Choose your poison; Charlemagne

EU approaches to inequality are as diverse as a European drinks cabinet

Europe's social policies offer a heady and intoxicating mixture

HENRY VIII executed his English wives but only divorced his continental ones-so by British standards, he may count as a Europhile. A scrap of comfort, perhaps, for the European Union leaders who will, at the end of this month, be wining and dining in his palace, Hampton Court, as they meet to deliberate on "the European social model". This summit was supposed to be the big set-piece event for the second half of 2005, while Britain holds the EU's agenda-setting presidency.

The hosts recently made a discreet presentational shift; they are calling their gathering an informal meeting on "globalisation"-apparently because they realised, just in time, how little continental politicians relish British lectures on the demerits of their social and economic arrangements. They also fear, reasonably enough, that any debate on "the social model" could slide into an unseemly pan-European round of name-calling.

Yet the original impulse was right: a debate on the European social model is worth having, not least to ascertain whether any such thing exists. From the viewpoint of Washington, DC, or Beijing, there does, of course, seem to be a single, well-defined European approach: a warm security blanket, now a bit threadbare, guaranteeing people a comfortable standard of living whether they work or not-and hence reducing the incentives to work, compared with how things are in America or China.

Inside Europe, however, the contrasts between countries and regions are as striking as the similarities. In a continent that glories in political, linguistic and gastronomic diversity, there are almost as many forms of social policy as there are national drinks. All seek to reduce income inequality and poverty; all provide protection against losing your job. But they use different policies to do this, and spend different amounts of money.
The best known brand is the continental one, favoured by the French, Germans and some of their neighbours. Their system provides generous unemployment benefits and pensions. It limits, by law, the ability of firms to fire workers. It spends a lot on income redistribution, so poverty is low and income compressed. Unions, though declining, are still strong; in Germany they have a role on management boards. This is the champagne of social policy: pleasant-tasting, a luxury, and bank-breaking.

The Mediterranean alternative, preferred in Italy, Spain and Greece, also protects workers from being fired. Indeed, job-protection laws in these countries are often stricter than they are farther north. But unemployment benefits in the Mediterranean region are modest; at least until recently, the family was the cushion against adversity, not the state. These countries also make less use of taxation to lessen inequality. While the continental system reduces poverty by about 39%—against what it would have been without redistributive taxes—the Mediterranean one does so by only 35%. Call this the grappa or ouzo variety: locals swear by it, outsiders balk at it, and too much can be fatal.

Neither of these tinctures, though, provides the social protection enjoyed by the Nordic countries and the Netherlands. Their system is like aquavit: both heart-warming and bracing. They spend the most money on poverty reduction and on intervening in labour markets to help people get jobs. But these states have a Protestant work ethic: we’ll help you find a job, they say, but you must work if you can. While the dole is generous, job protection laws are quite weak. In this respect, the Nordic countries are the opposite of the Mediterranean ones: the latter focus on keeping people in work; the former offer a decent dole but put fewer curbs on firing. The fizzy Franco-Germans are "generous" in both these areas (unemployment benefits and job protection).

And it is tempting to say the English-speaking countries (Britain and Ireland) offer neither. That would not be quite right. True, their job protection is weak compared with the continental and Mediterranean systems. And their redistributive taxes are low compared with Nordic countries (and their poverty rates higher). But the Anglophones, like the Nordics, spend a lot on job centres and the like. They offer quite generous unemployment benefit, albeit not at Nordic levels. So they are also unlike the Americans, who provide much less unemployment insurance. In short, the Anglo-Saxon model is a bit like beer: not fancy, too bitter for some, but a cheap, practical way to satisfy your needs.

Europe's debate on social welfare is often couched in terms of cold-hearted Britain and America versus warm and fuzzy continental Europe. This is a caricature—and a damaging one, since it fosters the illusion among Europeans that America is the alternative to the status quo and that "reform" is code for "abolishing our welfare state". Of course, Europeans have to adjust to the world outside, but that can be done in part by comparing notes with neighbours and learning from them.

As André Sapir, of the Free University of Brussels, points out, problems are concentrated in Mediterranean and continental countries. They are much more heavily indebted than Nordic and Anglo-Saxon ones (public debt is almost twice as high as a share of national income). They have lower rates of employment and work much less. (French and Germans work about 150 hours a year less than the Nordics and 250 hours a year less than the Anglo-Saxons). Hostility to globalisation is greater, too.

It seems unlikely that the French and Italians are going to turn into Dutch or Swedes, either in their social philosophies or their drinking habits. But over the next few years it ought to be possible for Europe's laggards to reduce their over-reliance on hiring and firing laws (disastrous at a time of fast economic change) and to increase the rewards for getting a job. And they should be able to do this without agonising about the destruction of the European welfare state. The European model is not dead. But some of its varieties look increasingly unaffordable, and like the other kind of liquor, they are destructive of honest labour.