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The future of national social policies in the context of European integration

1 Introduction

The research question guiding this article is whether and to what extent transnational pressures that appear common to all national welfare states produce similar outcomes in terms of their social policies. Our leading hypothesis is that transnational pressures do narrow national political options to a considerable extent, but do not entirely exhaust the room for national policy-makers to choose from a set of (limited) options. This is particularly the case for social policy. Moreover, even if similar policies are pursued, the policy outcomes are not necessarily identical across national contexts. In addition, under certain conditions transnational constraints effectively emerge as new options. What is commonly understood as transnational constraints on sovereignty and autonomy may under certain conditions and to a certain extent in reality provide new opportunities that, in fact, augment the national room for policy-making. Finally, the extent to which common pressures result in common outcomes depends on a range of intervening variables that vary from country to country, such as the openness of the national economy, the type of political system, the type of social and economic system, the extent to which changes in one policy areas set incentives for change in adjacent policy areas, and on the precise nature of the emerging European social policy regime itself.

Transnational factors are not alone in putting pressure on European welfare states. They are confronted with a permanent necessity to adjust their institutional arrangements to changing demographic, social and economic circumstances. The conditions under which the post-war welfare state emerged as well as the assumptions upon which social policies were formulated and implemented no longer seem to obtain. In this sense, there exist at least six common pressures in addition to transnational forces. Firstly, the relatively stable balance between generations is challenged by an ageing population, where ageing is a combined effect of an increased life expectancy and a decreasing fertility rate. Secondly, the traditional family towards which so many social policies were targeted no longer exists as the number of divorced, single-person and single-parent households spirals. Thirdly, the kind of stable employment patterns and trajectories that seem to have belonged to a growing, industrial economy are challenged. Slackening economic growth and the post-industrialization of labour markets (de-industrialization, the growth of the service economy, new technologies and flexibilization, etc.) have generally decreased job security and the continuity of employment and have caused a rise in irregular and atypical employment. Fourthly, changing relations between men and women with respect to the division of labour within and outside the family (paid work and unpaid care) as well as the increasing differentiation of the life cycle and of careers have strongly challenged the gendered assumptions of many welfare state arrangements. Fifthly, politically recognized systems of interest intermediation have historically accorded a firm social and economic basis to the welfare state, but have now considerably eroded, sometimes as a result of deliberate politics, but generally as a result of the weakened position of the organized labour movement. Sixthly, the political coalitions that once supported the welfare state have either weakened or have broken down entirely. Moreover, broad popular support for the welfare state may very well be on the verge of collapsing as political actors who defend the legacy of the welfare state increasingly fail to do so and those who opt for rolling back the welfare state considerably have no answer to new risks and needs that partly result from the very politics of retrenchment. In this article we
concentrate on analysing the pressures put on national governments' social policies by the related developments of globalisation of the economy and European integration.

2 Different fields, opposite views

Leading theories from the fields of international political economy, international relations and European integration argue that transnational processes like globalization and European integration are fundamentally limiting the autonomy and even the sovereignty of national states and of national policy-making. The literature on globalization stresses that national states (and therefore national welfare states) have lost to a large extent their autonomy and efficacy in policy-making. An example is the contemporary functionalist argument, as summarized by Hout (1996: p. 166): 'In every political system, a number of functions have to be performed. Under the influence of (for instance, technological, organizational, or financial) developments external to the political system, the national political authorities will experience more difficulty in the transmission of their decisions into an effective “allocation of values”. As a result of this loss of policy-making capability, some of the government's functions will be eroded and assumed by actors that operate on a transnational or an international level. Consequently, the nation-state as a political organization loses much of its importance'.

The literature on European integration emphasizes that the European Union (EU) has decreased the autonomy of national governments and in certain domains the sovereignty of the member states. Moreover, the flexibility in policy implementation and the control over national constituencies has diminished (V. Schmidt 1996). The European welfare state regimes are now largely embedded in the internal market and the two-tier system of European social policy-making. In this context, the room for national social policy-making is restricted and shrinking with every new stage of integration. According to Streeck (in Marks et al. 1996: p. 83–88), three kinds of constraints are relevant for national social policy-making: 1) obligations in international law to enable cross-border mobility of labour; 2) growing interdependence with actors in other national systems; 3) competition between national systems for mobile production factors. A supranational, European level of social policy exists, but has not replaced the national welfare state and is restricted in terms of authoritative capacities. However, national social policy is affected by integration: 'A supranational social policy regime limited to market-making, forces national social policy to devote significant political resources to the opening of national borders (...). With market integration laying national welfare states open to unprecedented competitive pressures, nationally confined economic and social policies become dependent on the voluntary cooperation of mobile production factors, forcing governments to rely more and more on the provision of incentives and inducements for the latter. In the process national social policy regimes and the national social compacts that sustain them are bound to be fundamentally transformed' (Streeck, in Marks et al. 1996: p. 88).

Starting from a moderate version of the neo-functionalist view of European integration and emphasizing the possibility if not likeliness of spillovers, Leibfried and Pierson (1995: p. 45) argue that 'the movement toward market integration will be accompanied by the gradual erosion of the autonomy and sovereignty of national welfare states; national regimes will become more and more enmeshed in a complex, multitieref web of social policy'.

In general, the consequence of these developments is that different welfare state regimes are likely to follow very similar paths of adjustment and change according to the pressures that they face and in spite of the dissimilarity in their institutional layout and political systems. Transnational pressures are hypothesized to 'overdetermine' institutional legacies, transform the options available for national policy-making and redirect choices according to the logic of adaptation common to all systems.

Mainstream welfare state research has long concentrated on the economic, social and political causes and consequences of cross-national welfare state variation. A leading hypothesis of contemporary comparative research is that the established institutions, relations of power among interests that these institutions generate, and the political and administrative mechanisms of welfare states govern patterns of variation in social policy-making, policy
implementation and policy outcomes to a considerable extent. This effect of the welfare state was found to be relevant in many areas, ranging from the quality of social security arrangements and the level of benefits to the availability of social services and other provisions, from patterns of urban poverty to changes in the general distribution of income, and from the structuring of post-industrial employment careers to the transformation of the class structure and the formation of new classes. Distinct welfare state regimes have pursued different policies and have performed differently in terms of outcomes, whether these are measured in terms of employment, equality, poverty, social protection or otherwise.

The institutional composition of a welfare state regime — understood as a more or less coherent set of relatively fixed rules and regulations of social policy-making and social policy implementation — is said to constrain the options available to respond to contemporary challenges. Institutions are both enabling and impeding. They permit certain responses and tend to inhibit others. In spite of common pressures, then, different welfare state regimes are likely to follow distinct paths of adjustment and change according to the constraints of their institutional layout. There is a 'continued dominance of national institutional traditions. This comes out in two important respects. Firstly, while the postwar Western welfare states addressed fairly similar objectives, they differed both in terms of ambition and in terms how they did it. Secondly, as these same welfare states today seek to adapt, they do so very differently. A major reason has to do with institutional legacies, inherited system characteristics, and the vested interests that these cultivate' (Esping-Andersen 1996: p. 6).

In sum, different fields of political research yield opposite conclusions and hypotheses on the impact of transnational pressures on national welfare states. Below we try to identify common pressures, the intervening variables that may determine the form and extent of openness to such pressures, the common dilemmas of welfare states and the intervening variables that are likely to produce different responses to common pressures and the variation in outcomes.

3 Common pressures and political consequences

3.1. Globalization of the economy and its political consequences — What is globalization? It has become almost a commonplace to say that states have always been affected by the whims of the international economy. Traditionally, however, states have been able to hold a relatively firm grip on the impact of the international economy on their societies. To that purpose states had at their disposal various policy instruments, such as interest rates policies, the manipulation of exchange rates and the imposition of tariffs and quotas at their borders. What has to be stressed here is that the welfare state, too, can be considered as an important means by which nation-states have been able to compensate the social costs of adjusting to the constraints of the world market.

The development of the international economy over the last ten to fifteen years or so, currently conceptualized as globalization, is a subject of much debate, not in the least because of its allegedly dramatic impact on the nature of both international and domestic politics. However, there is much confusion about the nature and consequences of globalization (see for an overview: Jones 1995; Waters 1995; Armingeon 1996). As to its nature, some authors confine the process to the revolution in communication technology that has produced the 'global village'. Others restrict the phenomenon to changes in the production structure of the world economy. Finally, there are those who argue that a large part of the discussion around globalization is mere rhetoric, because the increased interaction on a global level is in itself an insignificant phenomenon.

We prefer to start from the assumption that globalization may have various social, political, cultural as well as economic components, but that the core conceptualization of the phenomenon must address the notions that the constraints of geography (territory) are becoming less and less powerful and that people are increasingly becoming aware of this (see Waters 1995: p. 3; see also Storper 1995: 279–84). We furthermore note, however, that in many analyses it remains unclear how one should interpret the consequences of globalization. Increased interaction, e.g., in the form of trade, tourism, or money flows,
can no doubt be observed and considered important, but the crucial issue is that one has to specify why these developments are so important and whom they affect.

In order to specify the political consequences of economic globalization in general terms, it is useful to identify three separate trends in the world economy, the first two relating to changes in production technology, the third to the structure of international finance (see Frieden 1991; Stopford and Strange 1991; Strange 1986, 1992; Camilleri and Falk 1992; Waters 1995; Jones 1995; Haggard 1995; see also Verbeek 1993).

1. Changing product cycle. Changes in technology have allowed producers to supply the market with new goods and to produce old goods using new processes. Moreover, the development of the means of transportation has made it easier for producers to supply distant markets. By consequence, the life cycle of a product has been significantly shortened. Producers who have invested heavily in the development of new goods and services and in the standardization of their production are confronted with competitors who emulate production techniques more rapidly than in the past. As a result and in order to outwit competition they now are compelled to invest in the development of new products at a much earlier point of time than in the past.

2. Costs of research and development. The costs of developing and introducing new goods have dramatically risen over the past ten years. It is no coincidence that this period witnessed an increase in the number of alliances between producers, such as joint ventures, as a means to share technologies and reduce development costs. The consequence of the need to develop new products continuously for competitive reasons is an increased need to sell more goods and services. This has forced a large number of producers to sell their products on the world market rather than on their national markets. Less and less do they rely on national governments that protect national markets. Instead, they prefer that national governments open up their markets to the world economy and thus increase their producers' potential market share.

3. Liberalization of international financial markets. A parallel development is the opening up of international financial markets. On the one hand, states open up to world markets and thus refrain from meddling too much in the inflow and outflow of capital. On the other hand, technological innovations have made it possible to transfer instantly large sums of money from one place to another. By consequence, transnational corporations find it easier to shift production sites according to the law of comparative advantages, and thus survive in the global competition for market shares. It is here that the essence of globalization, the decreasing importance of territory, becomes clear: money can travel easily and elements of the production process can be relocated relatively easily.

What is the impact of economic globalization on politics and the welfare state? Firstly, we observe that national welfare states are becoming increasingly dependent on world market shares for the generation of wealth and welfare. Nation-states in general and democratic welfare states in particular have politically committed themselves to the delivery of a certain level of welfare for their citizens. The production of welfare, however, is increasingly difficult to obtain nationally and the welfare state becomes more dependent on national producers who perform well on the world market. Nation-states are thus captured in a fundamental dilemma. Given the unpredictable nature of international competition they may end up with a loss of welfare because producers decide to shift production sites (or their profits) to different regions. Nation states may therefore prefer short term protectionism in order to deliver welfare as quickly as possible, but only at the risk of suffering a dramatic loss of welfare in the long run, once national producers have adapted to the laws of international competition.

Secondly, we identify changing power relationships between state and business, both at the national and the international level. Nationally, governments tend to become more responsive to the demands of producers, both those seeking protectionism and those asking for adjustment to the global market. Internationally, states will be in a weaker position when negotiating with those transnational firms that can easily shift production elsewhere.

Thirdly, we note increasing constraints on the number of policy instruments available to states to uphold the existing framework of welfare arrangements. Glo-
Globalization has already seriously undermined the capacity of the state to steer the national economy by using the macroeconomic instruments of the Keynesian welfare state (Martin 1994). The national room to manoeuvre in the realm of macroeconomic policy is likely to decline further when the integration of global finance continues to increase. A high degree of global financial integration leads to the abandonment of the instrument of interest rate manipulation in favour of the instrument of exchange rate manipulation (Frieden 1991). Moreover, there is an increasing pressure on the financial means (taxes, contributions) to uphold national welfare state arrangements.

Fourthly, we observe changing patterns of conflicting interests. The three developments previously mentioned tend to cause the nature of societal conflicts to change. Governments are confronted with demands for protection and integration into the world market at the same time. Moreover, the decreased room for policy manoeuvre affects various domestic groups differently. For instance, the shift from interest rate manipulation to exchange rate manipulation as a major macroeconomic policy tool has diverse effects on different economic sectors. In general, financial institutions and multinational corporations may benefit, because they have a diversified production, while enterprises concentrating on a limited number of products in a single sector (e.g., construction, textiles) are likely to experience disadvantages (Frieden 1991). Such shifting distributional effects have their impact on the political pressure exercised by various groups affected.

Globalization of the economy engenders a context in which governments are facing new pressures from various groups in society. Basically, they have a choice between protecting non-competitive industries and facilitating their adjustment to the world market. Both strategies may in the short run threaten their political survival. Protecting non-competitive industries and sectors may prove counterproductive to the extent that those industries are dependent on the world market and their protection will be challenged by other producers. Producing wealth may thus not be guaranteed. Adjusting to world markets means becoming competitive and adopting measures that cause social problems for which national social policy arrangements are ill-equipped. New social conflicts are then likely to occur before the potential fruits of adjustment to the global market arrive. At the same time, governments, faced with increased global integration, may have to transform macroeconomic strategies and social policies, thus favouring the interests of certain groups over others. In the short and middle run, therefore, governments may run into problems of legitimation as they put their authority at risk (Verbeek 1995).

Here we arrive at an obvious yet often overlooked contradiction between the logic of economics and the logic of politics. Although integration into the global market economically seems to make sense in the long run, it is the short run which dominates the perspective of politics. Political parties and politicians are interested in rational policies and policy innovations, but only to the extent that these guarantee their political survival within the political-institutional context in which they have to operate (cf. Haggard and Kaufman 1992). This tension between economics and politics is most pronounced in advanced democratic welfare states.

3.2 Globalization and its political consequences contested – The above view of globalization is contested. As a matter of fact, after a period in which ‘the age of globalization has been prophesied by scholars and policymakers alike, a countermovement has set in declaring globalization a myth, or at best an ideology best captured as ‘globaloney’. Klaus Armingeon (1996) has recently argued that it is far from clear that globalization erodes the nation-state’s capacity to act and that the argument has not been rigorously tested in an empirically meaningful manner. On a theoretical level, he identifies five blind spots in the globalization thesis: 1) the extent of globalization is exaggerated; 2) the pressures from globalization are exaggerated; 3) Western states have since long been interdependent and both politics and policies have been affected by this interdependence; 4) nation-states are no simple victims but have several options to respond to the challenges of globalization; 5) institutional legacies and inertia as well as the relations of power within a nation affect the manner in which pressures are transmitted. His empirical analysis leads to the general conclusion that ‘the capability of national political systems to
manipulate the parameters of public income and spending and to maintain diversity persists’ (Arminger 1996: p. 27). However, although this argument is less well developed in Arminger’s paper, ‘national political actors autonomously can continue to do things differently, but today it makes less difference than in the past’ (Arminger 1996: p. 28). The reason is that the capacity of national policies to produce the intended results is diminished by the decreasing control that national governments have over supranational policies.

Several remarks are in order in this context. First of all, it is important not to identify globalization with interdependence. It can indeed be argued that the level of trade relations between nation-states and of foreign direct investment today has not yet reached the same levels as in 1914 (cf. Waltz 1979). Moreover, it is as important not to jump to conclusions as soon as an enormous rise in international communication (travel, internet, phonecalls, etc.) is observed, a mistake already made by several scholars in the 1950s (e.g., Deutsch 1953). The relevant question is whether such empirical phenomena change the mutual dependency relationships between actors on a global, national as well as subnational level, thus avoiding the identification of interconnectedness with interdependence (cf. Keohane and Nye 1977). The relevant question therefore is to what extent globalization signifies a change in mutual dependency relations. Let us illustrate this point with the relationships between governments and global business.

It is regularly claimed that globalization does not exist because the data do not bear out that national producers are presently predominantly producing for a global market (e.g., Ruigrok and Van Tulder 1993). This is missing the point twice: it is not important whether the largest share of producers’ exports is produced for the global market, rather whether producers are increasingly depending on the global market for their profit margins (Stopford and Strange 1991); furthermore, the next question is whether these altered conditions affect the bargaining relationship (in whatever institutional form) between governments and such businesses.

Second, it can still be argued that globalization is qualitatively different from interdependencies in the past. Although it could still be a matter of discus-

sion of where to locate the qualitative threshold, globalization is different, as argued above, because of the increased irrelevancy of national geography for economic relations; and, even though one can argue about which specific economic sectors in which nation-states are affected by globalization, no sceptic scholar has yet argued that the changes in the world of international finance have not effectively globalized financial relations.

Third, the point made by Arminger about the role of nation-state is well-taken: the nation-state has often been considered a powerless victim of the dark forces of globalization. One eloquent example of this view is Ohmae’s (1995) prophecy of the rise of economically mutually dependent regions (such as the Medan-Penang-Phuket triangle) that are bound to carve their own autonomy out of the sovereignty of their encompassing nation-states (in this example Thailand, Malaysia, and Indonesia). This view essentially ignores the role of politics in economics and has been hampering the analysis of interdependence ever since the term was invented. Even in the fast world of international finance, where one trillion US dollars are changing location every day, the role of the nation-state is now being recognized. First of all, important steps towards the liberalization of international financial markets from the 1960s on were taken deliberately by nation-states (the United States, the United Kingdom, and Japan) in order to further their national interest (Helleiner 1994; Moran 1991). It is certainly feasible that nation-states attempt to snatch back from the international markets what they had given away previously. Although most scholars agree that unilateral withdrawal from the global financial market is not a viable option, international policy coordination, such as in EMU, is considered a possible instrument to fight international finance (Dyson 1994).

However, this is not to say that the impact of global international finance can be stopped at the borders. Indeed, even if one maintained severe doubts about the impact of economic globalization on the room for manoeuvre of nation-states, it would be dangerous to neglect the potential power of the international financial markets. National governments that give the impression to start performing badly in terms of budget deficit, inflation, and pub-
lic debt, will be liable to international financial spec-
culation (cf. Millman 1995). Individual countries, such as Sweden in the Autumn of 1992, that defy speculation by rising marginal intervention rates to 500%, are forced nevertheless to adapt eventually to the grim reality of international financial interde-
pendence: a reform packet was introduced and the Swedish Krone had to abandon its pegging to the ECU (Stern and Sundelius, forthcoming). It could be argued that the more governments have explicitly pronounced their commitment to neoliberal economic policies, or to what has been dubbed the idea of 'sound money' (Dyson 1994), the more vulnerable they are with regard to shifts in assessments by, and perceptions of, international financial traders. It can therefore be expected that the more Western European governments have agreed to pursue the Maastricht criteria for monetary union, the more the specific policy choices that they make regarding their welfare states will be affected by the behaviour of international finance. It would be wrong to assume that once the budgetary room for manoeuvre will have been established within the confines of the criteria for monetary union, a nation-state can take any policy measure it likes: specific measures will be assessed by the international financial markets.

Fourth, Armingeron is right to stress the role of institutions that mediate between the influence of the international economy and governmental policies. In an excellent overview of the possible mediating role of national institutions, Garrett and Lange argue that economic globalization will lead to an attack on the arrangements of the Keynesian welfare state only in those societies that can be characterized as economically pluralist, that is, where interests affected by globalization are directly and immediately represented, and translated into governmental policies. However, no OECD country can at present be characterized as such. Garrett and Lange therefore claim that globalization will lead to rallying behaviour to the defense of the Keynesian welfare state because institutions that mediate between groups affected and governments (such as labour market institutions, electoral systems, the role of veto players, and the autonomy of bureaucratic actors) tend to favour those conservative forces (Garrett and Lange 1996).

Fifth, analyses of the relationship between global-
alization and national autonomy often present conclusions in either/or terms. Either the state retains autonomy, or it does not. One is struck, however, by the differences various socio-economic sectors experience in the impact of globalization. Let us first have a look at the impact of financial globalization. It is supposed to benefit sophisticated financial capital over small savers; securities firms over commercial banks; skilled white collar labour over immobile labour in manufactures; footloose industries over immobile domestic firms (Walter 1993: p. 255-6). The impact of economic globalization, on the other hand, is supposed to have a different impact on different sectors, depending on which factors of production are relevant to the sector in question (Frieden and Rogowski 1996). The implication of these observations is that one should not start analyzing the impact of globalization at the national level, but rather at the meso level of socio-economic sectors. Undoubtedly, the impact of institutional arrangements, at both the national and sectoral level, will still have to be taken into account. At the same time, one should be aware that adjustment policies, even though originally aimed at the maintenance of the Keynesian welfare state, can have the opposite effect of changing the institutional configuration itself that previously provided a bias of mobilization in favour of 'victims' of globalization.

Finally, it should not be forgotten that stimuli from the international environment provide new opportunities for political actors to pursue the policies they always wanted to pursue. In that context Armingeron’s use of social security transfers at the national level to assess the increased or decreased autonomy of national governments may not be sufficient (Armingeron 1996). It will be important to know the contents of certain policies: even though the level of spending may not have changed significantly, the contents of the policies may, possibly as a product of conflict generated by globalization (cf. Van Kersbergen’s analysis of welfare state policies, 1995).

In sum, the jury is still out: the impact of financial and economic globalization on the national autonomy of states is contingent upon a variety of factors. One possibility is that states try to 'pool' their sovereignty and look to international institutions in or-
order to cope with adjustment problems (Schmidt 1995). This brings us to European integration and the emergent multi-tiered governance of the European Union as an additional level of governance in the context of which national policy-making takes place.

3.3 European integration and its political consequences — The process of European integration can partly be seen as a response to the increase in economic interdependence since World War Two. The recent relaunching of Europe, as shown in the Single European Act and the Treaty of Maastricht, is related to the globalization of the economy. In this perspective significant steps towards the coordination of policies within Europe are interpreted as deliberate attempts of national states to cope with the pressures of the international economy. Member states of the European Union have given up sovereignty only in those areas where they really could not pursue policies on their own, such as agriculture, steel, coal, etcetera. The creation of the internal market has provided them with the possibility of benefitting from enlarging their markets without becoming entirely subjected to world market fluctuations and uncertainties. The pooling of sovereignty allows European states to open up partially to the world market while simultaneously avoiding the negative effects that they would have encountered had they decided in favour of completely opening up to the global market individually (Keohane and Hoffmann 1991; Milward 1992; Milward et al. 1993).

European integration has in this sense allowed individual nation-states to maintain political independence as well as a considerable control over the production of goods and services, which — in turn and by implication — facilitated the construction and maintenance of welfare state arrangements. The counterfactual reasoning is that if Europe had remained a system of relatively closed economies, the national states would never have reached the level of welfare state development that they did. Moreover, had the national states opened up to the world market by themselves, the consequences of adjustment in terms of social costs would have exceeded the capacity of the national welfare state. Underlying this historical analysis we can find an axiom of political behaviour analogous to the one we observed above: political elites want to survive in elections and therefore have to produce a certain level of wealth and welfare and particularly an acceptable degree of social security in an increasingly unpredictable environment. Electoral pressure, like the pain of adjustment, is felt in the short run, while the fruits of adjustment can be reaped only in the long run. European integration can therefore historically be understood as the rescue of the European national welfare state (Milward 1992).

The contemporary challenge, of course, finds its origin in the fact that the European solution to globalization is only temporary and confined to a unique historical era. Given the acceleration of globalization since the 1980s, it is highly questionable whether the creation of an internal market and the European Union will suffice as means to avoid or at least pool the potentially negative consequences of world market integration. European industries still need to compete and now on a larger scale as they face rivals from the United States, Japan and the Asian Tigers, as well as from countries such as Brazil, India and Indonesia. What seems inevitable, however, is that both globalization and European integration challenge the national welfare states more intensely than before. Ironically, the preferred solution to problems posed by globalization, namely increased European cooperation, produces similar dangerous effects on political parties and politicians.

Suppose we accept the idea that the process of European integration can indeed be interpreted as a historical attempt to rescue the nation-state. According to this view states give up pieces of their national sovereignty in order to keep some control over the production of the goods and services upon which their welfare states are built and upon which the political survival of political elites ultimately depend. A corollary of this argument is that states have managed to preserve a relative sphere of autonomy and that the primary loyalty of their populations continued to be focused on the nation-state. The question, however, is whether this ‘salvation theory’, based on archival research covering the 1950–1962 period, is still relevant today: recent developments suggest that the foundations of the nation-state are attacked by accelerating globalization and — paradoxically — by the intensification of European integration.
If the effects of globalization of the economy can be limited by European integration only to a certain extent and during a limited amount of time, then nation-states have only - although not insignificantly - been postponing the decrease of sovereignty. They may now be entering a phase in which they will again lose control over their national economies. This may produce a reduction of the amount of authority a state holds over its citizens: the less evident it is that a state is capable of delivering the goods, the less authority it can claim. Most states that participate in the global economy are losing authority, while their citizens are losing their long-standing identity with the nation-state (Huntington 1993: p. 25-29). Moreover, the loss of authority and national popular identification are expedited by the disappearance of the ideological threat of the communist world (Minc 1993: p. 10).

Even if European integration did prove to be the key to moderating the effects of globalization in the past, European nation-states are now facing a situation in which international policy coordination, whether of an intergovernmental or supranational nature, no longer guarantees the full protection of the integrity of the nation-state. The adoption of the Single European Act and the spillover effects it produced, resulting in the Treaty of Maastricht and the Schengen-agreement, have created a multi-layered European Union in which dozens of different policy subsystems exist for as many policy issues. This multi-layered political system hosts a number of actors, national, local, regional, functional, transnational, etcetera, who seek authority and demand goods from that system. Ultimately, it can be argued that Brussels is gaining authority simply because it is increasingly better able than nation-states to produce the goods that political actors want. The European Union is gaining functional legitimacy.

Pekka Kosonen (1994: p. 152-3) ascertains that 'national welfare states are weakening but new European institutions are not replacing them', and that - as a result - 'inequalities and social gaps are likely to widen again’. Analyzing the effects of European integration on the welfare state involves two dimensions that are closely related but nevertheless need to be distinguished analytically: the effect of integration on national welfare states and the consequences of integration for a transnational or supranational welfare state. With respect to the national aspect the issue of authority is crucial. The extent to which national states are able to maintain control over social policies (guaranteeing social rights in terms of effectiveness as well as efficiency) determines the extent to which a national welfare state regime can be upheld. Some welfare state regimes, with their characteristic institutions and social and political coalitions, are more likely to withstand transnational threats than others. With regard to the transnational dimension it is crucial to understand to what extent individual states are willing (and able) to transfer competencies to the European Union or are compelled to give up part of their sovereignty in the realm of social policy. Moreover, the extent to which the political idiosyncrasy of the European Union in fact allows the development of a European social policy that can substitute for the loss of national policies is a second major issue.

Among the many possible analytical angles from where the contemporary predicament of the welfare state can be analyzed, we would like to stress three major political assumptions particularly relevant in the present context. Firstly, we accept the thesis of welfare state regime theory that the institutional characteristics of welfare states are politically determined and rest on historically specific social and political coalitions. Welfare states are the product of political struggles. Secondly, we believe that welfare states do many things, but ultimately are also instruments for generating political support. The fate of those actors politically attached to a specific welfare state regime depends upon the extent to which these actors manage to sustain the positive political feedback mechanisms of the regime. In other words, those politically benefitting from the welfare state have an interest in maintaining its configuration, although they may currently be incapable of doing this with detrimental effects on their position of power. The first and second thesis taken together imply that welfare states are both the medium and outcome of political power and that the severing of the causal loop will affect both welfare state regimes and political actors. Thirdly, we appreciate polity-centred theories to the extent that they emphasize that institutions, once established, develop a logic of their own that cannot be reduced to political or social actors and their interests. This implies that na-
tional welfare state regimes tend to be institutionally resistant to change even if the founding political and social coalitions upon which the regime originally rested have been dramatically transformed. In his study of the contemporary politics of retrenchment, Pierson (1996) finds a striking stability of the welfare state. The reasons for stability are predominantly political, i.e. powerful political forces and vested interests, partly generated by social policies and institutions themselves, 'stabilize welfare states and channel change in the direction of incremental modifications of existing policies' (Pierson 1996: p. 174). Democratic political institutions are inherently conservative. The politics of retrenchment is electorally extremely risky. The core support for the welfare state is still largely in tact. Path dependency explains institutional resistance and inertia. The central argument is that 'frontal assaults on the welfare state carry tremendous electoral risks. The contemporary politics of the welfare state is the politics of blame avoidance. Governments confronting the electoral imperatives of modern democracy will undertake retrenchment only when they discover ways to minimize the political costs involved' (Pierson 1996: p. 178–79). This implies that the observed commonality ('Everywhere, retrenchment is a difficult undertaking. The welfare state remains the most resilient aspect of the postwar political economy' [Pierson 1996: 179]) causes the continuation of political, institutional and policy variation.

However, electoral risks and path dependency may make the politics of difficult, but certain pressure, e.g., to cope with financial crises of social security funds, may leave little choice. Postwar advanced capitalist democracies have generally been characterized by economic prosperity, stable polities and relatively fixed political alignments, politically recognized systems of interest intermediation, the institutionalization of distinctive welfare state regimes, and international economic integration. The European nation-states have exhibited historically specific economic and political-institutional qualities that have governed distinctive paths of postwar economic growth and modernization, that have constrained the adaptation to the economic stagnation and the crises of the 1970s and 1980s in particular manners, and that are currently structuring a characteristic response to the globalization of the international economy, European integration and the transformation of capitalism into what we are still compelled to call post-industrial society.

At a general level, and in accordance to Pierson's argument, the extent to which political actors have managed to uphold nationally specific welfare state regimes even under worsening economic conditions and changing structural constraints hinged upon the political capacity to preserve and reinforce social and political coalitions and power resources that were capable of countering various forces of transformation, whether these arose from domestic social and political contexts or stemmed from transnational, systemic constraints. But it has precisely been the increasing difficulty of defending a distinctive political heritage, which is seriously hampering the capacity of continued power mobilization for national political actors.

In spite of enormous electoral risks, as politics and policies become increasingly contradictory vis-à-vis the requirements of world market integration, political actors may find themselves in precarious circumstances. Transnational pressures limit the room for upholding welfare state regimes as they historically evolved. National political actors find it increasingly difficult to cope with these pressures. The inability to guarantee deeply-rooted and electorally popular welfare state arrangements in the context of globalization and European integration is likely to cause an unfavourable political backlash at the national level. If it is the case that welfare states have been crucial national means to compensate for the social costs of participating in the international economy as well as instruments in the generation of political support, then the political actors politically most attached to a welfare state regime tend to be the first and foremost victims of the backlash. The general sources that used to provide national media of exchange are drying up under the impact of increasing transnational economic and political pressures and internal social and political changes. Welfare states increasingly fail to deliver the goods and services that provided the currency for the kind of beneficial political exchanges that the political actors and vested interests have traditionally nurtured in the attempt to mediate opposed societal interests and generate political support within the confines of the nation-state. Whether politicians try to avoid
In the 1990s, however, this type of political mobilization appears to have spent its strength. The diverging electoral performances of national political actors in the 1980s and 1990s were related to differences in the nature of alliances and welfare state arrangements as well as to (partly unpredictable) historically unique developments, such as the end of the Cold War, the acceleration of globalization and the intensification of European integration. In those countries where political parties primarily integrated social coalitions via highly organized and regulated institutional practices of visible political protection and tangible exchange, their fate became much more directly linked with the state of the political economies and therefore with the level of integration in the world market. To put it as a simple hypothesis: the worse a national political economy or welfare state regime fares in the context of transnational pressures, the more precarious the position of the political actors most attached to the regime becomes. In such countries electorates hold political actors instantly responsible for the failure of the government dominated by the party to continue to guarantee the kind of social compensation that they had grown accustomed to. In nations, where social coalitions underlying a welfare regime traditionally relied much less on such visible and directly palpable social compensations, the political backlash has been less pronounced and the prospects for sustained electoral competitiveness was accordingly much rosier.

The potentially negative effect on the electoral position of national political parties, however, was initially mediated by the institutionalized social coalitions that political parties fostered since the 1950s and 1960s and were able to maintain to a large extent in the 1970s and 1980s. On the basis of such patterned coalitions and via their policy-oriented behaviour political parties attempted to shape a postwar configuration of the national political economy that had the capacity to maintain or even reinforce the social bases of power in spite of the declining social and political impact of the traditional cleavage structure.

In spite of these developments and the political transformations they are currently provoking in national polities, social and economic policies still typically pursued nevertheless remain largely rooted institutionally in the dominant, postwar paradigm of welfare regimes. The new requirements of flexible labour markets, the transformation of the composition of households and demographic changes, however, require fundamental, if not radical, economic and social policy innovations. The existing institutional arrangements, in the context of which social and economic policies were formulated, can no longer remain grounded on the kind of arrangements that national political actors have traditionally nurtured.

The contemporary predicament of main political parties (socialist, conservative, liberal or christian democratic) is therefore also partly an effect of the incompatibility of the social and economic realities of the 1990s and the ill-adapted institutions of welfare state regimes. National political actors appear to be in double trouble. On the one hand, their troubles consist of the declining ideological and political significance of national cleavage structures (particularly class and religion) which hampers traditional practices of mobilization and appeal. On the other hand, the politics of national accommodation to transnational requirements is losing its potential for success as the terms and goods upon which stable accommodations of conflicts of interests were based are increasingly becoming scarce and the conditions under which welfare state arrangements originally arose no longer obtain.

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We may further hypothesize that social policy – for political parties in general and for social democratic and christian democratic parties in particular – has remained a key to power mobilization, if only
because of the electoral popularity of many social schemes. Such parties are therefore most reluctant to transfer national sovereignty to the arena of social policy in the European Union, since loss of control over this field involves a considerable electoral risk. In fact, political actors cling to social policy as an electoral asset. To the extent that social policy necessarily acquires or already has a more European dimension, national political actors are likely to try to influence the direction of policies so as to satisfy their national interests, especially the interests of core electoral groups, or to adopt a more defensive strategy such as hiding the costs of a European policy, or shifting the blame for costly policies to 'Brussels'. This implies that part of the national political struggle may be transferred to the European level, as a result of which the transnationalization of political parties and alliances becomes a crucial variable for understanding European social policy developments. However, social policy in Europe is exceedingly fragmented to the extent that some policies remain national, some are transnational but not European (such as WTO provisions [see Grossmann and Koopman 1994] and ILO conventions [see Otting 1994]), while others are European, but are governed by diverging voting procedures (see Addison and Siebert 1994: p. 20–1). This poses the question whether a truly European social policy, institutionalized in a European welfare state regime is at all possible.

Two perspectives are strongly present in the growing literature on the Europeanization of the welfare state. The first is that mounting social and economic pressures are likely to encourage the European Union to complement economic integration by expanding its social policy efforts. The second viewpoint holds that such social policy efforts at the level of the European Union are unlikely as they are severely constrained by rigorous institutional, political and regional obstacles.

Analytically, the first position appears to anticipate a shift from negative integration towards positive integration (see Leibfried 1993: p. 134–5; Leibfried and Pierson 1994). Firstly, the (negative) levelling of barriers for the development of transnational capitalist markets for goods, capital, services and people indispensably involves embedding these markets positively in a legal framework characterized by guaranteed civil and political rights. Secondly, the potentially detrimental effects of legally regulated yet socially unconstrained markets require the establishment of a system of effective social rights and a European social citizenship (see Kleinman and Piachaud 1993: 15).

Markets have generally tended to produce social distress for which national welfare states have historically provided relief. The transnationalization of markets, however, currently impedes these national arrangements as a result of which the demand for a Europeanization of social policy is reinforced. Specifically, economic integration has produced the critical risk of 'social dumping' (see Mosley 1990: p. 160; Erickson and Kuruvilla 1994), i.e. '(...) the possibility that firms operating where "social" wages are low may be able to undercut the prices of competitors, forcing higher cost firms to either go out of business, relocate to low social wage areas or pressure their governments to reduce social wage costs' (Leibfried and Pierson 1994: p. 38).

These and other unfavourable social consequences of economic integration (e.g., 'social tourism', mass migration, mass unemployment, poverty) necessitate more positive social intervention at the European level. This is not only the case because the potentially harmful aftermath of economic unification is socially unacceptable, but also because if social integration keeps lagging behind economic unification, the very political project of a European Union will be jeopardized.

This view appears first and foremost to be grounded in the functionalist theory of modernization shortly characterized above and therefore has the same weakness. It is an attempt to explain the origin and development of European social policy arrangements in terms of the functional response of the state to societal needs. Such needs are argued to be increasing as a result of which the functional demands on the European state are escalating up to a point where coordinated social intervention is inevitable. The general point is that a European welfare state is a function of economic integration in the dual sense of being both an effect of and conducive to the process of integration. A major problem of this view is that there is no such thing as a European state that is comparable to the national state as we know it today. As a result, drawing a parallel
between the process of nation-building in Europe and European integration is problematic.

The second perspective does not necessarily deny the existence of social and economic pressures on social policy initiatives and the possibility of 'spillovers', but does reject the notion of an automatic and functional response of the European Union. Instead, this view stresses that the development of a European welfare state is institutionally, politically, and regionally constrained.

European voting rules in the arena of social policy function as institutional constraints on the ability to formulate and implement coherent social policies. The improbability of durable transnational political coalitions that may encourage the progress towards a European welfare state constitute an unfavourable political setting for social policy development. Imbalances in economic and social development appear to rule out a common social policy because of the unbridgeable gap between the European regions and the immense if not insuperable levels of transfers and extent of redistribution a European social policy would involve. The ability to design social policies that are capable of matching popular expectations and vested interests in highly developed areas as well as raising the level of social security in a broad sense in Europe's poorer regions is limited.

This view also assumes that the European Union can be considered as a national state in development and that the difficulty of designing a European social policy is an effect of still imperfect integration. In other words, the expectation is that once the coincidence of a European economic, social and political order is established and guaranteed, a normal development towards a European welfare state is possible. It would, however, be an error to consider the European Union comparable to the national state. How to get a clear picture of the nature of the European Union in which some policy areas are defined as supranational with an independent authority for the Commission, while other areas such as social policy are largely still the domain of national states and policies are mainly coordinated intergovernmentally. Perhaps it is more appropriate to characterize the European Union as a political system where a multitude of actors defend and promote their interests. Such a political system is neither supranational nor intergovernmental. Many different types of issue areas exist, each with their own type of politics: sometimes intergovernmental, sometimes supranational, sometimes the product of competition between lobby groups, sometimes the product of long standing relations between Directorates in Brussels and interest groups which enjoy privileged access. Indeed, following Schattschneider's dictum, one could say that within the European Union each policy area has generated its own political game. This implies that many actors are seeking benefits and many actors are claiming authority over a variety of policy areas. Given the unlikelihood that nation-states at some moment are willing to give up their sovereignty completely, the most likely development of the European political system is one of organized anarchy in which knowledge of the rules, both formal and informal, of the political game in each specific policy area will be the main currency.

Such a situation of organized anarchy has been labelled the new medievalism (see Minc 1993; Wehner 1992). It is a situation in which local, regional, national and supranational actors all compete for policymaking and citizens' loyalty, and in which many actors — political and departmental actors, interest groups and private citizens — are simultaneously trying to increase the level of welfare for the individuals they are catering to. How to conceive of a European welfare state when the structure of politics is so fluid, authorities are challenged and continuously competed for, and welfare sought after by so many different actors at so many different levels? This complex context of multiple European issue areas all of which can be relevant to social policies suggests that any analysis of European social policy should start from an institutionalist perspective.

Conclusion

European welfare states and their social policies are not likely to take a uniform shape because of the twin pressures of European integration and globalization; nor will a truly European welfare state be founded in the near future. The following arguments account for this conclusion: first, social policy is still an important electoral tool to national politicians; second, pressures from economic globaliza-
tion are not directly and uniformly translated into the abandonment of welfare policies. Third, the institutional configuration of most OECD countries produces a bias in favour of such conservative interests. Two factors, however, may eventually invite national politicians to adopt a different attitude. In the first place, international financial markets may eventually force national governments to change their social policies substantially. As of now, adherence to the Maastricht criteria of monetary union has been enforced to a considerable extent by the pressures from financial markets. Today, it seems that the markets are taking into consideration the level of spending on social security only. However, it remains to be seen how financial markets will respond to the contents of specific social policies: Italian pension reforms were initially rejected by the markets. Now, it is true that the markets were judging the specific policy in the context of the question whether it would contribute to meeting the Maastricht criteria. However, it may be an indicator that financial markets under an E.M.U. will be behaving on the basis of an assessment of specific policies rather than total budgets and debts. In the second place, specific policy measures taken by national governments in social policy, although in the defense of the Keynesian welfare state, may alter the institutional conditions underpinning it. Social security policies in Belgium and Germany have produced serious clashes between the regions and the federal state and the Länder and the Bundesregierung, respectively. The outcomes of such conflicts may alter significantly the institutional context of social policy making. Some claim that that may lead to regional islands of claims for authority and policymaking (see, e.g., Minc 1993; Katzenstein 1996). In our view, this would add a complication to the multi-tiered system of policymaking in Europe, in which ultimately there is one big prize to be won: the loyalty of citizens and, with it, the possession of political power.

Note

1. This article is based on a paper, entitled 'Common pressures, different outcomes? Globalization, European integration and the institutional legacies of national welfare states', prepared for the conference on 'Globalisation, welfare states, and labour markets', Institut für Politische Wissenschaft, Heidelberg University, Germany, September 26–28, 1996.

References


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De conclusie luidt dat het hoogst onverstandig is daaruit af te leiden dat sociaal beleid gedoemd is te verdwijnen en daarmee tegenwikkelingen in de Europese Unie staan in dit artikel centraal.

Samenvatting

Het sociaal beleid van Europese verzorgingsstaten staat onder druk van een groot aantal binnenlandse en transnationale ontwikkelingen. Economische mondialisering en recente ontwikkelingen in de Europese Unie staan in dit artikel centraal. De conclusie luidt dat het hoogst onverstandig is daaruit af te leiden dat de beleidsvrijheid van nationale staten voor een eigen sociaal beleid gedoemd is te verdwijnen en daarmee tegelijkertijd plaats te maken voor Europees sociaal beleid en uiteindelijk een Europese verzorgingsstaat. Dit is het geval om drieërlei reden: ten eerste is sociaal beleid nog altijd een terrein waarop verkiezingen worden gewonnen of verloren; ten tweede wordt de druk die de mondialisering van de econo-
mie uitoefent op de beleidsvrijheid van nationale staten in verschillende landen op zodanig uiteenlopende wijze gekana­liseerd dat geen sprake is van een uniforme afbraak van sociaal beleid; ten derde versterkt de institutionele inrichting van sociaal beleid in de meeste westerse landen de neiging bestaand sociaal beleid voort te zetten. Dit conservatisme kan wellicht in de toekomst onder druk komen te staan indien zal blijken dat de transnationale kracht van de internationale financiële markten zich zal richten op specifieke maatregelen van sociaal beleid of dat nationale aanpassingmaatregelen het bestaande institutionele evenwicht tussen sociale partners fundamen­teel zal verstoren. Zelfs dan echter ligt een Europese verzor­gingsstaat niet in het verschiet vanwege het zogenoemde multitiered karakter van de Europese Unie.