals to take low-paid jobs. The UK fell in line with other EU members by introducing a minimum wage in 1999. In a number of countries benefits that effectively subsidise low earnings for selected groups have been introduced or strengthened. These include the Tax Credit system in the UK in 1999 and the *NPI* negative income tax in 2001 in France. Other measures to enhance flexibility include relaxation of labour market regulation, with the exemption of the so-called ‘630 DM’ part-time low-waged jobs from a range of social security restrictions in Germany from 1998 and the proposals to relax job protection regulation for young people in France in 2005-6, which provoked rioting.

### ***Passive to active***

A key distinction is between spending on passive schemes, designed simply to provide incomes for members of the workforce who are out of employment, and active programmes, which provide incentives and support to encourage people to move into paid work. Table 6 shows the balance of spending in this field in some of the main countries. It is Germany and Sweden, both large spenders on unemployment, that have the highest overall spending on active measures. Germany has relatively high unemployment as a result of the problems in integrating the Eastern Länder. In Sweden, unemployment is relatively low, but the country has a well-established national tradition of labour-market activation. The UK and Italy have noticeably low levels of spending. When the balance between the two approaches is examined, it is Italy (with particularly weak passive benefits), and Sweden (where the system is markedly generous) who have the greatest proportional spending on activation.

Spending on early retirement in the main corporatist economies fell during the 1990s. France, Germany and Italy had initially used this method as a way of protecting the heavily-unionised core workforce from the pressure of rising unemployment. The decline is an indication of the weakening of trade union authority. Between 1991 and 2003, early retirement spending fell from 0.3 to 0.04 per cent of GDP in Germany, 0.47 to 0.10 in France and 0.42 to 0.28 in Italy (OECD, 1997, 2005). In general, policy has tended to

shift away from the maintenance of unemployed people through passive programmes that simply provide benefits to more active programmes that promote work incentives.

The introduction of a 35-hour week in 1998 in France is an interesting case. While seen by some as cutting against the trend to de-regulation, this measure in fact encouraged more flexibility, because employers and unions were forced to negotiate the organisation of work on a local basis. The approach can be seen as facilitating the kind of social pacts on productivity, work sharing, flexibility and wage moderation that emerged in other European countries (Pochet 2001; Rhodes, 2001). Since 2004, the legislation has been diluted.

### ***Social assistance and case management***

The erosion of established rights to passive social benefits is reflected in the amalgamation of the various insurance programmes and the much greater role played by assistance – *RMI* from 1989 and *RMA* from 2001 in France, *Rentas Minimas* from 1995 in Spain and *Sozialhilfe* and associated benefits in Germany. These schemes have gradually acquired more and more stringent conditions, so that claimers must actively seek work and lose the opportunity to refuse job offers. In addition, benefits are time-limited and sometimes ‘digressive’, reducing in value over time to sharpen incentives (as in the French social insurance reforms). Case management systems are being introduced in the *PARE* programme in France and the Hartz IV reforms currently being contested in Germany. These link claimers to a case officer who assesses their circumstances and establishes a programme of training and advice to facilitate a return to work. In the most developed systems (for example, the UK), the officer monitors closely the extent to which the jobless individual is active in seeking and preparing for employment.

Assistance and insurance benefit systems are now more closely linked. This is achieved by administrative reforms to the bureaucratic framework in both France and Germany as part of *PARE* and *ALG II* reforms. Claimers are required to demonstrate that they are actively seeking employment as a condition of benefit. The right to limit the job-search to the field, the geographic area or the level of pay at which the claimer worked before is weakened. This erodes the independent entitlement to passive insurance benefits that was seen as reducing the incentive to pursue training or new opportunities in employment.

Developments in the more liberal UK, which always provided less generous benefits, take these directions a stage further. Insurance benefits were abolished in 1996 and the new Jobs Seekers' Allowance permitted much greater regulation of unemployed people. Case management has been developed first for specific groups and then rolled out across all claimers from 2002.

### ***High-risk groups***

In most countries specific programmes have been developed for the high-risk groups. In France, policy for young unemployed people moved from early retirement, through job creation from 1997 onwards, mainly in the public sector, and training, to the development of a variant of the *RMI* assistance benefit termed *RMA*. This had specific activation measures attached and was introduced in the early 2000s. In the UK the New Deal 'train-fare' programme was established in 1997 as the only route to benefits for under 25s who had been unemployed for six months or more. New Deals with a substantial element of case management have since been introduced for single-parents, long-term unemployed, early retired and disabled people.

Activation programmes have also targeted mothers and single-parents, through specific case management measures link those outlined above, typically linked to access to child-care, and also through more general reforms designed to improve the availability of child-care and pre-school places and extend the rights of parents through measures directed at work-life balance. Table 7 shows how spending on children and families (which includes child-care but also child endowment benefits) has increased in lower spending countries as a proportion of total spending, but fallen slightly in the higher spending countries (apart from Germany), leading to convergence.

The EU set a policy target at Barcelona in 2002 that child-care should be available to at least 33 per cent of children under 3 and that 90 per cent of children aged 3 and above should be in schooling. In Spain 240,000 new child-care places were established in 2004, and pre-schooling is available for all 3 to 6 year olds, Germany plans to increase child-care places by 20 per cent by 2010, and has made part-time schooling available for all 3 to 6 year olds and the UK made 1.25 million new places available between 2001 and 2006 and reduced the school entry age to 4. New benefits to enable low-income parents to pay

for child-care have been developed, in France and Spain as a means-tested benefit, in Sweden by increasing the rate of the existing benefit by 60 per cent in 2003, in Germany by raising the threshold for allowable tax deductions, and in the UK as part of the Tax Credit system for low-paid workers from 2001 onwards.

In addition, following EU directives on Working Time in 1993, Parental Leave in 1996 and Part-Time Working in 1997, European countries have enacted a number of measures which extend the rights of parents in ways which help them to manage their work-life balance. These include extensions to maternity and paternity leave and new rights for parents to request leave to deal with family emergencies or more flexible working hours, for example in Germany, Spain and the UK.

### ***Partial progress towards a Social Investment Strategy?***

In general, the new policy directions follow some but not all of the elements of the EU strategy: a stable economic environment, cut-backs in regulation and in passive benefits, and new programmes to help high-risk groups have been established. However, in most cases, improvements to the knowledge base are weak and the benefit systems to support workers between jobs and encourage mobility have not been developed. It was this that led the Kok report in its evaluation of the Lisbon strategy to conclude: ‘the European Union and its Members States have clearly themselves contributed to slow progress by failing to act on much of the Lisbon strategy with sufficient urgency. .. a key issue has been the lack of determined political action’ (2004 6). In relation to poverty and social exclusion the 2006 joint report indicates disappointment with progress under the Open Method of Co-ordination, by identifying ‘clear evidence of .... an implementation gap between what Member States commit to in common objectives and the policy effort to implement them’ (EU 2006b 3.1).

The parts of the emerging settlement that are most effectively pursued appear to deal with de-regulation and the shift from passive benefits towards systems that give stronger incentives for entry into paid work (together with targeted provision for vulnerable groups). These are the policies that were actively promoted by organisations like OECD in the mid-1990s. In most countries the investment in knowledge and specific assistance



programmes to enhance mobility between jobs that are highlighted in policy debates about the new approach do not seem to be play such a prominent role.

### **III. The Impact of New Policy Directions**

The social investment welfare settlement stipulates ends (growth and cohesion) and means (deregulation, benefit reforms and social investment leading to higher employment). This section assesses progress towards these goals, and examines how the reform process varies between countries.

#### ***The Ends: Growth and Cohesion***

Table 8 shows growth and productivity rates for each employed person. These cover the period from 1996 to 2005 when growth was sluggish, and the anticipated increase up to 2007. Where the starting point is lower (Poland and Spain) growth is more rapid, despite relatively low productivity. Among the other countries both Sweden and the UK (with very different economies, and relatively high and low investment in the knowledge-base) appear to achieve high growth rates, despite the dip in 2005. However it is France with relatively limited success at employment and unspectacular growth, which achieves the highest productivity, followed by Sweden and the UK. In most countries (apart from Germany which has not yet recovered from the stresses of reunification), productivity is rising.

Social cohesion is best measured in terms of poverty and inequality (Table 9). Both poverty for all the groups reviewed and social inequality are lowest in Sweden. For the corporatist countries poverty is moderate, and lower among older people, but rather higher among younger groups. Poverty is relatively high in the Mediterranean and post-communist countries and in the UK, which is also markedly and increasingly unequal. Considerable progress has been in made in recent years for the target groups, women, older and younger people and single parents.

On the above evidence, it appears that Sweden is the most successful European welfare state in combining the twin goals of the social investment strategy: growth and social cohesion. The UK achieves reasonable growth rates but fails to match Nordic success in reducing poverty or in social equality. The more corporatist countries are less successful in growth but contain the level of poverty, especially among older people. Mediterranean

countries have high growth from a lower starting point, but high and increasing poverty. Post-communist Poland displays a similar picture, although poverty is low among older people. Sweden has moved furthest in the Lisbon direction, but its commitment to social investment much predates the Lisbon agenda and cannot be attributed to EU policy directions but results from internal political processes.

### ***Pathways to the New Settlement***

There are clearly major differences between the different European countries in implementation of the social investment paradigm. These can best be understood in terms of the paths pursued within the various regimes and polities. We now review the means to the goal of growth and cohesion specified in the paradigm: high employment achieved through deregulation, improvement of human capital and activation of the benefit system.

Employment has certainly risen in European countries between the mid 1990s and the current time – from 50 to 57 per cent of the population aged 15-64 for women and 71 to 73 percent for men (1995-2004, OECD, 1997, 2005, Table B) Women are much more likely to work part-time, 31 per cent against 7 per cent for men. The highest levels of employment for men are in the UK, Sweden and Spain followed by Germany (78, 74, 74 and 71 per cent). For women, they are in Sweden and the UK (71 and 66 per cent). Interestingly, Sweden is most successful at integrating the a key target group of social investment policy, older people, into paid work, while the UK is rather more successful for those aged 15-24. For the former group, 70 per cent of women aged 55 to 64 and 71 per cent of men are in paid work, against an EU-15 average of 33 and 52 per cent in Sweden. For the latter, corresponding figures are 54 per cent for women and 57 per cent for men in the UK. The corporatist countries follow for both groups.

Employment levels, of course, are influenced by a number of factors including stage in the economic cycle, the impact of external competition and the sectoral and skill-mix of the economy as well as labour market policy (Bassanini and Duval, 2006, ch 1). However it does seem reasonable to conclude that the new approaches are at least not obstructing the growth of employment and may well be promoting it. The fact that employment has risen much faster for women than for men suggests that both social changes and the child-care and equal opportunity policies directed at this group are having an effect.

As Table 5 showed, employment protection measures have been relaxed almost everywhere but remain higher in the corporatist countries with their strong traditions of bilateral involvement of unions and employers in labour market policy. The UK in particular and then post-communist Poland stand out as having lower levels of regulation. The corporatist countries, especially Germany, perform well, and Sweden exceptionally well in investment in research and employment in higher value added knowledge-intensive industry. Sweden also maintains an impressive performance in education, along with Britain and, in science, France.

Patterns of benefit reform are complex and vary in the different welfare state regimes (Barbier, 2004). In corporatist France and Germany, and in Mediterranean countries, entrenched groups in the core work force, particularly older workers, benefited from social insurance pensions and other benefits, leading to lower poverty among older people, but penalties in employment opportunities for younger groups. The lack of representation of the new needs of those outside the core workforce and many women in corporatist bargaining has led to substantial gaps in access to work. However, corporatist bargaining facilitates high levels of investment and high productivity in the core areas (Hall and Soskice 2001) .

In post-communist Poland the opportunities made available by the move to a capitalist economy facilitated high growth but produced gender inequalities, growing poverty and problems with employment for the less established groups. Sweden and the UK represent contrasting outcomes. Both achieve high levels of employment, and Sweden is an acknowledged success in activation and in the integration of women and younger and older workers, followed by the UK. In both countries there has also been progress towards social goals but poverty in the UK remains very high by European standards – some 18 per cent of the population by the 60 per cent of media income measure by 2004 against 11 per cent in Sweden, among the highest and the lowest in Europe (Förster and d'Ercole 2005). However, the routes by which these outcomes are achieved vary. In Sweden, the means employed are high spending on benefits and on activation, as well as on child-care and other support services. The UK relies much more on deregulation and highly targeted benefits, with means-tested or tax credit child-care support.

The main forces pushing for change have been at the level of government, concerned to maintain competitiveness, and of business, particularly in the sectors of the economy most exposed to international market pressures. National governments are most responsive to pressures for change where it is possible to build substantial coalitions of voters among groups who do not benefit from current arrangements. The main source of resistance has been labour and trade union movements, most influential in corporatist countries and, in some sectors, in Mediterranean countries. This configuration led a number of commentators in the mid-1990s, most importantly Esping-Andersen (1996, ch. 1), to identify a 'frozen welfare landscape' across much of Europe.

In the countries where they were most influential, the power of unions has declined. This trend is highlighted by the failure of German and French unions to sustain the early retirement spending advantageous to their members in the core workforce and the failure of the Trades Union Congress to influence policy on the shift to more targeted workfare-oriented benefits in the UK. Union leaders interviewed in the *WRAMSOC* project reported frustration at this failure (Taylor-Gooby 2005, ch. 2). In addition, divisions within union movements between 'modernisers', who argue that globalisation required a new strategy of enhancing the quality of the workforce to achieve higher value-added production, and 'traditionalists', who defend existing jobs and work-practices, have facilitated the construction of reforming alliances.

In the UK, some unions joined with New Labour and promoted the New Deal social security reforms and in particular the training elements. In France the loose alliance between MEDEF, the progressive business grouping and the CFDT centre-left trade union grouping in the *Refondation Sociale* (MEDEF 2001) enabled the restructuring of much of social insurance and the new measures. In Germany, the Social Democrat government failed to achieve such an alliance on the *Neue Mitte* (Busch 1999) and the current centre-right government is seeking to do so. In Sweden, the long standing links between social democrats and unions have resulted in a well-established activation system. Sweden is unusual in the way that the governmental system achieves a high degree of consensus in flexible links between politicians, unions and business, but without allowing particular political actors the opportunity to obstruct progress in defence of their own entrenched interests.

In short, the general direction in Europe has been for a decline in the influence of labour in relation to employers' interests. One outcome has been that it is the negative activation rather than the positive social investment in research and development and in supporting labour mobility that has tended to predominate in policy. However a second outcome is in the development of social pacts to enhance productivity and introduce greater flexibility at the level of the firm or of the sub-region. Rhodes argues that such pacts have developed as what might be termed a 'competitive corporatism' across Europe since the 1980s, gaining impetus in recent years, as part of the process of adaptation to more a more globalised and competitive international context (1998, 2001). What does not appear to be strongly supported is a more emphatic approach to research and development and to flexi-curity. The difficulties in establishing such policies may be associated with the fact that the development of a more dynamic knowledge-based economy or of greater job mobility imply a substantial restructuring of the labour market. The benefits do not immediately flow to those currently employed in specific firms and in many cases to employers who may wish to retain existing staff within the current pattern of investment. Agreement between stake-holders is more difficult to achieve.

Overall this review of recent developments in social and labour market policies in Europe has shown that a new discourse that stresses investment as a way of achieving both social and economic goals is emerging. There is a move towards greater labour market flexibility and improvements in education standards across Europe. Benefit systems are becoming more concerned with activation. However in most cases the emphasis in policy is on negative rather than positive activation. At Research and development investment and measures to support training and job mobility are limited. New patterns of industrial relations favour local agreements and social pacts within the existing framework easier to manage than policies designed to promote more rapid restructuring. It is striking that the European countries which achieve relatively high employment do so with very different social welfare systems, and their approaches appear to owe more to national traditions than to recent policy debates at the European level. The expansion of a social investment strategy across Europe is a slow process. In national settings where governments are more effective in giving strong leadership to both sides of industry and where there is greater awareness of the problems of succeeding in a highly competitive international environment at all levels it may be easier to reap the benefits of this approach.

## **IV Relevance to Korea: Tentative Comments**

East Asian welfare states are developing rapidly. Economic growth is high and prospects for continued growth, despite exceptional events like the financial crisis originating in Thailand that affected Indonesia, Thailand and Korea most strongly in 1997-8, are good. Welfare spending is highly popular. These countries typically have a strong productivist tradition, an orientation in social spending that emphasizes those areas most likely to benefit future economic development (urban housing, public health, education). There are strong traditions of family support and high personal savings rates, so that family is an important resource for individual welfare investment (Gough 2004; Mason et al, 2006).

Like European countries, East Asian countries face pressures from economic and fiscal globalisation, the transfer of lower-skilled jobs elsewhere and population ageing. Demands for better support services to enable women to manage work-life balance and pursue careers are currently (in most countries) weaker than in the West, but growing; public expectations for better services, particularly in those countries that have moved to contested elections more recently are, if anything, stronger. While European countries have moved closer to an East Asian tradition in the consciously productivist orientation of their approaches to social spending, there are pressures in East Asia to expand social spending in the directions previously developed in Europe. At the same time there may be important lessons in East Asian experience for current developments in Western welfare states. In the discussion below we focus on Korea and Japan as substantial and developed economies,

Table 11 gives some information on welfare systems. Social spending in Japan is currently lower than most European countries but approaching the UK; in Korea spending is lower but rapidly expanding in the second, and expected to reach European levels by 2030. Employment is high for men in both East Asian countries, and somewhat lower for women. Part-time work among women is low in Korea, but close to the UK level in Japan. There is at present little unemployment. Family support plays an important role in providing child care with little state involvement. Both East Asian societies emerge as moderately high employment societies, but with the potential to draw on further involvement of women in paid work through investment in child-care (Cho, 2006).

Table 15 discusses economic growth and of the contribution of the knowledge base to it. Japan experienced low growth for much of the past decade, but the situation has recently improved. Korea has higher growth from a lower starting point. Both countries have high standards of scientific education, high participation in higher education, high research and development spending (approaching that of Sweden) with high private sector involvement, and are far more successful in the export of high and medium technology goods than the European nations.

This brief review indicates that Korea is at least as successful as the leading European countries in establishing the dynamic knowledge-based economy to which the EU aspires. The welfare systems is less developed but are changing rapidly. Policies appear highly successful in meeting at least one of the two ends (out of growth and social cohesion) stipulated in European policy making, and in pursuing at least one of the means (out of deregulation, benefit reforms and investment in human capital and research, leading to higher employment) specified. Social welfare provision has played an important role in promoting social cohesion in Europe. Cultural factors and established social traditions have provided an important basis for cohesion in East Asia, but are likely to be eroded by increased social mobility and by the new opportunities available. This suggests that European countries have much to learn from East Asia in the importance of investment in education and in research and development, while European experience in social spending to promote social cohesion and bring new groups into paid work may be of relevance to the East.

Korea has recently embarked on an ambitious social investment strategy. This includes major programmes of social investment in human capital, health, social protection and to support future growth. In human capital, Korea already maintains relatively high international standards. Health care requires a continuing programme of investment. Pension spending is rising, but the stability of the scheme is likely to be threatened by population ageing so that a public assistance safety-net is likely to be important. Poverty among those of working age may not be effectively tackled through measures to promote training. Investment for growth in the health area is also positive. Current policies anticipate financing the programme in the medium term through growth without the need for major tax increases. However, these may become necessary. It will be essential to retain strong popular support for the reforms.

This raises the issue of the impact of growth on equality. Korea is often seen as successful in achieving equitable growth (World Bank 2004) in the sense of relative dispersion of wages for formally employed workers, for the period from the 1970s to the late 1990s. However a considerable proportion of the work-force remains in precarious non-standard jobs and a high proportion of unemployed people and pensioners are not covered by social benefit systems (Adema, 2000). Income inequalities remain high, the ratio of the top 10 to the bottom 10 per cent moving from 4.86 in 1980 to 3.89 per cent by 2000, above all the countries mentioned in this paper except Spain (EIJS 2007). There is concern about rapidly growing inequalities in recent years, sometimes referred to as 'bipolarisation'. Wage inequalities had returned close to the 1980 level by 2004. It is often pointed out that social spending is relatively low and directed in ways that have little impact on poverty among either among older people or people of working age.

Social investment as a strategy is typically directed at potentially productive groups. As society grows richer and more mobile the needs of less productive groups become more pressing. They are less easy to manage through family dependency. In addition, the demands of pensioners and disabled people may influence the popularity of government policies. In this context the question of whether pension policies will be adequate to meet the needs of retired people at the level expected as the population ages becomes pressing.

The problems of addressing inequality suggest that a social investment strategy needs to be set in a policy context where there are benefits to address poverty among those of working age and also among old and disabled people. The most efficient way to provide these is through means-testing.

### ***Two suggestions to strengthen social investment***

Very substantial changes are required to tackle the risk of growing inequality in future years. In addition to the current social investment strategies in Korea, a further development in some European countries that may be relevant is the growth of interest in flexi-curity: measures to encourage rapid mobility between jobs which involve extensive training and good benefits. These approaches are intended to support a dynamic labour market with a good level of welfare.



The second area concerns action to ensure more equal opportunities for men and women and expanding support for mothers in employment. European countries have pursued legislation to establish equal opportunities and parent-friendly workplace practices and invested substantial amounts in child-care in recent years, both publicly and through subsidised private spending. The proportion of women in paid work has increased and vulnerability to poverty in one earner and in single parent families has fallen. Investment in mobilising women into paid work would address five issues:

- Population ageing threatens the balance of workers to dependents and an increase in the proportion of women committed to full-time work would help alleviate this;
- The sharp decline in fertility rates is a major issue. Making paid work less stressful for mothers would support higher birth-rates;
- Korean growth has been supported by investment in human capital, and it is desirable to continue to use all available human capital;
- More dual-earner households would reduce poverty from low wages; and
- Political pressures for equality are likely to increase from women who form a large proportion of the electorate. Moves to increase social investment in this direction may help secure the popularity of the reforms.

Flexi-curity and more equal opportunities for women and mothers involve substantial resources but not at the level required to reduce poverty through spending on benefits. For this reason they may be particularly appropriate in the Korean context.

**Chart 1 The Development of the European Welfare State**

|                                    | <b>Settlement I: 1950s-1970s<br/>Traditional welfare state</b>                             | <b>Challenges</b>  | <b>Emerging Settlement II<br/>Social Investment</b>                      |
|------------------------------------|--|--|--|
| <b>Context</b>                     |  |  |  |
| <i>Economy</i>                     | Stable continuing growth   | Fiscal globalisation limits role of national government<br>'Competitiveness imperative'<br>Post-industrialism reduces growth | Growth through competitiveness;<br>High-value added work                 |
| <i>Labour market</i>               | High employment  | Technical change + international competition threaten job security;<br>Shift to service sector                               | 'Flexi-curity';<br>Appropriately skilled flexible work-force             |
| <i>Social</i>                      | Stable nuclear family,<br>gender division of labour  | More flexible families;<br>More women employed   | Equal opportunities;   |
| <i>Population</i>                  | Stable balance between work-force and dependents   | Ageing threatens sustainability of pensions;<br>health and social care   | Adjustment of dependency ratio   |
| <i>Political forces</i>            | Class-based: organised mass working and middle class interests in welfare state settlement | Fragmentation:<br>- access to paid work<br>- social care<br>- privatised services<br>- migration                             | Multiple interests; a larger role for business in relation to government |
| <i>Role of state</i>               | Governments can control exchange, interest and unemployment rates                          | Loss of levers of control  | Governments enhance and promote competitiveness                          |
| <b>Dominant theoretical models</b> |  |  |  |
| <i>Political economy</i>           | Neo-Keynesian demand management  | Monetarism emphasis on containing money-supply; limited interventionism  | 'Dynamic, knowledge-based economy'; 'Third way'                          |
| <i>Administration</i>              | Bureaucratic<br>Professional   | 'Budget-maximising bureaucrat'<br>'Principal/agent problem'  | Decentralisation<br>Performance management<br>Internal markets           |
| <i>Citizenship</i>                 | Passive, engaged during elections<br>Trusting of authorities                               | Self-regarding;<br>critical  | Active, responsible, individualist                                       |
| <b>The Settlement</b>              |  |  |  |
| <i>Welfare state</i>               | Traditional welfare state:<br>Contributes to national production:                          | Damages economic goals:<br>- unjustified costs   | 'Welfare ends by market means':<br>Contributes to national goals by:     |

|               |  |   |  |
|---------------|--|---|--|
|               | <ul style="list-style-type: none"> <li>- smoothes economic cycle</li> <li>- enhances workforce</li> <li>- promotes support for government</li> </ul> | <ul style="list-style-type: none"> <li>- supports labour-market and allocative inefficiencies</li> <li>- promotes distributional struggles + not productive effort</li> </ul> | <ul style="list-style-type: none"> <li>- work force training and mobilisation</li> <li>- efficient provision of necessary services</li> <li>- promoting social cohesion</li> </ul> |
| <i>Issues</i> | Goal deflection from production to distribution  | Counter-productive welfare state  | Inclusion of vulnerable groups<br>Individualism and social capital   |

**Table 1 Poverty: Families with children (2000)**

|         | Single parent |         | All families |
|---------|---------------|---------|--------------|
|         | Not working   | Working |              |
| Sweden  | 44            | 6       | 4            |
| France  | 62            | 10      | 7            |
| Germany | 50            | 15      | 9            |
| Italy   | 77            | 13      | 14           |
| Poland  | 69            | 12      | 11           |
| UK      | 62            | 20      | 12           |
| OECD-24 | 58            | 20      | 10           |

Note: poverty thresholds are defined at 50% of median income for the entire population.

Source: Förster and Mira D'Ecole, 2005, Figure 18.

**Table 2 Unemployment**

|         | Rates 2005 |      | By highest education level 2005 |                                 |                          | 12<br>Mont<br>hs + | Young<br>people<br>25- |
|---------|------------|------|---------------------------------|---------------------------------|--------------------------|--------------------|------------------------|
|         | Women      | Men  | Lower<br>secondary<br>ISCED 0-2 | Upper<br>secondary<br>ISCED 3-4 | Tertiary<br>ISCED<br>5-6 |                    |                        |
| EU 25   | 9.8        | 7.9  | 11.4                            | 8.1                             | 4.6                      | 4.1                | 18.5                   |
| EU 15   | 8.9        | 7.0  | 10.3                            | 7.0                             | 4.7                      | 3.4                | 16.7                   |
| Germany | 10.3       | 8.9  | 20.1                            | 11.2                            | 5.6                      | 5.4                | 15.0                   |
| Spain   | 12.2       | 7.0  | 9.8                             | 7.4                             | 6.0                      | 3.5                | 19.7                   |
| France  | 10.5       | 8.7  | 11.0                            | 6.5                             | 5.1                      | 3.9                | 22.3                   |
| Italy   | 10.1       | 6.2  | 7.6                             | 5.2                             | 5.8                      | 4.0                | 24.0                   |
| Poland  | 19.2       | 16.5 | 7.6                             | 16.4                            | 5.7                      | 10.3               | 36.7                   |
| Sweden  | 6.3        | 6.4  | 9.1                             | 6.1                             | 4.4                      | 1.2                | 16.3                   |
| UK      | 4.3        | 5.1  | 6.9                             | 3.5                             | 2.2                      | 1.0                | 12.9                   |

Sources:

Unemployment by sex, age-group and highest level of education obtained, *Population and Social conditions*, 18.5.06, Eurostat website consulted 9.1.07.

Long-term unemployment rate, *Population and Social conditions*, 8.5.06, Eurostat website consulted 9.1.07.

**Table 3 Employment**

|         | Rates 2005 |      | Younger<br>people<br>15-24 | Older<br>people<br>55-64 | % working<br>part-time |      |
|---------|------------|------|----------------------------|--------------------------|------------------------|------|
|         | Women      | Men  |                            |                          | Women                  | Men  |
| EU 25   | 55.7       | 70.9 | 17.4                       | 41.0                     | 32.6                   | 7.3  |
| EU 15   | 56.8       | 72.7 | 18.4                       | 42.5                     |                        |      |
| Germany | 59.2       | 70.8 | 14.6                       | 41.8                     | 44.3                   | 7.7  |
| Spain   | 48.3       | 73.8 | 20.8                       | 41.3                     | 24.9                   | 4.7  |
| France  | 57.4       | 69.0 | 22.5                       | 37.3                     | 30.9                   | 5.7  |
| Italy   | 45.2       | 70.1 | 23.2                       | 30.5                     | 25.7                   | 4.5  |
| Poland  | 60.7       | 57.2 | 38.0                       | 26.2                     | 14.2                   | 7.7  |
| Sweden  | 70.5       | 73.6 | -                          | 69.1                     | 39.9                   | 11.8 |
| UK      | 65.6       | 77.8 | 12.4                       | 56.2                     | 43.1                   | 10.6 |

Sources:

Employment by sex, age-group and highest level of education obtained, *Population and Social conditions*, 18.5.06, Eurostat website consulted 9.1.07.

Romans, F. and Hardarson, O. (2006) Labour Market, *Population and Social conditions*, 17/2006, EU

**Table 4 The knowledge-based economy, 1995 and 2004**

|         | R and D spending: |      | Employment: % total employment |      |                              |      |
|---------|-------------------|------|--------------------------------|------|------------------------------|------|
|         | %GDP              |      | High/medium tech mfg           |      | Knowledge-intensive services |      |
|         | 1995              | 2004 | 1995                           | 2004 | 1995                         | 2004 |
| EU-15   | 1.85              | 1.92 | 29.9                           | 34.6 | 6.3                          | 5.8  |
| Germany | 2.19              | 2.50 | 26.9                           | 33.4 | 9.2                          | 9.4  |
| Spain   | 0.79              | 1.06 | 22.2                           | 26.1 | 4.7                          | 4.3  |
| France  | 2.29              | 2.14 | 33.5                           | 36.2 | 5.7                          | 5.3  |
| Italy   | 0.97              | 1.10 | 24.0                           | 30.2 | 6.2                          | 6.4  |
| Poland  | 0.63              | 0.56 | -                              | 24.3 | -                            | 4.4  |
| Sweden  | 3.32              | 3.80 | 44.2                           | 47.0 | 6.0                          | 6.0  |
| UK      | 1.95              | 1.77 | 36.8                           | 42.1 | 6.0                          | 4.6  |

## Sources:

Gross domestic expenditure on R and D, Tables Series, *Science and Technology*, Eurostat website, consulted 9.1.07.

Employment in high and medium-high technology manufacturing sector, Tables Series, *Science and Technology*, Eurostat website, consulted 9.1.07.

Employment in knowledge-intensive service sector, Tables Series, *Science and Technology*, Eurostat website, consulted 9.1.07.

**Table 5 Employment regulation (EPL Index)**

|         | Late<br>1980s | 2003 |
|---------|---------------|------|
| Germany | 3.2           | 2.2  |
| Spain   | 3.8           | 3.1  |
| France  | 2.7           | 3.0  |
| Italy   | 3.6           | 1.9  |
| Poland  | -             | 1.7  |
| Sweden  | 3.5           | 2.2  |
| UK      | 0.6           | 0.7  |

Note: The EPL index is a weighted index of three composite measures of procedural regulation, direct costs of dismissal and notice and trial period, for established and temporary workers. The weights are derived from factor analysis. The composite measures cover: delays before starting a period of notice, definition of unfair dismissal and difficulty of dismissal at 20 year, severance pay and costs of reinstatement, and notice for no fault dismissal and difficulty of dismissal during a trial period respectively. For full details see: Nicoletti et al, 2000, 40-45.

Source: OECD Employment Outlook, 2004, ch. 2 p 117.

**Table 6 Labour market measures (2003, % GDP)**

|         | Active | Passive | Active as<br>% Passive |
|---------|--------|---------|------------------------|
| EU 15   | 0.69   | 1.43    | 48                     |
| Germany | 0.95   | 2.28    | 42                     |
| Spain   | 0.56   | 1.46    | 38                     |
| France  | 0.82   | 1.74    | 47                     |
| Italy   | 0.66   | 0.62    | 106                    |
| Poland  | -      | -       | -                      |
| Sweden  | 1.04   | 1.22    | 85                     |
| UK      | 0.16   | 0.34    | 47                     |

Note:

Active measures: training, employment incentives, measures for disabled, young people and others, job creation.

Passive measure: income maintenance and early retirement

Source: OECD (2006) *Employment Outlook*, Statistical Annex, Table H



**Table 7 Family and children (% total spending)**

|         | 1992 | 2003 |
|---------|------|------|
| EU 15   | 7.7  | 8.0  |
| Germany | 8.2  | 10.5 |
| Spain   | 1.9  | 3.0  |
| France  | 9.7  | 9.0  |
| Italy   | 3.3  | 4.1  |
| Poland  | -    | 4.7  |
| Sweden  | 11.9 | 9.5  |
| UK      | 8.7  | 6.9  |

Note: Spending on families and children as a percentage of total spending on social protection.

Source:

Petrasova, A (2006) Living Conditions and Welfare, *Statistics in Focus*, Population and Social Conditions 14/2006, Table 4

EU (2004) *European Social Statistics, Expenditure and Receipts*, Data, 1992-2001, Table C 1.2.5

**Table 8 Growth and Productivity 1996-2007**

|         | Growth |      |      | Relative productivity |       |       |
|---------|--------|------|------|-----------------------|-------|-------|
|         | 1996   | 2005 | 2007 | 1996                  | 2005  | 2007  |
| EU 15   | 1.6    | 1.5  | 2.0  | 108.1                 | 105.8 | 105.4 |
| Germany | 1.0    | 0.9  | 1.0  | 106.0                 | 100.1 | 99.3  |
| Spain   | 2.4    | 3.4  | 2.8  | 102.3                 | 97.9  | 95.8  |
| France  | 1.1    | 1.4  | 2.0  | 121.4                 | 118.8 | 118.6 |
| Italy   | 0.7    | 0.0  | 1.2  | 122.9                 | 108.8 | 107.3 |
| Poland  | 6.2    | 3.2  | 4.6  | 44.5                  | 61.9  | 63.0  |
| Sweden  | 1.3    | 2.7  | 3.0  | 103.3                 | 107.6 | 108.6 |
| UK      | 2.7    | 1.8  | 2.8  | 99.8                  | 105.8 | 107.2 |

Source: Eurostat

**Note:** Growth = volume GDP growth

Productivity = GDP in purchasing power standards per person employed relative to EU-25

**Table 9 Poverty Rates, by Gender, Age and Household Type**

|         | Overall |      | Men  |      | Women |      | 16-24 |      | 65+  |      | Single parent |      | 2 adults, 3+ children |      | Inequality |      |
|---------|---------|------|------|------|-------|------|-------|------|------|------|---------------|------|-----------------------|------|------------|------|
|         | 1995    | 2004 | 1995 | 2004 | 1995  | 2004 | 1995  | 2004 | 1995 | 2004 | 1995          | 2004 | 1995                  | 2004 | 1995       | 2004 |
| EU-15   | 17      | 17   | 16   | 15   | 18    | 18   | 21    | 21   | 21   | 19   | 41            | 34   | 28                    | 26   | 5.1        | 4.8  |
| Germany | 15      | 16   | 13   | 13   | 16    | 18   | 16    | 24   | 15   | 15   | 55            | 38   | 23                    | 24   | 4.6        | 4.4  |
| Spain   | 19      | 20   | 19   | 19   | 19    | 21   | 22    | 19   | 16   | 30   | 37            | 40   | 31                    | 39   | 5.9        | 5.1  |
| France  | 15      | 14   | 15   | 13   | 16    | 14   | 25    | 20   | 19   | 16   | 30            | 30   | 22                    | 17   | 4.5        | 4.2  |
| Italy   | 20      | 19   | 19   | 18   | 21    | 20   | 29    | 25   | 18   | 16   | 23            | 36   | 40                    | 36   | 5.9        | 5.6  |
| Poland  | 16*     | 17   | 16*  | 17   | 16*   | 16   | 19*   | 21   | 8*   | 6    | 26*           | 24   | 30*                   | 33   | 4.7*       | 5.0  |
| Sweden  | 8*      | 11   | 10*  | 10   | 12*   | 12   | 18*   | 26   | 16*  | 14   | 13*           | 19   | 8*                    | 14   | 3.1*       | 3.3  |
| UK      | 20      | 18   | 19   | 17   | 22    | 19   | 18    | 18   | 32   | 24   | 60            | 40   | 36                    | 27   | 5.2        | 5.3  |

Source: Eurostat

\* 2000 data

Note:

Poverty = % of persons with equivalised disposable income after social transfers below 60% national median equivalised disposable income.

Inequality= ratio of top quintile of persons (by equivalised disposable income) to bottom quintile

**Table 10 East Asian welfare systems: Social spending, employment and unemployment (2004)**

|        | Government spending<br>(% GDP): |                    | Employment: |       |                    | Unemployment: |       |
|--------|---------------------------------|--------------------|-------------|-------|--------------------|---------------|-------|
|        | Total                           | Social<br>security | Men         | Women | Women<br>part-time | Men           | Women |
| Japan  | 38.2                            | 10.9               | 80.0        | 57.4  | 41.7               | 4.9           | 4.4   |
| Korea  | 30.9                            | 2.3                | 75.2        | 52.4  | 11.9               | 3.7           | 3.1   |
| Sweden | 57.3                            | 18.0               | 75.0        | 71.8  | 20.8               | 7.0           | 6.2   |
| UK     | 43.9                            | 13.4               | 78.9        | 66.6  | 40.4               | 5.0           | 4.2   |
| EU 15  | -                               | -                  | 72.4        | 56.7  | 31.2               | 7.6           | 9.2   |
| G7     | -                               | -                  | -           | -     | 28.5               | 6.4           | 6.4   |

Source: OECD

**Table 11 East Asia: dynamic knowledge-based economies: Growth, education, r and d and technology in industry (2004 OECD)**

|        | Growth:   |        | Education:                      |                      | R and D: |                                 | Exports as % imports: |                      |
|--------|-----------|--------|---------------------------------|----------------------|----------|---------------------------------|-----------------------|----------------------|
|        | 1994-2004 | 2003-4 | Scientific literacy (PISA 2003) | HE (25-64 year olds) | % GDP    | Business spend as % total spend | High-tech industry    | Medium-tech industry |
| Japan  | 1.2       | 2.7    | 547.6                           | 20.1                 | 3.15     | 75.0                            | 150                   | 384                  |
| Korea  | 4.9       | 4.6    | 538.4                           | 18.5                 | 2.64     | 76.1                            | 156                   | 144                  |
| Sweden | 2.8       | 3.6    | 506.1                           | 17.7                 | 3.98     | 74.1                            | 138                   | 128                  |
| UK     | 2.8       | 3.1    | -                               | 18.6                 | 1.89     | 65.7                            | 93                    | 85                   |
| EU 15  | 2.2       | 2.0    | -                               | -                    | 1.95     | 64.2                            | -                     | -                    |
| G7     | 2.5       | 3.4    | -                               | -                    | 2.47     | 68.4                            | -                     | -                    |

Source: OECD

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# **Social investment in Europe: bold plans, slow progress and implications for Korea?**

Peter Taylor-Gooby  
University of Kent, UK

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## **Evolution of welfare state**

- Post-war industrial, neo-Keynesian, national state settlement
- Changing context: fiscal globalisation; more open markets; maturity; Europeanization; expanding demand
- Existing solutions generate problems
- Post-industrial, market-oriented; more competitive welfare settlement?

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## Investment: growth and welfare

- OECD/ EES stress deregulation and flexibility (example of US 'jobs machine')
- Interest in more positive activation
- Stress on investment in R+D and training
- Stress on positive support for job-mobility
- Virtuous circle of growth and welfare



## Economic perspective

- Environment of price stability
- High levels of regulation not associated with high employment, or experience of security
- Mobility correlated with employment
- Experience of Denmark and Netherlands, late 1990s, early 2000s.



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## Social perspective

- Strong link between poverty and worklessness
- Especially for single parents
- Different social models
- Investment in children produces improves employment and in later parenting

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## Practice: the knowledge-base

- A mixed picture
- Continuing expansion of education, especially HE and life-long learning
- R and D spending stagnates
- Growth of knowledge-intensive manufacturing, decline in services

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## Activation and welfare to work

- Decline in high levels of employment protection and some convergence, sharp increase in short-time working
- Targeted benefits for lower earners
- Constraints on passive benefits
- Social assistance; case-management
- Support for high-risk groups – child care and parent-friendly working

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## Labour market + benefit reforms

- Increase in employment, especially for women
- Relaxation of regulation
- Complex pattern of benefit reform: unions grow weaker
- New 'modernising' alliances emerge

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## Slower social investment

- ‘Social pacts’ at firm, industry, regional level
- In general, slow movement on R and D and ‘flexi-curity’
- Countries with very different traditions and practices in social policy achieve positive employment and growth outcomes: Sweden + Denmark, vs. UK



## Implications

- European countries differ, but most find difficulties in introducing policies that imply rapid and continuing restructuring
- Perhaps easier to achieve where there is a stronger tradition of government leadership and a greater awareness of the pressures of globalised competition?



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## Productivism East and West

- Similarities
  - globalisation + competition
  - ageing populations/ low birth-rate
  - Bipolarisation/ precarious + part-time jobs
  - popularity of welfare spending
- Differences
  - savings rate
  - family support
  - level of spending

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## Social investment in Korea

- Ambitious recent programme:
  - Human capital
  - Health
  - Social protection
  - Future growth
- Increased longer-term spending –  
without a tax hike?

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## Some issues

- Human capital: already strong
- Health: continuing pressures
- Social protection: continuing pressures
  - Pensions: long-term stability?
  - Low wages: needs for assistance?
- Future growth: health etc investment



## Beyond social investment?

- Essential to ensure the programme remains popular among voters
- Substantial resources?
- Income needs for low-income pensioners, disabled people, others
- Declining family support?
- A social safety-net?



## Two suggestions

- Growth and inequality:
  - Flexi-curity: use human capital and reduce working age poverty
- Equal opportunities + mother-friendly work:
  - Ageing
  - Fertility
  - Human capital
  - Household income
  - Political pressures



## Possible lessons

- Perhaps Europe has something to learn in human capital and R+D investment; and
- Korea may be interested in labour market interventions to improve mobility and policies to provide child and elder care and promote equal opportunities