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Market Integration, Globalisation
and the European Welfare State

MARTIN RHODES

EUI Working Paper RSC No. 95/10

European University Institute, Florence

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INTRODUCTION

This article considers the issue of European state autonomy in the social domain by examining the past, present and prospective influence of European integration and 'globalisation' on national systems of social policy and welfare. The specific processes considered are the attempted creation of a European 'social' area, the completion of the internal market (and, potentially, monetary union) the competitive effects of trade liberalisation and the impact on policy autonomy of greater international capital mobility. If national social policies are being influenced increasingly by European Community activities (legislation, regulation and wider economic integration) and are more constrained by the need to conform with the expectations and prejudices of international financial markets, then what are the implications for the dynamics of welfare state development? The following analysis focuses on five major, interrelated questions: what is the relationship between regional economic integration and global trends, and between these two and domestic welfare state problems; do regional integration and globalisation have independent effects; do they interact with one another to hasten convergence trends; are they strong enough to erode national specificities; and is there evidence of convergence on any particular model?

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1. SUBVERSIVE LIBERALISM AND THE WELFARE STATE

Welfare states in Western Europe are extremely diverse and each is responding in its own way to the problems of cost-containment in the areas of health, pensions and more general welfare provision created by demographic pressures, life-cycle changes, fiscal strains and, arguably, by the transition from a Fordist to a post-Fordist economic order. But at the same time, the scope for different national responses is being increasingly limited by two major constraints: by the need to avoid an excessive fiscal burden on middle class electorates (a domestic constraint) and by increasing interdependence (an international constraint). This interdependence is the result less of new, pan-European structures than of the combined effects of regional economic integration (the creation of a single European market, the deflationary impact of the European Exchange Rate mechanism (ERM) and moves towards monetary union) and globalisation (competitive trade pressures and the liberalisation of international financial flows).

Together, these forces are operating what one can call a 'subversive liberalism' which, although not creating a full-blown 'crisis' of the welfare state, is eroding the principles of universalism and solidarity in welfare provision and subjugating social progress to the demands of economic competition. In the early 1990s, an analysis by Garret and Lange that asked

'What's "left" for the left?' concluded that 'governments of the left - in alliance with powerful labor movements - have been able to maintain their traditional goals of redistribution, welfarism and full employment while simultaneously adjusting to the new exigencies of international economic competition' (1991: 564). This may have been true before the mid-1980s. But the 'new exigencies' in the 1990s derive not only from market interpenetration. They are also the product of an internal deregulatory agenda - backed by powerful neo-liberal arguments (often presented as 'economic necessity') - that is coupled with external pressures in the global economy. Perhaps most importantly, Ruggie's international regime of 'embedded liberalism' - in which capital controls still figured prominently - has witnessed (as Ruggie himself forecast) a loss of control by governments over financial transactions and international and domestic liquidity creation as credit and exchange controls have been abandoned (Ruggie 1982: 414-15). In consequence, the domestic economy - which has to come to terms with *internally* generated welfare state problems - must also now shoulder the burden of adjustment in restraining the expansion of credit and money stock effected by international markets, defending the external balance of trade and payments and controlling inflation. Under these circumstances, innovation, change and material progress have emerged as pre-eminent in economic policy making (Mishra 1993); and social progress is slowly becoming subservient to the perceived needs of the market economy.

In the following discussion, part two considers briefly Europe's different welfare models (as a prelude to considering the issue of convergence) as well as their internally generated pressures for change. Part three analyses the importance of regional integration in Europe, while part four considers the influence of global forces on welfare state developments. Part five examines the independent and interactive effect on welfare states of regional integration and asks whether they are strong enough to break down national particularities.

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2. WELFARE STATE MODELS AND INTERNAL PRESSURES FOR CHANGE

In recent years there has been a proliferation of comparative studies developing typologies of welfare state regimes, inspired largely by the seminal work of Esping-Andersen (1990). Leibfried and Abrahamson identify four different welfare models in the EC:

- the Scandinavian model which has a high degree of universality and institutionalisation, has a traditional emphasis on the public sector (the welfare state has been 'the employer of first resort', especially for women) but has been concerned more recently to reduce levels of taxation and adopt various market and civil society solutions to social problems. Now

- the liberal, Anglo-Saxon model with an emphasis on publicly organised and financed social insurance with low flat rate provision in combination with private charity. According to Leibfried (1992: 252), in this 'residual welfare state', 'selectivism reigns as the principal approach of social policy, making the welfare state rather a compensator of the last resort'.

- the corporate, 'Bismarckian' model of the central European countries which emphasizes labour market-linked solutions whereby employers and employees have agreed on arrangements covering workers for unemployment, sickness and old age. Those sectors of the population left outside the labour market are dependent on local public or private charity.

- the 'Latin Rim' model which emphasizes traditional civil society solutions like church, family and private charity in combination with parallel residual public welfare institutions - in other words, a 'rudimentary welfare state'.

Regardless of their membership of different welfare families, all European countries have in the past experienced common *internally* generated pressures for change which are important to consider in any discussion of convergence. Two sets of pressures have produced and are producing a certain degree of convergence: the first - from the era of welfare state expansion - stemmed from attempts to bolster legitimacy and social cohesion and to redistribute costs; the second relate to the problems of welfare state restructuring after the end of 'the golden age'.

Legitimacy and Cost-Shifting Games

During the expansionary phase of the European welfare state there was already a degree of convergence between the two broad types of welfare state in Europe: those which sprang from the Bismarckian tradition (relating welfare rights to wage-earners' and employers contributions) and those inspired by the Beveridgean concept of general insurance. In the Bismarckian countries, social insurance was supplemented by measures to allow the payment of benefits to non-wage-earners and to the whole population (eg. family allowances and medical care), pension-schemes were set up for non-wage earners and a right to

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a guaranteed minimum was recognised. In the Beveridgean countries, an opposite evolution has led to a guarantee in the case of average or above average salaries of a higher rate of replacement income in the event of unemployment (through supplementary schemes)(Chassard and Quintin 1992). This process of ‘convergence’ was driven largely by the search for legitimacy by political actors in the face of interest group lobbying and electoral pressures.

One consequence of these changes, according to Overbye (1993), is that there has been a parallel convergence on a more *dualised*, ‘middle-class oriented’ welfare model. The competition among elites for votes generated ‘cost-shifting’ games in which the relationship between forms of social security spending and forms of benefits were modified over time, producing a convergence in social policy outcomes. Focusing on pensions politics, Overbye (1993) argues that the two main groups - ‘assistance’ countries (the Nordic countries and Britain) and ‘insurance’ countries (Germany, Belgium, France, Italy and Spain) - underwent a convergence process towards a dual pension structure in which the whole working population receives earnings-related pensions while the non-working population relies on different tax-financed, means-tested benefits. In the case of the ‘assistance group’, the Nordic countries increasingly emphasized income maintenance alongside minimum protection, and, financing such schemes through ‘contributions’ rather than general revenues, they have moved progressively towards an ‘insurance approach’ to old-age pensions. The Anglo-Saxon countries have also made similar movements, producing a common trend towards giving the whole population access to public superannuation and/or compulsory occupational pension coverage, while marginal groups have become dependent to a growing extent on various types of tax-financed, means-tested supplements. In the case of the ‘insurance group’, there has been a general tendency in countries which began with contribution-based, income maintenance schemes for the working class either to extend coverage to other groups or to introduce parallel schemes for various occupational groups. This type of change has occurred in those countries like Germany and France where pension schemes were originally targeted on industrial workers as well as in those countries which started out with subsidized voluntary schemes.

The Welfare State after the ‘Golden Age’

To some extent, therefore, national particularities were beginning to break down even during the welfare state’s ‘golden age’. More recently, in a phase of retrenchment, a rethinking of welfare priorities and principles has been a feature of the left as much as the right, as each has sought to redefine its policies in the face of welfare management and cost problems (Gilbert 1992). There are several arguments about the nature of *internally* generated welfare problems in the current period which, although coming from quite different ideological quarters, lead to very similar conclusions about the necessity for radical change and a convergence on market-oriented or growth-conforming prescriptions.

The first set of internally generated problems appeared with a loss of legitimacy in the 1970s. Jallade (1992) argues that the although the fiscal crisis identified in welfare state management may well have been exaggerated, there was, nonetheless, a legitimacy problem due to the poor redistributive performance of welfare systems and managerial difficulties. In addition to an apparent loss of capacity on the part of central governments in delivering social services, this caused a decline in support for egalitarian policies and centralized provision among policy-makers and public opinion. The legitimacy problem was subsequently corrected by shifting the emphasis in welfare provision towards income maintenance and protection against risk. Delivery problems were addressed by a greater diversification and decentralisation of some services and a greater reliance on new 'solidarity networks' (including the voluntary sector) even if the major maintenance programmes (pensions, sick pay, unemployment compensation) remained centralized (Jallade 1992: 40-42).

A different set of problems manifest since the 1980s - and much less easily dealt with - are linked to fiscal and demographic necessities (the rising number of elderly has created greater demand for pensions, health services and social care); changes in the structure of the family (which have produced new pressures for financial assistance); and the perverse effects of programme design (forcing up the costs of unskilled or semi-skilled employment through excessive social charges - especially in the service sector - and creating poverty traps and enforced dependency) (Gilbert 1992; Lindbeck 1993). The common response across Europe has been to tinker with provisions: changing the rules for eligibility for pensions (increasing the age of entitlement, making conditions more stringent), finding a new balance between statutory and supplementary protection, and integrating social protection into programmes of employment promotion (Chassard and Quintin 1992).

But critics of the welfare state from both left and right believe that tinkering may not be enough. From the left, commentators like Jessop and Esping-Andersen argue that there is now a clear incompatibility between the welfare state and the emergence of a post-Fordist economic order. In tones reminiscent of a neo-liberal critic, Jessop (1993) argues that the conditions favouring 'Fordist accumulation' have been eroded by the expansionary dynamic of a welfare state built on bureaucracy, centralisation, clientelism and the construction of political empires, creating personal dependence, poverty and unemployment traps. The necessary response is a shift from the Keynesian welfare state to the Schumpeterian welfare state in which, as is already increasingly the case, welfare provision is used to stimulate economic adjustment. In similar fashion, Esping-Andersen (1994) argues that the postwar welfare state is integral to Fordism: the risks it addresses, the ideals of equality and social citizenship it promotes, and its basic assumptions relate to the family, life-cycle and work of the prototypical Fordist (male) industrial production worker. It has therefore become an obstacle to a successful adjustment to the post-industrial era since this type of worker and (his) life-cycle are becoming increasingly atypical.

The most serious adjustment constraint derives from employment rigidities: average male earners are 'trapped' in guarantees of stable jobs and high earnings, while increasing numbers of younger workers are excluded from the work force by high labour costs. The solution is a removal of the rigidities that prevent the creation in Europe of a large number of low-paid service-sector jobs - the US solution to employment creation. The increase in inequality this would otherwise produce could be combatted by a radical change in the nature of welfare provision, extending a citizen's guarantee of skill acquisition and social servicing at any point during the life cycle, especially through education and training. Lindbeck (1993, 1994) places much greater 'neo-liberal' emphasis on 'moral hazard' (the exploitation of welfare state benefits by recipients and the inevitable increase in beneficiaries) as *the* basic dilemma of the welfare state. But he also recommends a radical (Schumpterian) redesign of income protection to avoid poverty traps and economic disincentives and to provide the sort of flexibility required by Esping-Andersen's post-industrial life cycle. Apart from a removal of insurance systems from the public sector, the three basic elements would be a common safety net for well-defined contingencies; additional benefits based on a compulsory, strongly actuarial pay-as-you go system (ie, benefits that rise strictly with previous income); and substantial scope for voluntary saving and insurance on top of the compulsory system. To increase demands for flexibility during the life cycle, Lindbeck makes the case for allowing the individual to draw on his/her pension benefits in advance (in an actuarial fashion) for studies, leisure periods or early retirement.

Thus, after a phase of convergence during the golden age with the wider spread of welfare cover, more recently, internally-generated problems have triggered not just a common response across the various models of European welfare in terms of market or growth-conforming policies, but also a certain degree of intellectual convergence. There is now broad agreement - even outside the neo-liberal camp, which has launched its own high profile assault - that the welfare state has been in large part responsible for its own problems and has become an obstacle to growth. In sum, this is the internal agenda of 'subversive liberalism'. We now turn to its external dimension.

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3. REGIONAL INTEGRATION AND THE ROLE OF THE COMMUNITY

Will regional economic integration in Europe strengthen or weaken the welfare state? Will it promote convergence, and if so in what direction? As Chassard and Quintin (1992: 107) point out, one of the objectives of European social policy has been to overcome traditional rivalries among the various philosophies of social protection, especially between the Bismarckian and Beveridgean schools, and promote a 'European model' based on three fundamental aims of social protection: a guarantee of a standard of living consistent with human dignity and access to health care; social and economic integration; and the maintenance of a reasonable standard of living for those no longer able to work. But it is evident that, despite the convergence trends mentioned above, welfare state diversity does not lend itself to a spontaneous 'bottom up' strategy of social integration. To quote Leibfried (1992: 253), these regimes 'start from rather different, sometimes contradictory, goals and are built on quite disparate intervention structures; and they do not share a common policy - and politics - tradition that could serve as a centripetal force'. Moreover, in terms of traditional definitions of social policies - actions by a state to counteract the market, distribute resources and benefits to the disadvantaged and promote social citizenship rights - the EC's role has been minimal. Thus, a set of European welfare state arrangements to compensate for the erosion of national provision is unlikely to emerge. Indeed, many of the developments within Europe conform with rather than contest the thrust of 'subversive liberalism'.

Thus, most direct EC intervention in the social domain, either through regulation or legislation, has been of the 'market making' rather than 'market breaking' variety, and rights to a European social citizenship are virtually non-existent (Kenis 1991). In the post-Single European Act (SEA) era, this pattern conforms to the predominantly market-based, deregulatory character of the internal market project, for the treaty base changes introduced by the SEA provided little in the way of additional competence for Community activity in this arena. It is clear, therefore, that nothing resembling a European 'welfare state' currently exists and few social risks are dealt with at the European level, except for some experimental projects linked to the structural funds (Leibfried 1993). Moreover, given the Community's budgetary constraints, there seems little likelihood of its acquiring the resources required to provide it with a supranational, redistributive welfare state role. There are several proposals as to how this could be achieved - including the adaptation of the existing structural fund system (and its transformation into a distributive regime), the establishment of the EC as a 'thirteenth state' and the creation of a European Social Policy Band (ESPB), emulating the structure of the European Monetary System. However, thus far, the Commission has restricted itself to more limited forms of social regulation.

The Impediments to a Regional Welfare State

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The political structures of the EU are unlikely to permit the transfer of major welfare/distributive resources to the European level. First there is the issue of the societal prerequisites of welfare state construction. In individual member states, corporatist policy making systems have been dependent on left incumbency, high union membership density, and union as well as employer centralisation. None of these factors exist or are likely to emerge within the Europe of fifteen member states and are even less likely to emerge after further enlargement. Second, the creation of redistributive welfare state has been dependent on a political coalition supportive of a redistributive project. The best case scenario for a welfare state coalition at the European level would involve an alliance of social democratic and Christian democratic forces, but the importance of the latter would militate against the development of a redistributive welfare state project in favour of one based at most on transfer payments (Huber and Stephens 1993: 13-15). Third, the establishment of any form of European welfare state would require political structures where majority decisions can be translated into policy. However, under even the most optimistic projections concerning the future creation of 'sovereign-state' like structures at the European level, the political institutions of the EU will continue to fragment power and the structure of decision-making will remain multi-tiered.

As Pierson and Leibfried (1995) point out, some of the most important impediments to a European welfare regime stem precisely from the EU's multi-tiered structure. The presence of multiple, potentially competing jurisdictions may create new strategic opportunities for those opposed to extensive, highly-redistributive social policies. At the very least, they create the conditions for 'joint decision-making traps' (Scharpf 1988) in which policy innovations will be hedged by accommodation and procedural guarantees. Schmitter and Streeck

(1991: 142) suggest that this fragmentation of power has allowed the emergence of a 'centripetal centre' in the Community, in which the opponents of centralized regulation occupy the high ground of policy-making influence. Within such structures, the existence of territorially-dispersed authority over social policy creates the possibility of competitive deregulation (the British have been accused of this as a result of their opt-out from the Maastricht social policy arrangements) as well as 'regime shopping' by firms. The latter may have an important impact on existing national regulatory systems by forcing the renegotiation of local or national bargains with unions and governments, placing growing pressure on national welfare state regimes. Hence the German debate on Standort Deutschland and the preservation of the German model (see Streeck 1991). Under monetary union, the impossibility or currency devaluation could encourage the use of 'social devaluation' - the reduction of wage costs by a reduction in the level of social charges and social cover for employees (Chassard and Quintin 1992). Indirect constraints on welfare state policies may also stem from the harmonisation of VAT, especially in countries like Denmark where generous welfare provision has been funded by indirect taxes (Kosonen 1994).

At the same time, the strong links between social policy development and political legitimacy mean that multi-tiered systems are vulnerable to the dynamics of competitive state building - the competition between tiers of authority for credit for social provision. Member states will resist a significant transfer of fiscal capacity to the Community and be protective of their social policy authority (Pierson and Leibfried 1995). This 'pre-emption of policy space' is a major obstacle to Europeanisation beyond a loosely-organised system of multi-tiered policy development with a 'hollow core' of limited supranational authority. For the diversity of European national welfare regimes is reflected not only in large differences in social expenditure (the ratio between the northern and southern member states is roughly 3:1) but also in embedded and historically-shaped national principles of organisation. Policy space - as well as administrative/organisational and fiscal space - is therefore occupied by nation states, among which integration in the core areas of welfare state regimes - education, health care, retirement security, not to mention forms of labour market organisation - is unlikely.

Without a common labour market, chances for a 'bottom-up' construction of a European 'social dimension' are slim (Leibfried 1994). Indirectly, the Commission's social action programme measures proposed since 1990, and inspired by the 1989 Social Charter, have begun to have an impact on workers' rights and entitlements across the Community. Thus, European working hours' legislation - with its minimum requirements for daily and weekly rest periods and rules on night and shift work - and the directive on pregnant women in the work place - has forced even the recalcitrant British government to compromise its position of outright opposition to European labour market regulation beyond the confines of health and safety legislation. A long-awaited European directive on workers' participation in multinational companies has been achieved, albeit in heavily diluted form, under the Maastricht Social Protocol and Agreement (Rhodes 1992; 1995). Nevertheless, a *European* industrial relations system based on an elevation of neo-corporatist principles to the supra-national level is extremely unlikely; such structures have already been eroded at the national level and their replacement by functionally equivalent European institutions is ruled out by problems of diversity and the interdependence of national economies. Attempts to build a European system are being counteracted by what Wolfgang Streeck (1992) has called a European *neo-voluntarism*, in which decentralized market forces and enterprise level-bargaining feature prominently.

Social Policy, Market-Building and Spillover

It has been argued that the European Union already operates a de facto social policy through its various interventions. Montanari (1993) identifies four areas of present EC intervention which could broadly be conceived as 'social policy': the Common Agricultural Policy; funds created for transfers - the regional fund, the social fund and the new cohesion fund created at Maastricht; regulatory policies on labour legislation; and regulatory policies regarding the environment, product safety and consumer protection. But do these amount to a European system of welfare provision? Social policy within European welfare state systems is traditionally conceived as redistributive of benefits and resources, 'breaking the market's monopoly of reward' (Montanari 1993). Arguably, the CAP does just this, for it contains a strong, redistributive element. But it operates in a strongly distorted fashion, subsidising producers in wealthy regions to the expense of others, and constrains other areas of spending by absorbing a vast proportion of the Community budget. As for the regional funds, these too are redistributive to a degree and are inspired by the principle of European solidarity. They could conceivably provide the basis for a pan-European system of compensatory social transfers and risk insurance. However, for them do so they would have to be expanded and address issues of social inequality and deprivation in addition to their present concern with regional disparities. As for regulatory policies, whether they concern the harmonisation of certain health and safety standards and directives on equal pay, health and safety in general, or environmental and consumer protection, they are intended to *secure* or *clear* the market (ie. removing for European companies the need and cost of dealing with multiple regulatory systems) rather than attenuate or interfere with market outcomes. Social policy which might either change the course of the economy or promote social citizenship rights has largely been absent.

Some of the most important social policy developments in Europe have actually been linked to the process of market-making itself. As Leibfried and Pierson (1995) point out, regardless of the limited extent of welfare state construction at the European level, member states are increasingly constrained by Community-wide social policy innovation. As part of the market-building process, national courts and the European Court of Justice (ECJ) have produced an impressive corpus of national and supranational adjudication, eroding national sovereignty and autonomy in the interest of labour and consumer mobility, in line with the coordination requirements of the Treaty of Rome. This they see as operating via a moderate neo-functionalism since it has less to do with grand policy initiatives than with an incremental process of spillover from single *market* policies. Thus, a national welfare regime may not target benefits at its citizens only but all member state foreigners employed on its territory. And national benefits should be portable across all of EU Europe. Furthermore, member states can no longer exclusively decide who may provide social services or benefits on their territory - the mutual recognition of degrees and licenses from other member states increasingly intervenes.

More generally, the completion of the single market means that, in principle, there should be some attempt to lower the barriers to mobility created by the lack of coordination of social security regimes. The evidence of recent migration flows suggests that transnational labour movements are likely to be limited to corporate executives on the one hand and low-skilled, low-paid migrant workers on the other. If intra-Community mobility remains low, there will consequently be little requirement for welfare regimes to undergo reorganisation and convergence. Hagen (1992: 278-9) counters, however, that irrespective of the desirability of eliminating the barriers to labour mobility (as well as the need to prevent 'welfare tourism' and a drain on generous national welfare schemes from new residents) the demand for a more generalised system of social insurance rights is likely to increase. However, this demand is unlikely to provoke the emergence of a complicated and costly system of mutual recognition of rights. Rather, it is likely to spawn the creation of a form of citizenship linked to the individual rather than to legal citizenship, specific employers, family status or country of residence (Hagen 1992: 279) in which mobile workers would enjoy portable rights linked to labour-market based schemes. This would conform with those trends - to be discussed below -that have appeared in all European welfare states relating benefits more closely to occupational status.

4. GLOBALISATION AND THE LOSS OF NATIONAL POLICY-MAKING AUTONOMY

Moving beyond the European region itself, there are a further series of pressures on the welfare state deriving from the international environment. Although an imprecise and over-used term, 'globalisation' encapsulates several developments which have important consequences for traditional welfare state arrangements: international competition (between welfare regimes as well as firms) and international interdependence.

Competition between Regimes

As argued above, with the more acute competition in goods and services stemming from the creation of the single market and the lowering of international trade barriers, there may be a growing degree of competition among regimes due to their variable social costs. This could conceivably produce 'social dumping', 'regime shopping' by footloose firms and 'social devaluation' by member state governments. It is frequently pointed out that competition between regimes ('competitive deregulation') is likely to be limited due to the lack of any clear relationship between high welfare state spending and competitive decline (see Pfaller, Gough and Therborn 1991). Among the various arguments put forward to counter what Korpi (1993) calls 'the Welfare State Jeopardy Hypothesis', are the lack of clear evidence of any connection between welfare spending and economic performance; the coincidence of international trade success and high labour costs (in Germany and the Netherlands, for example); and the arguably positive effects of high costs for industrial modernisation: high costs force employers to produce higher productivity from capital investment and social security systems employ a large number of people, redistribute income and sustain levels of demand (eg. Jallade 1992: 42-43). Similarly, 'social dumping' and 'regime shopping' by firms in tightly regulated labour markets with high social costs will also be mitigated by the importance of a whole range of factors other than simply basic or indirect labour costs in firms' location decisions. These include unit labour costs, production organisation, skills and education provision, quality, marketing, market-proximity and after-sales service as well as the 'constructive flexibility' deriving from productive forms of labour market regulation and industrial relations (Rhodes 1992; 1993).

Nevertheless, under certain circumstances, new competitive pressures - exacerbated in Europe by the single market programme - could have important consequences for the welfare state. Pfaller (1993) argues that globalisation has eroded the competitive immunity of welfare states because of the absence of cost discipline in many countries. The critical questions are therefore how Europe will deal with growing unemployment without permitting greater dualism; and how it will respond to the danger of firm relocalisation and the consequent impact on the domestic status quo of social rights and entitlements. This is where the domestically generated problems of the welfare state are exposed by globalisation. For globalisation, industrial decline, and increased competition from lower cost countries is driving forward the revolution in manufactured products, technology and work organisation that is both marginalising the standard manual worker (Esping-Andersen 1994) and making standard, Fordist, welfare state arrangements expensive and inappropriate. To deal with this, traditional methods of ensuring cost discipline (a wages policy and tight monetary and fiscal controls) may well prove insufficient. A restructuring of the welfare state, as recommended, for example, by Lindbeck and Esping-Andersen may be necessary.

International Interdependence

The argument that the internationalisation of economies has led to a dramatic narrowing of policy options may well have been exaggerated. For the surrender of national policy autonomy is not the inevitable consequence of a process of globalisation. In the first place, globalisation in the full sense of the word - the 'subsuming and rearticulation of individual national economies within a global system by international processes and transactions' - does not presently exist, even if a number of its features (the organisation of the international division of labour within transnational companies) are being established (Kosonen 1993). Second, countries are not forced to liberalize exchange controls by anonymous international forces. For as Notermans (1993) points out, the recently increased vulnerability of the Scandinavian countries (particularly Norway and Sweden) to international capital flows has been the result of consciously taken policy choices, designed to provide a nominal anchor for the price system given problems in delivering lower inflation through domestic arrangements. Their liberalisation of exchange controls and the de facto pegging of their national currencies to the Deutschmark has arguably had as much to do with national political and ideological developments as with 'globalisation' per se.

But whatever the primary cause of increased vulnerability, it is apparent that the loss or surrender of national policy autonomy is creating problems for previously well-entrenched national welfare state regimes. 'Subversive liberalism' - operating via the effects of increased capital mobility - favours owners of capital over other groups (as argued by Frieden 1991) and, as discussed by Moses (1994), undermines one of the key characteristics of social democratic governance: the relative immobility of capital. In essence, this result derives from the abolition of exchange controls and requires a subordination of domestic policy priorities to the defence of the external balance. The shift from the 'embedded liberalism' era to an era of 'subversive liberalism' has forced the redirection of traditional monetary and fiscal tools away from full employment towards defending the balance of payments, with profound consequences for political and economic autonomy in the smaller social democratic regimes (Moses 1994: 25).

Kosonen (1993) argues that until recently, the EFTA countries have enjoyed much greater policy autonomy (allowing the preservation of comprehensive welfare state provision) than the EC member states. He demonstrates that a first group of countries (Austria, Denmark, Finland, Norway and Sweden) were open but economically relatively autonomous (in terms of inward and outward investment and the share of foreign trade in GDP). They were therefore better able to make their own economic-political decisions than a second - more internationalized group - comprising Belgium, Ireland, the Netherlands and Switzerland. The main welfare distinction is that the 'economically relatively autonomous countries' have higher social insurance coverage and replacement rates, and a higher proportion of public employment (implying an effort to create a net of public services targeting all citizens).

In the 1970s and 1980s, these extensive welfare states were also able to maintain satisfactory growth figures. While there was a weakening of the stability of the other group (especially Belgium and the Netherlands) which experienced low growth, high unemployment and fiscal strains, the more autonomous countries preserved an independence in monetary and fiscal policy and intervened actively to modernise industry and combat unemployment. However, everything changed after the mid-1980s with 'Europeanisation' and the deregulation of currency and monetary markets. In the early 1990s, Finland, Norway and Sweden all experienced substantial declines in GDP growth linked to financial instability (caused by deregulation, overheating and banking crises) and are now suffering from high long-term interest rates, the emergence of larger public debts and soaring unemployment. Domestic demand has been depressed and public expenditure cut and a process of welfare state dismantling has been proposed, bolstered by an increasingly widespread political acceptance of 'the Welfare State Jeopardy Hypothesis' - ie., the incompatibility of large welfare states and economic growth.

Kosonen and others (see Huber and Stephens 1993) conclude that the capacity of these welfare states to 'mediate' the impact of international developments has been substantially eroded since the late 1980s. Independent monetary policy has lost its role and rising deficits and debts are constraining fiscal policy options too. As the Swedish example shows, the freeing of capital movements greatly increases the risk of speculative panic and makes economic policies a hostage to international financial opinion. This situation, it is argued, will lead to cutbacks in employment and welfare state spending, including a reversal especially in Scandinavian welfare policies: compensation levels of pensions, unemployment and sickness benefits will be reduced and public services such as health care and day care will be curtailed; income inequalities will widen.

→ Si se examina la convergencia de la polít. social por separado puede ser debido a UE o a la globalización [illegible]

5. IS THERE CONVERGENCE?: COMMON TRENDS IN WELFARE STATES

Given the limited extent of either European welfare state building or significant spillover effects from regional integration (apart from the web of rules linked to labour mobility), it is hardly surprising that analyses of welfare state development in the EC have found little evidence of harmonisation. In a recent study, Montanari (1993) addressed the issue of indirect harmonisation in three core social policy areas - old age pensions, sickness benefit and unemployment compensation, examining coverage, the net replacement rate and financing mechanisms. The analysis distinguishes between the EC 5 (the original six member states minus Luxembourg), the post-1972 EC 8 and the EFTA countries. It shows that the latter (spanning the Scandinavian and 'Bismarckian' models) rather than either the EC 5 or EC 8 experienced a degree of harmonisation. They have also achieved higher average level of replacement rates and coverage in the three social insurance areas than the EC member states. This convergence has not been the consequence of political design in the case of the EFTA group. Rather it has arisen from the relatively similar constellations of power to be found in these countries by contrast with the political diversity of the EC member states, creating similar interplays of social, political and economic forces under social democratic hegemony. Thus politics triumphs over markets in determining the evolution of welfare state structures.

However, while Montanari's analysis may present an accurate picture of the pre-1985 period, the developments analysed above are now exerting greater pressure for change (a form of 'global over-determination') in which markets triumph over politics. But what are the independent and interactive effects of these pressures?

Europeanisation and Domestic Social Policy Design

The first set of interactions is between 'Europeanisation' and trends in domestic policy design. As noted by Jallade (1992) and Overbye (1993), during the 'crisis years' the continental welfare states have restricted their redistributive role in order to retain political acceptance (legitimacy) among the dominant middle classes. As a result, there has been a common shift from flat-rate to earnings related benefits, initially in pension systems but also now in other areas as well (including sickness, accident and unemployment compensation in the four Scandinavian countries) and a creeping 'privatisation' of welfare provision through the proliferation of occupational, company-based pensions or private life insurance contracts (Jallade 1992: 50-52). Abrahamson makes a similar point, although his conclusions are more boldly stated, suggesting that the different European welfare states are converging on the corporate, Bismarckian model. This entails a gradual bifurcation of the welfare system whereby the labour market takes care of the well-to-do workers, through various corporate arrangements, leaving the less privileged to mainly local institutions and charities (1992: 10). The result will be the generalisation of a new 'welfare pluralism' in which it is accepted that market, state and civil society will all play a role in social provision. + equidad -

From this perspective, a European Union social policy linked largely to labour market participation will sustain present trends in the member states towards differentiation, segregation and polarisation, preventing member states from determining their own policy mix. One way in which this will be encouraged will be via the effects of the EU's coordination doctrine. As Leibfried and Pierson (1995) point out, welfare state provision construed as an 'earned' individual right can more easily be coordinated without the risk of a massive leakage of benefits from one country to another, a clear risk of extending provision to all EU citizens and making benefits portable: 'Policy makers are thus encouraged to follow the programme designs of Bismarck not Beveridge'. Thus, non-contribution based, national income transfer programmes (eg. child allowances and minimum pension benefits) are likely to lose favour. There will also be a reduced possibility of policies to combat low incomes, adding to the problem of increasing dualism in welfare provision which is already evident in housing and poverty policy (Kleinman 1992; Lødomel 1992).

Unemployment, Welfare and Globalisation

Second there is the interaction between one of the most important problems facing the European welfare states - unemployment - and globalisation. A common source of pressure on social policy across the EC member states derives from the persistence of high levels of unemployment - the most important source of fiscal strains during the 1970s and, to cite Jallard (1992: 45) 'the Achilles' heel of the European welfare states'. In the past, an increased burden of social contributions on labour costs in the continental European welfare states was alleviated by striking a new balance between direct salaries and social contributions. But in the early 1990s, European countries are experiencing new increases in unemployment, placing new strains on budget deficits and producing new demands for wage cost containment and calls for a reduction in employers social contributions. Under the new Community employment agenda developed in 1993-94, the European Commission has sought ways of reducing employers' social costs without under-cutting social security budgets by raising revenue via taxes on energy consumption (Rhodes 1993). However, ready solutions are not available, and only a return to employment-creating growth will produce a durable remedy. For, as Jean-Pierre Jallade has argued, if the ratio of employed persons to social security beneficiaries declines further, social security benefits will have to be reduced, especially in health and retirement.

This, in fact, has already occurred with the postponement of the retirement age in a number of European countries, an indexation of pensions to prices rather than salaries, and increased users' charges. Although the basic institutional features of the welfare states are being maintained, significant reductions in replacement rates in one or more of these programmes has occurred in the Netherlands, Germany, Denmark, France and more recently in Finland and Sweden. The Netherlands and Germany also reduced real benefits through their social assistance programmes and social services targeted at particular categories of needy people (Stephens, Huber and Ray 1994: 15-17). Stephens (1994: 26-7) argues that unless unemployment falls below 5 per cent

Convergence

in the Scandinavian countries - which he sees as unlikely - then further welfare state cuts and restructuring are likely.

A dramatic example of how changes in the international environment have interacted with domestic policies can be found in the high-spending welfare states of northern Europe (Stephens 1994; Stephens, Huber and Ray 1994). Sweden, Finland (now members of the EU) and Norway experienced dramatic increases in unemployment in the late 1980s and early 1990s triggered by a simultaneous rise in international interest rates and an internationalisation of financial markets. This made it impossible for them to maintain low interest rates and to privilege borrowing by industry over consumers of credit - a key element of these countries' supply side growth/employment models. Governments in all three countries made an identical series of decisions on the timing of financial deregulation, income tax changes and exchange rate policy which had strong pro-cyclical effects, contributing to an overheating of the economy in the late 1980s and aggravating the crash of the 1990s. The rise in unemployment meant rising demands on the welfare state and a decline in social security contributions and taxes. Thus replacement rates were cut, waiting days introduced, qualifying conditions increased and services cut. In Denmark, international vulnerability and a rise in unemployment (exacerbated by its lack of an active labour market policy and concentration on consumer exports) have produced similar measures, including increases in the selectivity of benefits, the introduction of income testing, modifications of indexing, and temporary de-indexation (Stephens 1994: 23-24).

A number of analysts detect further evidence of 'Bismarckian convergence' in these high-spending welfare states under stress. Kuhnle (1993) reports that in Scandinavia, growing numbers receive welfare via fiscal welfare (tax privileges and deductions) and occupational welfare and forecasts that a diminishing number will receive full assistance transfers. This will create new social inequalities, undermine the bases of organised solidarity and produce a welfare state with schemes strictly tied to employment and position in the labour market, based on premiums paid by individuals rather than general taxation. In an analysis of Finland and Sweden, Kangas (1994) comes to a similar conclusion, arguing that the German insurance model is becoming more widely diffused at the expense of many of the traditional features of the Scandinavian model. More generally, Ferrera (1993: 12-13) expects the influence of the Bismarckian model to spread, due to the success and weight of the model in the European political economy (which has increased since unification), its flexibility (the readiness which basic protection can be supplemented by company-based or private insurance) and the absence of attractive alternatives.

Elsewhere in the EU, welfare state developments have been less dramatic, although the same pressures are being applied. How will these welfare states cope? Much will depend on how well embedded their traditional welfare state structures are and on their determination and skill in defending or adapting them. Space prevents a consideration of changes in specific member states, but it is worth considering several examples. The Irish welfare state - which has an extensive range of social citizenship rights in the social policy field and a predilection for corporatism but only a limited commitment to universalism and egalitarianism - may well be able to adapt quite readily to an employment-based European welfare system in which incomes and benefits are levelled up to European averages (see Cochrane and Doogan 1993). As for the United Kingdom, Benington and Taylor (1993) argue that integration could bring dramatic change and turbulence since it faces a declining resource base, increased demands as a result of economic restructuring in the single market, a new set of demands from the growth of the elderly population and a growing problem of poverty. The 'pay-related' social security system which is likely to be generalized at the EU level would threaten the universalistic aspects of the present UK system. Deakin and Jones Finer (1993) doubt that the shift in policy priorities in the UK since 1987 away from its Beveridgean origins - towards a low-cost, minimal system of welfare, with 'benefits targeted on the 'deserving' and an unfettered labour market generating low-wage jobs' - will be counteracted by EU developments, given the more general trend towards dualisation. Moreover - if competitive deregulation does occurs - the UK could conceivably attract continental imitators as EU countries seek an additional competitive edge by trimming their generous social provisions. In the southern member states, global pressures (competition and financial market influence) will combine with those coming from the EU (coordination requirements, EMU convergence criteria) and place a premium on deficit and debt reduction. This will lead to a reduction of provision in systems where there are already serious inadequacies, possibly generating greater social conflict (Ayala 1994; Saraceno and Negri 1994).

CONCLUSIONS

It is clear from the above that, although the role played by the Community in social policy has not acquired the dimensions of a supranational state, and while traditional welfare state models in Europe retain their distinctive characters, state autonomy is being progressively eroded in a number of ways. But beyond a limited encroachment on national policy autonomy through the Community's

¿La UE no tiene mucho
¿q. ver con estas tendencias?
¿No puede ser, la UE es un
vehículo de estas tendencias?

regulatory role along the social dimension, this has less to do with the legislative or regulatory role of the Community, or a 'Europeanisation' of decision making, than with common trends in policy outcomes and a reduction of national policy autonomy linked to economic integration, competitive pressures and the liberalisation of financial markets.

The future for the European welfare states is unclear, but recent developments suggest that the turbulence they have experienced since the late 1980s is set to increase. At the European level, the concept of social citizenship is likely to remain subordinate to that of economic citizenship, even if the full realisation of the latter in an open internal market will require some modification and 'Europeanisation' of national social security regimes. In the worst case scenario - at least for those who advocate a strengthened social dimension - 'unity in such a restrictive frame, would turn into a unity of 'possessive individualism', a unity of markets only' (Leibfried 1992: 261). This impression is reinforced by recent documents from the European Commission which recommend the reduction of social charges, more private cover and a 'new' welfare mix, involving a transfer of certain services for which the state was previously responsible to the market (Kuper 1994).

There are two ways of avoiding this scenario of 'subversive liberalism'. The first requires the pursuit of a rather different set of policies at the European level than those which currently dominate the Community agenda. Many on the left would concur with Huber and Stephens that 'in the longer run what is needed is a European Central Bank subject to the political authority of a European executive, possibly complemented by an expansion of the EC budget, which would facilitate the coordinated pursuit of monetary and fiscal policies to promote full employment (...) and an active integration and an active engagement of European trade unions and social democratic parties in shaping the institutional configuration of a United Europe, not steps in the opposite direction'(1993: 16). However, none of these policy options are currently high on the Community's agenda and are unlikely to appear under present political and economic circumstances.

Given the unlikely constitution of a European welfare state, the alternative is to preserve the welfare state project at the national level by successfully reconciling growth and high (if not full) employment and by sustaining the legitimacy of redistributive systems among a disenchanted middle-class. This is a tall order and may well require the sort of extensive modification of welfare state arrangements advocated by Esping-Andersen (1994) and Lindbeck (1994). But as Huber and Stephens (1993) point out, in the case of the strong, social-democratic welfare states this may also require a significant shift away from present policy orientations, stepping back from an alignment of exchange rates with the Deutschmark and the deflationary conditions of European Monetary Union and creating greater scope for domestic policy influence. It also requires that these countries rebuild an institutional structure which can secure a better trade off between unemployment and inflation than at present, and perhaps also the reassertion of a degree of policy independence by reregulating capital flows. Otherwise, the loss of policy autonomy on the part of these countries will allow the continued erosion of traditional welfare structures and a convergence towards a less universal, dualised form of welfare state.

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