Government of Canada
Gouvernement du Canada
Policy Research Initiative
Projet de recherche sur les politiques

North American Linkages
Briefing Note

European Integration and Convergence of the National Welfare States

Highlights

- European Union (EU) member states have experienced numerous pressures that could lead to convergence of their welfare systems. Globalization and European integration are sources of such pressures. Additional pressure comes from the European social policy, which is implemented through a number of the Commission's instruments.
- There is no clear unanimity of experts on whether there is convergence. The more cautious answer is that there is some convergence, but the underlying structures of the systems are rather resilient.
- Although the concept of convergence is not easy to define, most scholars agree that convergence is limited. Some convergence exists at the level of social and economic pressures, less at the level of intentions, even less at the outcomes level, and the least convergence at the level of the structures of the social policy regimes.
- As a consequence, it seems there is still ample room for political input in devising and implementing national welfare programs.

But the debate is not closed and it is likely to go on for a while.

www.policyresearch.gc.ca

For the past 20 years, globalization, trade liberalization, and regional free trade agreements have led to concerns about national policy convergence, so much so that some had even predicted the demise of the nation state. This dynamic has affected many policy areas from the economy to the environment and security and it has also been a major concern in the fields of social and cultural policies.

In Canada, at least since the signing of the North American Free Trade Agreement (NAFTA), some voices have recurrently warned of the danger of convergence with the United States in one or several of these areas and most notably in the area of social policy.

Although one cannot expect to ever bring this debate to a close, the experience of the EU could shed light on a dynamic that affects most countries all over the world.

Toward a Greater European Integration?

The EU member countries have been subjected to the forces of globalization like all other countries. Trade liberalization has increased competition among national economies, and the development of the knowledge economy has imposed adjustments on the work force. This has magnified regional disparities. Coupled with the aging population and lower birth rates, those factors present a complex set of challenges to many states at a time when past commitments in the form of generous health, educational, or welfare programs strain their financial resources.

But, in Europe, an additional challenge for national welfare policies is the European social policy itself. Social policy is an inherent part of the European project and of its philosophy since the Treaty of Rome (1957). For the Barcelona European Council (2002), this policy is based on good economic performance, a high level of social protection and education, and social dialogue for the purpose of creating a level playing field for business and workers.

To promote its objectives, the European Commission uses a number of tools.

Hard Law: The Commission can ask member countries to integrate social provisions, mostly basic rights and minimum social standards,

Canada

in their national legislation. For instance, such provisions can require the implementation of the principle of equal pay for men and women or other employee's rights, or can result in regulations on health and safety at work.

Soft Law: These are rules of conduct, commitments, or informative instruments, such as white or green papers like the Green Paper on the European Social Policy under the presidency of Jacques Delors (1993).

European Social Fund: With about €70 billion for the period 2000-2006, the European Social Fund is one of four structural funds, the others being for agriculture, fisheries, and regionalization. The European Social Fund has existed since 1957 and finances projects all over the European Union to upgrade and modernize work force skills or foster entrepreneurial initiatives. For instance, many projects promote the contribution of older workers.

Open Method of Co-ordination (OMC): This is seen as one of the most innovative approaches through which the EU can enhance and harmonize social policies in the member states. It is an iterative process between the Commission and the members. First, guidelines and recommendations are adopted and communicated to member states. Then, each member state drafts its national action plan (NAP), taking into account the recommendations, but still with the latitude to choose the measures it deems the most appropriate in its national context. The final stage is the phase of evaluation of the national performances and of the communication of best practices. This approach has been used in the areas of employment, social exclusion, and pensions.

> The open method of co-ordination enables EU Member States to learn from each other. This method respects – and is in fact built on – local diversity … The exchange of reliable information aims – at least to some extent – at institutionalising intelligent "policy mimicking"… The open method of co-ordination is both a cognitive and a normative tool.
>
> Frank Vandenbroucke
> Minister for Social Affairs and Pensions,
> Belgian Federal Government, 2002
>
> The open method of co-ordination helps national policies to progress towards common European goals while leaving the Member States the choice of how to achieve them.
>
> European Commission,
> A quick guide to EU employment and social policies, 2005

Sources: Vandenbroucke (2002) and Employment, Social Affairs and Equal Opportunities (2005).

Are National Welfare Policies Converging in Europe?

Given the combination of pressures on the social policies of the member countries, the question seems justified, yet it begs another one: how to measure convergence of welfare states.

The Dependent Variable

Comparing welfare states is not straightforward, because of what is sometimes called the question of the dependent variable. In other words, what indicator(s) are retained when assessing or comparing changes in social policies?

Welfare expenditures (per capita, or with respect to gross domestic product, for instance) is the most obvious dependent variable, but it is a simplistic measure that does not take into account social needs, such as the level of unemployment or population aging. Thus, to judge the generosity of a welfare system, one should analyze needs-adjusted spending data. The examples of the 1980s and 1990s illustrate clearly the difference between gross spending statistics and needs-adjusted ones since, in those years, in most OECD countries needs-adjusted spending figures started to decline while, in fact, gross and unadjusted social spending grew.

A host of other difficulties surface in interpreting spending data, like those linked to the choice of a short- versus long-term time horizon. An increase in expenditure in the short term may only indicate a response to high unemployment rather than a change in policy. In addition, not all relevant welfare reforms are of a quantitative nature. In the recent past, in a period of fiscal restraint, states have relied more and more on regulations and norms, particularly in the areas of health and safety or equal opportunity legislation, that do not necessarily translate into expenditure outlays. Finally, quantitative studies do not usually tell much about the underlying structures of the welfare systems. However, comparative analyses based on quantitative data offer significant insights into social policy patterns provided they are used with the proper precautions.

Some Convergence

As could be expected given the complexity of the question, there is no clear unanimity from experts on whether there is convergence. The more cautious answer is probably that there is some convergence, but that the underlying structures of the systems are rather resilient.

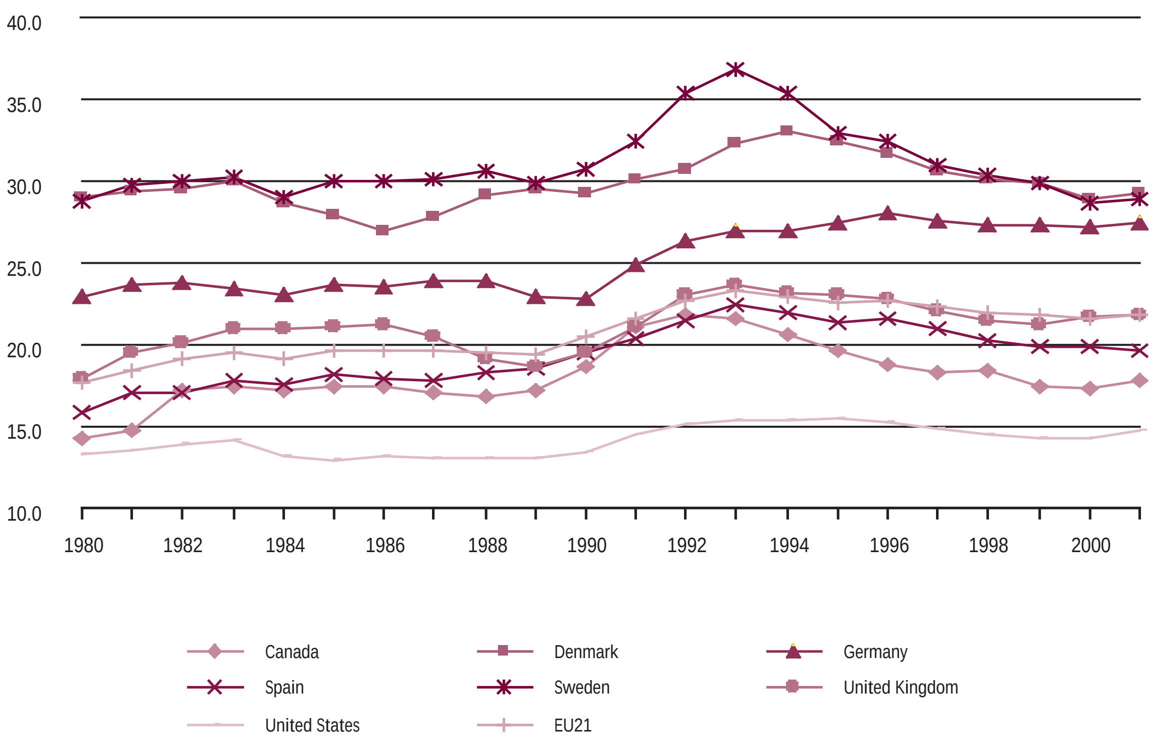
For all member countries, the challenges and objectives are similar. Essentially, all member countries invest in children, families and women, all have to assure employment growth and fight social exclusion, and all have to devise a new social contract for the elderly.

In those conditions, it is not surprising to find some degree of convergence, at least on the surface. Concerning labour market policies, there has been “incremental diffusion of similar policy instruments across countries to face similar problems” (Bertozzi, 2004: 4). This is confirmed in a recent report of the European Commission (2005: 13) that noticed that “the main early market exit pathways – in particular early retirement schemes, unemployment benefits and invalidities benefits – are being critically reviewed in most Member States.” Finally, to respond to the aging of the population, many countries – and not only in Europe – have turned to private pensions schemes, to supplement state pensions.

With the broader, albeit less reliable, test of social expenditures, there seems to be a trend toward some degree of convergence. “Despite persisting differences among national systems, the share of expenditures devoted to active measures and unemployment benefits’ replacement rates are nowadays more similar than they were 25 years ago” (Bertozzi, 2004: 24).

Public total social expenditures have also somewhat converged throughout OECD but as the following table showing these expenditures as percentage of GDP for selected OECD countries illustrates that the convergence has not been very important.

Public Total Social Expenditures as % of GDP
1980-2001



Source : OECD (2004), Social Expenditure Database (SOCX, <www.oecd.org/els/social/expenditure>).

Yet, significant similarities in measures usually translate into somewhat fewer similarities in outcomes as the national statistics on employment, child poverty, homelessness, etc. confirm. The differences come from the fact that all the policy measures are implemented through conditions – institutions, political contexts, etc. – that are different in each country and “convergence does not mean the homogenization of domestic structures” (Börzel and Risse, 2000: 12).

Hence, the next question: Is convergence only a superficial phenomenon?

The Social Regimes Are Resilient

Experts identify three social policy regimes in Europe with differences in goals, instruments, and social policy performance. They are the Anglo-Saxon regime of the United Kingdom and Ireland, and to which, outside Europe, Canada and the United States are affiliated; the Nordic regime with Sweden, Norway, and Denmark, and the continental regime with Germany, France, Austria to which is sometimes added the southern regime with Spain, Portugal, and Italy. These regimes are characterized by a different mix of political, economic, social, and cultural arrangements. It is through those arrangements that social policy measures operate.

All regimes face similar challenges but they react differently. About the labour market, it has been noted that: "Since the 1970s, Western Europe was faced with two main challenges in the field of employment: to deal with the decline in industrial employment and the integration of women in the labour market … [and] each employment regime has developed different strategies to deal with the two challenges" (Bertozzi and Bonoli, 2002: 5). In the Anglo-Saxon countries, the challenge was largely left to the market. The Nordic group relied more on retraining workers, and the integration of women was encouraged by child care measures and generous parental leaves, while the nations of the continental and southern regimes acted on the labour supply; they took the labour reduction route.

Thus, convergence of policies does not translate into homogenization of social regimes. In fact, there is a much broader consensus on the point that social regimes appear very resilient. Other experts have remarked that "a degree of convergence in output and outcomes produced by the European welfare states is undeniable…[but] undoubtedly, welfare regime diversity persists" (Moreno and Palier, 2004: 6). One author went so far as to suggest that: "political institutions and policies could be 'genetically conditioned' by specificities of each national history" (Charbonnel, 2004: 9).

Not all specialists are as categorical. Indeed, some argue that there is "incremental diffusion of similar policy instruments across countries to face similar problems" (Bertozzi, 2004: 24) and that this can be seen as "limited convergence" of the systems (Bertozzi, 2004: 4).

Limited Convergence: A Step Toward an Inevitable European Model?

It is not enough to recognize the existence of limited convergence; it is important to better understand the underlying dynamic in order to appraise its degree of inevitability. Most would agree that globalization has presented rather similar challenges to the western economies and that the states have had to adjust their social systems in consequence, thus leading to some limited convergence. Less clear is the role of the European integration and of the leeway it preserves to individual states in designing and implementing their own social policies.

Influence of the EU

The Commission always insists that "social policy is a core responsibility of Member States. In accordance with the principle of subsidiarity, Europe deals only with matters where an EU solution makes more sense" (EC, 2000: 3). But, in that context, while the Commission attempts to influence national policies with a number of tools, member countries react in their own ways to the pressure. As could be expected, the process is far from linear, and the results are not all automatic.

The Effects of an Open Method of Co-ordination

Under an open method of co-ordination, the Commission makes recommendations and the member countries answer with the publication of their national action plan. However, studies of those plans in regard to the recommendations give some interesting insights into the member states' behaviours. Some countries present as responses to the recommendations, policies that had been pursued before the Commission's intervention. Other members list measures that sometimes have little to do with the recommendations. At other times, countries present national measures that would have likely been adopted anyway (Bertozzi and Bonoli, 2002: 11).

This is not to say that the open method of co-ordination has no value. Everyone agrees that it is a very interesting and useful mechanism. It is improved constantly, and it is a powerful learning process for all involved. But, at this juncture, it is difficult to assess its true impact on member countries.

The Effects of Hard Laws

Among the other instruments of the EU are the hard laws. Here again, member countries do not all comply with the same diligence. Theories attempt to explain the degree of compliance based on the degree of "misfit," meaning the distance between an EU policy and the national situations, or based on the "veto players" argument (i.e., the number of national actors that have to agree before an EU measure is implemented nationally). More simply, a study of the implementation of six labour directives reveals that there are three kinds of member countries, described as three worlds: the "world of law observance," the "world of domestic politics," and the "world of neglect." Countries in the first quite readily adopt EU directives. In the second, domestic interests may override EU positions, and in the third, for a host of reasons, inertia is the rule (Falkner, 2005).

> In the end "many policies in these areas are primarily a matter for the individual Member States. So the European social model is shaped by the diversity of national policies and practices, due to different political traditions and economic conditions."
>
> European Commission,
> A quick guide to EU employment and social policies, 2005
>
> There is no European social model. Each country has its traditions. It is useless to try to unify our social systems. Each [European] country spends much the same proportion on social objectives, but with different methods.
>
> Gunter Verheugen,
> Vice-President of the European Commission, 2005

Sources: Employment, Social Affairs and Equal Opportunities (nd) and Verheugen (2005).

These two examples amply illustrate the reality of compliance in the EU, and they confirm that there is nothing automatic about it. Obviously, differences exist between member countries' compliance. But, perhaps more important yet, the two examples indicate that national politics are still important variables to take into account.

National Politics Is Still Relevant

The importance of national party politics varies. Politics and national cultures are intertwined. The former is embedded in the latter, but it also protects it and nurtures it. Similar relations exist between politics and the social regimes.

Obviously, from the persistence of the three worlds of compliance mentioned above, politicians have, so far, been relatively successful in maintaining the national cultures.

The same is probably also true of the longevity of the social regimes. Politics helps protect their main characteristics, because it is an element of national identity. But social regimes are also part of a larger economic and political set-up, by working inside that complex maze of relations between various societal dimensions; governments are more apt to find adapted solutions that will be more acceptable and eventually more popular than if they have to devise policies "foreign" to their national regime.

This is true in general, but even more so in areas like social policies where "the democratic legitimacy of the European welfare state is closely associated with historical achievements of national social policies" (Hemerijk, 2004: 24). Thus preserving those welfare regimes and working efficiently in the context they provide is essential for all governments.

Those fundamental reasons seem to explain the different behaviours member states display in adjusting their social policies. In fact, many EU experts feel that party politics is still a major factor behind many changes in the social insurance systems. But political causality is difficult to prove. It often emerges as a residual; it is that part of a phenomenon that cannot be explained by any other factor. One expert argues that "we should not dismiss political factors too quickly …. Political factors may still be regarded as important factors which have a … subtle accumulative and delayed impact on spending trends" (Siegel, 2005: 19).

In conclusion, it appears that there is some convergence on the challenges and on the objectives of the social policies, but national practices and especially national systems seem to have done a very good job of resisting further convergence.

References

Bertozzi, Fabio. 2004. "Reforming Labour Market Policies in Europe: Towards Increasingly Similar National Policy Models?" Paper prepared for the European Social Policy Analysis Network. Oxford, September 9-11, 2004.

Bertozzi, Fabio, and Giuliano Bonoli. 2002. "Europeanization and Convergence of National Social and Employment Policies." Paper Prepared for the Workshop Europeanization of National Political Institutions Turin, March 22-27, 2002.

Börzel, Tanja A., and Thomas Risse. 2000. "When Europe Hits Home: Europeanization and Domestic Change." *European Integration Online Papers* 4, no. 15.

Charbonnel, Jean-Michel. 2004. *Vers la convergence des modèles sociaux européens?* Ph.D. thesis in sociology. Institut d'Études Politiques de Paris.

EC (European Commission). 2000. *European Employment and Social Policy: A Policy for the People.* Directorate General for Education and Culture.

———. 2005. *Joint Report on Social Protection and Social Inclusion.* Employment, Social Affairs and Equal Opportunities.

Employment, Social Affairs and Equal Opportunities. 2005. *A Quick Guide to EU Employment and Social Policies.* European Commission. p. 3. <http://europa.eu.int/comm/employment_social/social_model/index_en.html>. Accessed January 27, 2006.

Employment, Social Affairs and Equal Opportunities. nd. *A Quick Guide to EU Employment and Social Policies.* European Commission. p. 2. <http://europa.eu.int/comm/employment_social/social_model/index_en.html>. Accessed January 27, 2006.

Falkner, Gerda et al. 2005. "Worlds of Compliance: Why Leading Approaches to E.U. Implementation Are Only 'Sometimes-True Theories'." Paper prepared for the European Consortium for Political Research. April 14-19, 2005, Granada.

Hemerijk, Anton. 2004. "Recasting Europe's Semi-Sovereign Welfare States and the Role of the EU." Paper presented at the Conference, Enlarging Social Europe: The Open Method of Coordination and the EU's New Member States, University of Wisconsin-Madison.

Moreno, Luis, and Palier Bruno. 2004. “The Europeanization of Welfare. Paradigm Shifts and Social Policy Reforms.” Paper presented at the WRAMSOC Conference, April 23-24, 2004, Berlin.

OECD (Organization for Economic Co-operation and Development). nd. Social Expenditure web site. <www.oecd.org/els/social/expenditure>. Accessed February 27, 2006.

Siegel, Nico A. 2005. “When (Only) Money Matters: The Pros and Cons of Expenditure Analysis.” Paper prepared for the European Social Policy Analysis Network. Fribourg, Switzerland, September 22-24, 2005.

Vandenbroucke Frank. 2002. *The EU and Social Protection: What Should the European Convention Propose?* MPIfG Working Paper 02/6, June 2002. p. 10. <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp02-6/wp02-6.html>. Accessed January 27, 2006.

Verheugen, Gunter. 2005. “Il n’existe pas de modèle social européen” *Le Monde.* September 3, 2005. p. 6.