Conclusion: Main findings, implications and outlook

The impact of European integration on the welfare states of EU countries has been fiercely debated among Europeanisation scholars and welfare state scholars, as discussed in the previous chapters. This study contributes to these debates by disentangling and examining several effects of European integration. It has been analysed to what extent welfare state reforms have amounted to patterns of convergence across the EU, whether and through which mechanisms soft forms of EU governance have contributed to these patterns, and how economic integration affects welfare state reforms by influencing the demand for social insurance. The combination of insights from the convergence literature, the comparative political economy literature, and the Europeanisation literature on the one hand, and the use of a large-N approach in a field that has been dominated by case studies on the other, provides a number of contributions to the literature on the impact of European integration on welfare states. This final chapter summarises the study’s main empirical findings, followed by a discussion of the theoretical and methodological contributions of the study, its implications for the scholarship of the Europeanisation welfare states, and its policy implications.

7.1 Main findings

The goal of this study is to gain insight in how European integration influences social and labour market policy reforms in the member states of the EU. Hence, the study attempts to identify to what extent welfare state policies have converged and to explain the variation in policy reforms across the EU. The results of the convergence analyses in Chapters 2, 3 and 4 show that at an abstract level, welfare states of EU countries have converged over the past 25 years or so. Furthermore, social protection levels have been increased in most of the countries. Even when the data were corrected for changes in the direct needs of social protection, due to unemployment and ageing of the population, social expenditure has increased across countries. This indicates that governments have spent more on welfare state programmes, and that welfare states became more generous. Thus, welfare state reforms in EU countries have resulted in a trend of upward social convergence. Furthermore, the data show that welfare state policies of EU countries have converged more than the welfare state policies of a more diverse group of advanced capitalist countries.
For some periods, this contrast was even sharper, as the social programmes of EU countries converged, while the policies of non-EU countries tended to diverge. Interestingly, this EU-specific convergence pattern might be an indication of the impact of European integration on welfare states. In addition, the results also provide some evidence of converging welfare regimes.\(^1\) This shows that not only the differences in generosity levels have become smaller within Europe, but that the configurations of welfare state programmes are more similar too.

Remarkably, however, no pattern of convergence has been found for the group of countries that entered the EU in 2004. For the period under study, there is no evidence of convergence within the group of new member states, and also the variation between the welfare states of the old and new EU countries has not decreased. Not only is the social protection level in the new member states considerably lower than the social protection level in the old member states. A cluster analysis indicated that also the systems of social protection differ strongly across the old and new member states. As such, these findings do neither provide evidence for influences of the EU on the welfare states of the Central and East European Countries, nor for an effect of the enlargement of the EU on welfare states of the old member states during the period 2000-2006.

After analysing trends of welfare state change across the board, the study zoomed in at the particular policy area of active labour market policies. As has been argued in Chapter 1, in the case of the EES the chance of finding any effect of the OMC on domestic policies is the highest, due to its strong institutionalisation relative to other modalities of this governance means in other policy areas. Chapter 4 presented expenditure data for a broad range of active labour market policies, including employment services, labour market training, youth programmes and subsidized employment. Furthermore, acknowledging that activation could also be pursued by making passive labour market policies less passive, changes in income taxes and in the characteristics of unemployment benefits have been examined. In the period 1995-2002, active labour market policies have not converged much, as countries have opted for different configurations of active labour market policies. However, there has been an EU-specific trend of shifting resources from passive to active labour market policies. Taken together, these results could be an indication of the influence of the EES. Since the EES does not prescribe specific policy instruments, governments can opt for those policies that suit their domestic situation best, while all policies in themselves are intended to reduce unemployment and increase employment through activation.

In sum, the main findings of the convergence analyses are that welfare states have converged, and that, when cyclical and demographic trends are taken into account, the welfare states within the EU are converged more than

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\(^1\) For further evidence on the convergence of regimes see Van Vliet and Kaeding (2007).
the developed welfare states of non-EU countries. In the particular policy area of active labour market policies no clear evidence of convergence has been found, but there is an EU-specific trend of making labour market policies more activating. The purpose of the subsequent chapters was to examine whether and how European integration, among other factors, can explain the changes in the welfare states policies.

First, the study focused on the impact of the EES on national labour market policies as a form of positive integration. In this regard, a main finding of the examination presented in Chapter 5 is that indeed, as the results of the convergence analyses already suggested, the EES has contributed to an increased emphasis on activation in domestic policy-making processes. In line with the goals and the guidelines of the EES to combat unemployment and to increase employment, governments have shifted resources from passive policies to ALMPs. This suggests that the EES has counterbalanced the constraining effect of the EMU, especially the Maastricht convergence criteria with respect to smaller budget deficits, on public expenditure on activation to some extent. With regard to the composition of the expenditure on ALMPs and the national policy priorities within the area of labour market policies, the results presented in Chapter 4 suggest that the impact of the EES in combination with the impact of the EMU have resulted in new policy configurations.

Subsequently, this study also provides insight in the mechanisms through which the OMC influences domestic policy-making. Rather than instruments to enforce judicial compliance, the OMC provides instruments aimed at facilitating mutual learning and external pressure. The findings suggest that the facilitation of mutual learning among policy-makers from different counties is a central mechanism through which the EES influences national labour market policies. Here, mutual learning is conceptualised as a mechanism that diffuses policies indirectly through analogical inspiration, rather than as direct policy transfer from one country to another. As such, the attention for activation in the peer review programme of the EES may trigger domestic labour market policy reforms, but it can also influence the direction of already on-going reforms. Conversely, the impact of the EES was not found to depend on vertical peer pressure from the European Commission and the Council. The study also investigated to what extent the domestic influence of the EES was intervened by domestic actors. In particular, the study focused on the role of social partners and the ministry of finance. Although both types of actors could be expected to have considerable amounts of veto power, the variation in the role of these domestic actors in the governance processes of the EES appears to be of little relevance for explaining the variation in the impact of the EES.

With respect to the impact of negative European integration on the shape of welfare states, the dissertation’s main finding is that international economic integration fuels the demand for social protection. Although societies as a whole may benefit from international trade, this does not necessarily imply that each individual benefits from it too. As markets open up, opportunities
of growing exports of goods and foreign investments in local firms are beneficial for the domestic employment. However, as a result employees not only compete with other employees on the domestic labour market, but also with people abroad. Due to the higher mobility of goods and capital, firms can relatively easily move stages of the production abroad or import goods from abroad instead of manufacturing themselves domestically. Hence, integration into the world market leads to, at least to the perception of, increased economic insecurity for employees. Consequently, this insecurity leads to an increased demand for social insurance. Even though this finding applies to international economic integration in general, rather than to European economic integration in particular, it could be taken as an indication of the mechanism that is triggered by negative European integration. However, it could also be expected that economic integration within the EU leads to relatively less insecurity because the creation of the internal market has mainly led to an increase in the intra-industry trade. The study therefore examined the influence of European integration on private social expenditure specifically. Interestingly, the results indicate that European economic integration has fuelled the demand for social insurance. This result is also consistent with the finding of an EU-specific trend of upwards convergence as has been presented in the convergence analysis (Chapter 3).

Beyond identifying the relationship between international economic integration and the demand for social protection, the examination of private social expenditure has revealed a number of other interesting findings too. First, the dynamics in the magnitude of private social security are to some extent related to the dynamics in public welfare state arrangements. The finding of a negative association between the efforts on public social protection and private social spending indicates a substitution effect. When the demand for social protection is not fulfilled by public welfare state arrangements, the demand for private social insurance is higher. A comparable mechanism can be seen for savings. Household saving is also negatively related to private social spending. Indeed, savings can be used as close substitutes for social insurance to insure the risks of income loss and to smooth income over the life cycle. Thus, people rely on a variety of arrangements to protect themselves against economic risks, namely public social security, private social insurances, and savings. Furthermore, economic insecurity does not only come from the exposure to the forces on international markets, but also from the transformation of the domestic employment structure. The results of the study show that deindustrialisation, defined as the shifts in employment from agriculture and manufacturing industry to the service sector, is positively related to expenditure on voluntary private social security. Since employment skills that were valuable in the traditional sectors can be used in the service sector only to a limited extent, employment losses in agriculture and manufacturing lead to economic insecurity and to a higher demand for social protection. A final finding is that also
unemployment increases people’s perceptions of economic insecurity and so the demand for (private) social insurance.

7.2 CONTRIBUTIONS AND IMPLICATIONS

This dissertation makes a number of contributions to the scholarship of the convergence, the Europeanisation and the political economy of western welfare states. First, the study contributes to the debate about whether welfare states are actually converging or not. Interestingly, the findings of this study are at odds with theoretical arguments which expect continuing diversity rather than welfare state convergence and with findings in the qualitative literature supporting these arguments (e.g. Pierson, 2001; Hvinden, 2004). Also the findings of the present study indicate that there is still substantial variation across European welfare states, but this variation has declined over the past two decades. In this respect, it is important to recall that the concept of policy convergence does not refer to a static state of the degree of similarity of policies across countries, but to a process of declining cross-national variation in policies over time. As will be discussed below, the difference in findings between qualitative and quantitative studies is probably due to methodological differences.

The study also makes a contribution to the quantitative convergence literature, especially to the strand of the literature in which welfare state convergence has been related to Europeanisation. Applying a simple technique to correct the data for demographic and cyclical dynamics makes it plausible that the convergence of social expenditure reflects an underlying trend of converging welfare state policies. The inclusion of a control group of non-EU countries makes it possible to examine whether this trend is specific for the EU or not. From an empirical perspective, the study contributes to the convergence literature by including a broad range of indicators for several policy programmes, which have not been analysed before, and by also including the ten member states which acceded to the EU in 2004.

The convergence analyses also provide a methodological contribution. Based on an analysis of a number of indicators for several welfare state programmes and policy instruments at different aggregation and abstraction levels, the results indicate that patterns of convergence can be better perceived at higher aggregation levels. Interestingly, these findings shed light on the contrasting conclusions of qualitative small-N and quantitative large-N studies. In the case of ALMPs for instance, the data illustrate that countries have opted for different policy configurations, but that at a higher abstraction level, there is a general trend of more activating labour market policies. However, with a small-N approach, focusing on specific law reforms in two or three countries for a few years, this trend cannot be captured. Instead, the focus will be on the differences between the policies. Hence, expenditure data on welfare state
programmes, corrected for demographic and cyclical trends, are useful in analysing whether countries have changed their policies into the same direction. In fact, social expenditure data can function as a common denominator.

With respect to the influence of the EES, the results of this study are complementary to the insights of the existing literature. Case studies had found that the EES has led to the incorporation of the concept of activation in policy goals and in the paradigms and discourses of policy-makers. However, the results of the case studies are inconclusive with respect to the question whether the EES has also contributed to actual policy reforms (Zeitlin and Pochet, 2005). The results of this study indicate that not only policy goals and paradigms have been changed, but that these changes are also percolated to actual policy changes.

A theoretical contribution of the examination of the EES is that also the variation in the processes at the EU-level can be considered as an explanatory factor for the variation in the domestic influence of the EES. Since the OMC is a continuing process, the pressure of the OMC, and so its domestic influence, can vary across countries and over time. For instance, as the study has shown, countries may be more or less involved in the peer review programme on labour market policies. At this point, the research on the OMC deviates from research on other types of Europeanisation. After all, the pressure that stems from for instance the commitment to the transposition of a directive is theoretically rather constant. Hence, the finding that variation in the governance processes of the OMC explains parts of the variation in the developments of domestic policies, may have implications for future research on the influence of the OMC. The variation in the interaction between the EU level and the national level deserves more attention in attempts to explain the variation in the EU-impact across countries.

Furthermore, a methodological contribution of this study is that it provides a systematic comparative analysis across 15 EU countries and over two decades, while it controls for a number of domestic and international factors. This approach makes it possible to test the relative importance of the different mechanisms through which the OMC exerts influence on the domestic policy making. As a result, the study obtains generalisable explanations for the variation in the impact of the OMC, although the findings can only be generalised to the western European countries and until 2005. In order to analyse the mechanisms through which the OMC influences the domestic policies, new measures have been proposed and analysed. Hence, the study illustrates that notwithstanding the limitations of quantitative indicators for grasping the complex mechanisms of Europeanisation, more precise measures which are grounded in theory and earlier qualitative studies, can enhance the understanding of the domestic impact of European integration. As an implication to the research on the impact of the OMC, the result that the EES influences
the national policy-making mainly through mutual learning may guide further research.

Another contribution of this dissertation is that it analyses the impact of both positive and negative European integration on welfare states, whereas most studies focus on only one type of integration. In Chapter 5, where the study analyses the influence of the EES, the focus lies on positive integration, but it explicitly controls for negative integration by including a variable for economic integration. However, the results for economic integration are not consistent across the different model specifications. In some specifications, economic integration tends to have a positive and significant impact on ALMPs, which is in line with the compensation hypothesis and the findings in Chapter 6. In other models, economic integration does not have a significant influence. As has been argued above and in Chapter 6, this may be due to the fact that such a variable measures a net effect of opposite influences from economic integration. While policy competition that is triggered by international economic integration would lead to lower social protection levels, the compensation of increased economic insecurity would lead to higher social protection levels, and the resulting net effect could be insignificant. This is a common and underestimated problem in the literature on internationalisation and welfare states. As a contribution to this literature, a new approach has been proposed in order to estimate the impact of economic integration on the demand for social insurance. It has been argued that this relationship can be analysed more directly with the use of data on private social expenditures.

Finally, elaborating on earlier research in this area by Adema (2001) and Adema and Ladaique (2009), my analysis of the variation in the efforts on private social security itself is a contribution to the welfare state literature. Although the private component in western welfare states has gained importance, the scholarly attention for this development has remained limited. This study offers a theoretical and empirical account for the dynamics in the demand for private social insurance at a macro-level.

7.3 OUTLOOK

The results of this study suggest that both EU employment policies and European economic integration have influenced national welfare states. Economic integration leads to an increased demand for social protection. As such, the study has found empirical support for one side of the globalisation dilemma (Rodrik, 1997). Whether economic integration actually leads to policy competition among governments of EU member states is still highly debated in the contemporary political economy literature (Hays, 2009; Plümper et al, 2009). However, if economic integration indeed narrows the tax base while the demand for social protection increases, then further deepening or widening of the EU creates a Europeanisation dilemma for governments. As suggested by
the data, one response to this dilemma might be that more and more social insurance will be provided privately. This would imply that in future research on welfare state reforms the size and the dynamics of a country’s private provision of social insurances should play a more important role. Whereas welfare state research has been mainly focussed on the consolidation and recalibration of public welfare state policies, the interaction between public and private social security adds a new dimension to the dependent variable. In addition, the availability and accessibility of private alternatives for public social arrangements may influence the decision making of governments in welfare state reforms. As a societal implication, a shift from public to private social security may have only modest consequences for the insurance and allocation functions of social security, but it has probably larger consequences for the redistribution function. Because private social security may be less redistributive than public social security, the substitution of public welfare state arrangements by private social security could lead to more income inequality and higher poverty rates in western societies.

Also the finding that EU ‘soft law’, a legally non-binding means of governance, can influence national policies, may have implications for policy makers. Based on a systematic comparative analysis across countries and over time, this study yielded more generalised findings about the influence of the OMC on domestic policies. However, it is important to note that this generalisability is bounded too. First of all, since the findings of this study are entirely based on the OMC in the field of labour market policies, the EES, the findings do not necessarily apply to OMCs in other welfare state policy areas. Both the precise institutionalisation of the OMC and the domestic policy-making processes vary across policy area. Therefore, further systematic comparative research on other OMCs is required, for instance on the OMC of pensions (see Van Vliet, 2010b). A second reason to be careful with the generalisation of the findings is that they are based on data which run until 2005. This implies that the changes in the procedures of the EES which were adopted in 2005, have not been taken into account.2 In the third place, the member states that acceded in 2004 and 2007 were not included in the analysis on the OMC. In this respect, the results of the convergence analysis do not suggest that the new member states have been influenced by the OMC. When data come available for more recent years and more EU countries, future research should point out how far the generalisibility of the findings of this study stretches.

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2 As has been explained in the previous chapters, the reason for the inclusion of data until 2005 is the limited availability of data. It should be noted, however, that this limitation in data years cannot exclusively be observed in quantitative studies and is instead a wider phenomenon in the OMC literature. De la Porte (2010: 5) found that although two-thirds of the reviewed OMC literature was published in 2007 or more recently, a large share of it is devoted to the period before 2005.
Nevertheless, the findings regarding the domestic influence of the OMC could have some policy implications. First of all, the finding that the OMC may influence domestic welfare state policies could be an argument to use this type of governance more often in order to achieve further European integration. However, this does not say anything about the desirability of formulating or coordinating welfare state policies at the EU-level itself. Furthermore, also the findings with respect to the effectiveness of the specific governance means of the EES could be useful for policymakers, since the OMC is the primary policy tool for the Europe 2020 strategy. Given the fact that the OMC is still a relatively new governance means, it is conceivable that the equipment of the OMC will be polished further. In such reforms, the results could give reason to two specific institutional changes. First, the findings suggest that council recommendations do not contribute that much to the effectiveness of the EES. Therefore, less council recommendations could perhaps increase the cost-effectiveness of the OMC. Second, it seems that especially mutual learning through the peer review programme yields effect. Hence, policy makers could perhaps increase the effectiveness of the OMCs by focusing on mutual learning. Also other insights of this study would improve the effectiveness of the OMC and so to the achievement of the Europe 2020 goals.