

Aspirations, Achievements and Challenges of European Social Economic Models

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Abstract

Knowing the errors of the past and learning from them, we have a chance to take the right decisions for the present and future. Taking into account the challenges posed by the current global economic crisis, it becomes necessary to concern about finding solutions to overcome its premises and to ensure healthy and sustainable economic growth, social welfare and capable of providing an efficient business environment.

The efficiency of the Scandinavian model and the welfare of the population that belong to those countries face difficulties recently due to the increased rate of migration. To avoid an economic crisis northern states must find new solutions as control of social transfers, stimulating investment and efficient management of the migration phenomenon to fade negative fluctuations in the global economy.

Keywords: healthy life expectancy, social market economy, environmental protection.

Clasificare J.E.L.: F20

1. Introduction

In order to identify measures which have proved their efficiency and performance is heady necessary to make a comparative study of the patterns that govern European society, using for this purpose a rich toolbox of indicators micro and macro: GDP, inflation, unemployment employment rate, budget deficit, balance of payments, etc..

Public budget has a major contribution in achieving balance between collective needs and means cover. Achieving revenue and managing costs efficiently highlights the government's ability to achieve its objectives. As can be seen in Figure 1, the countries belonging to the Scandinavian model accumulate to the state budget over 50% of GDP, well above the average of other European countries.

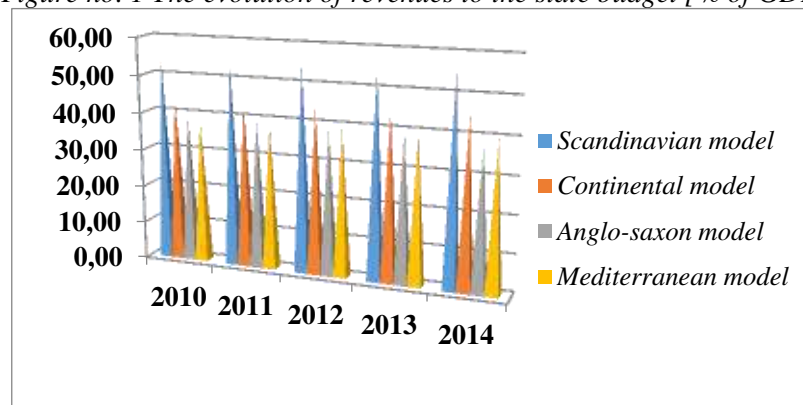
The high level of progressive taxation, which can exceed 50% for those with high incomes, support the whole economy. The basic principle of administrative management is the constant increase in the number of employees. As a result, social protection in Denmark, Finland, Norway and Sweden focuses on rapid reintegration into the labor market of those who lose their jobs. Strong trade unions have a major influence in the fair redistribution of profits to support education, health and social programs at the highest quality. In this context, a state budget can sustain solid high standard health, education and other needs.

The evolution of the budget balance, shown in Figure 2, highlights another important aspect of performing economies in the Nordic countries, namely the excess recorded in the state budget. The realization of this goal is accountable to the fullest extent to Norway, which recorded surpluses in the last 5 years over 10% of GDP.

Mediterranean model which includes Italy, Spain, Portugal and Greece has very poor performance both in terms of collection to the state budget, but also to the budget deficit. The problems originated before the outbreak of the economic crisis when fiscal policies were mainly focused on expenditure with the counterpart in loans, not in sustainable incomes. The euphoria of the years before the crisis led to problems today that can hardly be managed, for example external

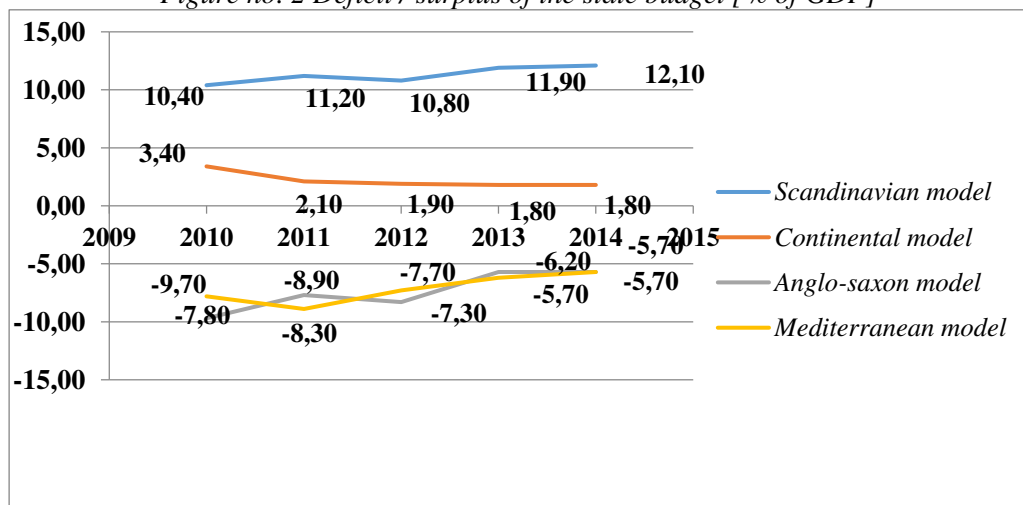
public debt and unemployment.

Figure no. 1 The evolution of revenues to the state budget [% of GDP]



Source: Eurostat

Figure no. 2 Deficit / surplus of the state budget [% of GDP]



Source: Eurostat

Adding more value in the economy is based on the social-economic policies, but also on the efficiency of the private relationship with the public sector. On one hand, struggles occurred with the economic crisis that took hold particularly in southern Europe, have led to the persistence of discrepancies in terms of GDP per capita. In another vein, the Scandinavian model values are nearly two times higher than the Mediterranean model.

2. Economic and social development and environmental protection

In recent decades, environmental issues have increased as a result of human activities and management of unplanned development. Therefore, there is a dispute between the importance of environmental protection and preservation of ecosystems with the need to satisfy human desire. Indifference for the environmental protection issues have an adverse effects that can endanger human health, economic resources, natural ecosystems and genetic background, such as pollution, greenhouse effect, global warming and soil erosion. The biggest challenge is global warming that must be managed carefully because it will directly influence the global economy.

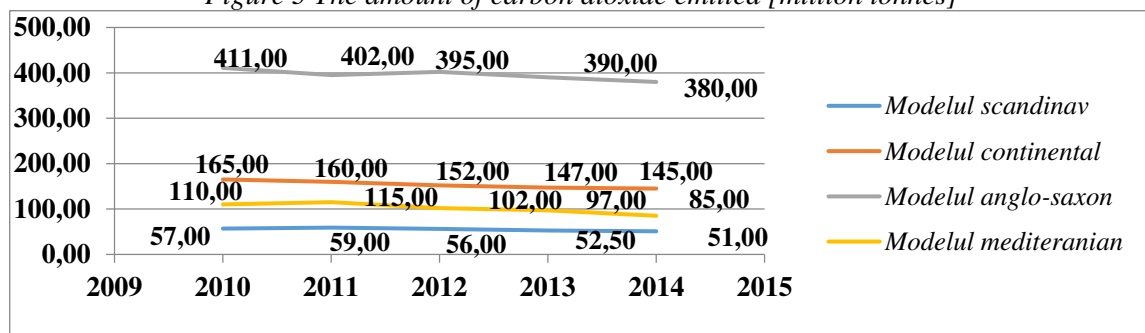
If at first glance people tend to associate pollution with economic development, analysing Table 1 along with Figure 3 we extract the conclusion that countries with a high standard of living, particularly the Nordic states record low values of emissions of carbon dioxide. An exception makes the UK where carbon dioxide emissions reach values that impressive.

Table 1 Classification of countries based on Human Development Index

No.	Country	Coefficient	Position
1.	Switzerland	0,930	3
2.	Germany	0,916	6
3.	Suedia	0,907	14
4.	U.K.	0,907	14
5.	Norway	0,944	1
6.	Denmark	0,923	4
7.	France	0,888	22
8.	Spain	0,876	26
9.	Portugal	0,830	43
10.	Italy	0,873	27
11.	Greece	0,865	29

Source: World Bank

Figure 3 The amount of carbon dioxide emitted [million tonnes]



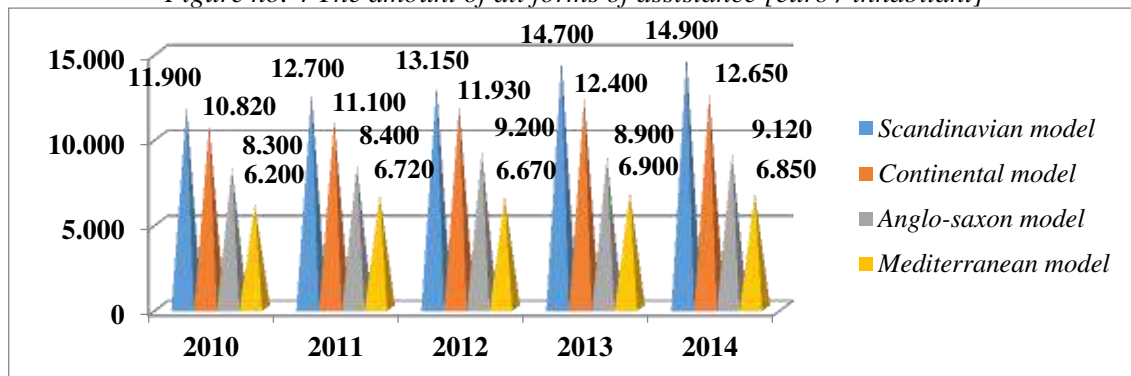
Source: Eurostat

3. Study of demographics and social conditions

Social protection, through all forms of social aid existing, is an objective as important as investment, health and education. The biggest challenge in order to improve social protection programs is directing them to people who are unable to work. Dissipation of funds to persons that consider labor no longer necessary presents a major threat to the state budget and implicitly for the economy. The social market economy in its inception was not sustainable because social protection aid arrived in many areas where it wasn't needed. Later, the welfare state model directed the aid to those who were unable to work.

Given that in the Scandinavian model the social protection system is efficient, social aid per capita reaches significant values (Figure 4), well above the average of other countries. Thus, last year submitted for analysis, the amount of all forms of social aid in Scandinavia (14,900 euro / inhabitant) is 2.18 times higher than the same indicator in countries belonging to the Mediterranean model (6,850 euro / inhabitant).

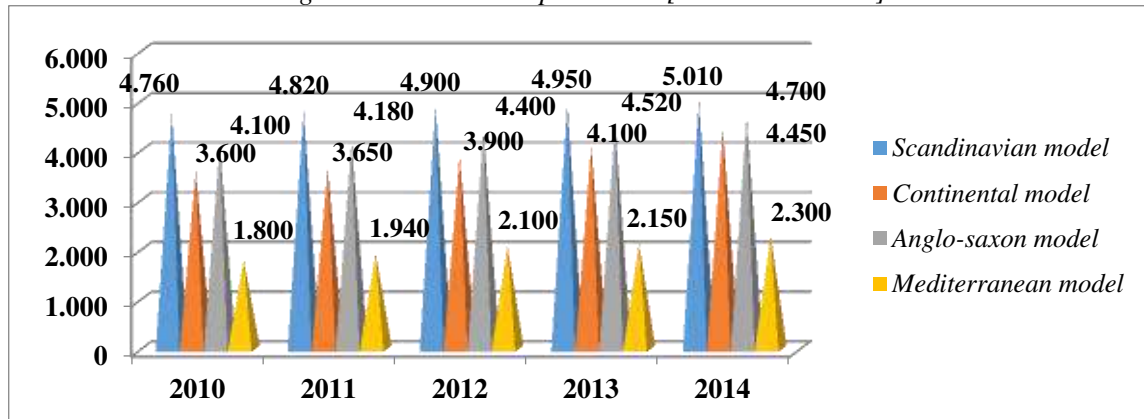
Figure no. 4 The amount of all forms of assistance [euro / inhabitant]



Source: Eurostat

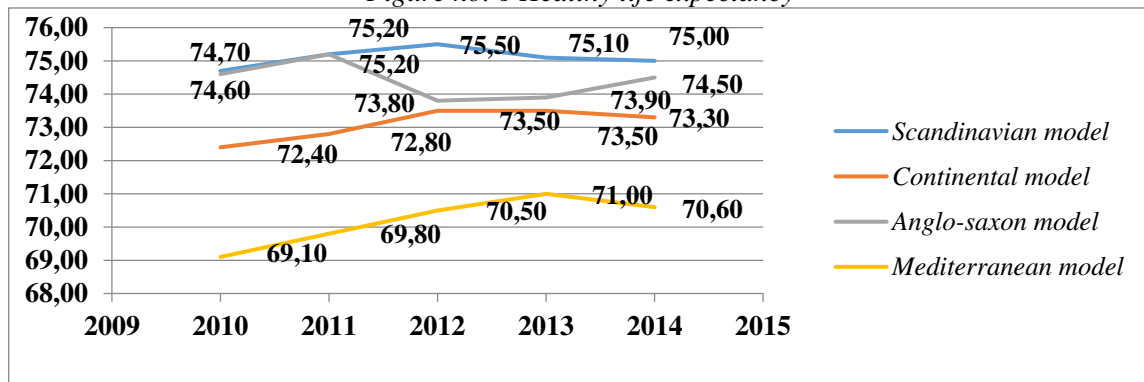
Health expenditure, both the preventive and the treatment have a direct influence on life expectancy. As can be seen in Figures 5 and 6, significant health costs in Scandinavia are assigned higher life expectancy. The average in the Scandinavian model is almost 5 years older than of the Mediterranean. These results are closely correlated with living standards, investments in education and health.

Figure no. 5 Health expenditure [euro / inhabitant]



Source: Eurostat

Figure no. 6 Healthy life expectancy



Source: Eurostat

4. The challenges of European social economic models

Ensuring that states which belong to the four models manage their public finances in a prudent and sustainable is an important goal. A major challenge for long-term sustainability of public finances is aging population phenomenon.

For the first time in Europe, in 2020, people aged over 60 will outnumber those aged under 25. Life expectancy has increased on average eight years after 1960. In fact, the life expectancy of children born today is an average of 82 years for women and 77 years for men. To this increase in life expectancy is added a declining birth rate, which is expected to reach about 1.7 children per woman by 2060. In addition, it is expected that net migration to the EU, which helped until now offsetting these developments would see a significant reduction.

The aging population has a profound impact on society and the economy of Europe. Migration is and will be necessary due to demographic trends. The 1992 net migration exceeded natural increase (the difference between births and deaths) and now represents two thirds of the European population growth. It is estimated that economic dependency - the ratio of people, excluding the number of persons employed - will increase from 1.32 in 2010 to 1.47 in 2030 and the elderly dependency will create unprecedented challenges to financial sustainability and social protection

systems.

Summarizing, this means that the EU will go from having four people of working age for every person aged over 65 to a ratio of only 2 to 1. Such demographic changes will have implications for public finances in case of pension benefits, the costs of health and long-term care and other costs related to age.

The effects of an aging population will not do, however, felt immediately, especially as long as the workforce continues to grow. Rising unemployment can only provide a temporary depreciation, so that eventually, demographic change will weigh heavily on the economy of Member States.

To ensure long-term sustainability of public finances in the face of an aging population there must be found a viable balance between public revenue and public expenditure envisaged. In the four European social economic models, younger people, aged between 0 and 14 years represented 15.6% of the total population on 1 January 2014, while those aged 15-64 accounted about two-thirds (66, 2%) of the total, which means that older people (over 65 years) represented about 18.2% of the population. Another barrier is the issue of capital gaps, namely the distribution of income in the economy. While GDP and wealth continued to grow significantly, inequality began to expand into Europe.

Currently, there are substantial inequalities in income distribution in the European Union: in 2014 in average the richest 20% had incomes 6.3 times greater than the poorest 20%. This ratio varies significantly across the EU, from 3.6 in Slovenia and 3.9 in the Czech Republic to over 7.0 in Greece, Romania, Latvia and Bulgaria, reaching a peak of 7.4 in Spain.

In recent years, the economic performance of the four models are the subject of many political unrest. There are great concerns regarding the fact that Europe is not sufficiently prepared to face new global challenges such as increasing competitiveness of world economies, the need for energy efficiency and security and the rapid pace of technological innovation.

European Union, the Europe 2020 strategy tends towards a smart and sustainable growth. This strategy consists in consolidating public finances, continuing the process of economic integration, investment in energy and transport infrastructure and to further the development of information technology and telecommunications. A strong emphasis is also placed on improving skills and promoting innovation. Even if the Europe 2020 Strategy was adopted, severe financial difficulties of the Greek government triggered a crisis of confidence regarding monetary and financial stability in the euro area. Public perception was that some countries in southern Europe - Greece, Italy, Portugal and Spain - are facing unsustainable public deficits that reduce their ability to increase.

Among the priorities of socio-economic models need to be reflected increasing competitiveness, encourage investment to support capacity building and innovation sector. Data points out that many countries still need to take measures to improve the basic requirements of competitiveness, and institutional foundations and infrastructure. They also must optimize the efficiency of markets, technological readiness and skill levels. It will take the combined effort of all authorities and private businesses to improve the economic potential of these countries.

Table 1 Classification based on competitiveness index

No.	Country	Coefficient	Position
1.	Switzerland	5,76	1
2.	Germany	5,53	5
3.	Finland	5,45	8
4.	Suedia	5,43	9
5.	U.K.	5,43	9
6.	Norway	5,41	11
7.	Denmark	5,33	12
8.	France	5,13	22
9.	Spain	4,59	33
10.	Portugal	4,58	38
11.	Italy	4,46	43
12.	Greece	4,02	81

Source: World Bank

5. Conclusios

The economic crisis that erupted in 2008 left a big question mark regarding the ability of capitalism to provide solutions for sustainable economic growth. Changing real economies into financial mechamism and bankers' desire to earn more and more revealed the imperfections of the capitalist system. An increasing number of arguments turn our eyes towards the social market economy and liberal social policy mix to provide a viable solution.

The virtues of Scandinavian model, built on a mix of liberal and social policies can be adapted for the construction of a European social economic model. Thus, features such as social cohesion, reduced corruption, education and health system performance can constitute efficiently a skelet for a model of the EU institutions.

6. References

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