European Social Model: No Convergence from the East

Abstract

Quantitative evidence based on social expenditure suggests that since Esping-Andersen’s seminal study on welfare regimes, there has been a certain general convergence towards a European Social Model (ESM). The data, controlled for cyclical and demographic effects, shows that in recent years, social expenditures of EU-15 member states have converged, whereas in the mature non-EU welfare states this has not been the case. In this long-term quantitative view, a tentative suggestion would be that Europeanisation might be prevailing over path dependence of distinct models. However, the data also show a certain deviation from the model – the post-communist new member states (NMS) form a distinct group. This is confirmed by a cluster analysis based on social benefit generosity. To provide a background to these findings and, especially, to highlight the avenues for further investigation, the paper also looks at the institutional arrangements in the NMS. In particular, it draws attention to pension systems as a particularly sizeable component of the welfare state to illustrate how far most of the post-communist EU members diverge in terms of the institutional arrangements of their welfare systems. It seems, then, that while the ‘deepening’ of European integration in other policy areas has been accompanied by a convergence towards a ESM in the EU-15 countries, the ‘widening’ of the EU has meant, at the same time, that there is now a group of states within the EU that diverge significantly from the dominant model.

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3.1 INTRODUCTION

Is there convergence in social policy in the EU? In particular, following two recent waves of enlargement, in 2004 and 2007, have the convergence efforts of the newly acceded member states in the legislative and economic sphere, driven by hard policy making (the adoption of *acquis communautaire*) been accompanied by social policy convergence?

In this paper, we subsume three relatively distinct areas of scholarly interest – Europeanisation/convergence, social policy regimes, and social policy in Central and Eastern Europe – under the general theme of EU deepening and widening. The paper summarizes the changes taking place in the East – in the post-communist new member states (NMS) – and discusses the results in terms of EU integration processes.

Traditional social policy models in the West have been in flux and seem to be converging (Cornelisse and Goudswaard, 2002; Bouget, 2003; Starke et al., 2008; Caminada et al., 2010; Van Vliet, 2010a). Moreover, one of the most quoted social policy hypotheses of recent years, the ‘race to the bottom’ proposition, has not been borne out by evidence. The countries in the older part of the EU have converged in their social expenditure more by ‘racing to the top’ than anything else (Cornelisse and Goudswaard, 2002; Bouget, 2003; Starke et al., 2008).

However, a puzzling phenomenon has emerged. The NMS exhibit levels of social expenditure well below those of the EU-15 area. In this paper, we provide updated empirical evidence for this. We analyze social expenditure data, controlled for demographic developments and unemployment, and add a cluster analysis based on social benefit generosity to identify convergence and divergence patterns.

We examine the issue in the context of European integration and regime convergence. The first question is how much the EU dimension (‘Europeanisation’) may have influenced social policy formation in the post-communist NMS. Both the Open Method of Coordination (OMC), which was introduced to achieve convergence towards EU goals, and the economic integration may have influenced the social protection systems of the NMS – not necessarily in the same direction.

The OMC is an intergovernmental method of cooperation. To achieve common objectives, the individual member states evaluate each other (using benchmarking and discussion of best practice) to achieve peer pressure. The European Commission’s role is limited to the surveillance of the process. The OMC was originally developed as part of the Luxembourg (employment policy)
process, starting in 1997. In 2000 the OMC was defined as one of the instruments of the Lisbon strategy. It is used for the areas where the member states retain strong national competences, especially employment, social protection and education.

Secondly, we try to relate our findings to broader literature on welfare regimes. The empirical welfare regime literature has focused mainly on West European (EU-15) and other Western countries (Bonoli, 1997; Gough, 2001; Saint-Arnaud and Bernard 2003; Powell and Barrientos, 2004; Jensen, 2008). Only two recent empirical studies examined the emergence of a Central and East European (CEE) welfare regime. The evidence presented in them is inconclusive: Vasconcelos Ferreira and Figueiredo (2005) found evidence for converging welfare regimes, whereas Fenger (2007) found evidence for a distinct CEE welfare regime in the same period.

Welfare regime studies have continued to be a popular research area ever since Esping-Andersen’s *The Three Worlds of Welfare Capitalism* (1990). ‘Welfare regimes’ refer to institutional arrangements between the market, the state and the family, in which the state has a central role by enacting social policies to protect individuals against market risks.

In this paper, we deal with social policy only. We do not include any discussion on industrial relations and other wider arrangements. When we refer to welfare regimes, we mean regimes as proxied by social policy.

Our analysis contributes to the existing studies that look at both old and new EU member states (Vasconcelos Ferreira and Figueiredo, 2005; Fenger, 2007) in three ways. First, it aims to improve the reliability of the results by correcting the spending measures for cyclical and demographic effects. Secondly, it increases the robustness of the results by including all 25 countries. Thirdly, data from the period after the accession capture better the EU effect and update the results.

3.2 DEEPENING AND WIDENING IN THE CONTEXT OF SOCIAL POLICY

*Europeanisation and convergence studies*

In the context of EU integration studies, ‘deepening’ tends to be defined as a process of ‘gradual and formal vertical institutionalisation’ (Schimmelfennig and Sedelmeier, 2002: 502). ‘Widening’, on the other hand, is ‘a process of gradual and formal horizontal institutionalization’ (ibid.). The latter is usually interpreted as ‘enlargement’, in the geographical sense, in other words as something coterminous with the neo-functionalist geographical spill-over (Faber, 2006: 4). It is this interpretation that we will be using here.

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2 From the EU-25, the following countries are not included in Fenger (2007): Cyprus, Ireland, Luxembourg, Malta, Portugal and Slovenia; in Vasconcelos Ferreira and Figueiredo (2005) these are: Cyprus, Malta and Luxembourg.
In this paper, we try to identify whether the EU member states have converged toward a certain European Social Model (ESM). The ESM is usually defined as an ideal type that ‘refers to the institutional arrangements comprising the welfare state (transfer payments, collective social services, their financing) and the employment relations system (labour law, unions, collective bargaining)’ (Ross and Martin, 2004: 11). Various authors have come up with precise definitions focusing on the minimum generosity of the system and the existence of particular minimum social protection mechanisms. However, we use the term simply as denoting a common model which shows (or does not) in the analyses of convergence/divergence. In other words, rather than being concerned with defining an ideal type, we are concerned with the question whether a certain dominant model has come into existence as a result of convergence processes. This is because our main research question concerns the deepening and widening dimension of social policy in the EU.

EU enlargement has been noted as a potential complicating factor to the gradual emergence and stabilization of a common ESM (Scharpf, 2002; Vaughan-Whitehead, 2003). Changes effected by deepening and widening bring with them new governance challenges or, indeed, they change the ‘identity’ of Europe as perceived by its citizens and other audiences. European integration has so far mostly been analysed in terms of explanations why national governments have been ceding sovereignty to the European level (Faber, 2006: 4). In contrast, the analysis of the dual processes of deepening and widening (Faber and Wessels, 2006; Faber, 2006) is less concerned with the nation-state and more meant to determine how the heterogeneity and complexity of the EU as a whole changes as a result of EU integration.

The effect of, specifically, widening on the EU’s heterogeneity and complexity has to date mostly been dealt with in the growing body of ‘Europeanisation’ literature. Europeanisation usually denotes the ‘top-down’ effects of enlargement, i.e. the impact of the Union on its member states. This can mean the general impact of the Union on member states’ political processes (Goetz and Hix, 2000; Featherstone and Radaeli, 2003; Vink, 2003; Börzel, 2005). A different strand of Europeanisation studies looks at the ‘top-down versus bottom-up effect’, assessing the compliance of the member states with centralized EU rule-setting (Falkner et al., 2006; Mastenbroek and Van Keulen, 2006).

Some studies have looked at the effect of Europeanisation specifically on the acceding CEE states (Lippert and Umbach, 2004; Goetz, 2005; Schimmelfennig and Sedelmeier, 2004; Schimmelfennig and Sedelmeier, 2005). Some have looked at social policy harmonisation (Falkner, 2006; Linos, 2007). And some have even specifically analysed the case of Europeanisation and social policy in the NMS (Vatta, 2001; Lendvai, 2004).

The general conclusion of these studies is that the EU has clearly played the standard-setting role through hard policy making in certain welfare-related policy areas, e.g. gender and elderly anti-discrimination legislation as part of labour standards. But what has been the impact of Europe on, specifically,
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social policy? Here, authors usually point out that on the one hand, the project of social policy harmonisation has long been abandoned (Hantrais, 1995), while, at the same time, national welfare states are constrained by ‘European rules of economic integration, liberalization, and competition law, and they must operate under the fiscal rules of the Monetary Union’ (Scharpf, 2002).

Nevertheless, the EU level does play a role, most famously through such soft-policy measures as the OMC. However, to date, only a small number of studies in the Europeanisation literature examined the impact of the OMC on the social security systems of the NMS (Ferge and Juhász, 2004; Potuček, 2007; Wóycicka and Grabowski, 2007). These studies have found little evidence for the OMC to be influencing national social policy making.

Some areas of social policy are also affected by regulation spill-over from common market policies – this is notably the case of funded pensions, which are regulated according to the free flow of capital principle. The EU also plays a role in coordinating transferability of pension rights in publicly administered systems. And, last but not least, the EU level is also important in promoting common research and sharing of expertise (Draxler, 2009). Nevertheless, since Europeanisation in terms of soft policy making (the OMC), seems to be a weak force, our initial expectation is that of weak or no convergence.

Welfare regimes

In 1990, Esping-Andersen analysed the role of the state according to the level of decommodification of risks and social stratification that the welfare state produces. His main focus was on the way societies develop their own ways of dealing with personal risks (which can be left to market forces or, instead, decommodified and handled at the aggregate, social level). The implication of his exercise is that regimes are subject to certain institutional inertia and path-dependency.

Since Esping-Andersen, others have produced or reproduced similar typologies. Most of these exercises used cluster or factor analysis, based on either social expenditure (Bonoli, 1997) or on a range of characteristics (for a summary and meta-analysis, see Arts and Gelissen, 2006). Following the addition of the Southern model to the widespread Esping-Andersen’s three-world typology (Ferrera, 1996), recent debates in Europe have focused, for example, on the question whether the Netherlands belongs to the Continental or the Nordic regime. One of the most recent classifications has been drawn up by Sapir (2006). He identifies four European welfare regimes: Nordic countries (Denmark, Finland, Sweden and the Netherlands), Anglo-Saxon countries (Ireland and the United Kingdom), Continental countries (Austria, Belgium, France, Germany and Luxembourg) and Mediterranean countries (Greece, Italy, Portugal and Spain).

These classification exercises have had their critics, who pointed out that identification of models might carry little analytical information about the socio-economic context (Baldwin, 1996; Abrahamson, 1999; Kasza, 2002). Here,
we concur with the view that the stability and the path-dependency of regimes should not be *a priori* assumed. This is particularly true of fast-reforming regimes which exist in a socio-economic context that is generally in flux, as has been the case with the post-communist NMS.

Indeed, one complication of identifying models, particularly in the context of fast-changing socio-economic environments, such as the NMS, is that complex measurements will often include pre- and post-reform characteristics in the same measure. In the cases, where the reform has created a sharp break with the past, this might be problematic. This is most dramatically the case of pension reforms, where the NMS have *en masse* adopted a model specifically designed to contain future social expenditure. An analysis that tries to capture the institutional characteristics of the system might end up using the characteristics of the new system (for example whether it is funded or not), with the characteristics of the old system (current benefits). This has happened, for example, with Soede and Vrooman’s recent study (2008). In that case, the authors compared all pension regimes in the EU. Here, since we want to focus largely on social policy in the NMS, we use current social expenditure and discuss institutional characteristics separately.

But, methodological and epistemological difficulties notwithstanding, we consider classification exercises to be a useful starting point for a comparative analysis of social policy. Moreover, the issue of regimes has a special pertinence in connection with EU integration studies, since the existence of a particular dominant model influences how EU integration, and indeed the wider identity of the EU, is viewed.

*Social policy in the New Member States*

The evolution of the post-communist welfare state has always been a little bit of a puzzle. In the early stages of transition, some authors have hypothesized that after a transition period the post-communist welfare regimes would gravitate towards some of the Western models (Deacon, 1992). In fact, many have focused on the transient use of social policies in this period to balance out the radical economic reforms (Lipton and Sachs, 1990a; Lipton and Sachs, 1990b; Åslund, 2007).

However, first, as we have seen, the Western models themselves have been in flux, making it harder to see towards what particular models the NMS would have the option to gravitate. And, secondly, the governments in the region have, in the later stages of transition, actually often carried their economic radicalism over to social policy. This has raised the question whether post-communist welfare regimes were really a transient phenomenon, or whether they have acquired certain particular characteristics, which might be here to stay (Draxler, 2007).

To some extent, the expectations on the development on the post-communist welfare states have been informed by wider debates on how much the transition to capitalism was influenced by path-dependencies (Pierson,
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2000) – in other words how it could be viewed as a series of reconfigurations and recombinations of pre-existent structural features of society (Hausner et al., 1995; Stark and Bruszt, 2001). Advocates of the path-dependency view such as Beyer and Wielgohs (2001), rejected suggestions that the transition to capitalism was happening in an ‘institutional vacuum’, as had been proposed by Karl and Schmitter (1991).

As mentioned before, in trying to determine the level of convergence of NMS social policy, two research papers based in the welfare-regimes tradition of cluster analysis have come up with slightly contrary outcomes. Vasconcelos Ferreira and Figueiredo (2005) found evidence for converging welfare regimes; Fenger (2007), on the other hand, has confirmed the existence of a distinct NMS model.

Using a more descriptive approach, Manning (2004) found that the CEE countries are catching up with the West while simultaneously the variation between these countries has increased. Cerami (2006) has simply described the post-communist welfare state as a distinct model with pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist (market-based schemes) components. Myant and Drahotkoupicki (2010) also concentrate on the mixed nature of social policies in the region. Despite these recent efforts to analyse social policy regimes in the NMS, some of the recent comprehensive literature on social policy regimes still tends to overlook the region, ignoring the enlargement (Clift, 2007).

3.3 Institutional characteristics of CEE social policy and its EU context

The social policy mix in the region

In order to understand the long-term development of the welfare regimes in the region, one needs to look at the particular institutional arrangements in place, to estimate how much the regimes are driven by inertia and path-dependencies and how much by various pressures to reform.

An analysis taking into account all aspects of institutional arrangements of social and healthcare policies would be too complex to undertake here. We provide a synthesis based on existing literature. We particularly draw attention to the most distinct part of the post-communist welfare regimes – the pension system.

In terms of institutional mechanisms employed, these countries present a mixed picture (Berglund et al., 2004). First, their healthcare policies are fairly uniform (Rys, 2001). This means that they retain the typical features of pre-transition, universalist approach. Market-based provision of healthcare is very limited, almost all the population is covered by public healthcare and all, in theory, entitled to the same level of treatment (Bite and Zagorskis, 2003; Golinowska et al., 2003; Gál et al., 2003; Cerami, 2005). One notable short-term
exception to the rule was Slovakia. Its healthcare reforms of 2003-2004 introduced modest but widely applied patient co-payments and, more significantly, transformed the non-profit health insurance companies into profit-making joint-stock companies, thus introducing a model unique in the EU. This reform, however, proved to be clearly the least popular of all public sector reforms introduced by the reformist government of 2002-2006 (Jevčák, 2006). The new government quickly abandoned the co-payments and changed the legal status of health insurance companies back to not-for-profit bodies. Similarly, in the neighbouring Hungary, co-payments were enacted in a 2007 reform bill, to near-universal opposition from the public, and the reform bill was quickly revoked in 2008 (Edelényi, 2008).

Other policies, on the other hand, exhibit a wide intra-regional variability. Unemployment benefit generosity, entitlement periods and access requirements differ widely (Cerami, 2005; Myant and Drahokoupil, 2010). Family policies and social assistance present a similar diverse reform patchwork, with governments trying out new mechanisms, such as tax credits or negative income taxes, and the picture on active labour market policies is also somewhat mixed.

However, there is one area of social policy where the post-communist NMS exhibit an almost uniform pattern, and that is pension policy. All of the post-communist NMS, except for the two richest, Slovenia and the Czech Republic, adopted the World Bank-sponsored ‘multi-pillar model’. The World Bank involvement has been threefold: in some cases (e.g. Poland, Hungary) limited to providing an inspiration and a blueprint, in others extending to technical assistance (e.g. Slovakia); and, in yet other cases, the reform was linked directly to further financial assistance (e.g. Bulgaria).

In fact, the eight post-communist NMS which have implemented the radical multi-pillar reforms are the only reformers, besides Sweden, in the EU to take such a radical, ‘paradigmatic’ measure (Draxler, 2009). Or, formulated differently, these eight, and Sweden, are the only EU member states that have divided their public pension schemes into two pillars, the first remaining publicly administered and pay-as-you-go, the second offering funded individual accounts (Social Protection Committee, 2008).

This flies in the face of path-dependency theory. Why such a region-wide policy shift? One way of approaching this question would be to list the exogenous (globalisation, Europeanisation) and endogenous (policy transfer mechanisms, reform capacity, stakeholder preferences and balances of powers, etc.) conditions for the adoption of the particular policy mechanisms. Some areas would not even neatly fit the exogenous-endogenous axes (e.g. search for a stable economic growth model). We cannot provide a detailed analysis here, but outline some of the most important considerations in the next section.

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3 Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia.
Endogenous and exogenous pressures to reform
The economic framework offered by the European Union is pinned on two institutional mechanisms: (a) the Maastricht convergence criteria/Stability and Growth Pact and (b) the OMC. Prior to the entry to the Economic and Monetary Union, the EU member states are constrained in their spending by the limits of Maastricht criteria, after their entry by the Stability and Growth Pact. In striving to contain their spending, the NMS do not have much leeway to extend their social protection programmes. The Integrated Guidelines for Growth and Jobs, issued within the OMC, on the other hand, act as the instrument of the Lisbon Agenda, which, particularly with the re-launch in 2005, is primarily concerned with promoting employment and growth.

The OMC is generally sparse on social protection policies. It stipulates certain conditions on social standards, for example in terms of social exclusion and minimum pension adequacy. On the other hand, the OMC does not serve to impose particular institutional mechanisms. It also omits some areas of social policy, for example childcare (Ferrera, 2005a).

What key considerations play a role in the NMS in assessing whether to adopt a certain radical policy reform? We suggest two conditions: policy mechanism variability and policy success. Healthcare and unemployment, social assistance and family policies do not present a range of discrete, clearly identifiable policy tools. Pension policies, on the other hand, have for some time been packaged as choices between defined-contribution and defined-benefit, pay-as-you-go and funded, public and private solutions.

In the case where no clear ‘paradigmatic’ policy recipes have been offered, the NMS have either stuck to old approaches (healthcare) or have been trying out from the panoply of new mechanisms offered in policy recipes, none of them dominant (family policies and social assistance, unemployment benefits, active labour market policies).

In the case of policy recipes that are, in contrast, clearly delineated and put forward as fostering economic growth, the NMS have been eager to embrace them. It is the adoption of these recipes, rather than actual results (which will not be visible for many years until the payout phase), which is considered a policy success (in the case of pension reform on the basis of contained projected social expenditure). Commentators have focused on the influence of international organisations, mostly the World Bank (Deacon, 2000; Sengoku, 2004; Orenstein, 2008). In social policy, this is the case with pension reforms, widely promoted by the World Bank precisely as the tool for assisting general economic growth (Stiglitz and Orszag, 1999; Barr, 2001; Draxler, 2009).

In the matrix of paradigmatic reforms, radical pension policy reforms correlate with the other radical public policy reform adopted in the region, the flat rate personal income taxation – almost all of those countries that undertook radical pension reforms have also joined the ‘flat rate revolution’ (Hungary, Bulgaria and Poland being the exception). This suggests, again, that
these reforms are chosen as part of the process of fumbling for high growth and convergence (Draxler, 2007; Myant and Drahokoupil, 2010).

The NMS might change course in the future. One possible pressure from deeper integration might come from the completion of the internal labour market – in May 2009, only Germany and Austria chose to continue constraining access to their labour markets to the 2004 enlargement citizens. Wider limitations still apply to the citizens of Bulgaria and Romania, which joined in 2007.4 Also, the EU provides a forum for mutual policy comparison and learning not only at the stage of the OMC but among wider stakeholder groups and the public, and this could ultimately also influence social policy.

Social policy remains dominantly controlled by the individual nation-states. It is only marginally subject to hard laws, mostly as a result of regulatory spill-overs, for example when investments by funded pension schemes are regulated under the common market principle. At the same time, the soft policy-making mechanisms, such as the OMC, remain focused on policies for growth. The post-communist NMS have, in recent past, rapidly opened up their economies to foreign investment and trade. They also remain constrained by the rules guiding accession to and the membership of the European Monetary Union. Under these circumstances, ‘Europeanisation’ effects in the area of social policy are weak.

Viewed from this institutional perspective, our expectation is that the ‘widening’ of the EU has also meant that the convergence towards an ESM has been complicated by enlargement. The addition of the NMS may have dampened the prospects for creating a ‘pan-European solidarity space’ (Ferrera, 2005b: 217). As we have seen, this expectation had been supported by our summary of literature suggesting that ‘Europeanisation’ and convergence effects have been weak, while, on the other hand, empirical analyses so far have been inconclusive. Let us now see the results of a quantitative exercise to identify general convergence processes in the EU and, specifically, to whether there has or has not been a convergence towards the ESM among the NMS.

3.4 CONVERGENCE

Data and measures
Social expenditures are widely used as a measure of the level of social protection in different countries in comparative and convergence studies in the welfare state literature. This study relies on the most recent Eurostat (2009a) data, which includes aggregate and disaggregate data on social expenditures.

4 With each recent enlargement, existing member states could apply a transitional period of up to 7 years of curbing access to their labour market to the citizens of newly acceding countries.
Table 3.1 Total social expenditures (% GDP)

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<td>0.02</td>
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<tr>
<td>Mean EU-15</td>
<td>24.95</td>
<td>26.03</td>
<td>26.57</td>
<td>26.39</td>
<td>1.43</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>4.51</td>
<td>4.06</td>
<td>4.09</td>
<td>3.96</td>
<td>-0.56</td>
</tr>
<tr>
<td>Coefficient of variation</td>
<td>0.18</td>
<td>0.16</td>
<td>0.15</td>
<td>0.15</td>
<td>0.03</td>
</tr>
<tr>
<td>Mean CEEC-8</td>
<td>18.40</td>
<td>18.23</td>
<td>17.50</td>
<td>17.09</td>
<td>-1.31</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>3.25</td>
<td>4.19</td>
<td>4.09</td>
<td>4.30</td>
<td>1.04</td>
</tr>
<tr>
<td>Coefficient of variation</td>
<td>0.18</td>
<td>0.23</td>
<td>0.23</td>
<td>0.25</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Note: EU-15 are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. CEEC-8 are Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

Source: Eurostat (2009a); and authors’ own calculations.
The included policy areas are healthcare, incapacity-related benefits, old age, survivors, family, unemployment, housing and social inclusion. An important advantage of the Eurostat database is that social spending data are available for twenty-five EU countries. To date, most studies which used social spending measures relied on OECD databases, which contain only four NMS. An advantage of the OECD data, compared to Eurostat data, is that also a number of non-EU countries are included. This makes it possible to examine whether patterns of convergence may indicate an effect of European integration (Cornelisse and Goudswaard, 2002; Caminada et al., 2010; Van Vliet, 2010a). In sum, the choice between Eurostat and OECD data is a trade-off between NMS and non-EU countries. Since the present study is focused on the NMS, this study uses Eurostat data. For the reason of data availability, the dataset includes data for all twenty-five EU member states in the period 2000-2006.

One limitation of the social expenditure indicator is that changes in social spending indicate changes in the number of beneficiaries rather than policy changes. Especially trends of convergence may be attributed to symmetrical trends of ageing populations and of unemployment across countries. As put forward by Clayton and Pontusson (1998) and Castles (2004), social expenditure ratios can be corrected for these trends by dividing them by the sum of the unemployment rate and the percentage of the population aged sixty-five and above. It seems more plausible that changes in social expenditures reflect policy changes when these are corrected for cyclical and demographic effects.

In order to assess whether social protection levels have converged across member states, the study relies on simple variance measures. Changes in the standard deviation and the coefficient of variation indicate to what extent the dispersion of social protection levels has been decreased, as an indication of sigma convergence. The coefficient of variation controls for the sensitivity of the standard deviation for the value of the mean of the corresponding dataset.

**Results**

Table 3.1 shows that the average level of social spending in the CEE member states is considerably lower than in the old member states and the variation within the EU-15 is, over the whole period, smaller than the distance between the EU-15 mean and the CEE member states. Furthermore, social expenditures increased by 1.43 percentage points in the EU-15 between 2000 and 2006. Countries with large increases are, for example, Belgium, Ireland, The Netherlands and Portugal. In contrast, the average level of social spending has fallen in the CEE countries by 1.31 percentage points and has not converged towards the level of social spending of the old member states. Neither did the old member states converge towards the NMS. In fact, the enlargement of the EU

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5 Another remarkable difference is that the total public social expenditures measure of the OECD includes spending on active labour market policies, whereas the Eurostat measure does not.
has led to divergence of social protection systems in the EU as a whole, which can be seen from the increases in both the standard deviation and the coefficient of variation for all twenty-five member states. However, the variance measures indicate that the fifteen old member states have converged, which means that the converging trend of the 1980s and the 1990s has continued. Within the group of the eight CEE member states, in contrast, there has been divergence.

Figure 3.1 shows that when social expenditures are corrected for the unemployment rate and for the share of the population aged sixty-five and older, to control for cyclical and demographic effects, the results still hold. Firstly, the social protection systems in the CEE member states are less generous than in the old EU member states. Secondly, the level of social spending of the group of CEE member states has not converged towards the social spending level of the older EU member states. Furthermore, the correction for cyclical and demographic effects seems to have offset the decline in social spending across the CEE countries.

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**Figure 3.1 Total social expenditures (%GDP) corrected for cyclical and demographic trends**

![Figure 3.1 Total social expenditures (%GDP) corrected for cyclical and demographic trends](image)

*Source: Eurostat (2009a) and authors’ own calculations.*

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6 However, slight declines in the variance measures for the corrected data for the 25 countries in the last two years (not shown here), may indicate a start of a converging trend.
3.5 Welfare regimes

Data, measures and method

The convergence analysis has shown that the generosity of the social policies of the NMS differs strongly with the generosity level of the old member states and that the social policies of the NMS did not converge towards the policies of the old member states. This raises the question whether the NMS form a new welfare regime within the EU. To examine whether the NMS can be categorised along the lines of the existing European welfare regimes or whether the enlargement has led to a distinct welfare regime within the EU, this study uses a hierarchical cluster analysis. Based on patterns of similarities and dissimilarities, this method aims to explore groups of cases (countries) in a dataset.

Therefore, hierarchical cluster analysis is particularly useful in identifying welfare regimes empirically and, as such, it has often been used in the literature (Saint-Arnaud and Bernard, 2003; Powell and Barrientos, 2004; Jensen, 2008). Concerning the cluster analysis, three further methodological choices have been made. First, the values are computed into z-values in order to create a common scale across the variables and to neutralise the impact of the absolute values. In the hierarchical cluster analysis, the clustering process starts with combining cases that are closest together into a cluster. Thereupon, these clusters are merged further until all cases are joined in one cluster. As a measure for the distance between the cases within a cluster, the second decision, the squared Euclidean distance has been used. Thirdly, the Ward method is used for the clustering of the cases. This method maximises the homogeneity within groups and the differences between groups (Everitt et al., 2001: 60).

As discussed above, in the present study we are mainly interested in the impact of the accession of the EU on social policy changes in the NMS. This means that in the conceptualisation of welfare regime, we focus on the public policy dimension. The decision of which variables to include in the cluster analysis is guided mainly by the limited availability of comparable data for both the old and the NMS. As a result, the analysis is based mainly on social expenditure data. The use of social expenditures is quite conventional in the empirical welfare regime literature, although many studies additionally use some policy indicators (Gough, 2001; Saint-Arnaud and Bernard, 2003; Powell and Barrientos, 2004). However, in other studies (Bonoli, 1997; Jensen, 2008) only two social spending variables are used to cluster welfare regimes.

The present study uses ten social spending variables and one policy setting variable. First, as an overall indicator for the generosity of a country’s social protection system, the same total social expenditure indicator is included as in the convergence analysis. Then, disaggregated spending data at the programme level are included, indicating the configuration of social policies. Variables are included for the policy areas of healthcare, incapacity-related
benefits, old age, survivors, family, unemployment, housing and social inclu-
sion. Furthermore, spending on active labour market policies (ALMPs) is
included. Although ALMPs do not, strictly speaking, fall under social protection,
Powell and Barrientos (2004) found that ALMPs are an important feature to
distinct welfare regimes. In addition, ALMPs take a central place in the social
and employment policies of the EU. If the European Employment Strategy
influences the national welfare states, then labour market policies can be
expected to converge (Van Vliet, 2010a).

Finally, a policy setting indicator is included, namely the pension income
replacement rate. This is the ratio of the median individual gross income from
pensions of persons aged between sixty-five and seventy-four years and
median individual gross income from work of persons aged between fifty and
fifty-nine years.

Again, the spending indicators, all measured as a percentage of GDP, are
corrected for cyclical and demographic effects. The total social expenditures
indicator is corrected in the same way as in the convergence analysis. The
expenditures on old age are corrected for ageing by dividing them by the
percentage of the population aged sixty-five and above. To correct for cyclical
effects, the expenditures on unemployment and active labour market policies
are divided by unemployment rates.

The study relies for all measures on Eurostat (2009a; 2009b) data. The values
of the variables are averages of the values for the years 2005 and 2006. These
years are selected because they reflect the situation of the welfare regimes in
the EU after the enlargement. Averages are used to improve the robustness
of the results.

Results
Figure 3.2 shows the results of the hierarchical cluster analysis. In the pro-
cedure of this analysis cases are joined into clusters, starting with as many
clusters as cases. Going from the left to the right, this clustering process can
be represented graphically with a dendogram. While a vertical line in a dendo-
gram represents a cluster, the horizontal lines connect the different clusters.
The longer a horizontal line, the larger the distance between two clusters and
the greater the dissimilarity. Since the clustering process finally results in one
large cluster, an essential decision is when to stop the clustering and
consequently the number of resulting clusters. Acknowledging that hierarchical
cluster analysis is an exploratory method, this decision is informed by both
the statistical results and the theoretical interpretability of these results.
Figure 3.2 indicates that the structure in the data can be best represented by two clusters, because here the distance between the two clusters is clearly the largest. More substantively, the NMS and the old member states are merged into two separate clusters. Also at a lower aggregation level, subgroups of countries are recognisable. Within the NMS cluster, there is a clear division between the three Baltic states (Estonia, Lithuania, Latvia) and the other countries. Interestingly, the four countries of the Southern welfare regime (Italy, Spain, Portugal and Greece) are all in the NMS cluster. Another interesting observation that can be made about the Southern countries is that they are not grouped together. Also, welfare regimes are observable in the old member state clusters. The continental welfare states (Germany, France, Belgium, Austria, Luxembourg) are all grouped together. The Nordic countries are not merged into one subgroup, but the Netherlands do not seem to belong to the continental regime anymore, supporting Sapir’s recent typology (2006). Furthermore, an Anglo-Saxon (or, more precisely, Anglo-Irish) regime (United King-
The most important finding is that the cluster analysis generates two clusters with old and new member states, which supports our earlier findings from the convergence analyses. However, this might simply be due to the fact that in both the convergence and the cluster analyses the same indicator of total social spending has been used. Therefore, we also performed the cluster analysis without the variable total social expenditures, as a robustness check. The results of this analysis (not shown here) are quite similar to the results of the original analysis. The only difference is that now also Cyprus and Ireland also belong to the NMS cluster. In sum, the cluster analysis shows that not only the aggregated level of generosity, but also the policy configurations of the social protection systems differ strongly across the old and new member states.

3.6 DISCUSSION AND CONCLUSIONS

Our key finding is that the social protection level in the NMS is considerably lower than the social protection level in the old member states and that these two levels have not converged between 2000 and 2006. At the same time, social spending levels have converged across the old member states, meaning that the converging trend of the 1980s and 1990s has continued. In sum, the results indicate that the widening of the EU has at least slowed down the process of deepening.

Earlier studies (Caminada et al., 2010) found that the converging trend is stronger within the EU than across the mature welfare states in general. The effect might therefore be attributed to European integration. On the other hand, the absence of a converging trend of the social protection level of the NMS to the old member states may indicate that the social policy initiatives at the EU level, like the OMC, have not influenced the national policies of the NMS much. Some scholars would argue that this lack of influence is in line with the results for a number of old member states. An explanation more strongly focused on the NMS could be that the NMS gave priority to the implementation of the hard law of the acquis communautaire, rather than to the soft law. After all, the NMS have participated in the Lisbon process only since 2004, ten years after the Copenhagen criteria of accession (Potúček, 2007: 140). Another possibility is that the NMS have converged towards the old member states in the 1990s, for which no comparable data is available.

As noted above, the results for the old EU member states indicate that the converging trend of the last couple of decades has continued. In fact, relative
to the foregoing decades the converging trend seems to have accelerated. This is demonstrated by the declines in the standard deviation and the coefficient of variation of respectively 0.56 and 0.03 points in a period of only seven years. Compared to the findings of Caminada et al. (2010) – declines of respectively 1.08 and 0.09 points in a period of twenty-four years (1980-2003) – the results of the present study indicate a rather strong converging trend. Since the examined period 2000-2006 of the present study coincides with the period in which the new means of EU governance as the OMC were effectuated, the accelerating trend of convergence may indicate an effect of the EU policy initiatives.

A second notable finding is that when a broad range of social policy areas are included, the NMS appear to differ strongly from the old member states. This result of the cluster analysis is in line with Fenger’s (2007) study. In our cluster analysis too, the old and new member states were grouped into two separate clusters. Furthermore, the Baltic states were grouped together, as in the present study. However, an important difference between Fenger’s and the present study is that in Fenger’s study the South European countries are grouped as a sub-cluster in the old member states’ cluster.

One possible explanation for this difference is that Fenger’s study includes data from five years earlier. A second explanation might be that Fenger’s study also includes indicators for two other dimensions of welfare regimes, namely societal situation and political participation. This would imply that with regards to social policies the Mediterranean countries share the most similarities with the NMS. But if the societal and political dimensions are included, the Mediterranean countries have more characteristics in common with the other old member states.8

The results of the cluster analysis replicated the European welfare regimes. However, the Nordic and continental countries seem to have been merged into one welfare regime. When Nordic and Continental countries belong to the same welfare regime, this solves the debate in which regime The Netherlands should be counted. This merging of welfare regimes might be the result of the ongoing process of convergence within the EU-15. This would break a trend, since Bouget (2003) has found that convergence did not distort the distinction between the welfare regimes in the period 1980-1998.

This continued convergence of the EU-15 welfare regimes is thus accompanied by an addition of the group of the CEE (the post-communist NMS) states that tend to operate along different lines. It is clear that much more detailed analysis is needed to identify the individual reasons, and combinations of them, of this East-West schism. We have already suggested that social policy reforms in the CEE operate in the space opened up by EU’s accent on promoting the common market and economic growth. The NMS are in the periphery

8 A third difference between the two studies is that in Fenger’s study Slovenia, Cyprus, Malta and Portugal are not included.
position to the advanced economies and they have been trying to adopt policies offered to them as high-growth, convergence policies. These entail fast fiscal consolidation that might make it difficult to expand social policy at the time when funds are still needed for other projects (e.g. infrastructure). Or, it might simply be that a certain level of economic development is a precondition for certain social policies and that the NMS will start converging at some later stage.

We have also noted that one reason why social convergence can be expected is production factor mobility and price equalization due to migration. However, an argument might be built: it might be that due to the constraints of access to the labour markets of the old member states, this factor price equalization has not taken place.

Another line of analysis could look at social relations in the old and new member states. It might be that the two groups have fundamentally different employment relations, domestic politics or voter preferences. Also, social transformations in the CEE might have produced a power distribution in the society where actors favouring one institutional arrangement have a 'hegemony' over those favouring another. This would be, for example, the argument along Marxist lines where the small entrepreneurial elite favours laissez-faire solutions and is able to impose them, in cooperation with international institutions imposing 'neo-liberal' policies. Of course, the complication is explaining away not only the near-uniform imposition of some solutions across the region (the introduction of funded pension schemes) but, at the same time, the entrenchment of other mechanisms (old-style, universal healthcare) and large intra-regional differences in others (for example in unemployment benefit generosity).

These explanations would need to look at several key variables that might yield some clues. For example, at the expense of what exactly is social policy neglected in public finances? In other words, a comparison of the composition of state budgets in old and new member states might be helpful. And so would be a look at the distribution effect: which social groups are the main beneficiaries of social policies? One explanation could be there is no 'middle class capture' in the CEE since there is no well-defined middle class in the region. Therefore the key constituency for the expansion of the welfare state in the West (as some authors argue) is lacking in the East.

Conversely, it is not at all clear what is behind the seemingly weakening path dependencies in the old member states. Is the regime convergence in this group the result of commonly shared internal developments or have they become more sensitive to exogenous pressures?

Our analysis based on expenditure data, then, confirms that the post-communist EU member states tend to show certain resilience to convergence with a generalized ESM. They spend less on social policy. At the same time, most of them have reformed the biggest component of social policy – the pension system – in a very radical way designed to contain expenditure in the future.
Future convergence of these two groups is, of course, possible. NMS might find their priorities changed as their economies converge more strongly with those of the EU-15 group, and as they find it convenient to spend more on social protection in proportion to other projects, for example on infrastructure. However, for the time being, it seems ‘Europeanisation’ is a weak force and that the widening of the EU has complicated the process of social policy convergence.