

**The End of the European Social Model:  
Before It Began?**

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*'The Union has today set itself a new strategic goal for the next decade: to 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'*  
Declaration of the European Council, March 2000.

This is the European version of American 'apple pie': not just growth, not just employment, but **good** jobs and even social cohesion as well. In an earlier age, one might have said guns **and** butter; today the cynical might say, having your cake and eating it. No hard choices, just everything you want.

The statement looks a bit different when you discover that in fact the Portuguese presidency had to fight very hard to get the words 'social cohesion' included in the Declaration. At the same time, it is precisely those words 'social cohesion' that make the statement seem distinctively, if vaguely 'European'. There is still an idea that there is such a thing as the 'European social model', which ensures that Europe is not the USA, that Europe is not Japan.

How reliable is this belief? Is there – or has there ever been - such a thing as the 'European social model'? To what extent is it under threat, in particular from inexorable changes in work and the labour market? If the European social model delivers (or at least delivered in the past) 'social cohesion', is that in fact compatible with a 'competitive and dynamic knowledge based economy'?

The first stage in answering these questions is to try to pin down what might be meant by the 'European Social Model'. If it does exist, what are its underlying principles and how did it come about? Finally and most importantly: what is happening to it today? We will discover that far from protecting the European Social Model from globalisation and/or Americanisation, the EU is at the moment busily undermining it.

## **Definitions of the European Social Model**

### **Social citizenship**

The simplest difference between the USA and Europe is that we have welfare states, they do not. Citizenship in Europe includes *social* citizenship, i.e. that cluster of rights to education, health, social security that have been traditionally justified as necessary in order to make political citizenship a reality. Such rights can be justified as ends in themselves, or as necessary preconditions for effective political citizenship. They are however rights, with the implication that they cannot be taken away and they are therefore enforceable.

Certainly, charity and voluntary work are also part of good citizenship, and Americans are justly proud of their traditional generosity in this area. However, the problem with charity is twofold. Firstly, it may be good for the donor, but by itself it does not make a big enough difference. In proportional terms, the entire US charitable expenditure is equivalent to the annual fluctuation of welfare expenditure between one budget and another in most developed European welfare states. Secondly, social rights cannot depend on the voluntary goodwill of others, since there is no necessary correlation between the extent of the recipient's need for social support and the intensity of the donor's charitable feeling.

Such rights necessarily have costs, not just in monetary terms but also in terms of restraints on the rights of others. If there is to be free education, then taxpayers have to pay for it. My right to free education constrains your right to spend your income. And frequently, rights and obligations are imposed on the same people (my right to health means I have to pay higher taxes). Furthermore, once people have *rights*, they are also opened up to *duties*. The political right to vote was historically linked to the obligation of universal military service, and today welfare rights are defined as involving the obligation to look for work. This density of rights *and obligations* in Europe means that Europeans are of necessity more entangled in the state than Americans.

Of course, there are within Europe many different forms of welfare state. One can distinguish between Scandinavian social democratic, Continental corporatist and Atlantic liberal forms, to which has subsequently been added a fourth, 'Mediterranean', type. Such systems can focus relatively more on transfers (as in Germany) or on the provision of services (as in Scandinavia); access to rights can be linked more or less to employment status; funding can be insurance-based or derived from general taxation, etc. The point is that even the British 'Anglo-American' version entails levels of state social expenditure – and levels of social rights – which are European rather than American. The welfare state is a defining feature of Europe.

Equally well known is the 'fiscal crisis of the state'. It is now over 20 years since the ending of any easy expansion of the welfare state. However, all the arguments about the need for efficiency and the growing demand for choice do not detract from the continuing massive public support for the European welfare system. Indeed, elements of such systems are crucial parts of European national identity. The 'neo-liberal' British do not only have a state health system, they have a **National Health System** which is perhaps more important to their national identity than their monarchy.

### **Economic citizenship**

Unlike Britain (and to a large extent Ireland), many Continental European states have also developed institutions of **economic citizenship**. This involves rights of representation within the workplace. Employees' rights to health and safety at work, and even the common law concept of the employer's duty of 'reasonable care', are hardly specific to European countries. European employees do however seem to have more developed rights to be involved in the enterprise for which they work. Such rights can be simply rights to information (the right to be told what is going on); they can be rights to influence what occurs. The most developed form of such rights is represented by the German tradition of *Mitbestimmung* (co-determination), in which employees have rights to representation at both workplace and enterprise level. *Mitbestimmung* is an example of how rights and obligations go together: while German employees have the right to representation, their representatives are also bound to consider the good of the enterprise.

This is totally different to trade union representation. Here too rights involve obligations, the *right* to strike and the *duty* to keep a wage contract, but trade union representation remains traditional in that employees remain external to the enterprise, while *Mitbestimmung* makes them internal to it. Again there are of course massive variations across Europe in the extent of trade union *membership*, but it is often

ignored that this variation is much smaller in terms of trade union *coverage*, i.e. the extent to which employees are covered by an agreement negotiated by trade unions. There are also differences between national industrial relations systems across Europe and differences in the extent to which trade union membership has been declining. Nonetheless, taken overall, it remains true that trade union representation remains important and legitimate in Europe.

Representation *within* the enterprise (co-determination) and representation *to* the enterprise (trade unions) have been termed by researchers from the European Foundation '*indirect participation*' to distinguish them both from '*direct participation*' in which employees participate in the immediate organisation of their work. Such participation is particularly promoted by contemporary American-style human resource management ('high performance workplaces' etc.). Such direct participation can be much more important to employees and of course is claimed by its proponents to increase commitment and productivity. What matters here however is that direct participation *is not a right*. To paraphrase the Bible: Management giveth, and management taketh away. There is however, no reason in principle why direct and indirect participation should not be combined, and it is suggested that precisely this combination is occurring and forms an emerging European model.

### **Employment rights**

Closely related to economic citizenship are employment rights. Here we reach the most contested area of the European social model, the debate on labour market flexibility. Compared to American workers, European workers enjoy protection against dismissal; they have rights to maternity leave and even parental leave; their working hours are regulated, as often is 'non-standard work' such as temporary contracts and agency working; their wages are usually fixed at national, regional or sectoral level. Furthermore, if they are unemployed or sick, they receive income support and so do not have to work at poverty wages.

It has now become an article of faith for many employers, economists, financial journalists and, above all, American commentators, that Europe's 'rigid labour market' is the cause of European unemployment. They claim that because European workers have such extensive rights, European firms are unwilling to take on new labour. Once employed, European employees are difficult to dismiss. They soon also acquire rights to maternal and even parental leave which are particularly difficult for small firms to accommodate. Furthermore, the regulation of working time prevents employers from adjusting hours to demand, while pay agreements mean that wages become inflexible and that national (or regional or sectoral) rates cannot be adjusted to take account of the enterprise's situation. Finally, since social welfare is so generous, the 'reservation wage' (i.e. the wage rate below which people will not work) is too high: many potential low wage jobs are simply not created.

In fact we are clearly dealing here with ideology of a particular virulent kind, since it seems quite impervious to rational discussion and empirical evidence. There are many different aspects of labour market regulation (regulation of working time, wages, employment security etc.) and EU member states differ in the extent and in the way in which each of these are regulated. Furthermore, the relationship between overall labour market deregulation and overall economic growth is quite simply unclear. During the 1990s the largest growth in overall employment within the EU

was in the UK, Ireland, Denmark and the Netherlands. The UK was (and still is) undoubtedly one of the least regulated labour markets in Europe; in Ireland all EU labour regulation has always been applied; Denmark and the Netherlands are much closer to 'European' models in terms of employment protection and levels of social welfare. More recently, there has been strong employment growth in France, despite its allegedly highly protected labour market. All of this suggests that the issue cannot be simply posed as 'regulation' versus 'deregulation'.

Different forms of regulation have different effects and some may be actually beneficial to employment. Thus a high reservation wage can improve 'job search'. If unemployed people are not compelled to take the first job offered to them, they will wait until they find a job more appropriate to their skills; they will not get locked into badly paid jobs where their training is not utilised. Equally, if employees cannot be easily dismissed, this may be the basis for training them to carry out a range of different tasks. A restriction on 'numerical flexibility' (the ability of the employer to vary the number of workers) is a precondition for 'functional flexibility'. For example, it is difficult for skilled workers to receive training if they do not have employment security; workers subject to hire and fire are unlikely to be committed and use initiative in work. Thus labour market regulation which constrains short-term competitiveness pushes firms towards strategies which ultimately benefit them more. Equally, limits on working time can force management to make more efficient use of labour rather than treating it as an indefinite resource.

### **Employment and working time**

The particular way in which the European labour market is regulated has consequences for the wider society. Although some countries have clearly become more ready to accept low paid jobs as a solution to unemployment, it remains the case that European economic growth has been less employment intensive than that of the USA. To that extent, the deregulation argument is correct.

The fact that European economies use a smaller proportion of the potential labour force means that de facto Europeans do not necessarily see any job as better than no job at all. It is important to remember that the alternative to paid employment is not necessarily unemployment: it can mean full-time education and training, it can mean early retirement, and it can mean home-making. All of these things would seem to be more acceptable in Europe than low paid jobs.

Furthermore, European working time is rather different to that of the USA. Over the year total working hours are lower, both because of the regulation of working hours and because of longer (statutory) holidays. If we all have to make a trade-off between earning money and having leisure, it seems that Europeans and Americans make different choices. One reason for this is very simple. The European welfare states ensure that some basic needs are free or subsidised for the user. This means that Europeans do not have to worry so much about paying for their basic pension or healthcare.

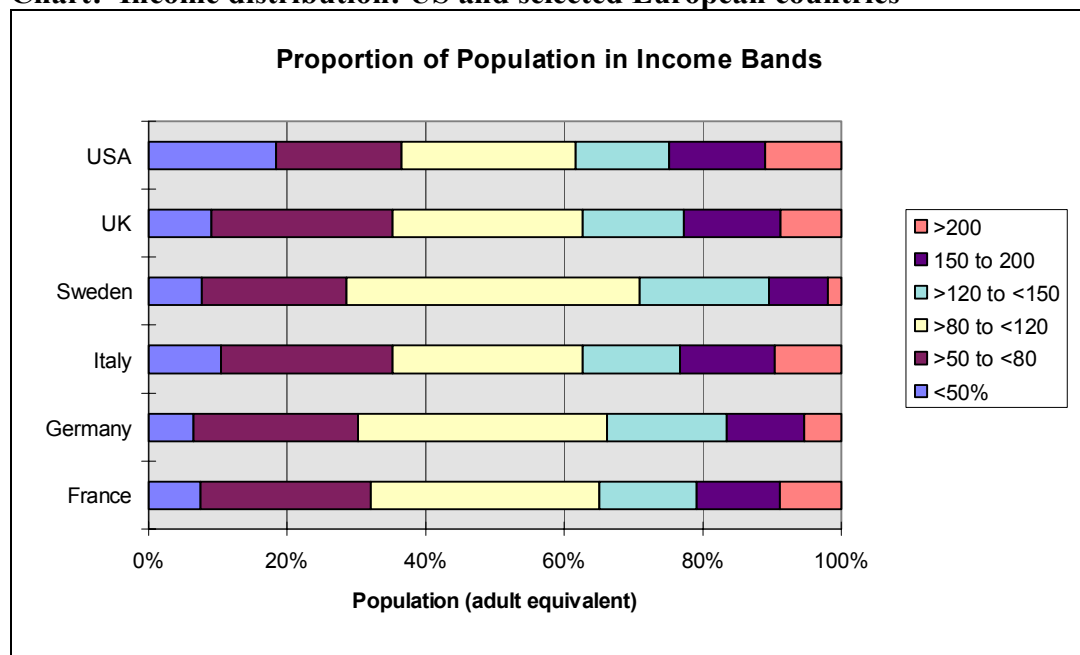
This in turn relates to questions of gender and childbearing. The US commitment to gender equality is at least as strong as that of Europe, but unlike here, the issue has no links to the question of public childcare. Because the US solves childcare either informally or through the market, the main beneficiaries of gender equality are middle class women. Affluent women may now choose careers and pay other women to look

after their children, while at the other extreme the poor (whether male or female) juggle jobs and children in complex and stressful ways. By contrast, European states, in particular in Scandinavia, tend to provide some state childcare facilities which, like other elements of their welfare system, both make it easier for women to enter the work force and at the same time provide relatively secure good jobs for women.

### Income equality

A welfare state does not necessarily involve income equality. As the example of France shows, high levels of state social expenditure are compatible with a relatively high degree of income inequality. Nonetheless, as the chart demonstrates, no European country approaches the levels of income inequality found in the USA. Compared to Europe, the US has high numbers of very rich people, and high numbers of very poor people. This inequality has other aspects. The US has the most prestigious (and the most expensive) universities in the world, but it also has some of the highest levels of adult illiteracy of all OECD countries. Literacy levels in the inner city ghettos make mockery of the claim that the USA is a 'knowledge-economy'. No European country puts such a high proportion of its poor people in prison. The number of people in federal prisons in the USA rose from .5m in 1985 to fully 1.7 million in 1999.

**Chart: Income distribution: US and selected European countries**



Source: calculated from Atkinson et al (1995).

These inequalities have their subjective side. There is some evidence that there is more popular toleration of such extremes of wealth and poverty in the USA than in Europe. Certainly, money can buy political power directly in the USA in a way that would still be unacceptable in Europe, most obviously in the extent to which politics is a rich person's sport. This is partly because American political parties have been

much weaker than European ones, so party bureaucracies are less able to control wealthy individuals; it is also partly because political funding and political advertising are almost unregulated. Yet at the end of the day it is also the result of a situation in which there are not only a large number of very wealthy people, but also such extremes of private affluence are regarded as acceptable.

### **Fundamentals of the European Social Model**

The European social model is only possible because Europeans accept the importance of the state. In the USA the state is often seen as bad in itself, as a necessary evil. Hence political extremists in the USA, such as the Minutemen, attack the state as such. By contrast in Europe the necessity of the state has much firmer acceptance, so that political extremists like the IRA are quite likely to cheerfully murder people, but consider that the state is the wrong state.

Interwoven with the acceptance of the state is the acceptance of a public sphere – of an area of society which belongs to all citizens as of right. Here in the public sphere things are done not for profit, but for the general good. A public transport system may not actually be provided by the state, but it is provided **for the public**. ‘Public service broadcasting’ – a concept almost unknown in the USA – means that some media are considered too important to be run purely for profit, since citizens have a right to good quality entertainment and impartial news which the market cannot be trusted to deliver. Similarly, it is accepted that the state should play a major role in providing education and health, since these involve notions of equity which it would be difficult for a commercial company to apply.

Public services have traditionally meant public employees, and here is the problem for the European state. As the state’s duties expanded in the second half of the 20<sup>th</sup> century, so did the number of its employees. Given the security of employment, given the separation of the state from the market, but given also the decline of nationalist ideologies that could make serving the public good an end in itself, the (sometimes justified) view grew that state services were run not for the benefit of the public, but for the benefit of the people who provided them. The dominant response has been so-called ‘New Public Management’ (NPM), which attempts to bring into the state the alleged efficiencies of the private sector, not least through privatisation and contracting out. This approach is an example of market totalitarianism. It ignores the evidence that public sector managers are less motivated by financial rewards than those in the private sector, that people do not enter state employment for exactly the same reasons as they enter jobs in the private sector. Far from revitalising the public sector, NPM risks further undermining any remaining public service ethos.

The state is guarantor of two very European concepts, ‘social cohesion’ and ‘social inclusion’. Although often treated as identical, it is useful to think of them as different to each other. The opposite of social inclusion is clearly social exclusion, the way in which some people and groups can be pushed out of society. Thus while ‘poverty’ simply **exists**, ‘exclusion’ is **created**. And if it is created, it can be reversed. While the poor may always be with us, the excluded can be integrated.

Social cohesion is another of those ‘European’ which you will not hear in the USA. In a socially cohesive society people take some responsibility for each other even if they do not share any personal links. Cohesion is therefore the opposite of

individualism. As in particular Islamic critics of ‘Western society’ have pointed out, total individualism, or what is increasingly termed ‘North Atlantic libertarianism’, cannot be the basis for a viable society.

## **The Politics of the European Social Model**

### **Origins**

It is tempting to see the European Social Model as expressing some sort of European essence, something quintessentially ‘European’. Yet this would be a travesty. The idea that Europe is an inherently peaceable place of social harmony would have seemed fairly absurd in the first half of the last century. At the beginning of that century the European nations still dominated much of the world with military-based empires. Later the European nations fought two ‘world wars’ with each other and the European ideologies of first communism and then fascism successfully preached new levels of violence against fellow Europeans.

The European Social Model as defined above really only emerged after World War II. And all for the contrast with America, it could only have emerged under the protection of America’s nuclear shield against Soviet expansionism. It is NATO, the military organisation of Pax Americana, and not the creation of the European Community, which explains the Franco-German rapprochement and the achievement of peace within Western Europe since 1945.

Within Europe, the social model derived from the political settlement at the end of the War. Right the way across Europe the end of the War saw a political consensus based on those forces which had opposed fascism, or at least which wanted no longer to be identified with it.<sup>1</sup> This meant the political left (the trade unions, the social democrats, the communists), but crucially it also meant the new anti-fascist ‘right’ the Gaullists and above all Christian Democracy who explicitly rejected fascism. For such people it was axiomatic that the new Europe had to avoid the social conflicts of the inter-war period, and that meant that a rejection of both authoritarian dictatorships and naked capitalism. For them the market was not an end in itself and a broadly interventionist stance to the labour market desirable. The historical strength of this tradition was shown in the 1980s. When the dictatorships of Greece, Portugal and Spain fell in the 1970s and entered the EU, here too the ‘right’ was Christian Democracy. On the left the new consensus emerged in the late 1940s, with the separation of the communists and social democrats as the Cold War intensified. This paved the way for social democracy’s final commitment to a market economy, recognised above all German SPD’s *Bad Godesberg Programme* of 1959.

This then was the political consensus of post World War II Europe. It provided the basis for the development of welfare states. For all the substantial divergences between them in funding, coverage, etc., these states were the building blocks for Europe’s social and labour market protection. However, these systems remained

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<sup>1</sup> The state that later became the Republic of Ireland was not part of these developments. The institutions of the state and the leading political parties have no history of anti-fascism, and this is one reason for the curiously archaic form of much political discourse. Ireland is for example one of the few countries where terms such as the Irish ‘race’ can be mentioned without worried foot shuffling.

firmly national. While the European Community was developing as a ‘common market’, the social model was being built up at national levels. In many ways the national states were strengthened during this period.

### **Anglo-American counter revolution and social Europe**

The last twenty years have seen this political consensus challenged by neo-liberalism. For neo-liberals, unlike earlier European conservatives, the market is an end itself. Since this political ideology developed first in the UK and the USA in the years of Thatcher and Reagan, the neo-liberal challenge initially stimulated a debate about different forms of capitalism. Thus ‘Anglo-Saxon’ or ‘Atlantic’ capitalism based on the primacy of the stock exchange and individualism was contrasted with ‘Rhineland’ capitalism in which companies were seen as social entities as well as bundles of assets and political bargaining between the interests groups of capital and labour was accepted. For many the European Community (as it then was) was identified with this. Consequently, in the UK Thatcher’s neo-liberalism pushed the British labour movement for the first time towards a pro-‘European’ position. In a speech to the British TUC, the then President of the Commission, Jacques Delors, contrasted the European social model to the existing *laissez faire* Britain.

In its early years the European Community hardly had any role in social policy which remained completely the preserve of the member states. What social competences did exist at Community level were largely unused (e.g. Article 119 of the Rome Treaty enforced equal pay, but nothing was done about this until the 1970s). The first wave of activity came with the Social Action Programme of 1974 after the enlargement of the Community to include Ireland, the UK and Denmark. Particularly important were the three directives outlawing gender discrimination in pay, employment and social insurance. For much of the 1980s subsequent attempts by the Commission to develop a more active social policy were largely stymied, not least by the UK government’s determination to veto anything which undermined its deregulation of the UK labour market.

Nonetheless, the ‘European social model’ as a concept began to develop precisely when the Anglo-American counter-revolution was beginning. The term ‘social cohesion’ was first used in the Single European Act (1987) at the insistence of the poorer states and originally referred to regional inequality, only subsequently acquiring its connection to problems within existing societies. From the late 1980s European integration was reinvigorated by the drive to create a single European market in 1992. For Delors in particular, popular political acceptance of the market hinged on the creation of European social rights. If Europeans were going to be exposed to European-wide competition, then they also had to be protected from the excesses of the market at European level. This belief was epitomised by the Social Charter of 1989 – which the British refused to sign at Maastricht.

Although the Social Charter itself was fairly innocuous, for most of the points were merely aspirations and involved no real commitments, it was flanked by a Social Action Programme. Furthermore, it involved the extension of ‘qualified majority voting’ to the social area. In other words, measures in this area do not require total unanimity in the European Council. This has been the basis for the directives on works councils, parental leave and working time. Like all directives, different member states can implement these in different ways. Typically Ireland and the UK

have chosen to implement the directives on works councils and parental leave in as minimalist form as possible, although this is not true of the Irish implementation of the working time directive.

### **The European Union: Destroying the social model?**

At a time when it is still possible to demand simple 'de-regulation' of the labour market, the measures of the 1990s show that there is no automatic contradiction between employees' rights and economic efficiency. Thus the regulation of working time is tending to replace expensive overtime with more flexible annualised hours, parental leave makes it easier to manage the conflict between the demands of the workplace and the demands of the home, works councils improve the flow of information between management and employees.

Nonetheless, the fact remains that such measures are imposed on enterprises – they ultimately have legal force. And it is precisely that approach that is going out of fashion in favour of voluntary forms of agreement. Furthermore, most of the social and economic rights of EU citizens remain at the level of their individual member state. On the one hand EU citizens live in a common market with a common currency; firms compete in EU-wide markets, whether for food or for house insurance, with fewer and fewer obstacles; employees work for firms which decreasingly have simple national identities (shares in 'Irish' firms are unlikely to be owned in Ireland). At the same time our health, our transport, our pensions, our education, all depend almost entirely on national governments. And because these are financed at national level, taxation varies widely across the Union.

This obviously raises the possibility of 'social dumping'. Firms may locate sections of their enterprise where taxes are lower or labour restrictions weaker. And social dumping can create a 'race to the bottom', where each country tries to have lower taxes than its competitor – and everyone ends up worse off. However, although this is undoubtedly a risk, the real problem at the moment lies elsewhere.

Since 1992 the main focus of European Union policy has been the drive towards the single currency and the consolidation of the single market. For governments this meant the increasing co-ordination of member states' financial policies and consequently the growing importance of collaboration between finance ministers. New methods of collaborative policy making have emerged: European financial policy is not made by one authority telling everyone else what to do, but by co-ordination, mutual reporting, and peer pressure. This has been collaboration between national ministers in the European Council, sidelining both the European Commission and the European parliament. And this has been a dramatic success: the launching of the Euro as a physical currency is the culmination of a political project which the Anglo-American world for a long time dismissed and still arguably has not really understood.

At the same time the Commission has been active, but in terms of competition policy. Increasingly the Commission has been removing national barriers to competition within the EU, sometimes even opening up markets, such as in postal services or electricity supply, which hardly existed before. Increasingly, when companies wish to enter what they consider a protected market, they appeal directly to the Commission over the head of the national government. As the Commission becomes more successful in this area, so it develops more authority and attracts

further appeals for action. For example, the American parcel service UPS used the Commission to force its way into the German parcel market which had previously been monopolised by the German post office, Deutsche Post . Increasingly too, public services such as transport are being ‘opened up’ in the same way, partly by rulings of the European Court of Justice. This parallels negotiations that are going on at the international level in the World Trade Organisation (WTO), so that very soon it may be possible for companies to use the same strategies to enter national markets in health and education. Finally, the Commission has been clamping down on national state aid to companies.

When the ‘Common Market’ was originally mooted, European integration was seen as having two aspects. On the one hand there was what political scientists now call ‘negative integration’: the removal of national barriers to free trade, whether these were import duties, subsidies or regulations that protected national suppliers. On the other hand however, there was ‘positive integration’, above all the creation of social supports for those who lost out from this process, and this necessarily would have to occur at a European level.

One way of understanding what is happening today is that we have a lot of negative integration, but very little positive. For the European Commission Competition Directorate, for the European Court of Justice, for the European finance ministers, what matters is removing the barriers to the market. And here they are clearly supported by some senior politicians; above all Blair of the UK, Aznar (Spain) and Berlusconi (Italy). Such people demand more ‘subsidiarity’ and claim that the European Commission has to be restrained from ‘meddling’ in national affairs. They hardly want the Commission to stop trying to deregulate the energy market, but what they do mean is to stop the Commission trying to develop a Europe-wide social policy.

There is however another possible interpretation of what is happening. Especially since the Lisbon summit, there has been an attempt to apply the finance ministers’ methods of collaborative policy making to employment and social policy. This has been formalised under the title ‘Open Method of Co-ordination’ (OMC). Accordingly, national governments are developing National Employment Plans and attempting to follow agreed ‘Guidelines’ in social policy. In theory this involves mutual learning and even benchmarking as governments try to learn from each other’s successes. This process is meant to involve other actors, above all the social partners, so that policy-making becomes genuinely collaborative and escapes from the sterile opposition between ‘national’ and ‘European’ levels.

However, this method of policy making could only succeed in the financial sphere because all the participants had a clear commitment to a common political vision – the creation of the single currency. Furthermore, they had a clear role model in the German Bundesbank and its monetary policies. There is no such vision in social policy.

Accordingly, what is happening is that where there is agreement, it is on objectives that are shaped by economic policy. Thus the Union is now committed to increasing overall employment to 70% by 2007, and this is to include employment rate of 60% for women. This will mean a challenge for Ireland, and a dramatic challenge for countries like Italy or Spain where women’s participation is much

lower. Similarly, there is a commitment to reduce the overall tax burden in order to increase competitiveness, yet as Irish and British taxpayers are beginning to realise, adequate public services require relatively high taxation. In this situation, social policy becomes subordinated to an existing neo-liberal consensus.

### **Conclusion**

Paradoxically, social policy is one area where European citizens are beginning to carry out their own 'benchmarking'. In Ireland and in Britain for example, people are increasingly unfavourably contrasting their health service or their public transport with that of other member states. Many ordinary Irish women know that French women, let alone Swedish women, have more rights than they do. Such issues are no longer simply the prerogative of experts.

In this situation the last thing we need is 'subsidiarity'. We certainly do not need to accentuate the trend whereby national ministers meet in secret to make decisions, (or in terms of social policy, not make decisions), sidelining the European Parliament and the European Commission. If this is allowed to continue, we shall have a Europe that is constructed purely as a market, created by judges applying commercial law and not regulated by any democratic parliament. Instead of an 'ever closer union of peoples' we are offered merely 'an ever greater market'. In other words, the destruction of the European social model and of everything that makes Europe different from the other parts of the world.

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