YVES LETERME

Deputy Secretary General, OECD

Jim Hoagland, Contributing Editor, *The Washington Post*

Let us pass this hot potato along to Yves Leterme, who is Deputy Secretary-General of the OECD and a former Belgian Prime Minister. Yves is a Christian Democrat leader in Europe. Do you sense an eagerness for a debate about tax policies? Secondly, I wonder if in your remarks you could reflect on what it means to be European in the social model sense. What is distinctive about that? How can that be maintained in the era of globalisation?

Yves Leterme, Deputy Secretary General, OECD

Thank you very much. To put it a bit provocatively, I think you could turn the central question of this part of the debate the other way around. You could ask how well emerging economies have built up a comprehensive social security system to make their economic development sustainable. I think we all agree that social cohesion, in other words investing in all types of talent and having everyone on board, is a precondition to achieve sustainable development. The question has been approached in a very defensive way. I think you can put it the other way around. The main problem from a global point of view in terms of human beings is more a feature of the emerging economies which sometimes have big problems caused by an ageing population. That is the case, for example, in China. The question therefore is how they can build up systems such as ours because, again, in my opinion a system that provides good social cohesion is a precondition for sustainable economic development and prosperity in the long run.

Secondly, I think when we talk about European welfare states we have to be well aware of the fact that there is no such thing as a single European social model. We have at least three or four different social models in Europe. I will not elaborate on their characteristics, but we have the Scandinavian model, the Rhineland model in Germany, Austria, Belgium, Luxembourg and France, the Anglo-Saxon model of the UK and a newer model found in some countries in southern Europe and in Eastern European countries that have built their social models more recently. This is quite different.

It is better to put it in terms of what burden social cohesion and solidarity put on the economy. On average in the 34 OECD countries, the most developed industrialised countries in the world, 22% of GDP is dedicated to social policy. Some countries, such as Chile, which are still building their social models, have a very low percentage of their GDP dedicated to social welfare. France and Sweden are two of the countries with the highest percentages of GDP dedicated to social welfare. Those two countries are currently performing very differently from an economic point of view. They both dedicate 30% of their GDP to their social welfare states. I think that is a better figure to look at to determine what kind of burden is placed on the economy.

I would add that there is a distinction between a comprehensive social security system where the initiatives come from the public sector and, on the other hand, in your country, for instance, the private provision of social services, which do not always have convincing results. The antagonism between the two is a little bit artificial because in the European system we tax social allowances whereas you give lots of tax deductions to encourage people to sign up for Social Security, health insurance and so forth.

Last but not least, I think we really need reforms. Some of those reforms have partly been put in place. The reforms we need are an increase in the retirement age – when life expectancy increases by 15 to 20 years there are consequences to that and people need to work for longer – and more selectivity in health insurance. We obviously need greater efficiency throughout all of Europe's social security schemes. Europe also has to be especially aware that, as the recent PISA report made clear, skills are the currency of the 21st Century and investments in social resiliency are therefore more important for Europe than investments in security. That means investing to give people the tools to react themselves and take greater responsibility when they are unemployed.

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Do you think that the economic crisis that Europe has just been through, which it seems to be recovering from now, has created the political will to bring about the reforms you suggested or will we need further crises and further developments?

Yves Leterme, Deputy Secretary General, OECD

Well, first of all, as the Commissioner said, it has not been the practice of the European Union to be active in the field of social security. However, having been one of them, I think that all political leaders in Europe are well aware of the fact that in terms of competitiveness things have to change. However, we have to be realistic. I think that Germany currently has one of the most costly tax regime in Europe. Nevertheless the German economy is performing very well because of other factors, such as the way companies are organised, innovation and the level of their labour costs as a whole. They have made a lot of effort in those regards. To answer your question, I think that the European leaders know that this is a very important task to make the European economy more competitive. It is, however, a broader problem than just the cost of labour. Labour costs are certainly a problem and we need to shift away from financing our social security through taxing labour to other forms of taxation. That is just a part, though, of the bigger problem of the competitiveness of the European Union.