

THE FUTURE OF THE EUROPEAN SOCIAL MODEL



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Can I first of all say what a pleasure it is to be back in Athens in the presence of many good friends and esteemed colleagues. I'd like to thank the organizers for inviting me and also thank Nicos Mouzelis for his very generous introduction.¹

As Nicos just said what I'd like to do is to talk about the future of Europe, or the future of Europe from the point of view of Europe's Social Model, the Social Model being essentially that model of security and inclusiveness which we associate as one of the key characteristics of what it means to be European. What I'm talking about here is part of a much larger project in which the esteemed professor Loukas Tsoukalis is one of the scholars involved, there's something like 20 scholars working from around Europe on this project, who produce notable papers and we've had seminars and meetings across Europe on this theme over the last six or seven months, the project has been going on for about six or seven months. The beginning point of this project were a few comments that the British prime minister Tony Blair made in a celebrated speech that he gave to the European Parliament in June, in which he said - I mean I was told I mustn't mention Tony Blair along with Europe but I still see certain connections between the two - in which Tony Blair said that he was a committed European, that he was a believer in the European Social Model for the future of Europe. But what kind of Social Model he asked is it where you have nearly 20 million people unemployed? And he could have added what kind of Social Model is it when you have something like 90 million further people who could be in the labour force but who are not in the labour force. He therefore argued that although he spoke as a supporter of the European Social Model, the European Social Model must be reformed, the European Social Model must be modernized and must be brought into line with the extraordinary changes which are transforming our societies today.

So the project we begun has a sort of loose connection with the British presidency of the European Union but is going on for a year and a half and is therefore a much more extended project. I'd like to say at the outset it has nothing at all to do with being British, that is, we try to take a completely objective view of what is going on in Europe and what are the best strategies and procedures to try to produce the kind of society that we all want to see in the future.

Now, one starting point has to be the rather obvious, I think, observation that there is no single European Social Model in other words there is no single form of the European welfare state. This of course has been very familiar from a long time back for anyone who studies the social welfare literature. The most famous writer on these issues is the Danish writer Gøsta Esping-Andersen, who, if you remember, distinguished three types of European Social Model or three types of European welfare system; one he called the "Continental" and that was approximated to by Germany, France, to some extent Italy, the second one he called the "Scandinavian", I don't need to say much about that, that's an area of pretty high taxation and very effective welfare systems, the third one he called the "Anglo-Saxon" model and he meant by that the UK and some other countries outside of Europe, such as Australia, Canada and so forth. Well, three models then but three as we know is not enough. Most other writers added to Esping-Andersen's typology a fourth one, the "Mediterranean" model, different from the others and now we have to add a fifth one which would be the model of the new member states, because the fifth type is countries trying to make a transition from a communist welfare system to a

¹ Ἐπισημασθέντα ὅτι ὁ Ἐπίσκοπος Ἀνθώνης Γκίδνις ἔλαβε μέρος ἐν τῇ 10 ἡμέρᾳ ἀπὸ τοῦ 2006. ΔΑΝΑΪ ἈΑΟΚΟ ὅτι Ἐπίσκοπος Ἐπίσκοπος ὁ Δάρι ἀποδόξιστος ὁ Ἀέρις ἰρί ὁ 9 ἰ ἀνὸς ὁ 2006.

marketbased welfare system. So, at a minimum five types of European Social Model. However, I'd like to begin my arguments by suggesting that, famous though it is and important though it has been, Gøsta's typology is no longer anywhere near as relevant as it used to be. I don't think the differences between the European welfare systems fit into that typology easily any longer at all. One way of showing this is to consider for example what has been going on in my country, the UK. Esping-Andersen says the UK is a liberal welfare state in which the market is dominant. Well, that may have been true, but it is no longer true. The proportion of GDP spent in the UK on taxation is now 42%. That's about the same as Germany. The UK has invested very heavily in education and in healthcare reform with masses of money - tax payers' money - going into that. The UK has lifted about 2 million people out of poverty over the last six or seven years. You could no longer call this, I think, a residual or liberal welfare system. If we look everywhere I think these transitions are breaking down, so, personally, although I'm a close friend of Gøsta Esping-Andersen's, I think we have to move beyond that typology today and we have to recognize that we have much more hybrid models operating in Europe with many learning processes going on across Europe, between those models. And we mustn't any longer be caught in the spell of the idea that if you are from one type of system you can't introduce policies from another type of system. This is simply not the case. We must free ourselves from dependence on this kind of rigid typology. So, a lot of differentiation in welfare systems in Europe, a lot of differentiation in the Social Model, but all different sorts of trajectories and many different connecting processes is a better picture really of what the European Social Model looks like today.

Second, if we have a look at what changes should be made to this diversity of European Social Models, we first of all have to get our diagnosis correct. In the introduction the famous term 'globalisation' was mentioned. Well, I think I'm one of the first authors ever to have written about globalisation in the early 1980's. At that time I couldn't persuade, for example, any bankers or any politicians to talk about globalisation. Now the problem is to stop them talking about globalisation because they talk of very little else. Now of course globalisation is an important backdrop to the reform of the European Social Model and it is the case that manufacturing is being transformed by the rise of China, it is the case that China is moving up market, and producing high grade electronic goods now, it is true that outsourcing in India is a massive change because it means that service occupations can also move overseas, not just manufacturing occupations. All these things are true but it is false to say that globalisation is the sole, or probably even the primary reason why we need to reform European welfare systems. It's certainly an important backdrop to it, but some of the most important changes in Europe are largely internal changes, some of them come from the European Social Model itself, I think it's very important to recognize that the European Social Model or some versions of it are precisely where some of our problems with the European Social Model lie. If you think that all the changes that are affecting us are coming from the outside, then it's easy to blame the outside, you don't feel you've got to blame yourself. But in responding to many of these changes we have to blame ourselves because we have not responded adequately to some of the major changes that face us. Take, for example, the celebrated demographic issue, the ageing population. It's a fabulous phenomenon now, the ageing population in Europe produces for us a very difficult future, that isn't produced by globalisation, it's most loosely connected with

globalisation, it's a result of two things: people living longer of course, but mainly radical decline in the birth rate, the radical decline in the birth rate is one of the main problems that Europe has to try to manage and I'll come back to that theme a bit later on. Take, for example, the decline of manufacturing; one of the most important things that's happened in our world, is the shrinking of manufacturing. When people speak of the rise of the knowledge economy or what we should call the rise of the knowledge and service economy, that is a real phenomenon, a fabulous, again, transformation. A generation ago, about 40% of the people in my country, the UK, worked in manufacturing. Now that proportion is down to 12%, the European average is only about 16%, and in the US the latest statistics show that only 10% of the population now works in manufacturing. Amazing transformation! About 10% used to work in agriculture as late as the 1970's. In some EU countries now the proportion is down to 2 or 3 %. That means that over 80% of the population will have a future in service occupation not in manufacturing occupations and not in agriculture.

That is one of the big transformations of our times, but it's not brought about solely by globalisation, or again even primarily by globalisation. Technological change is the main reason for the decline of manufacturing and improved productivity which technological change produces. If you look at the car industry, for example, it used to involve many many hours on the production line, now most production in the motor car industry is automated production. So, of course the rise of China and India make a difference, but they are not the main reason for the transformation of our economy and it's a very big thing that we have to respond to, this new economy, because it is so different from the past, because the working class is now shrinking almost to the point of disappearance in our societies. Just one third example; poverty and inequality. Many people think that it's the result of globalisation, that the welfare state experiences stresses and strains and that inequality tends to be increasing. Well, it is, but only in some part. Much more important, as recent studies in poverty show are changes in the structure of the family for example. The people who are poor today are not the people who were poor thirty years ago, there are more women, there are more children, for example, among the poor in the EU countries today than there were thirty years ago. The reasons for this are bound up largely with internal changes in the structure of the family and other social changes associated with it, rather than the impact of globalisation. So, don't blame globalisation for everything; and don't suppose that our problems simply come from the outside when we must respond to them from the inside too.

Now, what we have done in this research is two sets of things. Well, in research we did the first one, and what I'm writing about in a book I've just tried to complete is the second one. The first task on which the project is concentrated, is to look at the best performers in the E.U. over the past fifteen years and compare them with the worst performers. The best writer on this issue in my view is an Australian economist called Karl Aiginger who is also involved in our project. He compared the three best performers, which he identified as the Scandinavian countries Sweden, Denmark and Finland with the three big underperformers, Italy, Germany and France, and he came up with some very interesting conclusions from this. Now many people think that to look to the Scandinavian countries is no use to anyone else, especially, for example, in Greece. This is not true. Many people think Scandinavian countries are small, therefore you can't export the Scandinavian model; well, of course you can't, but what you

can do is to learn from the policies that have been successful in those countries and some of these policies certainly can be transferred from one country to another, they do not depend simply on high rates of taxation as one might imagine when one first of all looks at the Scandinavian model. Let me just summarize some of the things that come out of this kind of comparison, because to me they are interesting and they form at least one backdrop to the general programme of reconstructing welfare systems in Europe.

First of all, the example of Scandinavian countries shows that you can have high tax regimes, which go along with business friendly environments. The Scandinavian countries have been the most open economies in Europe and this openness is part of their success. At the same time they've been among the most business friendly environments in Europe. It might surprise you to know that when the Economist does this ranking each year of those countries where it's best to do business, countries like Denmark and Finland have quite regularly come up top on the world in terms of best place to do business. It's not what you would ordinarily think of the Scandinavian countries as representing, but that is how it's been. This shows you therefore at least in principle, that it's not true to say that in order to be competitive you must reduce taxes. It's not true to say that you can only be competitive if you have a low tax economy. It is true to say that you must reduce some taxes, because what they've done in Scandinavia is to reduce taxes on business and they've compensated for this by increasing taxes, relatively speaking, in other areas. This has proved very successfully over the period that Aiginger has studied, which was from about 1990's through to early 2000's. The average growth rate of the Scandinavian countries was 2,9% per year, not as good as Greece, but nevertheless as good as US, or virtually as good as the US over that period and these are not the kind of countries which in any other way you would look to compare with the US.

Secondly, the Scandinavian countries show that reform of welfare systems and competitiveness go together. You are not competitive unless you reform. Now we all know it's very hard to reform welfare systems, in Greece for instance. It's proved pretty hard in most countries across Europe, but the striking thing about the Scandinavian countries is that they have both been the most reformist countries of all and they've been the most successful in competitive terms of all. So it's just not true that if you stick with existing traditional welfare systems you are promoting social justice. The Scandinavian countries are the socially most just not only in Europe but in the world, they've shown that social justice is not only compatible with competitiveness but the one actually depends on the other. If you do not generate competitive economy you cannot reduce your levels of inequality and you cannot produce a socially just society. It's a complete myth to see these two things as contrary to one another and the Scandinavian example I think shows that very clearly. I don't know if people here know just how reformist the Scandinavians have been. They've radically reformed labour markets, but they've also introduced consumer choice in public services, they've radically decentralized their education system, which used to be quite centralized, they've radically decentralized their health care system. I think only about 6 or 7% of the health care system is funded centrally, in Sweden it used to be about 75% and they've introduced vouchers in education, they've introduced choice of schools in education, they thoroughly reformed the welfare system. It's what we all need to do. You don't have to be a Scandinavian to do these things, well it's easier if you are in a small country to do them. Nevertheless, the principles apply

elsewhere and I would repeat they are a long way ahead of other countries in terms of social justice. The social justice they have is not just the residue of the past. It's because of the reform that they've made and it's the competitiveness which has created that. A crucial part of it is having a high proportion of people in work, precisely as I understand it what Greece does not have, at the moment. One should concern oneself not only with unemployment but with employment. Employment is in a way more important than unemployment. Now the Lisbon strategy set the whole of Europe a target of 70% employment by the year 2010. It doesn't look as though Europe will get there. But the Scandinavian countries have employment rates up near 75% anyway, incidentally the UK has an employment rate of about 75%. If you have a lot of people in work, you don't have to spend a lot of money on unemployment benefits and you can afford to fund the things which are education, health and to some degree pensions that people really want. Scandinavians also have a balanced budget. They are among the few countries in Europe that actively balance their budgets, so they are not paying for this through debt, they are not paying for this through loans.

Thirdly, you can show that really important in Scandinavia has been investment in the long term drivers of growth. The long term drivers of growth include especially investment in infrastructure, investment in information technology, generalization of information technology to many areas of the society, investment in early years education and investment in higher education. The guy I mentioned Karl Aiginger did an analysis comparing the whole of the EU with the US in terms of sixteen long term drivers of economic growth and he found that in 1990 the US was ahead of the EU on all sixteen of these measures. The picture today is that the EU is ahead on two of them but has fallen behind on several of the rest of the fourteen. But the Scandinavian countries have not, they've been ahead on these. If you don't invest for long term growth you are not going to get short term growth either, so one mustn't imagine that simply changing the mission of the European Central Bank is suddenly going to repromote growth in Europe. You have to make investments which are needed to produce growth. If you look at the three big countries France, Italy and Germany, they haven't made these investments. They haven't reformed their welfare systems, they have divided labour markets. Divided labour markets do not promote social justice, ladies and gentlemen. Divided labour markets are where you have a section of the labour force, which is secure, but you have another section which is radically insecure. In Germany and France all the job growth is going on in the insecure sections of the labour force, you have a higher proportion of young people unemployed, what kind of future is that for the young? When, like in France you have a third of younger people who've never held down a regular job in their lives and many of whom might never do so. Youth unemployment in Scandinavia and also in some other European countries is actually very low. There is no need to have high youth unemployment you have to get the other policies right, but if you don't make these changes you don't produce a just society so I'm very much against those people who believe that they are defending social justice when they defend the status quo. Often they are defending partial or sectional interests, they are not interested in the fate of the unemployed, they are not interested in the fate of people that want to work but can't do so. They are interested only in the fate of those in a particular section of employment. Well, that will not do as a model of social justice. So, the overcoming of divided labour markets is a very crucial thing for many European countries.

Finally, Scandinavian countries have done what the rest of us need to do, in respect of the generations. Most European countries spend too much on older people and not enough on younger people. You might think that because of the ageing society you need to spend more on older people, but this is not the case. Poverty levels have risen far more among young people than among older people, and child poverty - I believe levels are pretty high in Greece of child poverty - is a major problem across Europe, a major problem. Look at Scandinavia, they have virtually no

child poverty, look at my country, the UK, we have millions of children in poverty even though we've reduced that number by about a million children. Still, millions of people living in poverty. That is not acceptable, I think, in a model of social justice in a contemporary society. We have to spend more on the young; we have to spend more on women, women are the key to economic development. If you don't allow large scale participation of women in the labour force, if you don't have sufficient facilities to help women when they have young children your society will not prosper. This is a more or less universal finding. The involvement of women, the emancipation of women is perhaps the single most important criterion for economic prosperity, no matter where you look. It's true of very poor developing countries and it's true of more affluent countries too. If you look at single parent households in Scandinavia, for example, 90% of single parents are in work. If you look at birth rates, they are higher than they are in most other parts of Europe. France has a higher birth rate. Why? Well, because it spends very freely on care for young children and intervenes at the key part really in women's lives. So, investment in children, investment in women is not only the condition of prosperity it's also again the condition of social justice. What we found out about inequality is that inequalities are established very early. If you look at two children of equal ability at age three and they are from different social backgrounds, and you look at them ten years later, the one from the poorer background appears as less intelligent, less able than the one from a more affluent background. This is not because of genetic ability because it's the same originally it's because early on some of the factors that produce inequality, echo down the years. That's why overcoming child poverty is such a core thing for social justice in the future in Europe.

So, I would like to maintain that we can learn a good deal from those countries that have performed best. The policies involved don't necessarily involve high taxation. There are other ways you can achieve the same outcomes. For example, you can have charging to some degree of care services, in fact they do have that in Scandinavia you can have charging for some aspects of health care services, indeed they do have that in Scandinavia, there are many ways in which you can achieve the same outcome without doing it centrally through the state and without having the same levels of taxation.

However, this is not enough. It's not enough simply to look at the best performers. I think for well known reasons, those reasons being that today's miracle is tomorrow's failure, so every society which is held out to be the ideal society of the future finds itself at some point lapsing or falling behind; think of the period when Japan was going to lead the world, it didn't happen; think of the period when the German economy was the great miracle economy, well, look at the economy today; think of the time when the Dutch, the Netherlands was supposed to be the leading society in Europe, that's all fallen by the wayside. So although we can learn from the best performers it's not enough. We have to look to the future and I'd like to propose to you in

the second part of what I have to say, that we need to look for much more radical reconstruction of welfare systems than anyone has achieved in Europe so far, including in the Scandinavian countries. Why should this be? Well, I think to me for very cogent reasons. If you go back to the Lisbon agenda, the Lisbon agenda says our economy is going through revolutionary changes, we must revolutionize economic policy to meet those changes, quite right and proper. But the Lisbon agenda did not show and did not even really investigate the radical changes that are going on in our societies too. The revolutionary changes happening in the economy are also matched by massive changes going on in our society too. These changes mean that traditional welfare systems won't work in the way in which they used to do and they may lead to the conclusion that perhaps even the welfare state is something which belongs more to the past than to the future in the way in which we traditionally understood it.

So, in the last part of what I have to say I want to make four main points about looking at more radical reform of welfare systems in Europe.

First point: We have to reform the very nature of the concept of welfare itself. Welfare in the traditional welfare state was usually defined negatively and was usually defined quite narrowly. One of the founders of the welfare state was William Beveridge, the British author who was one of my predecessors as the head of the London School of Economics many years ago. Beveridge said, well, what's the point of the welfare state, it's to tackle what he called the five evils. But it's not good enough for us today. We must move from what I would call the traditional notion of welfare, which I regard as an essentially negative notion of welfare to one I want to call positive welfare. Positive welfare says, instead of simply avoiding ignorance we want education. We want education for everyone, we want lifelong education, we want the chance for people to move in and out of the educational system, we want a higher proportion of people to go to university and so forth. Most of the negatives, well, all of the negatives which Beveridge identified, can be turned into positives. It's not enough just to manage sickness. Health care systems developed essentially as responsive systems when people got sick but we need a model of positive health today. We need a model of positive lifestyle if you like. We need to specify a range of positive values, which our welfare systems should stand for, and these positive values can have a somewhat inspirational quality for people. The traditional welfare state doesn't really have that quality. You could say that in the post war period the welfare state was in the vanguard of change, but nobody could say that today. It's kind of tagging along after the socio-economic changes associated with globalisation and so forth. We want to put, or I want to put it, much more back into the lead, that is, I want to substitute a notion of negative welfare for a notion of positive welfare.

Second, we have to take seriously the new inequalities that have developed in our societies. I think one of the striking things about the Lisbon agenda is that it has a great deal of detailed policy on how we should respond economically to the new competitive situation in which Europe finds itself. It has very little to say in detail about inequality - about how to tackle inequality. Most of the statements which are made are pretty general statements. The work of Esping-Andersen which was linked to the Lisbon process is an exception to this I think, but if you look at most European Commission documents, they are very detailed when they talk about economic competitiveness and they are very vague when they talk about social exclusion or when they talk about the values of inclusiveness. You don't find the same kind of detailed

policy analysis. We need that policy analysis. We won't be able to get Europe back on track again unless we cope with the problems of those who are losing from the processes of change which we are now experiencing. We know that the "no" votes to the Constitution in France and the Netherlands were not primarily constitutional "no" votes they were mainly to do with peoples' worries about unemployment and about their economic futures. We know that even low birth rates are not just to do with the lack of childcare for women. They are also to do with the fact that people think "Will I have a job in ten years time?" Many households are now dependent on two incomes. And people think "Well, should I have a child when one of us might be unemployed after I have a child or might be unemployed anyway?" You see, we need to look at the new inequalities, analyse them out and produce new policies of confronting them if we are going to deal with the malaise, the economic malaise that Europe has. If we are going to make the Lisbon agenda more effective it's not enough just to continually re-iterate the Lisbon agenda. We must also have some policies that cope with the anxieties that people have, which are not just about unemployment although that's obviously important. To do so I think we've got to look at the new structure of inequality in our society. We now have some very interesting research materials on this. People used to think of poverty as a static condition. If you are poor then you are poor generically. People used to think poor communities are simply separated from the wider society, so the term social exclusion was invented to describe those communities. Now for the first time over the past fifteen or so years, we, for the first time, have got dynamic studies of poor people and poorer communities and they have been very revelatory. It's the first time that people have actually studied poverty careers over time. What these results show is that far more people are poor at any one time than we ever thought was the case. For example, one of the original studies in Germany showed that 40% of the population in Germany was in poverty for at least one year, out of the five year period which was studied in the late 1980's and early 1990's. Far more people experienced poverty than we ever thought was the case before. But also far more people escape from poverty than we ever thought was the case before, if you study people's lives enough in a time dimension. Now of course, some people live in embedded poverty. The proportion of people who live in embedded poverty is much less than we used to imagine. There is no underclass in the European countries. People used to think, well 5%, 10% of the population, ethnic minorities, is excluded from the wider society. Not so. In most of the studies we have much more mobility than we imagined. So this means that one of the important things in policy terms, for example, is not just to target policy on the poor. You also want to target policy at people who are not poor though who might lapse into poverty, people above the poverty line. You need to get people who are in businesses to provide more promotion chances especially for women in, for example, super market jobs or unskilled service jobs. And we know that it is possible to do that, so you need a different cluster of policies from the past. And they can help us, they can really help us, reduce the inequalities that we see around us. The same thing is true of communities. This is very important for the multicultural debate now going on across Europe. In my country, in the UK, there were some riots between British Pakistanis and whites in Bradford and a number of northern towns a few years ago. People went to those towns after the riots and they found quite a lot of separation between the communities and they said "Aha! multiculturalism has produced ethnic separation. When you have communities that don't relate

to one another then you get violence, disaffection, social exclusion". Was it true? No, it was not true. We've only recently found that it was not true because people have only just studied these communities over time. And what they found is, at Bradford for example, many many people move into the Pakistani dominated neighbourhoods or the neighbourhoods with large numbers of Pakistanis but they move on and they move out. The large majority of Pakistani people have become British Pakistanis and they move out of the areas in which they come to, they move into middle class areas. Those who are Islamic, and many of them are Islamic, do not want to live separately from wider society, they say they want to live with others and they successfully manage this. What happens is that new immigrants move into the area, so it looks as if the area has stayed the same, if you just studied the area with a static snapshot. But it does not stay the same, there's much more mobility, there's much more connection between whites and Pakistanis than we ever used to think. You see this is not an indictment of multiculturalism. My view is that in Europe, by and large, multiculturalism has not even been tried. Multiculturalism does not mean separate communities pursuing their own interests, living separately from one another, it never meant that, it always meant integrating people into the wider community, recognizing cultural difference as a learning process in a relationship between the host community and minority communities; that's what it always meant in Canada, for example, and Canada was the origin of multiculturalism. Multiculturalism has not as yet really been practiced in Europe and it's high time that actually we did.

Thirdly, accelerating a bit but very importantly to me, many of the welfare issues we face today, some of the core issues that we have to deal with in the welfare system today are not the kind the classical welfare state was built on. They are what I call post-scarcity issues. The welfare state was established on the basis of coping with scarcity primarily. Dealing with people that didn't have enough and integrating them into the wider system. But many of our problems today are no longer to do with scarcity they are to do with abundance and the problem of how to manage abundance. This is true of traffic for example, I noticed as I came through Athens today, but it's also true of many many other aspects of our lifestyle. Let me just give you one example which is the increasing rate of obesity or super-fatness in Europe. 20% of Americans are clinically obese and you might think that's an American problem, well, the hell it is an American problem, you've now got 18% of people in EU countries who are clinically obese and the proportion of children who are obese is rising every year. This is not a problem of scarcity. Poorer people here don't lack food, they eat too much food, not the right kind of food. Now obesity is not a problem, if I might say so, to laugh at, because it brings very very serious health problems in its train. It brings especially diabetes and heart disease. One in five of the population of New York is now diabetic and some people think the health care system can't cope any longer. Diabetes is rising steeply in quite a few EU countries. The diseases we have to deal with now are mostly diseases of abundance, not the kind of diseases the welfare state was set up to conquer. Now, there are many aspects of life style which we need to change. I was driven here by the noble Nicos Mouzelis, who didn't put on his seat belt when he was driving his car; well, I mean, you know, I don't approve of this. Do you know how many people have been killed in the world, in car accidents, quite apart from other traffic accidents? 40 million people have been killed in the world since the car was invented; more people than died in either world war, have died on the road. Should we accept that situation? I

don't think actually for the future we should do. Anyway, going back to health, health now depends a lot more on lifestyle habit than it ever did before. Therefore you can't deal with it simply by picking up things when they go wrong, you must have preventative strategies. Everybody should look at what has been achieved in Finland, which is amazing. Finland had one of the highest rates of obesity twenty years ago, it had one of the highest rates of heart disease in Europe, and it had one of the highest rates of diabetes in Europe. The Finns introduced a system of changing people's behaviour, a mixture of sanctions and a mixture of positive incentives and they completely turned the situation around. Life style habits changed, dietary habits changed, the proportion of people smoking dropped. Finland now has just about the lowest rate of heart disease in Europe, just about the lowest rate of diabetes, and its other health indicators look extremely good. We can all learn from these interventions. I can assure you the health system, even in five years time, will not be able to cope if we don't make some of these interventions now. And I would therefore like to argue that the notion of positive welfare connects up far more for us today with lifestyle change than it ever did before, lifestyle change in many respects is the key to welfare for the future, for our citizens.

And this brings me to the fourth and final issue which is of the environment. This is the time for the environment, I think. Again, if you look at Euro documents, if you look at people's even scholarly studies everybody says of course the environment is important, everybody talks about sustainability, every Euro document you get has got sustainability in it, and does it mean very much? Well, it means a bit because Europe has lead on environmental issues but I think if you remember this American book the "Tipping Point", we've reached the tipping point with the environment. Environmental issues will become far far more central to our lives than they've ever been before and they will demand a life style change from us which is much more profound than has ever been the case before. There are two reasons for this I think. One is environmental shock itself. We used to think climate change was something for the future, which we had to try to avoid, now the scientific consensus is that climate change is here, that it's already on us that our weather patterns are already changing and the change in weather patterns is not just warming. It's completely wrong I think to use the term global warming. We are talking about climate change which produces erratic climate conditions. We've already seen a major city in the richest country in the world be devastated in 24 hours. That kind of experience is likely to be experienced elsewhere too. Environmental shock is with us I think, it's no longer something for the future, climate change is with us. Second, climate change shock coincides with energy shock. We in Europe have got used to having cheap energy. We in Europe have got used to depending on the Americans to provide global security especially in the Middle East, to provide our energy because we get far more oil from the Middle East than the Americans do. We've now diversified in Europe but we depend on Russia, 50% of gas supplies come from Russia. Well Mr Putin did us a favour because he showed us how vulnerable in Europe we are. So, I therefore think we now must face energy shock. Energy shock means we won't be able to go on as we used to with the consumption of energy and we have to diversify our sources because we are extremely vulnerable. Most of the new supplies of energy come from unstable countries or across unstable countries. This is true of most of the new pipelines coming from Russia and remember that in Russia, Mr Putin has essentially re-nationalized what was a private company, Gazprom. Therefore, he is in a position to use that politically and he

has made it clear that he will use that politically. I don't think that we can any longer be sanguine about this. You see, it's very interesting I think to see that Sweden has been the first country in Europe and I think the first in the world, to declare that it will abandon oil dependence - not only in the long term but within about 15 years from now. Within about 15 years from now Sweden will be a country which is not dependent on oil or gas almost at all. At the moment it is already well in the lead of other countries in this respect. Other countries as well will have to follow. You might have read that Portugal recently announced a plan for the biggest wind farms ever in Europe plus massive investment in solar energy. We've even got states in the US like Wyoming which says it's going to be the first oil free state in the US. It's going to base this on liquid coal because coal is a promising fuel, because you can turn it into liquid and get rid of the CO₂. Unfortunately it's not clear what you do with the CO₂, but it can become a viable fuel if that issue is resolved and Wyoming seems serious about becoming an oil free state. This is big a transition in history I think. I think environmental issues for our lives will become what information technology was for the last ten to twenty years. So central that our lives will be built around the kind of changes that we have to make to accommodate these things. These changes are not just negative, I think they are positive. I think we do need for example to limit the realm of the motorcar for instance and that's clearly a major polluter in our societies. I think actually food is a pollution. What's happened with smoking I think will happen with the content of foods. Fast food will suffer legislation in terms of its medical consequences in the same way that tobacco did a generation before. So life style change and positive welfare are emerging as new kinds of issues for us which we must resolve.

In conclusion I'll just go back to the theme I started with, we want to transform the European Social Model, I think we want Europe to be in the vanguard of world society. Many people say, "Can Europe afford its Social Model?", but I think for us the issue is "Can Europe not afford to have a Social Model?" and my answer would be "No, it cannot afford not to have a social model". The US economy is in a brittle condition. Even China has massive transitions to get across. Don't lose hope for Europe because I think we can again become pioneers for the world and that's what I'd like to see us becoming.

Thank you very much. Even though I come from Britain...