Centre for Policy Studies

HANDICAP, NOT TRUMP CARD

THE FRANCO-GERMAN MODEL ISN'T WORKING

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ISBN No: 1 897969 96 1

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Printed by The Chameleon Press, 5 – 25 Burr Road, London SW18

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SUMMARY

The most recent OECD data (May 1999) show that unemployment in France is 11.4%; in Germany, 10.9%. In Britain it is only 4.6% and in the U.S., it is just 4.5%.

In France and Germany, the response of both centrist and left-wing governments to the problem of unemployment has been consistent. Governments try to promote employment through a range of labour-market initiatives (such as reduced working hours, lowering the retirement age, expanded labour market programmes, harmonised tax and spending levels and so on). These, it is hoped, will not only reduce unemployment but also create "fairness" in the workplace.

'We are convinced that the European social model is a trump card, not a handicap' *– French and German Finance Ministers, January 1999*

In an article published in *Le Monde* on 15 January 1999, the French and German Finance Ministers expressed great confidence in the efficacy of their approach. They wrote: 'The obsessive insistence of the neo-liberals on the deregulation of labour markets has contributed more to the blocking of reforms than to the creation of jobs. We are convinced that the European social model is a trump card, not a handicap.'

The 'Franco-German model' appears to have been accepted by the European Union. The European Employment Pact (approved by the EU Presidency on 31 May 1999) and the Employment Guidelines (adopted at the EU Council Meeting in Cologne in June 1999) both recommend a wide range of interventionist labour market policies.

The alternative to the Franco-German model is of course the policies followed by Britain and the United States in the 1980s and 1990s – the Anglo-Saxon model. This alternative presupposes that it is not governments which create jobs, but businesses. That businesses thrive in a limited regulatory regime. And that government intervention in the labour market, however well-intentioned, will do more damage than good.

The success of the Anglo-Saxon model has been so marked that politicians of all parties now accept the need to pay lip service to its central tenets. For example, Tony Blair and Gerhard Schroeder, in their joint pamphlet, *Europe: The Third Way/Die Neue Mitte* (May 1999), accepted that: 'the ability of national governments to fine-tune the economy in order to secure growth and jobs has been exaggerated.' And the European Employment Pact (May 1999) and the Employment Guidelines (June 1999) also recognised the need to help enterprise and to foster flexible labour-markets.

There is little sign that action matches rhetoric. Under New Labour, the thrust of policy is on further labour market intervention

The problem is that there is little sign that action matches rhetoric. In Britain, under New Labour, the thrust of policy is on further labour market intervention: the introduction of the Social Chapter, the Fairness at Work Proposals and other measures have all increased the level of government intervention. And in Europe, despite some rhetoric to the contrary, labour market intervention is still accepted as the norm.

This pamphlet analyses recent OECD and World Bank data and compares the track record of the two models. It finds that:

- **Governments should not dictate working hours**: the average number of hours worked in France and Germany has dropped by 10% and 3% respectively while their unemployment rates have gone up (by between three and four percentage points). In the U.S., people now work longer (working hours have increased by 4%) and in Britain working hours have remained constant. Both countries have seen significant falls in unemployment.

- **There is a clear correlation between higher government expenditure and lower employment**. In the U.S., the government share of GDP was 22 percentage points below that of France but its employment ratio was 15 points higher. Britain's public spending level was eight points below Germany's yet its employment ratio was seven points above.

- **The private sector is a more efficient provider of training programmes than government**: government spending on labour market programmes in Germany is eight times that of the U.S. (as a percentage of GDP). Yet the proportion of young people in employment in Germany has dropped from 56% in 1990 to 29% in 1997 while in the U.S. the figure has remain at about 58% over the same period. France spends between 50% and 80% more on labour market programmes than Britain, yet only 20% of young people had jobs in France in 1997 compared to 60% in Britain.

- **Early retirement programmes do not increase the jobs available to younger workers**. Early retirement programmes tend to hamper job creation as social security taxes on workers and employers have to increase to support the higher number of dependants: the implicit tax rate on employed labour (as a percentage of wages) averages 27% in Britain compared with 44% in France and Germany.

- **Instead of funding more public investment through higher taxes, governments should encourage private investment by reducing the tax burden on business and labour**. Measured as a percentage of GDP, public investment in France and Germany averaged 3.5% and 2.6% between 1992 and 1997, compared to 1.7% in the U.S. and 1.4% in Britain – yet unemployment was significantly higher in France and Germany than in the U.S. and Britain.

- **Governments should not impose collective wage agreements**. Average net incomes (measured in purchasing power parity exchange rates were higher in Britain and the U.S. – who are both accused of creating 'sweatshop' jobs – than in France and Germany. The average net income for a family with two wage earners and two children was $35,151 in the U.S., $31,810 in Britain, $31,199 in Germany and $24,650 in France in 1996.

- **Government attempts to increase female participation in the workforce have failed**. The unemployment rates for female workers in France and Germany are more than double those of the U.S. and Britain.

- **Government attempts to harmonise health and safety conditions in the workplace do not lead to fewer industrial accidents**. Both the U.K. and the U.S. have fewer occupational injuries and fewer fatal occupational injuries in relation to France and Germany.

- **Government programmes to improve productivity and innovation are less important than the ability of the private sector to commercialise the results**. The U.S. is well ahead of its rivals in terms of the number of patents filed, in receipts from royalties and licence fees and in higher technology exports.

- **Governments (and central banks) should not lower interest rate as an employment promotion tool**. Short-term interest rates dropped sharply in Germany from 9.2% in 1991 to 3.3% in 1997 yet unemployment more than doubled. In the U.S., rates steadily increased from 3.1% in 1993 to 5.1% in 1997 – yet unemployment fell there to 4.5%.

The conclusions are straightforward. The low rates of unemployment in Britain and the U.S. can be clearly attributed to the low level of government intervention in the economy.

Governments will only solve the problems of unemployment, if they adopt measures along the lines of the following ten point programme:

1. Reduce the tax burden to increase incentives for saving, investment, hard work and innovation.

2. Set macroeconomic policy in a way that it will both encourage growth and, in conjunction with good structural policies, make it sustainable and non-inflationary.

3. Raise productivity by improving incentives for the creation and diffusion of new technologies and for more efficient use of labour.

4. Increase the flexibility of working-time – voluntarily sought by workers and employers.

5. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.

6. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.

7. Reform employment security provisions that inhibit the expansion of employment.

8. Reform unemployment and related benefits – and their interactions with the tax system – so that societies' fundamental goals are achieved in ways that impinge far less on the efficient functioning of the labour markets.

9. Reform the welfare system, by shortening payment periods, applying stricter eligibility criteria, and combating fraud more vigorously, in order to reduce welfare dependency and encourage fuller participation in the labour force.

10. Enhance product market competition so as to reduce monopolistic tendencies while contributing to a more dynamic economy.

Such a strategy will create more jobs and raise incomes faster than the formulas which are currently being implemented in Europe.

CHAPTER ONE
INTRODUCTION

France has put hard work in the dock. Aerospace executive Bernard Rocquemont faces trial for encouraging his engineers and managers to work an average 46 hour week. 'We think people are working too long and we're going to stop them', warned public prosecutor, Carla Llautine. The French Government will enforce its decree reducing the official working week from 39 to 35 hours by the year 2002. It expects that companies will hire extra workers to make up for lower output.

Meanwhile, Sony, the Japanese electronics firm, has announced the closure of its television factory in Fellbach, Germany. It blames a national 35-hour week deal struck with employers by the powerful IG Metall trade union. 'The 35-hour week is deadly for jobs,' said a Sony spokesman. Production will be transferred to Britain, Spain and Croatia.

A further threat to German jobs comes from a proposed tax hike on capital reserves. The energy and industrial group RWE says that the company would think twice about investing in a mining project in the Ruhr. 'It is a question of at least 14,000 jobs', said Dieter Scheer, a spokesman, 'if the investment position is no longer attractive, we will examine every possibility of switching our investments abroad.' The German insurance giant, Allianz, has also warned that it might move its operations elsewhere if the proposal becomes law.

Frustrated by stubbornly high unemployment rates, European Governments are desperately searching for ways to create more jobs.

Britain is a more attractive option to external investors: this country has, over the last 20 years, striven to make itself more efficient, flexible and attractive to employers. Deregulation and attacks on restrictive practices have, at least until recently, lifted the heavy hand of the state from employers' shoulders. U.K. unemployment is now less than half that of both France and Germany.

In contrast to Britain's recent attempts to limit the level of government intervention in the labour market, most EU employment proposals cost a lot of money. However, the EU is now well aware that investors and skilled workers may move to more rewarding locations if taxes and labour costs are pushed higher. Its response is therefore to call for 'harmonisation' of employment policies on a pan-European scale.

The term 'harmonisation' has been bandied about a lot by France and Germany recently. The antithesis of subsidiarity, harmonisation suggests peace, but means putting other countries, firms and workers into a labour market straightjacket. The Joint Statement issued after the Franco-German Summit in December 1998 demanded that 'the combating of unemployment' should be placed 'at the centre of European policy'. It called for 'rapid progress on fiscal harmonisation' and measures which 'strengthen the European social model through harmonisation'. Greater state intervention in employment policy was seen to be desirable: Member States of the EU should commit themselves to 'binding and verifiable goals in the guidelines for employment, primarily to reduce unemployment among the young and long-term jobless and to eradicate workplace discrimination against women.'

'The obsessive insistence of the neo-liberals on the deregulation of labour markets has contributed more to the blocking of reforms than to the creation of jobs. ***We are convinced that the European social model is a trump card, not a handicap.'*** *– French and German Finance Ministers, January 1999*

In a follow-up article published in *Le Monde* on 15 January 1999, the French and German Finance Ministers scathingly rejected alternative models: 'The obsessive insistence of the neo-liberals on the deregulation of labour markets has contributed more to the blocking of reforms than to the creation of jobs. We are convinced that the European social model is a trump card, not a handicap.' They take for granted that a single European model is needed and that it must be the Franco-German model.

The belief that governments create jobs is not limited to the old Left. It is also a central belief of both Prime Minster Tony Blair and Chancellor Gerhard Schroeder. In their joint pamphlet, published in May 1999, *Europe: The Third Way/Die Neue Mitte*, they wrote: 'The state must become an active agent for employment, not merely the passive recipient of the casualties of economic failure.' But they skate over the fact that many EU Governments have been active in trying to promote employment and social cohesion for a long time. Now that they face high unemployment and strengthening global competition, they have not identified what works and what does not, although they do admit that 'the ability of national governments to fine-tune the economy in order to secure growth and jobs has been exaggerated.'

Policies should be evaluated on the basis of results, not intentions. The authors say that: 'We share a common destiny within the European Union' and 'we face the same challenges – to promote employment and prosperity' and 'to combat social exclusion and poverty.' But in reality the current situations and the instruments adopted (past and present) differ widely between the two countries.

It is significant that few 'middle way-new centre' ideas have been included in the 'European Employment Pact' which the EU Presidency approved on 31 May 1999, or in the 'Employment Guidelines' adopted by the EU Council in Cologne in June. While paying lip-service to the need to encourage entrepreneurship, they recommend a huge raft of interventionist measures which can only damage enterprise. The only reference to flexibility is in the context of working arrangements. The 'social partners' are invited to negotiate agreements to modernise the organisation of work with the aim of 'achieving the required balance between flexibility and security.' Such agreements may cover, it suggests, 'the reduction of working hours' and 'the reduction of overtime.' They do not say how conflicts between flexibility and security may be resolved. Why should upward flexibility, involving longer hours and more overtime agreed by both workers and employers, be ruled out?

The OECD and the IMF have pointed out that the need to preserve 'social cohesion' is often a politically-convenient pretext for defending the interests of 'insiders'

Furthermore, the 'social partners' are not defined. In France and Germany, these tend to be the representatives of large corporations and national trade union federations. Do these 'insiders' adequately reflect the interests of 'outsiders' (comprising small-scale entrepreneurs and their employees, the unemployed, discouraged workers and people in precarious employment)?

The OECD and the IMF have pointed out that the need to preserve 'social cohesion' is often a politically-convenient pretext for defending the interests of insiders who are more politically powerful than the outsiders (see, for example, IMF, *World Economic Outlook*, Chapter IV, 'Chronic Unemployment in the Euro Area: Causes and Cures', May 1999). Substantial reform would include measures to remove the protection of insiders from effective competition and a reduction of the work disincentives of unemployment benefits Yet these would represent direct attacks on the accrued rights (*acquis sociaux*) by those directly concerned. And the stronger the impediments to more competitive labour markets, the stronger the political resistance to effective reform by the 'beneficiaries' (real or perceived) of existing distortions.

Advocates of the 'middle way' tend to fudge the issue. In their joint pamphlet, Tony Blair and Gerhard Schroeder say that: 'we support a market economy, not a market society.' This is a false dichotomy and an unnecessary choice. Experience has repeatedly shown that government intervention aimed at furthering social goals can disrupt and distort the market economy, and be counterproductive in terms of both economic performance and social welfare.

Market institutions (the private sector) and market forces (competition and free choice) have proved to be effective instruments for social progress.

German and French concerns are certainly understandable. Over 7 million of their combined populations are looking for work but unable to find it. Millions more have dropped out of the labour force, or are discouraged from entering it. But the pain of joblessness is not borne equally throughout the EU. The unemployment rate is now below 5% in the Netherlands, Austria and Britain, and just 5.3% in Sweden. This diversity of experience raises several questions. Why have some countries been more successful than others in job creation? Should the priorities and strategies of all EU member states be identical when their problems, structures and philosophies differ? Even if the combined economic power of Germany and France is formidable, does it give them the right to impose their social model on other countries?

The employment strategy proposed by the new socialist rulers of France and Germany is not radically different from the one pursued by their predecessors, just more of the same – government intervention. Did it yield better results than the more flexible, free market model adopted by Britain and the United States? Let's examine labour market proposals in the light of past trends.

CHAPTER TWO
SHOULD GOVERNMENTS REDUCE AND HARMONISE WORKING HOURS?

The 1999 Employment Guidelines, adopted by the Council of Ministers in March 1999, invited the 'social partners' to 'negotiate at all appropriate levels, agreements to modernise the organisation of work… Such agreements may, for example, cover the expression of working time as an annual figure, the reduction of working hours, the reduction of overtime, the development of part-time working, lifelong training and career breaks.'

The average annual hours worked per person in employment have dropped in Germany and France over the past 15 years, while their unemployment rates have gone up

Yet would the reduction of working hours raise overall employment? OECD data show that the average annual hours actually worked per person in employment have already dropped by 10% in Germany and by 3% in France over the past 15 years, while their unemployment rates have gone up by between three and four percentage points (to 10.8% and 11.5% respectively). Working hours have increased by 4% in the U.S. and have remained virtually constant in Britain over the same period, but both experienced sharp falls in unemployment after the recession of the early 1990s to well under 5% (see Tables 1 and 2).

TABLE ONE: AVERAGE ANNUAL HOURS ACTUALLY WORKED PER PERSON IN EMPLOYMENT

	1983	1990	1997
France	1711	1668	1656
Germany	1724	1611	1558
UK	1719	1773	1731
USA	1882	1943	1966

Source: OECD, *Employment Outlook*, June 1998

TABLE TWO: COMPARATIVE UNEMPLOYMENT RATE (%)

	1981-90 Average	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	9.3	9.4	10.3	11.6	12.3	11.7	12.4	12.5	11.6	11.4
Germany	7.3	5.5	7.7	8.8	9.6	9.4	10.3	11.4	11.2	10.9
UK	9.0	8.0	9.7	10.3	9.3	8.0	7.3	5.5	4.7	4.6
USA	7.1	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.5

Source: OECD, *Employment Outlook*, May 1999

Flexibility in working hours boosts jobs, by allowing workers and firms more freedom to match the duration of their working time to their individual needs and market demands. 23% of British workers were in part-time jobs (less than 30 hours) in 1997, compared with 15% in France and Germany (see Table 3). 40% of female workers were part-time in Britain, giving them greater latitude to accommodate family responsibilities as well.

TABLE THREE: INCIDENCE AND COMPOSITION OF PART-TIME EMPLOYMENT 1997

	Part-time employment as a % of total employment			Women's share in part-time employment
	Total	Men	Women	%
France	15.5	6.3	25.6	78.8
Germany*	15.0	3.3	29.8	87.6
UK	23.1	7.6	40.1	82.8
USA*	13.2	7.7	19.1	69.8

* 1996 figures
Source: OECD, *Employment Outlook*, June 1998

The 1997 Eurostat labour force survey also showed greater variability in working hours among full time workers in Britain. 21% of British full time workers worked less than 36 hours a week in 1997, whereas 27% worked 46 hours or more. In Germany, the figures were 8% and 14% respectively (see Table 4).

TABLE FOUR: PERSONS IN FULL TIME EMPLOYMENT: GROUPS OF HOURS ACTUALLY WORKED DURING THE REFERENCE WEEK

	France	Germany	U.K.
00 hours	7.6	4.7	7.4
01-35 hours	9.6	8.4	21.3
36-39 hours	43.8	31.9	18.8
40 hours	8.0	28.9	11.3
41-45 hours	10.6	6.9	13.8
46&+ hours	20.3	19.1	27.3
Total	100.0	100.0	100.0

Source: Eurostat, *Labour Force Survey*, 1997

CHAPTER THREE
SHOULD GOVERNMENTS HARMONISE TAX AND SPENDING LEVELS?

On 5 May 1999, the German Minister for Europe, Gunter Verheugen, speaking in the European Parliament, called for the EU to develop a co-ordinated monetary, fiscal and wages policy. This sentiment was endorsed in the Conclusions of the Cologne Summit (June 1999), which advocated 'the co-ordination of economic policy and improvement of mutually supportive interaction between wage developments and monetary, budget and fiscal policy.'

OECD data show that bigger governments means fewer jobs

Higher-taxed countries are keen to bring low-tax competitors up to their own levels – or at least to EU average levels. French Finance Minister Dominique Strauss-Kahn is reported to have said in December 1998: 'We would like to see tax harmonisation in two areas: corporate tax and savings tax.' And French EU Comissioner Yves Thibault de Silguy has called for qualified majority voting to be extended to new areas – 'to tax questions in particular.' When asked whether harmonisation could eventually include personal taxation, he replied, 'why not?' But OECD data reproduced in Table 5 demonstrate that *bigger* governments means *fewer* jobs. The French Government spent 54% of French GDP in 1997, but just 59% of people of working age (15-64 years) were employed. In the US, the Government's share of GDP was 22 percentage points below that of France, but its employment ratio was 15 points higher. Britain's public spending level was 8 points below Germany's, yet its employment ratio was 7 points above. The overall tax burdens in the U.S. and Britain have been consistently below those in

France, Germany and the EU as a whole over the last decade, and have consistently stimulated higher levels of job creation and maintenance despite more pronounced cyclical fluctuations in demand and output.

TABLE FIVE: GENERAL GOVERNMENT RECEIPTS AND EXPENDITURE AND NATIONAL EMPLOYMENT RATIOS

	Current receipts* (% of GDP)			Total expenditure (% of GDP)			Employment ratio**		
	1987	1993	1997	1987	1993	1997	1987	1993	1997
France	49.0	49.0	50.6	50.9	55.0	54.1	58.6	59.0	58.8
Germany	44.8	45.9	45.0	46.7	49.5	47.7	63.4	65.2	63.5
UK	39.1	35.7	37.8	40.7	43.6	39.7	67.1	69.3	70.8
USA	30.5	30.2	32.1	33.0	33.8	32.0	70.8	71.2	73.5
EU15	43.6	45.3	45.7	47.6	51.9	48.2	59.7	59.9	60.4

* mostly taxes and social security contributions
** persons employed as a percentage of population aged 15-64 years
Sources: OECD, *Historical Statistics* 1997; OECD, *Employment Outlook*, June 1998; and OECD, *Economic Outlook* December 1998

Differences in the sectoral distribution of employment are also significant. Bigger spending governments require more bureaucrats but have fewer persons providing business services. As shown in Table 6, the proportion of the working-age population employed in public administration in France (5.6%) was 2.3 percentage points higher than in the U.S. in 1997, and 1.2 points higher in Germany than in the U.K. On the other hand, private business services such as computing and data processing and R&D occupied 7.8% of the working age population in the U.S and 7.0% in the U.K, well above the levels in France (5.2%) and Germany (4.3%).

TABLE SIX: EMPLOYMENT BY SECTOR AS A % OF WORKING-AGE POPULATION, 1997

	France	Germany	U.K.	U.S.
Agriculture, forestry, fishing	2.8	1.8	1.3	2.0
Mining	0.2	0.4	0.4	0.5
Manufacturing	11.1	14.6	13.2	11.8
Electricity, gas & water	0.6	0.6	0.5	0.7
Construction	4.0	5.7	5.0	4.7
Distribution	8.1	8.8	11.0	12.1
Hotels and restaurants	2.0	2.0	3.3	5.4
Transport and communications	3.8	3.3	4.6	4.1
Finance and insurance	1.9	2.2	3.1	3.3
Business services	5.2	4.3	7.0	7.8
Public administration	5.6	5.5	4.3	3.3
Education	4.5	3.3	5.3	5.7
Health and social work	6.3	5.7	7.8	8.4
Recreational activities	1.0	0.9	1.9	1.9
Other services	3.0	2.4	2.1	2.1
TOTAL	60.1	61.8	70.8	74.0

Source: European Commission, *Employment Rates Report*, October 1998

Advocates of fiscal harmonisation say that higher taxes enable health, educational and social services needs to be better satisfied. The data shown in Table 6 question this claim. Employment levels in the education, health and social work sectors are higher in the U.S. and the U.K. than in France and Germany. The combined proportion in the U.S. (14.1%) was more than five percentage points higher than in Germany. As these activities are relatively labour-intensive, differences in employment ratios are significant indicators of the overall level of services provided. Over half of total health spending and nearly a quarter of education outlays are funded privately in the U.S. Although the total tax burden in the U.S. is 18 percentage points below that of France and 13 points below that of Germany, the U.S. side-steps the constraints on expenditure imposed by government budgetary ceilings (including EMU deficit criteria and debt limits) by tapping private funds for health, education and social services. It also avoids the problem of growing 'tax fatigue' which is causing problems in France and Germany. Despite Tony Blair's and Gerhard Schroeder's objections, when a wide range of social services are provided by public *and* private suppliers, more jobs are created and the demands of consumers and beneficiaries are better met.

Fewer persons are engaged in distribution, hotel, restaurant and recreational activities in France and Germany. This reflects regulatory restrictions on opening times and working hours, and labour costs inflated by heavy social charges on employers and workers.

CHAPTER FOUR

SHOULD GOVERNMENTS EXPAND THEIR LABOUR MARKET PROGRAMMES?

The social democratic Governments of Western Europe show a great faith in the efficacy of government training programmes. In their pamphlet, *Europe: The Third Way/Die Neue Mitte*, Tony Blair and Gerhard Schoeder wrote: 'The top priority must be investment in human and social capital… We should ensure that training plays a significant role in our active labour market policies for the unemployed and workless households.' Yet does government investment in the training of the labour force work? Or is it best left to the private sector?

During the 1990s, government spending on training, job search and counselling, employment subsidies, and other labour market programmes has been between five and eight times higher (as a percentage of GDP) in Germany than in the US, and 50%-80% higher in France than in Britain (see Table 7). Many of these activities have focused on specific target groups, particularly youths (15-24 year olds).

TABLE SEVEN: GOVERNMENT EXPENDITURE ON LABOUR MARKET PROGRAMMES

	Total Gov't expenditure on labour market programmes (as a % of GDP)					**Training and youth measures (as a % of GDP)**				
	1993	**1994**	**1995**	**1996**	**1997**	**1993**	**1994**	**1995**	**1996**	**1997**
France	3.39	3.24	3.09	3.13	n.a.	0.75	0.72	0.65	0.60	n.a
Germany	4.20	3.88	3.73	3.96	3.79	0.63	0.48	0.44	0.52	0.43
UK	2.22	2.18	1.95	1.72	1.47	0.31	0.29	0.28	0.22	0.22
USA	0.81	0.65	0.55	0.53	0.43	0.08	0.08	0.07	0.07	0.07

Source: OECD, *Employment Outlook*, June 1998

Yet, according to the OECD, the percentage of youths actually working dropped sharply to 20% in France and 47% in Germany in 1997, down from 29% and 56% respectively in 1990 (see Table 8). And despite shrinking numbers of youths in the labour force, the percentage unable to find work soared to 28% in France from 19% in 1990, and to 10% from 6% in Germany.

TABLE EIGHT: YOUTH* EMPLOYMENT RATIOS AND UNEMPLOYMENT RATES

	Employment ratios					Unemployment rates				
	1990	1994	1995	1996	1997	1990	1994	1995	1996	1997
France	29.5	22.3	22.0	21.5	20.1	19.1	27.5	25.9	26.3	28.1
Germany	56.4	51.6	49.3	47.6	46.9	5.6	8.2	8.2	9.0	10.0
UK	70.1	58.9	59.1	60.3	60.3	17.4	16.2	15.3	14.7	13.5
USA	59.8	58.1	58.3	57.6	58.0	13.4	12.5	12.1	12.0	11.3

* 15-24 year olds
Source: OECD, *Employment Outlook*, June 1998

In contrast, youth employment ratios in Britain and the U.S. have remained substantially higher – 60% and 58% respectively in 1997 – and unemployment has dropped.

Training is often more effective when conducted or directed by employers than by public institutions

Better educated and trained youths should be more employable. But skills must match market demands, and training is often more effective when conducted or directed by employers than by public institutions.

The 1995 and 1997 Eurostat labour force surveys found that a substantially higher percentage of workers had received training provided by their employers in Britain than in Germany and France (see Table 9).

TABLE NINE: PERCENTAGE OF EMPLOYEES AGED 25 TO 59 RECEIVING TRAINING* BY SECTOR

	1995			1997		
	France	Germany	U.K.	France	Germany	U.K.
Agriculture	0.8	3.3	6.8	0.6	2.5	6.1
Industry	1.4	3.1	9.9	1.2	3.2	10.1
Services	3.2	6.0	15.5	3.2	5.9	16.2
TOTAL	2.7	4.8	13.9	2.6	4.9	14.4

* during the four weeks preceding the survey
Source: Eurostat, *Labour Force Survey*, 1995, 1997

In the U.S., there are now more than 1,600 corporate universities run by firms

In the US, most job-related training takes place within firms or private institutions. So it is attuned to current technologies and management systems. There are now more than 1,600 corporate universities run by firms such as Motorola, Microsoft, Disney and McDonald. Over $100 billion p.a. is spent on private education and training in the U.S.

In contrast, many youths enter or remain in government programmes on the European continent because they cannot find employers willing to hire and train them. This is costly for the taxpayers, and can often heighten youths' feelings of exclusion when they fail to find jobs.

With nearly four out of five youths in France and Germany not gainfully employed, the Franco-German model has clearly failed to combat this important cause of 'social exclusion' effectively and radical rethinking is required.

CHAPTER FIVE
SHOULD GOVERNMENTS LOWER THE RETIREMENT AGE?

Large numbers of older German and French workers have dropped out of the labour force, induced by special redundancy programmes and pension concessions. There are three early retirement schemes plus a generous disability pension in France. So only 34% of the 55-64 age group were working in France and 37% in Germany in 1997, significantly lower than the ratios for Britain (48%) and the U.S.(57%), as shown in Tables 10 and 11.

TABLE TEN: EMPLOYMENT RATIOS OF OLDER WORKERS* (%)

	1990	1994	1995	1996	1997
France	35.6	33.4	33.5	33.5	33.6
Germany	36.8	36.0	37.5	37.9	37.3
UK	49.2	47.4	47.6	47.7	48.5
USA	54.0	54.4	55.1	55.9	57.2

* 55-64 year olds
Source: OECD, *Employment Outlook*, June 1998

TABLE ELEVEN: UNEMPLOYMENT RATES OF OLDER WORKERS* (%)

	1990	1994	1995	1996	1997
France	6.7	7.0	7.2	8.4	8.5
Germany	11.6	11.7	11.7	13.1	14.5
UK	7.2	9.1	7.5	7.1	6.3
USA	3.3	4.1	3.6	3.4	2.9

* 55-64 year olds
Source: OECD, *Employment Outlook*, June 1998

However, more extensive early retirement has not allowed young people to step into their shoes, as has been shown above. Nor has it created greater opportunities for older job seekers. 14% of the labour force in the 55-64 age bracket were unemployed in Germany and 8% in France in 1997, compared with 6% in Britain and 3% in the U.S. Thus substantial numbers of older persons are excluded prematurely, and often against their will, from the world of work. In reality, early retirement programmes have hampered job creation because social security taxes on workers and employers have been raised to support the increasing number of dependants. Eurostat estimates that the implicit tax rate on employed labour (as a percentage of wages) averages 27% in Britain, compared with 44% in Germany and France (up from 30% in 1970). (see Table 12).

Early retirement programmes have hampered job creation because social security taxes on workers and employers have been raised to support the increasing number of dependants

TABLE TWELVE: TAXES ON EMPLOYED LABOUR

	Implicit tax rate*		**As % of GDP**	
	1970	**1995**	**1970**	**1995**
France	30.5	44.4	15.1	23.0
Germany	29.6	44.1	15.8	24.0
U.K.	21.7	27.0	12.8	14.7

* as a percentage of compensation of employees
Source: Eurostat, *Statistics in focus, Economy and Finance*, No. 35/97, 1997

OECD studies also indicate that taxes account for a much larger percentage of labour costs in France and Germany than in the U.K. and the U.S. And Table 13 shows that the gap between these latter two countries and Germany has grown wider over the past 18 years.

TABLE THIRTEEN: SOCIAL SECURITY CONTRIBUTIONS AND NET INCOME TAXES* AS A % OF GROSS LABOUR COSTS**

	1979	**1983**	**1989**	**1991**	**1994**	**1996**
France	n.a	n.a	n.a	n.a	51.6	49.7
Germany	40.8	43.4	45.5	46.4	48.3	51.2
U.K.	36.1	38.2	34.2	33.2	33.3	32.6
U.S.	31.9	34.9	31.1	31.3	31.2	31.1

* less cash benefits from government
** for single individuals at average production worker wage level
Source: OECD, *The Tax/Benefit Position of Employees*, 1997

CHAPTER SIX
SHOULD GOVERNMENTS INCREASE PUBLIC INVESTMENT?

The Cologne Summit called on the Member States and the Commission to enhance the share of investment in their budgets as a means of stimulating growth and employment. To this end, 213 billion euros has been allocated to the European Structural and Cohesion Funds for the period from 2000 to 2006. The aim is to, to quote the Presidency Conclusions, 'to ensure that the assistance has the maximum employment impact.'

Instead of funding more public investment through higher taxes, Europe should encourage private investment by reducing the tax burden on business and labour

This Keynesian formula hasn't worked in France and Germany in the recent past. Public investment averaged 3.5% of GDP in France and 2.6% in Germany from 1992 to 97, well above the levels in the U.S. (1.7%) and Britain (1.4%). Yet France's unemployment rate rose to 12.5% in 1997, from 10.3% in 1992, whereas Britain's fell to 5.5% from 9.7%. (see Tables 14 and 15). U.S. unemployment was consistently lower than Germany's over the same period, ending up at less than half its level. Private investment tends to be used more efficiently and therefore generates faster growth. Instead of funding more public investment through higher taxes, Europe should encourage private investment by reducing the tax burden on business and labour.

TABLE FOURTEEN: SHARE OF GOVERNMENT INVESTMENT* IN GDP (%)

	1992	1993	1994	1995	1996
France	3.6	3.7	3.5	3.5	3.3
Germany	2.8	2.7	2.7	2.5	2.3
UK	1.5	1.5	1.6	1.4	1.0
USA	1.8	1.7	1.7	1.7	1.7

* Gross fixed capital formation in government services

Source: OECD, *National Accounts: Main Aggregates, 1960-96*, 1998

TABLE FIFTEEN: OVERALL UNEMPLOYMENT RATES (% OF TOTAL LABOUR FORCE)

	1992	1993	1994	1995	1996	1997
France	10.3	11.6	12.3	11.6	12.4	12.5
Germany	7.7	8.8	9.6	9.4	10.4	11.5
U.K.	9.7	10.3	9.3	8.0	7.3	5.5
U.S.	7.5	6.9	6.1	5.6	5.4	4.9

Source: IMF, *World Economic Outlook*, October 1998

CHAPTER SEVEN
SHOULD GOVERNMENTS ELIMINATE 'SOCIAL DUMPING'?

Britain and the U.S. are often accused of creating poorly paid, 'sweatshop' jobs which allow their products to compete unfairly with those of other countries. Such 'social dumping' must be removed, French and German leaders say, by collective wage agreements between the 'social partners' (employers' associations and labour unions) negotiated at the national level, enforced on all labour market participants by legislation or convention, and buttressed by statutory minimum rates.

The average net income of a family with two wage earners and two children was $35,151 in the US, compared with $31,810 in Britain, $31,199 in Germany and $24,650 in France

Once again, OECD studies refute these claims. The OECD has compared the annual net incomes (after taxes and cash benefits) of production workers in the manufacturing sector in all OECD countries in 1996, using purchasing power parity exchange rates for the conversion from national currencies to the U.S. dollar. It found that the average net income of a family with two wage earners and two children was $35,151 in the US, compared with $31,810 in Britain, $31,199 in Germany and $24,650 in France (see Table 16).

TABLE SIXTEEN: ANNUAL NET INCOME* BY FAMILY TYPE AND INCOME LEVEL IN 1996 (IN $PPP)

	Single No children 67% of APW	Single No children 100% of APW	Single 2 children 67% of APW	Married 2 children 100% of APW	Married 2 children 100% + 67% of APW
France	9,445	13,315	10,853	15,670	24,650
Germany	12,111	16,577	15,408	22,059	31,199
UK	12,352	17,555	14,746	19,463	31,810
USA	13,966	20,388	17,404	22,522	35,151

* after employees social security contributions, personal income tax and transfer payments in US$ converted at purchasing power parity exchange rates. APW refers to the Average Percentage Wage
Source: OECD, *The Tax/Benefit Position of Employees*, 1997

Single workers paid at the average rate, and with no children, had a net income of $20,388 in the US. This was 16% higher than their counterparts in Britain, 23% more than in Germany, and 53% above France. Similar differences existed for workers paid at two-thirds of the national average rates. The labour market and tax reforms pushed through by Margaret Thatcher and John Major (against strong Labour Party and trade union resistance) have resulted in more jobs and more rapid improvement in the living standards of ordinary workers.

This conclusion is reinforced by OECD national accounts data showing private consumption per head in purchasing power parity dollars. Private consumption is probably a more meaningful indicator of living standards than GDP because it measures what people are able to spend out of their disposable income (net of direct taxes) and reflects prices determined by competitive markets. GDP figures include investment (which is a means rather than an end), and government consumption valued at cost. Government consumption expenditure pays for services which may benefit private households, but these services are usually supplied by state monopolies which are not subject to market constraints or incentives, and may reflect political choices rather than consumer preferences.

According to the OECD, real private consumption per head (in purchasing power parity dollar – $PPP) amounted to $13,141 in the U.K. in 1997. This was 3% above French and German levels, but still a third less than in the U.S. (see Table 17).

TABLE SEVENTEEN: GDP AND PRIVATE CONSUMPTION PER HEAD IN $PPP, 1997

	GDP	Index	Private consumption	Index
France	21,293	72.6	12,764	64.1
Germany	22,049	75.2	12,748	64.0
U.K.	20,483	69.8	13,141	66.0
U.S.	29,326	100.0	19,910	100.0

Source: OECD, *National Accounts: Main Aggregates 1960-1997*, 1999 edition

Real private consumption has risen fastest in Britain since 1980, registering a 53% increase compared with 38% in the U.S., 35% in Germany and 25% in France (Table 18). Considering this record, it would be absurd if Britain were obliged to turn the clock back in the name of solidarity and the 'European social model'.

TABLE EIGHTEEN: GROWTH OF REAL PRIVATE CONSUMPTION PER HEAD

	At price levels and exchange rates of 1990 (US dollars)			Increase in %
	1980	1990	1997	1980-97
France	10,529	12,555	13,157	24.9
Germany	9,396	11,497	12,716	35.3
U.K.	7,752	10,663	11,793	52.1
U.S.	12,050	14,887	16,635	38.0

Source: OECD, *National Accounts: Main Aggregates 1960-1997*, 1999 edition

OECD data also show that earnings inequality is greater in France than in Britain, and has remained so for the past 20 years. The earnings of the top (highest paid) decile of male workers in France were almost 3.5 times those of the bottom decile in 1994. The ratio in Britain was 3.3:1. The real wages of the bottom decile of female workers increased by only 1% in total over the period 1984-94. In Britain, the comparable figure for 1985-95 was 19%.

Real private consumption has risen fastest in Britain since 1980

Britain's tax and benefit system also reduces inequality significantly. Studies by the Office for National Statistics show that the final income of the poorest 20%, after all taxes and benefit transfers are taken into account, were equivalent to half the average household income. The ratio between the final incomes of the top and bottom quintiles was as low as 3.7:1, despite the fact that most of those in the latter income group were retired or not employed. This is a high degree of equality by international standards. The statement in the Blair-Schroeder pamphlet that 'the past two decades of neo-liberal *laissez-faire* are over' is therefore a gross distortion of the policies pursued under the Thatcher/Major Governments, and of their results.

CHAPTER EIGHT
SHOULD GOVERNMENTS INCREASE FEMALE PARTICIPATION IN THE WORKFORCE?

The EU Council Resolution on the 1999 Employment Guidelines stated that: 'Member States will attempt to reduce the gap in unemployment rates between women and men by actively supporting the increased employment of women and will take action to bring about a balanced representation of women and men in all sectors and occupations.'

French and German unemployment rates for female workers as a whole were more than double those of the U.S. and the U.K.

There is certainly a long way to go to provide equal access to the labour market, or even catch up with freer market countries. OECD data reproduced in Tables 19 and 20 indicate that women face more formidable barriers to employment in France and Germany in some age categories. Their employment ratios for young women (15-24 years) were substantially lower than in the U.K. and the U.S. in 1997, and their unemployment rates for female workers as a whole were more than double. Employment of women with children is constrained by restrictions on part-time employment and tax/benefit measures which weaken incentives to seek jobs, as they yield little incremental income.

TABLE NINETEEN: EMPLOYMENT/POPULATION RATIOS FOR WOMEN BY AGE GROUP, 1997

	15 to 24	25 to 54	55 to 64	15 to 64
France	23.7	85.6	38.4	66.2
Germany	43.2	66.0	27.5	54.6
U.K.	58.8	71.3	38.7	64.0
U.S.	55.9	73.5	49.5	67.1

Source: OECD, *Employment Outlook*, June 1998

TABLE TWENTY: UNEMPLOYMENT RATES FOR WOMEN BY AGE GROUP, 1997

	15 to 24	25 to 54	55 to 64	15 to 64
France	24.6	9.7	8.6	10.9
Germany	9.6	10.4	16.5	11.0
U.K.	11.0	4.9	3.9	5.8
U.S.	10.7	4.1	2.7	5.1

Source: OECD, *Employment Outlook*, June 1998

CHAPTER NINE

SHOULD GOVERNMENTS HARMONISE HEALTH AND SAFETY CONDITIONS?

Against opposition from the then Conservative Government in Britain, France and Germany were instrumental in pushing through the EU Working Time Directive as a health and safety measure (approved by qualified majority voting) instead of under the Social Chapter (from which Britain had secured an opt-out).

Safety in the workplace depends on worker education and discipline, and the diligence of management, rather than on uniform restrictions

However, safety in the workplace depends largely on worker education and discipline, and the diligence of management in applying safety rules, rather than on uniform restrictions on working time or bureaucratic norms that are not applied consistently. ILO data show that the Anglo-Saxon countries have better safety records. Both the U.K and the U.S. have fewer total occupational injuries and fewer fatal occupational injuries in relation to employment levels than France and Germany (see Table 21).

TABLE TWENTY ONE: OCCUPATIONAL INJURIES AND DEATHS (AVERAGE ANNUAL RATES OVER THE LAST THREE AVAILABLE YEARS)

	Total Injuries rate per 1000 workers	Fatal Injuries rate per 1000 workers
France	3.1	0.06
Germany	6.1	0.07
U.K.	0.6	0.01
U.S.	2.3	0.03

Sources: ILO, *Yearbook of Labour Statistics*, 1998; and OECD, *Labour Force Statistics*, 1998

CHAPTER TEN

SHOULD GOVERNMENTS INVEST IN INNOVATION AND BOOST PRODUCTIVITY?

The 1999 Employment Pact states that ‘in order to make full use of this potential [i.e. that of the euro] and to achieve more dynamic growth and higher employment while maintaining price stability, the strategy to boost investment and innovation must be reinforced.’ This echoes the Presidency Conclusions of the Vienna European Council which stated that ‘growth, competitiveness and employment are crucially dependent on research and innovation’, but then only mentions government programmes funded from Brussels.

What counts is the climate for investment in R&D within the private sector, the ability to commercialise the results, and the capacity to use the new technology productively in the workplace

What really counts, however, is the climate for investment in R&D within the private sector, the ability to commercialise the results, and the capacity to use the new technology productively. The 1997 World Competitiveness Report published by the Swiss-based World Economic Forum ranks the U.S. first of 53 countries in both indigenous innovation and commercialisation. The U.K was in 4th place in innovation, above Germany (5th) and France (17th). The order for commercialisation was Germany (15th), U.K. (18th) and France (24th).

These rankings are based on judgements by business managers and experts. Data assembled by the World Bank provide a more objective assessment. As shown in Table 22, the U.S. is well ahead of its rivals in the number of patent applications filed by residents, in receipts from royalties and licence fees, and in high technology exports (defined as exports coming from industries that rank among a country's top 10 in terms of R&D expenditures). Britain performs better than France in all indicators, and earns more than Germany in technology fees.

TABLE TWENTY TWO: PATENTS FILED, HIGH TECHNOLOGY EXPORTS AND ROYALTY AND LICENCE FEES

	No. of patents filed by residents	Royalty and licence fee receipts ($millions)		High-technology exports ($millions)
	1995	1990	1996	1996
France	16,140	1,295	1,860	68,655
Germany	51,948	1,987	3,320	110,000
U.K.	25,355	2,540	4,725	85,035
U.S.	127,476	16,635	29,973	198,000

Source: World Bank, *World Development Indicators*, 1998

The business climate also affects the diffusion of new technology throughout the economy, and how efficiently it is employed. Technology is often embedded in plant and machinery, so the level of capital investment is important. Germany and France have sustained higher investment/GDP ratios over the last two decades, but have been unable to translate that investment into faster productivity growth. Two key indicators are: total factor productivity – that is, of capital and labour combined; and of capital alone. Long-term trends in the four countries are shown in Table 23. Britain topped the list in total factor productivity growth over the 1979-96 period, and was the only one to raise its capital productivity.

TABLE TWENTY THREE: GROWTH OF PRODUCTIVITY IN THE BUSINES SECTOR (PERCENTAGE CHANGES AT ANNUAL RATES)

	Total factor productivity		Capital productivity	
	1979-96	1973-79	1979-96	1973-79
France	1.3	1.6	-1.0	-1.0
Germany	0.6	1.8	-0.6	-1.0
U.K.	1.5	0.6	0.6	-0.3
U.S.	0.5	0.5	-0.2	-0.3

Source: OECD, *Economic Outlook*, June 1997

CHAPTER ELEVEN
SHOULD GOVERNMENTS LOWER INTEREST RATES TO BOOST ECONOMIC GROWTH AND JOBS?

The European Central Bank has come under heavy political pressure to stimulate the flagging German economy by reducing interest rates. However, the IMF data shown in Table 24 demonstrate that the sharp rise in unemployment in Germany and France since 1990 has been caused mainly by structural problems, not cyclical factors or inadequate monetary demand.

The expansionist monetary policies proposed in Germany and France risk a return in the longer term to the stagflation of the 1970s

In Germany, GDP grew by over 2% in three years, and by more than 1% in five of the last six years, but employment dropped every year from 1991 to 1997. Even a GDP growth rate as high as 2.7% in 1994 still left 0.7% fewer Germans in work. French unemployment rose to 11.8% in 1998, from 9.4% in 1991, despite GDP growth averaging 2.4% annually over the last five years. In contrast, U.S. economic growth rates of 2.3% in 1993 and 1995 generated 1.5% more jobs each year, and a 3.5% increase in output in 1994 added 2.2% more workers to the national pay rolls. In Britain, the unemployment rate fell from 9.7% in 1991 to 4.8% in 1998, despite an average GDP growth rate of only 2.3% over this period. Clearly, employment elasticities in relation to output are higher in the U.S. and Britain, reflecting their more flexible labour markets.

TABLE TWENTY FOUR: RECENT TRENDS IN INTEREST RATES, GDP AND EMPLOYMENT

	1992	1993	1994	1995	1996	1997
Interest rates (%)						
France	n.a	n.a	n.a	n.a	n.a	n.a
Germany	9.5	7.2	5.3	4.5	3.3	3.3
U.K.	3.9	3.4	5.1	6.1	5.6	5.8
U.S.	3.4	3.1	4.4	5.7	5.1	5.2
GDP growth (%)						
France	1.2	-1.3	2.8	2.1	1.6	2.3
Germany	2.2	-1.2	2.7	1.2	1.3	2.2
U.K.	-0.5	2.1	4.3	2.7	2.2	3.4
U.S.	2.7	2.3	3.5	2.3	3.4	3.9
Employment Growth (%)						
France	-0.6	-1.2	-0.1	1.1	0.0	0.8
Germany	-1.9	-1.8	-0.7	-0.4	-1.3	-1.3
U.K.	-2.4	-0.8	1.8	0.9	1.2	1.6
U.S.	0.7	1.5	2.3	1.5	1.4	2.2

Source: IMF, *World Economic Outlook*, October 1998

The case for lowering interest rates as an employment promotion tool is also dubious. Short-term interest rates dropped sharply in Germany to 3.3% in 1997, from 9.2% in 1991, yet unemployment more than doubled. In the US, on the other hand, a steady rise in interest rates from 3.1% in 1993 to 5.1% in 1998 did not prevent unemployment falling to a meagre 4.5%.

'Unemployment is structural in nature and needs to be addressed urgently through labour market reforms and increased flexibility in the wage-setting process. It is a dangerous and counterproductive illusion that any of this could be helped by printing money' – Ottar Issing, January 1999

Although there is widespread concern about the dangers of deflation, the expansionist monetary policies proposed in Germany and France risk a return in the longer term to the stagflation of the 1970s, unless labour market rigidities are removed. This point has been emphasised by Professor Ottar Issing, a member of the Executive Board of the European Central Bank, in a 28 January speech – 'unemployment is structural in nature and needs to be addressed urgently through labour market reforms and increased flexibility in the wage-setting process. It is a dangerous and counterproductive illusion that any of this could be helped by printing money'.

CHAPTER TWELVE
CONCLUSIONS

Weighing this evidence, any neutral observer must conclude that the case for imposing the Franco-German model on the whole of Europe is weak. The insistence on the harmonisation of policies is motivated by a desire for social cohesion which leads to the protection of their 'ins' (large corporations and trade union members) at the expense of the 'outs' (small firms and the unemployed). In the face of increasing global competition and declining domestic growth rates, it is clear that Anglo-American fiscal and labour market policies have proved to be more effective in job creation. Even if France and Germany are reluctant to follow their example, they should allow other EU members to choose their own paths to prosperity and harmony.

Measures such as minimum wages or limits on working are often described by their supporters as 'fair' or as examples of 'social protection.' To quote from the conclusions of the Cologne Summit (June 1999): 'In order to improve employment trends in Europe, it is important to ensure that competitiveness, flexibility of employment and social protection of employees are in a balanced relationship with each other. To this end, it is desirable to develop further a core of minimum social standards, in accordance with the provisions of the EC Treaty relating to the improvement of living and working conditions.'

The evidence presented in this paper therefore shows that it is wrong to say that Franco-German policies provide 'social protection'

People of almost all ideological persuasions will agree that unemployment is less healthy than employment for both individuals and societies. The evidence presented in this paper therefore shows that it is wrong to say that Franco-German policies provide 'social protection'. In fact, by increasing the numbers of unemployed people, the evidence shows that Franco-German policies damage society. In particular, there can be little 'fair' about pricing people out of work by increasing work-related regulations on employers.

It is the Anglo-Saxon model which provides greater 'social protection'… The successful way to combine 'fairness' and 'flexibility' is to create a more flexible labour market which leads to a higher level of employment

The evidence in this paper proves that the Anglo-Saxon model provides greater 'social protection' by enabling a greater proportion of people to be employed. The successful way to combine 'fairness' and 'flexibility' is to seek to create a more flexible labour market which leads to a higher level of employment.

In a major study of chronic unemployment in the EU, the IMF states that: "The EU country that undertook the deepest and most comprehensive labour market reforms is the United Kingdom. Key elements of the reforms were a curtailment of trade union power and a concomitant decentralisation of wage bargaining. A reduction in the generosity of unemployment benefits was also part of the reform, but it was accompanied by a shift from passive benefit payments to in-work benefits ("family credit" recently replaced by the "working families tax credit").'

The IMF concludes that 'an essential condition for successful reform is that any social system provide incentives toward market participation and remove institutions and regulations that hamper the market-based reallocation of resources that enhance productivity and growth… The experience of countries that have undertaken reforms has been that the full benefits take a considerable time to materialise. This was the case in the United Kingdom and the Netherlands, for example, where reforms that began in the early 1980s succeeded in lowering unemployment only gradually… And job creation across the advanced economies has been strongest in new, dynamic sectors such as information technology, where flexibility is the norm.' (see IMF, *World Economic Outlook*, May 1999).

It is to be hoped that Tony Blair and Gerhard Schroeder will recognise that excessive government intervention in the name of social justice can be counterproductive. In their Joint Pamphlet, they do admit that 'the weaknesses of markets have been overstated and their strengths underestimated… Having a job for life is a thing of the past. Social democrats must accommodate growing demands for flexibility… Companies must have room for manoeuvre… they must not be gagged by rules and regulations… Product, capital and labour markets must all be flexible: we must not combine rigidity in one part of the economic system with openness and dynamism in the rest.' But words must be translated into action.

Britain cannot rest on its laurels. The New Labour Government has already taken some backward steps, including ratification of the employment and social chapters of the Amsterdam treaty (for an estimate of the cost of these proposals, see the recent CPS Pointmaker, *The Price of Fairness* by Patrick Minford and Andrew Haldenby, 1999). It should use its remaining sovereignty to pursue an employment strategy that encourages labour market flexibility and business enterprise, and reduces government intervention to a minimum required to maintain adequate protection for the poor and disadvantaged. The OECD Jobs Strategy provides a sensible framework. A ten point programme is outlined below. In the interests of reducing unemployment and increasing personal incomes, Britain should urge its adoption throughout Europe.

1. Reduce the tax burden to increase incentives for saving, investment, hard work and innovation.

2. Set macroeconomic policy in a way that it will both encourage growth and, in conjunction with good structural policies, make it sustainable and non-inflationary.

3. Raise productivity by improving incentives for the creation and diffusion of new technologies and for more efficient use of labour.

4. Increase the flexibility of working-time – voluntarily sought by workers and employers.

5. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.

6. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.

7. Reform employment security provisions that inhibit the expansion of employment.

8. Reform unemployment and related benefits – and their interactions with the tax system – so that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of the labour markets.

9. Reform the welfare system, by shortening payment periods, applying stricter eligibility criteria, and combating fraud more vigorously, in order to reduce welfare dependency and encourage fuller participation in the labour force.

10. Enhance product market competition so as to reduce monopolistic tendencies while contributing to a more dynamic economy.

Such a strategy will create more jobs and raise incomes faster than the formulas which are currently being implemented in Europe.