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"Competing Social Models In The Global Economy"

Which social model is likely to be most competitive in a globalized economy with free flows of goods, services, capital and people across borders? That question has been hotly debated for some time, and the answers to it have varied quite a lot over the years. Indeed, the perceptions of which social model is most successful seems to be highly subject to fads and heavily influenced by the most recent economic performance of various countries.

I argue that an economic and social model is "competitive" if it ensures a high level of employment, avoids large inequalities and secures a decent rate of economic growth in a global free trade environment. Are the European welfare state models competitive in this sense? Some observers fear that competition from low-cost producers like China and India will undermine employment and cause greater inequality in Europe. But globalization increases aggregate real income in Europe and elsewhere, and the fruits of globalization can be equitably shared through intelligent public policies, including education policies and active labour market policies supporting the necessary restructuring of the European economy. Indeed, I argue that China as well as the rest of the world could benefit if the Chinese were to import some of the European welfare state practices.

During the 1990s the laissez-faire oriented US economic model was seen by many to be particularly fit for an increasingly competitive global economy. However, events like the bursting of the dot.com bubble at the turn of the millennium and the recent financial meltdown has exposed some of the weaknesses of the US model. One worrying aspect of that model is the tendency towards ever-growing inequality and reduced social mobility in the US. It appears that the irresponsible loosening of credit condi-

ons in the run-up to the financial crisis was in part due to political pressure to compensate for the stagnant or falling real income of the poorer part of the US population.

Against this background, the various European welfare state models offer several attractions. The German Bismarckian welfare state model is currently undergoing some revitalization, supported by recent labour market reforms. The Nordic "universal" welfare state model has also performed well and has so far allowed the Nordic countries to share in the benefits from globalization while maintaining high levels of employment and low levels of income inequality. However, the Nordic model may be difficult for other countries to replicate, and its long-term viability will depend on the continued ability to undertake politically difficult structural reforms.