European Imperatives and the Welfare State

EUROPEAN IMPERATIVES

AND

THE WELFARE STATE

By

PATRIK MARIER, B.A.

A Thesis

Submitted to the School of Graduate Studies

in Partial Fulfilment of the Requirements

for the Degree

Master of Arts

McMaster University

MASTER OF ARTS (1997) McMaster University
(Political Science) Hamilton, Ontario

TITLE: European Imperatives and the Welfare State

AUTHOR: Patrik Marier, B.A. (York University)

SUPERVISOR: Professor William Chandler

NUMBER OF PAGES: viii, 149

ABSTRACT

The study of social policy within the context of the European Union has mostly been analysed from a supranational view. This thesis will assess the impact of European integration on national welfare state and thus will analyse how the supranational institution affects the social policies of member states. This thesis will discuss the impact of European integration, and more specifically the European Monetary Union (EMU), on the welfare state of five countries (Italy, Germany, Sweden, UK and France). The sectors of old-age pensions and health care were chosen as representative of the welfare state. Since the five countries belong to three different welfare regimes, as classified by Esping-Andersen (1990), the responses to the new challenge of EMU will, in most cases, vary accordingly. Nevertheless, because the analysis of the welfare state remains a national issue, there are still some striking differences in the way countries respond to a new challenge such as EMU. It is argued that the EU has had some impacts on the welfare states of the five countries studied.

ACKNOWLEDGEMENTS/ REMERCIEMENTS

The completion of this thesis would have not been possible without the help and support of many individuals who have been present in the past two years. First of all, I would like to thank members of my committee. Dr. Chandler, you have been very resourceful and have provided me the opportunity to study what I like over the past two year and a half. Thanks to Dr. Jacek who has been supportive over the course of my stay at McMaster. Further thanks to Dr. Porter who joined my thesis committee on such short notice. Within the department, one can not forget Stephanie, Mara and Lori who are always there to help the students and bring a smile to everyone's face. Many R square thanks to Gerald who provided me with great statistical advice.

En deuxième lieu, j'aimerais remercier les membres de ma famille qui m'ont toujours appuyer durant mes études ainsi que quelques amis. Quelques-uns méritent une attention particulière. Merci beaucoup a ma mère qui m'a toujours appuyé dans mes études et les épreuves de la vie. Gros merci à ma tante Aline pour tous le support moral et financier. Marjelaine, Christine, Anne-France, Pascale, Paul et Jörgen m'ont toujours soutenu dans tous ce que j'ai entrepris. Finalement, malgré leurs départs, tante Éliane et ma marraine Lucette demeurent une source d'inspiration et leurs support ne sera jamais oublié.

Third, I have met many good people within the last two years at McMaster. Part of the fun of studying comes with meeting people, some who will remain friends forever. Thanks to Hans, Stojni and Karen for lots of fun. Jason many thanks for having proof-

read this document and thus, made it comprehensible. Marlene and Jason have been there for all the good and bad times over the past two years and I am very fortunate to have them as friends. Thank you for everything you did for me.

Table of Content

Introduction 1

Chapter 1: The Development of the Welfare State

Introduction 8

Welfare State 10

The Dismantling of the Welfare State 11

International Factors 17

"Internal" Theories of the Welfare State 26

Conclusion 38

Chapter 2: Theories of Integration vs Theories of Welfare State

Introduction 40

Review of Integration Theories 41

Review of Comparative Theories of the Welfare State 49

The Combination of Theories: Integration Theories and Welfare State Theories 56

Conclusion 63

Chapter 3: Old Age Pensions in France, Germany, Italy, Sweden and the UK

Introduction 65

Demographic Factors 66

Pensions in a Comparative Perspective 68

Empirical Analysis 91

Conclusion 100

Chapter 4: Health Care in France, Germany, Italy, Sweden and the UK

Introduction 102

Recent Evolution of Health Care Systems 104

Demographic Factors 116

Empirical Analysis 117

Conclusion 123

Conclusion 125

Bibliography 134

List of Tables and Figures

Table 1.1: Organised and Disorganised Capitalism 20

Table 1.2: Main Factors Influencing Changes in European Welfare States 39

Table 2.1: The Liberal Intergovernmentalism Framework of Analysis 46

Table 2.2: The Transformation of Welfare State with Regards to European Integration 57

Table 3.1: Data Influencing Government Spending on Old-Age Pension 97

Table 3.2: Regressions with the Variable Old-Age Expenditure as a % of GDP 99

Table 4.1: Changes in Health Care in Five European Countries 115

Table 4.2: Yearly Changes in Health Expenditure as a Percentage of GDP 119

Table 4.3: Regressions with the Variable Change in Health Expenditure as a % of GDP 122

Figure 1: Two Possible Distribution of Voters Regarding the Demand for Social Programmes 34

Figure 3.1: Percentage of Total Population over the Age of 65, 1950-2000 67

Introduction

The Problematic

European integration has led to improved European competitiveness within an increasingly global economy. However, the requirements and subsequent consequences of this integration have also had an impact on national policies such as welfare. The purpose of this thesis is to explain how European integration, and more importantly European Monetary Union (EMU), affect the modern welfare state of France, Germany, Italy, Sweden and the UK.

The European Union is no longer simply a customs union; integration has continually evolved, although in an irregular pattern, since the signature of the Treaty of Rome in 1957. The Maastricht Treaty laid out the foundations of a future European federation; these foundations will deeply affect the members of the supranational structure. To adhere to the Maastricht Treaty and join the EMU, European nation-states must satisfy certain economic policy goals. These goals include limitations on deficits, debt levels and inflation, which thereby limit their sovereignty. These limitations with requirements such as a deficit no larger than 3% of GDP, have led some governments to reconsider the role of national governments in the economy. Therefore, the Maastricht Treaty deeply affects the nature of the welfare state. With the noticeable exception of the UK, members of the EU have striven to maintain an advanced welfare state. Although

European nation-states attempt to achieve the common goals and objectives laid out in Maastricht, they are nevertheless using different paths to attain these policy goals.

In addition to supranational pressures, European nation-states were already affected by economic problems which brought the foundation of the modern welfare state into question. As stated Rhodes, 'subversive liberalism' "is eroding the principles of universalism and solidarity in welfare provision and subjugating social progress to the exigencies of economic competition" (Rhodes, 1995: 385). The post-Fordist economic order means increasing interdependence and as a consequence, decreases the sovereignty of the nation-states. The nation-state can no longer resolve national issues, such as welfare, without considering the impact it will create on its competitiveness in a global market or in this case, in the European Union. This competitiveness even has an impact on the form of government. National corporatist systems, which are often associated with large welfare expenditure, are under pressure from external factors. Moreover, employers can now move factories and capital almost freely from one country to another to increase their efficiency and their profits.

For example, France's welfare state was traditionally the product of an autonomous nation-state. However, the government is no longer fully autonomous and must respond to European pressures to achieve the goals described in the Maastricht Treaty. Moreover, it must meet the expectations of the French population which still acts in a manner that reflects its traditional political culture. The Juppé government (1995-97) attempted to implement massive changes, mostly cuts to the public sector to ensure France's entrance onto the EMU project and consequently faced many strikes and protests, which paralysed the country. The popularity of the government had been so jeopardised that Chirac called an early election to justify and support the actions of the government to join EMU through its deficit reduction plan. French voters opted to get them out of office and replaced the right-wing coalition by a left-wing coalition led by Jospin. If this new government is truly dedicated to joining the first phase of the EMU, unlikely to be carried out without France, it therefore must continue to attempt to reach the objectives and goals laid out in Maastricht. However, it gained power from people who strongly protested against deficit reduction measures and it will be extremely difficult for this government to qualify to enter EMU. The title of the Survey of France published in the Economist, "No escape?" (Economist, Nov. 25, 1995) could not be closer to the reality of France within the EU. These problems are present in almost every member nation of the EU.

Objectives

This thesis attempts to join theories of integration with theories of the welfare state. It undertakes to provide a theoretical foundation using both quantitative and qualitative studies to explain the changing factors which now influence the welfare state in a supranational structure. As shown in the previous example, the role of government in social protection involves numerous conflicts both at the national and supranational level. Although the question of social protection is discussed at the supranational level, it remains mostly enforced at the national level. A comparative case study of five member countries of the EU has been undertaken to better understand the different responses to the new environment of Maastricht. This comparative study underlines the various European responses related to the changes invoked by the Maastricht Treaty and other external factors such as the EU in general.

The most different system design is used in this analysis. The welfare systems of France, Germany, Italy, Sweden and the United Kingdom were chosen because they represent different types of welfare state regime as defined by Esping-Andersen (1990). Using different welfare state regimes help to understand and explain the different responses to one common factor, European integration. The EU is having a significant independent effect on the member nation-states. The political cultures and ideologies of these countries are quite different. Furthermore, their political system and history in social protection have evolved along different paths. Here is a brief summary of the five countries that are studied in this thesis as well as a brief summary of the EU's role within the field of social protection.

The United Kingdom is the only country which has had a clear retrenchment policy. This is mainly due to fifteen years of a neo-Conservative government. The United Kingdom joined the EU, with Ireland and Denmark, in 1973. It is the only liberal welfare regime in Europe. Moreover, historically, the UK has always had a strong liberal core. The UK is also currently outside the EMU project. Although most observers predict that it will not join the EMU project for the first round, the UK is nevertheless aiming at satisfying most conditions laid out in Maastricht. This uniqueness among European countries make it an interesting case study.

France is one of the original six and has often been referred to as the heart of the EU. France has problems keeping its welfare system intact and the Maastricht requirements makes it even more difficult (see above). France is considered to have a corporatist-statist welfare regime.

Germany is also one of founding nations and is the leading economy in the European Union. The cost of unification altered the way in which Germany was supposed to meet the requirements. Most ot the Maastricht economic conditions have been highly influenced by the Germans and it is of interest to study how the government who strongly shaped the articulation of these requirements, will meet the criteria included in the Treaty. Germany is also considered to have a corporatist-statist welfare regime.

Sweden possesses one of the most extensive welfare systems in the world. Sweden is a new EU member along with Austria and Finland. Sweden is usually portrayed as the prime model of the social democratic welfare state regime as defined by Esping-Andersen (1990). Like its Nordic neighbours, Sweden has assumed the responsibility of providing employment for all its citizens. In the 1994 EU referendum, the 'Yes' side promised that welfare would not suffer due to its EU membership. However, the ex-Finance Minister, now Prime Minister, Göran Persson, announced that the actual high level of unemployment will most likely remain the same in the near future and that the Social Democrats would not attempt to reach full employment. EMU is highly controversial in Sweden and its membership in the first round remains uncertain as the government strives to reduce its debt and deficit.

Italy is also one of the original six. According to Esping-Andersen (1990), Italy is considered to have a corporatist-statist welfare regime. However, due to its regional disparities between the North and the South, it presents a very interesting case. Furthermore, few months ago no one believed that Italy would be a contender to enter the first round of EMU due to its usual high levels of inflation and overspending habits. Many cost-containment measures as well as increasing revenues coupled with spending cuts make Italy a legitimate aspirant to enter EMU.

Structure of this thesis

This thesis has been divided into five chapters. The first chapter analyses various internal and external factors which influence the development and financing of the modern welfare state. It introduces the EU as a strong external influence which has the capacity to alter the nature of national welfare states. In addition, a theoretical model is included to better comprehend decision-making in the sector of social protection.

The second chapter links various integration theories with that of national welfare methodologies. This section also discusses the role and involvement of the EU in the field of social protection and elaborates on how the EU influences national welfare regimes.

The third chapter is a case study of the pension sector. A qualitative and quantitative analysis, using the theoretical framework of chapter one and two, are including to evaluate the extent to which the EMU project affects old-age pension policies in the five countries studied. It also analyses how EMU has forced major changes which affects the very nature of welfare regimes.

The fourth chapter analyses the sector of health care. A methodology similar to chapter three was used. However, this study created very different results partly due to the distinct nature of the health care sector.

Finally, the conclusion returns to the various welfare regimes and analyses how external pressure exhibited through EMU influences the modern welfare state. In addition, this chapter also reflects on the possibility of welfare regimes moving towards other welfare regimes.

Then, this thesis, discusses the imperatives of European integration on national welfare state. It further attempts to provide an explanation for reforms introduced in France, Germany, Italy, Sweden and the United Kingdom. Hence, the choice of the title *European Imperatives and the Welfare State.*

The Development of the Western Welfare State

Introduction

This section will analyse various theories of the *development*, rather than the creation, of the modern welfare state in capitalist societies. These theories have attempted to provide a better understanding of the evolution of the welfare state. First, I will discuss, the changes resulting from the stagflation of the 1970s, which led to the abandonment of keynesian economics and the arrival of monetarist and neo-conservative policies in various capitalist countries. This section will draw upon the work of Offe (1987), Pierson (1995) and Mishra (1990) who studied the "dismantling" of the modern welfare state. A brief look at spending trends is used to further discuss the internationalisation of economics and its impact on national policies such as welfare. This section provides an explanation of the current changes in welfare systems.

The second part of this chapter will analyse the "external" factors affecting the development of the modern welfare state. These elements mainly relate to the erosion of national sovereignty in the sphere of social policies. The impact of European trends on social spending, the institutions of the European Union (EU) and its policies and what Rhodes termed "subversive liberalism" will be introduced for further analyses. Since the goal of the present thesis is to examine the impact of the EU, via the European Monetary

Union (EMU), more emphasis shall be put into the impact of this supranational institution. The EU is suspected to have a negative impact on the modern welfare state.

The third section of this chapter will review "internal" theories of welfare development such as social democracy and class struggle, the increasing size of the state bureaucracy, pluralism and financial capacity. Each theory will be scrutinised and analysed in a contemporary comparative setting even though most of these theories were elaborated more than a decade ago and are mainly concerned with national factors.

Although this thesis is mostly concerned with external factors and its impact on national welfare systems, it is nevertheless very important to overview the "internal" theories because they provide a persuasive explanation to why responses to global factors and the EU have varied within European countries. Even if EU members face similar challenges, they will not adopt similar solutions. This divergence among nation states to cope with these new changes can only be explained by looking at national factors which were crucial in creating welfare states. Furthermore, some internal theories may still apply in explaining changes within the national setting where both internal and external factors may explain reforms into the welfare state.

The conclusion will elaborate a theoretical framework based upon internal and external theories of the welfare state. This framework will be used later on in chapter 3 and 4 in order to assess the relative importance of the EMU project in explaining the downsizing in the area of social protection in France, Germany, Italy, Sweden and the UK. Before discussing any of the following theories, it is imperative to first define what is implied by the term welfare state.

Welfare State

The term "welfare state" is relatively new, it was first used in the 1940s. However, terms such as "État-providence", "Wohlfahrstaat" and "welfare policy" were already employed in the late 1800s. All these names had something in common: they were clearly anti-liberal and anticipated a role for associations or government in the social sphere (Rosanvallon, 1981: 141-2).

A modern definition of the term welfare state involves the state's intervention in the market to provide some basic needs for its citizens (Esping-Andersen, 1990: 19; Scruton, 1982: 493). The welfare state was created as a result of the increasing participation of the state in maintaining and/or improving the general welfare of its citizens. It is important to comprehend that the welfare state is deeply rooted within nation-states. Therefore, due to various political and historical experiences, the welfare state will have diverse significance depending on the country a citizen lives in.

Ringen (1987) presents another way to look at the welfare state. In his book The Possibility of Politics he argues that the use of politics can resolve the unfairness of capitalism through regulatory and redistribution policies. The author pays close attention to redistributive policies that have the goals to achieve economic fairness or equality. Ringen mentions that equality and fairness may take on various meanings and that reaching this target is not the ultimate aim for the welfare state. Furthermore, equality may not be a feasible goal if it does not have the support of the population, if it is not efficient and/or if it implies too many negative side-effects (Ringen, 1987: 3-25).

Although my research covers two policy areas of welfare, pensions and health services, there are other sectors, such as education, poor relief, unemployment and farming support that make up the "safety net" which ensures the well being of citizens and diminishes the hardships of the current capitalist system.

The Dismantling of the Welfare State

Already in the early 1980s, authors such as Offe (1987)[1] and Rosanvallon (1981) were arguing that the welfare state was in crisis due to the oncoming wave of neo-liberalism and the failure of Keynesian economics. Following the Thatcher and Reagan experiments of the 1980s, authors such as P. Pierson (1994) and Mishra (1990) have analysed the impact of retrenchment policies in industrialised countries. This section will analyse within the sphere of the nation-states the changes on the welfare state that were produced by factors, that are mainly national, such as increasing social spending and the assault of neo-conservative governments on the social dimension.

The crisis of the Welfare State

According to Rosanvallon, the French welfare state could not maintain its actual growth because social spending has been increasing much faster than the rate of economic growth since 1974, its economic and social efficiency has been questioned and its development has been affected by certain "mutations culturelles" which redefines the social binding of the citizens. As a consequence of these "mutations culturelles", citizens

[1] The first edition of his book Contradictions of the Welfare state was published in 1984 while most of his essays were done in the beginning of the 1980s.

have begun to question the view of the state as being the only provider of welfare (Rosanvallon, 1981; 13-40). There is a loss of public confidence in the capacity of the government to provide social services (Jallade, 1992: 41).

Rosanvallon concluded by saying that "l'Etat *clientaire* commence à s'édifier dans l'Etat providence" implying that the state has been avoiding national social compromise by stratifying its citizens into social categories which have reduced the legitimacy of the French welfare state (Rosanvallon, 1981: 40). This sort of division could lead to a two-tier welfare state because citizens would enjoy different kinds of benefits depending on their position within the social categories. Since the beginning of the 1990s, this situation has been highly emphasised through discussions about "exclusion sociale". This phenomena is defining the life of thousands of French citizens (and millions of citizens in OECD countries) who solely rely on the government for their well-being and who are unable to reintegrate into society by finding employment.

Jallade has produced an argument along the lines of Rosanvallon's. Nevertheless, he pushes the claim of legitimacy much further by stating that citizens and policy makers no longer support egalitarian policies. Jallade further argues that the heart and soul of the welfare state lies within security related to loss of income, old age and accidents to name a few. Public opinion is much supportive of income maintenance policies since all citizens can claim these benefits. Like Rosanvallon, he concludes that there is a trend towards earning-related contribution and benefits even if it hurts the poor. Jallade argues that this type of welfare state is now the only one that can lead to the acceptance of welfare and social programmes (Jallade, 1992: 40, 54-55). Popular acceptance is required for any government to validate political decisions since they reflect the preferences of the citizens in the form of collective action (Ringen, 1987: 20-24).

Offe uses a very different approach to the study of the *contradiction* of the welfare state. He compares two critiques of the welfare state; the critique from the Right and the one from the socialist Left (Offe, 1987). For the purpose of this thesis, since the emergence of the New Right has been gaining considerable ground, I shall only discuss the critique from the Right.

Offe argues that there are two major elements in the critique of the welfare state from the Right. First, it contends that the welfare state creates "disincentives to investment" because the state takes away capital to finance the system. This capital could be used to invest in the private sector to create better economic conditions and employment. According to the Right, in a situation of economic difficulties, reducing the financial burden from employers and investors will improve economic conditions. This situation can be described as a vicious circle, on one hand, the welfare state needs economic prosperity and expansion of the economy and on the other hand, the welfare state wants to protect its citizens from exploitation by the capitalists and from the hardships of economic crisis. As mentioned by Offe, "(w)hile being designed to be a cure to some ills of capitalist accumulation, the nature of the illness is such that it may force the patient to refrain from using the cure" (Offe, 1987: 150).

Furthermore, the welfare state is also blamed for creating a "disincentive to work". Labour legislation and unemployment insurance make it possible to avoid certain jobs which are not very desirable. In addition, the expansion of the welfare state has left labour with a stronger position with regards to wages which will alter the increase in production (Offe, 1987: 151). Moreover, it could be argued that legislation protecting the workers will lead enterprises to find a way to replace the workers with machines.

Offe's main problem with the Right's critique of the welfare state is not based on the two arguments mentioned above, it is actually founded on the alternative proposed by the Right. The Right has not been able to prove that capitalism could work without the welfare state. "The contradiction is that while capitalism cannot coexist *with*, neither can it exist *without*, the welfare state" (Offe, 1987: 153). He argues that the welfare state provides workers with skills and a sense of security which enhance the functioning of industrial economies (Offe, 1987: 153). Even in a post Keynesian economy, nation states still need a welfare state. However, social structures will probably be quite different from the ones that were built in the post World War II period since nation-states can no longer protect themselves from external influence.

The Emergence of the New Right and the Appearance of Retrenchment Policies

The election of Margaret Thatcher in the UK and of Ronald Reagan in the US provided the New Right with their first real chance to launch an attack on the welfare state. The economic conditions of the post oil crisis, which led to stagflation and a questioning of Keynesian economics, were propitious for the arrival of these neo-conservative governments. They argued that social programs with all its benefits led to inefficiency and budget deficits which lead to low economic growth (Pierson, 1994: 1).

The post-war consensus on the expansion of the welfare state was no longer in effect (Mishra, 1990: 1).

The success of these governments led to a redefinition of politics with regards to social protection. The debate was now between dismantling or maintaining the welfare state. On the one hand, neo-conservative government were promoting the retrenching of welfare provisions, a return to a more classical liberalism relying on market forces and on the private sector to spur the economy. What made this new opposition very distinct was that it was the first time that political parties and/or movements opposed the welfare state *in principle.* There were governments who stopped pursuing full employment or equality but none who explicitly rejected the very existence of the welfare state (Mishra, 1990: 19). On the other hand, members of the left could no longer gain public support for expanding social benefits, they were now forced to promote the status quo. Nevertheless, they still defended full employment and social welfare in the belief that it was still possible to attain economic growth with the current welfare state. However, social democratic governments in Austria and Sweden were constrained and forced to reduce their spending on social protection and accept a higher level of unemployment (Mishra, 1990: 2-3).

As argued by both Pierson (1994 and 1996) and Mishra (1990), the rhetoric of the neo-conservative governments have not been matched by their actions. The main components and the existence of the welfare state are still strongly enshrined within the nation-state. Even after more than 15 years of conservative ruling in the UK, Pierson came to the conclusion that "(t)he British welfare state, if battered, remains intact"

(Pierson, 1996: 161). Funding for universal social services such as medical care, old-age pensions and education has not been seriously undermined (Mishra, 1990: 23-24). The UK has had the most favourable conditions to practice retrenchment policies with a weak labour movement and a strong executive and strangely enough, the Thatcher government has been unable to fully establish its programme.

According to Pierson (1994), the study of the retrenchment of welfare politics is very different from the study of welfare development. Adopting a programme which favours social cutbacks is very risky for any political party seeking reelection (Pierson, 1994: 13). It is difficult to gain votes by arguing 'suffer now, you will benefit later'. Political parties will have to practice 'blame avoidance' instead of 'credit claiming'. There are two main reasons for this phenomenon. First, "retrenchments are concentrated while benefits are not" (Pierson, 1994: 18). Benefits can be enjoyed by a large segment of the population while retrenchment will most likely hurt a specific group which have enjoyed a specific benefit in the past. Second, voters remember negative aspects much more than positive ones (Pierson, 1994: 18).

Still according to Pierson (1994), there are two main retrenchment strategies. The first strategy is termed programmatic and only involves spending cuts and the reshaping of the welfare state. On the other hand, systemic retrenchment necessitates policy changes which will alter welfare results in the future. There are four main vehicles used to achieve systemic retrenchment: restraining the flow of revenues; changing the public opinion; modifications in political institutions (for example, decentralisation); and weakening of welfare state interest groups. These factors have to be analysed and used with a different look at institutions, interest groups and policy feedback to better understand retrenchment politics (Pierson, 1994: 14-50).[2]

Higher unemployment, larger deficit and rising differences between the rich and the poor have been the major results of the Thatcher years (Mishra, 1990). However, public support for social expenditure seems stronger than in 1979. The neo-conservative politics of the Thatcher government have created a "backlash in support of the welfare state" (Pierson, 1994: 162). As demonstrated earlier, the assault on the Welfare state did not prove as successful as it seemed. Nevertheless, it does not mean that international factors such as the globalization of the world economy as well as the influence of supranational institutions will not have an impact in eroding or transforming the welfare state.

International Factors

The wave of neo-liberalism has forced European leaders to complete the internal market and it has further reduced national sovereignty in the social sphere. What Rhodes termed "subversive liberalism" has strongly redefined the role of the state with regards to welfare due to new economic challenges. The globalization of the world economy and the impact of supranational actors such as the EU have led to a further questioning on the future of the welfare state in a new neo-liberal world. This section shall analyse the movement from a sovereign national welfare state to a more complex interdependent and semi-sovereign welfare state.

---

[2] Pierson's theory for retrenchment politics is explained in chapter 2 of his book Dismantling the Welfare state? (1994).

The Post-Fordist Era

As mentioned above, the new world economy, which has often been termed post-Fordist, has affected many structures within the nation-states. According to authors such as Jessop (1988), Offe (1987), Lash and Urry (1987) as well as Pierson (1991) the economy is now moving from an organised capitalism to a disorganised one. The major trends of this movement are illustrated in table 1.1. According to Pierson (1991), who draws his analysis from the above authors, there are four major changes with regards to the previous economic system. First, there could not longer be a unified working class with similar interests[3]. The skilled workers will tend to be concentrated in the centre while unskilled workers will be concentrated in the periphery. These workers, who are desperate for employment, depend heavily on the Welfare state and will thus be quite vulnerable.

Secondly, following from the previous argument, institutions of the organised system, such as organised labour, will be weakened. Thirdly, there is a declining faith in the capacity of the state to intervene in the economy and to produce welfare. Two major reasons explaining this aspect includes counterproductive economic measures and a large bureaucratic establishment. Finally, the middle classes which were so important in establishing the Welfare state might actually turn their backs on it as they become more prosperous. An economically stronger middle class may not be inclined to adopt a collectivist approach which would mainly benefit the members of the periphery.

---

[3] see page 11 of this chapter for a similar argument.

The Impact of A Supranational Actor: The European Union (EU)

Although the involvement of the EU in the sphere of social protection has been limited to few areas related to the completion of the internal market in a policy field that was mostly unexplored by European nation-states, the EU has nevertheless had an impact on policy-making in social policy.

As argued by authors such as Rhodes (1995) and Leibfried (1993), the creation of a European welfare state remains very unlikely. First, as demonstrated in Esping-Anderson's Three Worlds of Welfare Capitalism (1990) and by Leibfried (1993), there are various welfare regimes enshrined within the nation-states[4]. Some European welfare states were already established in the late 19th century and they have been developed in the context of the nation-states as being the main provider of protection. Thus, European welfare states are rooted in the history, culture and institutional framework of the member states (Begg and Nectoux, 1994: 286). In a document published by the EU entitled La protection sociale en Europe, the same concerns are underlined. However, as stated in the document, most members of the EU are now facing similar problems which can be better understood and answered within the framework of the EU (European Union, 1994). Thus, the EU acknowledges that the creation of a single pan-European welfare regime seems almost impossible to build, at least in the near future.

Secondly, not only are European welfare regimes very different so are their economic capacities to provide social protection. As pointed out by Anderson (1995), the economic disparities between the poorer regions and the richer ones are enormous. The

[4] see page 12-13 in chapter 2 for a thorough analysis of the welfare regimes

Table 1.1 Organised and disorganised capitalism

Organised capitalism	*Disorganised capitalism*
The dominance of mass production in large-scale factories with predominantly semi-skilled labour	Batch production; transfer towards smaller production sites; growth in office work; growing division of work-force into skilled, flexible and permanent core and unskilled, insecure periphery
The mass consumption of mass-produced goods	"Niche marketing", targeted products and short production runs
Concentration and centralization of industrial, banking and commercial capital	Division between financial, industrial and commercial capital; growing division between banks and industry
Cartelization; the control of markets and monopolistic pricing	Breakdown of cartels and monopolistic pricing; declining national control over markets
The emergence of national labour market organizations of both labour and capital. Growing importance of national collective bargaining	Decline in power of national labour market organizations - especially TUs - and displacement of national collective bargaining by local/firm-based agreements
Capitalist relations concentrated in a few manufacturing sectors employing huge numbers of male workers in a few key nation-states	Diffusion of capitalism into most Third World countries; transfer of extractive and manufacturing jobs from the First World
The social and economic dominance of large-scale industrial cities within regional economies	Decline in economic importance of industrial cities; transfer of economic activity to smaller towns and semi-rural areas
Enhanced role for nation state in economic management, intermediation with capital and labour	Declining capacity of the nation state for effective economic intervention
Politics organized around social classes, collective identities and work-defined relations	Class politics of declining importance: emergence of new issues and new political actors
Development of the Keynesian welfare state	Growing structural challenges to the welfare state

Source: Christopher Pierson, Beyond the Welfare state, 1991, p. 62

USA does not even exhibit such differences between its regions (Anderson, 1995: 123). The establishment of the most rudimentary European welfare state would be very difficult to implement since, for example, minimum standards in Germany are very dissimilar to minimum standards in countries such as Spain, Greece, Portugal and southern Italy. The EU has attempted to restore a certain economic balance between its members via projects such structural funds. However, as argued by Anderson, most of the financial help provided to poorer regions has been spent on short term projects rather than establishing the foundation of modern organisations or infrastructure (Anderson, 1995). The next phase of integration which will probably incorporate some of the ex-communist countries such as the four Visegrad countries, would make it even more difficult to establish a real social dimension.

Furthermore, the creation of an internal market has been one of the key achievements for the EU and the main preoccupation of the EU agenda from the early 1980s. Therefore, EU institutions and other main actors such as member states have been very compliant to business' demands to produce an efficient internal market which could lead Europe to a higher degree of competitiveness. In addition, most governments were controlled by right wing parties with the notable exception of France which nevertheless adopted right wing economic views after facing immerizing growth in the early 1980s. Even today, supporters of building an apparatus which could look like a European welfare state remain weak (Streeck, 1995: 402). This evolution, combined with the complexity of instituting reforms in 'new' sectors, has led authors such as Streeck to maintain that most EU actors do not want any social commitments now or in the foreseeable future (see Streeck, 1995).

From the arguments above it can be inferred that co-operation rather than harmonisation is the current path followed by the EU and its members with regards to social protection. However, although the implementation of ***a*** European welfare state seems very unlikely, it does not imply that the EU should have no role in social policy and that member states are not affected directly and/or indirectly by the European Union (see Rhodes, 1995: 80; see also Ross, 1995: 385).

Direct intervention from the European Union into the social sphere has been very limited. As mentioned by Lange (1993), "(t)he of social policy in the Community going back to the Treaty of Rome in 1958 is one of good intentions, high principles, and little action" (Lange, 1993: 7). Extrapolating from one of his previous article, it can be affirmed that a minimalist or neo-liberal approach has been dominating the EU agenda (see Lange, 1992: 231). Nevertheless, there has been increasing involvement from the EU in the sphere of social protection with in particular the signature of the social protocol in Maastricht.

Due to the complexity of the internal working of the EU and due to its low financing, most measures implemented were regulations which have allowed the EU "to take on the role of 'calling the tune without paying the piper'" (Cram, 1993: 136). Most regulations are however concentrated in limited areas such as health and safety standards social security for migrant workers and the rights of women. The EU bureaucracy has been able to expand in these sectors because of the close links between these regulations and the completion of the internal market. Moreover, most of the regulations covered new social policy space and the bureaucracy knew that they would face few resistance, mainly from member states, in these sectors (Lange, 1992 and 1993; Cram 1993).

The 'Social Europe' lies very far ahead and as stated by Lange (1993), "the social dimension of the (EU) remains the stepsister of market integration" (Lange, 1993: 28). Nevertheless, new pressures to adopt single majority voting in decision-making as well as the extension of Community competence in the field of social protection may alter the actual balance in the future. Successful progress in the social dimension will require further agreements and co-operation among the member states which remain extremely difficult because of the position of the UK on this matter (Rhodes, 1995:85-88). Although the EU has had a weak *direct* influence on European welfare states, its *indirect* influence through the completion of the internal market and the setting of the European Monetary Union (EMU) have been quite noticeable.

The movement towards globalization has led European leaders to accelerate the process of economic integration. Increasing interdependence has affected the capacity of the state to finance and support their national welfare state since the state must now be aware of the activities of its competitor to attract international investment or to ensure that firms do not relocate elsewhere. The European Union adds extra pressures to the globalization phenomenon. Kosonen (1993) concludes that EFTA countries had greater autonomy than EC members to build their own economic policies (Kosonen, 1993; see also Rhodes: 1995).

Following the logic of globalization and European integration, the argument of social dumping has been very popular in the academic literature although it has been highly criticised. This argument advocates that countries will reduce their social costs and that they will be pushed towards the lowest common denominator to be able to attract business into their countries. However, this argument overemphasises the importance of labour costs which is only one aspect in the decision-making for the location or the relocation of a firm (see Rhodes, 1995: 395-6; Adnett, 1995; and Cochrane and Doogan, 1993: 90-2). For example, Scandinavian countries have had higher labour costs than the poorer four (Spain, Greece, Portugal and Ireland) for a very long period of time and this has not affected the economic growth of the Scandinavian, neither has it led to lower unemployment and higher development in the poor four. This absence of movement of capital en masse can be partly explained by a much higher level of productivity due to better technology and better trained labour (see Adnett, 1995: 10). Nevertheless, social dumping should be considered to analyse the competition between countries which have similar productivity level such as Germany and Sweden.

The agreement on European Monetary Union has set criteria regarding the financial aspects of member states. Members who wish to join the union must carry a deficit of no more than 3% of GDP, a debt of less than 60% of GDP and an inflation rate below 3%. These constraints have forced most member into spending reduction and/or tax increase. The convergence criteria has put further pressure on social spending when governments are caught in recession, such as the early 1990s. Institutional changes and spending cuts have been necessary in many countries to adhere to EMU. Some even fears that the acquired rights linked to social protection might disappear (see Cochrane and Doogan: 1993; and Begg and Nectaux, 1995: 287). This thesis will attempt to empirically demonstrate that the EMU has led to further reduction in spending and in rights in the sectors of pensions, unemployment and health care.

EMU now puts monetary policy into the hands of a supranational institution which follow the lead of the Bundesbank. Countries like Sweden, who used to devalue their currency and ran budget deficits to favour a quick economic recovery, must now turn to new solutions to prosper again. Economic national sovereignty no longer exists since national governments are dictated what to do with their finances.

The trends towards spending cuts may harm the poorer countries which were the only European countries to increase welfare spending during the 1980s as they were attempting to build a modern welfare state. Due to their economic situation, the sacrifice to join EMU will be more painful (see Begg and Nectaux, 1995).

As argued by Begg and Nectaux (1995), if EMU proves to be successful and leads to the path of economic recovery the concerns for social protection will be diminished. However, if this is not the case, the social issue may become a risk for the unity of the EU (Begg and Nectaux, 1995: 299).

Due to similar new factors as well as the interrelationships between countries facing them, it can be inferred that a certain degree of convergence with regards to social policies will most likely be achieved even if there is no official policy of harmonisation between EU members. That aspect shall also be studied empirically with regards to the impact of EMU on national welfare state in Sweden, Germany, France, Italy and the UK.

The expected convergence will probably be a move away from universal or Beveridge systems (as experienced in Sweden and the UK) towards Bismarckian type of policies (Germany and France) where benefits are earned. The Bismarckian system is less costly since it takes away many responsibilities from the state because it is insurance based. Nevertheless, no one can predict for sure how similar pressures will be handled since each member has its own system (see Leibfried and Pierson, 1995; and Cochrane and Doogan, 1993).

"Internal" Theories of the Welfare State

As discussed above, welfare policies remains within national jurisdiction. Attempts to transform the welfare state are done differently in the member states depending on aspects such as institutional settings and the importance of interest groups. Furthermore, internal factors still influence the evolution of the welfare state even if it has been losing significance recently due to external factors such as the EMU. Therefore, an analysis of internal factors is required in order to understand the changes made by nation-states.

The Social Democratic Model

The main hypothesis of the social democratic school has been that the development of a strong welfare state is related to the strength and power of social democratic parties. Therefore, "the key social democratic proposition is that increases in left-party government augment welfare effort" (Hicks and Misra, 1993: 675). Although there is some variance within this paradigm, supporters of this thesis all emphasise the importance of controlling the government through the electoral process (Shalev, 1983: 316).

Scholars such as Shalev (1983), Huber et al (1993), Esping-Andersen (1990), and Korpi (1983) have all based their studies on the welfare development of the Scandinavian countries as well as Austria in a comparative perspective to validate their arguments. These countries are considered to have the most extensive welfare apparatus of the western capitalist countries. Even though, they have employed different dependent variables, all of these authors conclude that the control of the executive branch of government by social democratic parties over a long period of time is highly correlated to strong a welfare state[5].

Further studies, such as Korpi's Power Resources model or neo-corporatist arrangements, have demonstrated the possibility of mediation between labour and capitalists. Korpi assumes that "the distribution of power resources influences the outcomes of the exchange processes (between human capital and capital) and consequently the degree of inequality in society" (Korpi, 1983: 18). Korpi argues that tripartite arrangements involving trade unions, capitalists and a reformist socialist government will favour the wage earners' interests. However, contrary to neo-corporatists, he does not agree that members of a tripartite arrangement have equal power and that they are involved in a *stable* structure or institutions. Korpi argues that power and resources will vary overtime.

[5] See chapter 2 for a methodological analysis of the dependent variable. These findings were contested by Mahler (1990), see discussion on Pluralism below.

Schmitter, who led the path to the resurgence of corporatist theory, considers corporatism to be an "ideal-typical institutional arrangement for linking the associationally organised interests of civil society with the decision structure of the state" (Schmitter, 1979:9) [6]. Encompassing trade unions and employers' associations work together with the government acting as a mediator to set up national macroeconomic policies. This structure is enshrined within the working apparatus of the state and includes associations which are officially recognised by the state. In order to work efficiently, the corporatist structure needs interdependent groups which can gain higher benefits from co-operation[7]. In a welfare state setting, due to the co-operative aspect of corporatism, it is assumed that workers gain benefits from the government and the employers' association in exchange for their co-operation with regards to the functioning of firms within a capitalist economy. In addition, corporatism should be aimed to ensure continuous peaceful relations between employers and employees.

Furthermore, the creation of such a tripartite structure with a social democratic agenda also leads to legitimate government intervention in the market economy. In turn, this will do much more than transfer money from one class to the other. This type of framework legitimises the use of Keynesian economic policies. "It is now clear the both 'social and economic' policies speak to the same issue" and therefore alter various outcome within the political economy of a social democratic nation (Shalev, 1983: 317).

---

[6] For a further discussion of corporatism, see Alan Cawson, Corporatism and Political Theory (1986). See also Schmitter and Lehmbruch Trends Toward Corporatist Intermediation (1979) and Williamson, Varieties of Corporatism (1985).

[7] For example, Rothstein (1992) emphasises the similar goals shared by labour and capital in negotiating employment policies.

Authors such as Hicks and Misra (1993) and Huber et al (1993), tested the validity of this argument which links tripartite arrangements with a social democratic government to economic growth, which led to a large welfare state. Both Power Resource and Corporatist theory, imply that the Social Democratic parties remain in power during a certain period of time with a strong labour base involved in encompassing unions, have increased the explanatory power as well as the statistical significance of the Social Democratic paradigm to explain welfare state's development (Hicks and Misra: 1993; Huber et al: 1993) [8]. However, a study done by Mahler (1990), questions the importance attached to the tripartite agreement. The statistical significance decreases significantly when countries such as France and Australia are included (Mahler, 1990: 24).

One of the main critiques of the Social Democratic paradigm has been related to the oversignificance attached to Sweden. It has been termed "Swedocentric" since the evolution and the creation of the Swedish tripartite structure is in fact very unique. The favourable assumptions which are linked to both Power Resource and Corporatism, have been mainly found in Scandinavia (see Pierson, 1991: 38)[9]. The Social Democratic Party has maintained a quasi monopoly of the Riksdag after World War II and it has, therefore, been able to establish policies over the long run which are now well entrenched within the apparatus of the state. It is also foolish to assume the possibility of a permanent reconciliation between the interests of Labour and Capital (see Pierson, 1991: 34).

[8] For a theoretical overview of the debate between labour movement theorists and corporatists within the social democratic paradigm, see Jim Kemeny, "*Theories of Power in the Three Worlds of Welfare Capitalism*" in Journal of European Social Policy, p. 91-93.

[9] He based his criticism on Korpi's Power Resource model but it can also be applied to Corporatism.

Another criticism stems from the role of various actors in developing the welfare state. First of all, in Germany and even in Sweden, the earliest welfare measures were put in place by right wing governments. Furthermore, many policies in the social sphere actually had the support of right wing parties either through negotiation within various committees or through general acceptance of proposals with regards to welfare. It must, however, be mentioned that when conflicts occurred they were usually very hostile like in the introduction of the mandatory pension plan in 1957-58 (Hermansson, 1993: 275-362).

Secondly, the importance of the middle class, often cited as very important to the legitimacy of the development of the welfare state, is almost irrelevant for Social Democrats since they claim a workers' middle class with unified interests (Pierson, 1991: 38). This assumption is highly questionable. Again, to use the example of Sweden, blue collar and white collar workers each have their own unions and their interests can be very dissimilar since their concerns are not the same. Moreover, the assumption that members of a society will only join a certain type of group, here unions, and defend only these ideals is not realistic since citizens will also consider other factors such as religion, culture and community life. Citizens will support organisations or policies within a more complex and undefined sphere which goes much further than a linear contradiction between Labour and Capital. For example, not all blue collar workers support the Social Democratic Party which is the workers' party. In the 1991 election in Sweden, the Social Democrats lost many of their voters to the newly established right wing party Ny Demokrati and about one third of union members voted for right wing parties (Gilljam and Holmberg, 1991: 196-205). These results demonstrate that voters have their decision on multiple issues and that workers are not as strongly unified as labour theorists argue.

Another important criticism comes from the findings of Hicks and Swank who discovered a strong link between Christian democratic parties, corporatism and welfare efforts. They argue that although the Netherlands was never dominated by left wing parties, it has nevertheless originated a welfare state comparable in size to the ones developed in Scandinavia (Hicks and Swank, 1984 cited in Pierson 1991: 33; see also Huber et al, 1993: 717).

Finally, based on political culture, an argument can be made which links Sweden's generous Welfare state to the hardships experienced in this country in the late 19th and early 20th century. The economic conditions were so terrible in the late 1800s and early 1900s that many Swedes ended up emigrating to North America to avoid starvation. By 1930, there were more Swedes living in Chicago than in Malmö, the third largest city in Sweden (Nordiska Museet, 1994). The scars left from this experience forced the following governments to do whatever they could to prevent this situation from occurring again. A similar argument has been developed to explain the German's obsession with inflation which attained unprecedented levels following World War I. Both of these experiences were extremely unique and therefore must be taken into consideration when analysing any of these countries.

Pluralism

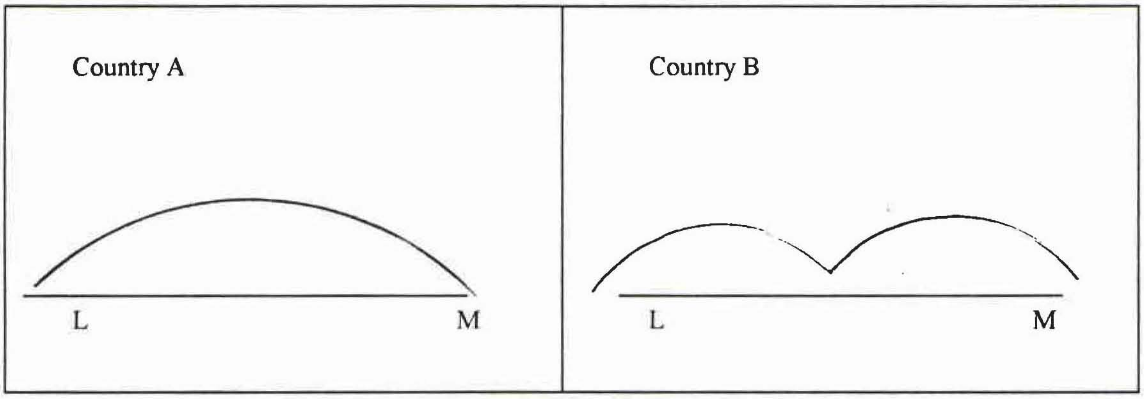
Pluralist theorists are mainly concerned with competition among numerous groups and their impact on policies. There are two major sub-models within this paradigm. One group emphasises the interaction between political parties and their competition for voters. The other group stresses the impact of contesting interest groups on government's policy-making.

The first group argues that political parties will be more eager to create a platform to take control of the executive office rather than to defend a certain ideology. Political parties will attempt to attract the "median voter" and hold on to his/her support for the following election. As a consequence, "(i)deologies are assumed to fade" mainly due to the consequence of party competition within a stable institution (Korpi, 1983: 8). Policies will tend to converge from one government to the other irrespective of ideologies (Kirchheimer, 1957 cited in Shalev, 1983: 318). A pluralist assumption would be that support for the Welfare state had been strong within the middle class in the aftermath of World War II. Therefore, successful political parties were the ones which included just the right amount of welfare policies in their platforms.

Mahler's (1990) study of social spending supports the idea that parties do not matter with regards to the expansion of the Welfare state and thus, challenges earlier studies done by social democrat theorists. His statistical results suggest that the relationship between left wing parties and benefits expenditure as well as the one between right wing parties and benefits expenditure are weak and not statistically significant. Furthermore, even if associated with involvement in previous governments, political parties still do not have a significant impact on social spending (Mahler, 1990: 24-25).

This pluralist approach can provide a good explanations of political competition in the Westminster system where two political parties dominates. However, in a pluralistic party system such as the ones in Germany or Sweden, the "median voter" strategy is not as relevant. For example, if the Liberals in Sweden decide to augment the number of pro-welfare policies in their platform, they will enter in direct competition with the Social Democrats but will also have to consider the consequences of moving closer to the left because they may lose voters to other right wing parties such as the Moderates. Furthermore, like the Social Democrats, this group of pluralists assumes a linear axis from right wing to left wing and therefore rejects other concerns which can not explain why parties, such as the Greens in Germany entered the parliament. They also presume a normal distribution of voters along an ideological or issue based axis. However, voters can be distributed in various ways with for example, a large groups of voters clustered on each end of the axis (see figure 1). Another group of Pluralists emphasises the interaction and competition between interests groups which attempt to influence the government. These interests groups will exert lobbying pressure and even provide expertise in certain fields in order to have their policy choice approved. The role of the electorate, and of political parties, are given less importance in the initiation and the creation of public policies such as welfare. Some even go as far as denying "altogether the significance of parliamentary politics for policymaking" (Shalev, 1983: 318). These Pluralists assume an equal distribution of power among interest groups.

Figure 1: Two Possible Distribution of Voters Regarding the Demand for Social Programmes



L = Demand for less social programmes.

M= Demand for more social programmes

Country A experiences a normal distribution of voters and if, for example, there is an increase in demand for social programmes within the middle class or with the "median voter" both parties will move closer to the middle in order to capture these votes. However, if the distribution of voters is like in Country B, the Social Democratic Party will most likely propose more social programmes while the Conservative Party will probably present cuts in its platform.

However, as mentioned by Korpi (1983), some groups are very powerful and dominate others (Korpi, 1983: 8-9). Furthermore, this theory assumes that governments only filter preferences of interest groups. Governments may be biased and will not necessarily seek a compromise. For example, a conservative government would be much more inclined to favour business' interests over the preferences of unions.

Statism

Theorists who argue that the internal functioning of the government and its policymaking apparatus are responsible for the expansion of the Welfare state have been called statist[10]. Their main assumption is that "welfare effort is shaped by relatively autonomous state institutions and elites" (Hicks and Misra, 1993: 669). This perspective contradicts the pluralist one since it assumes that the state bureaucracy manoeuvres relatively freely from the influence and pressure of interests groups.

According to this view, bureaucrats are responsible for policy innovations and will usually consider past policies in order to change them or adapt them to new situations. Heclo (1974) mentions that the "internal workings of government" including state officials, policymakers and state organisations is greatly influential in increasing the scope of social policies. He demonstrates that Sweden already has the bases of an influential organised civil service with *impartial* professionals by 1634. Heclo further argues that the structure of the state can also be responsible for the difference between the British and Swedish system (Heclo, 1974: 7, 41 and 45).

Based on the theory of bureaus originated by Nyskanen, it is assumed that bureaucrats will seek to maximise their discretionary budget. Any surplus will then be invested towards additional staff, capital or prerequisites which will increase the influence and the power of the bureaucracy. Nyskanen further argues that bureaucrats will seek their own agenda due to a distinct set of constraints, such as the politicians they are working with, and a unique functioning. Bureaucrats are also pursuing their self

[10] Also referred as Institutionalists or Neo-Institutionalists

interests and tends to expand to scope and legitimacy of the programs they administer. Bureaucrats are also considered to be one of the most influential group with voters and politicians within the public choice literature (Nyskanen, 1991: 13-19; Mahler, 1990: 17). A European study conducted by Peters shows little evidence supporting Nyskanen's model although the period from the early 1950s until the mid 1970s proved to be more suited to the theory than the following years (Peters, 1991).

Budgetary trade-offs

Although highly criticised, the "guns and butter" argument has nevertheless been a popular argument. The main assumption of this argument is that there is a trade-off between social expenditure and spending in other sectors such as the military. Indeed, Wilensky discovers that there is a *negative* relationship between the two which signifies that as military expenditure increases, social spending diminishes (Wilensky, 1975: 74-80).

Even if such an argument is very appealing qualitatively , it has nevertheless been contradicted from a study done by Domke et al. Their findings show that there is no trade-off and that military expenditures seem to come from a different budget altogether. (cited in Mahler, 1990: 17).

Other Arguments

There are numerous other arguments which seek to explain the evolution of the Welfare state. I shall briefly review them since they have some relevance to the welfare debate. First of all, it has been argued that constitutions will indirectly play a role in shaping the Welfare state. A constitution sets the rule in which a country operates. Electoral rules, the roles and functions of institutions, the rights and the nature of these rights for citizens, the system of government and so on will all shape the way politics is performed and will vary greatly from one country to another (see Huber et al, 1993: 713).

Secondly, with the improvement of our living conditions, age expectancy has increased significantly. This new demographic pressure has led many government to spend more on health and pensions because of an increasing demand for these services. Hicks and Misra (1993) as well as Mahler (1990) discovered that age had the highest standardised beta and thus, was the single most influential factor explaining the growth of the welfare state (Hicks and Misra, 1993: 694; Mahler, 1990: 26)[11].

Thirdly, mass political conflicts and high electoral turnout are considered to reflect demands for higher social spending or benefits. An increase in conflicts will indicate that citizens are unhappy with their current situations and that they are willing to use methods such as strikes and demonstrations to alter this situation. The logic for high electoral turnout is similar. It is assumed that citizens are more likely to vote if they think they can change a political outcome in their favour by obtaining more benefits or coverage and thus, gain something out of an election (see Hicks and Misra, 1993).

Finally, as argued in Steinmo's Taxation and Democracy (1993), the financial capacity of the State has increased dramatically due to new taxation implemented to furnish credit for both World War. These taxes which were supposed to be temporary,

[11] This argument is argued further in chapter 3.

turned out to be permanent and provided national governments with large sums of money (Steinmo, 1993). It could indirectly be inferred that both World Wars provided the financial base for the development of the Welfare state since these new revenues made it much easier for governments to finance and support a stronger input in social policies.

In conclusion, it is worth mentioning that recent studies including most of the preceding factors shaping the development of the Welfare state led researchers to conclude that most of these aspects actually had some validity (Hicks and Misra 1993; Huber et al, 1993; Mahler, 1990).

Conclusion

Many factors have shaped and altered the development of the welfare state, although in a period of transition and still rooted deeply into national settings, new factors emerging from globalisation and European integration have made the study of welfare a more complex and international issue. These new factors have added supplementary pressure to change the current welfare system of most member countries. Table 1.2 resumes the problematic of the European welfare state and how decision-making is affected by both internal and external factors.

The decision-making process still lies within the competency of the nation-states except for the areas covered by the EU for the completion of the internal market such as health and safety for workers and migrant workers. Nevertheless, there is growing pressure from external factors which influence the sovereignty of member states. Some of these pressures will also alter the dynamics of internal factors which shape the

Table 1.2: Main Factors influencing changes in European Welfare States.

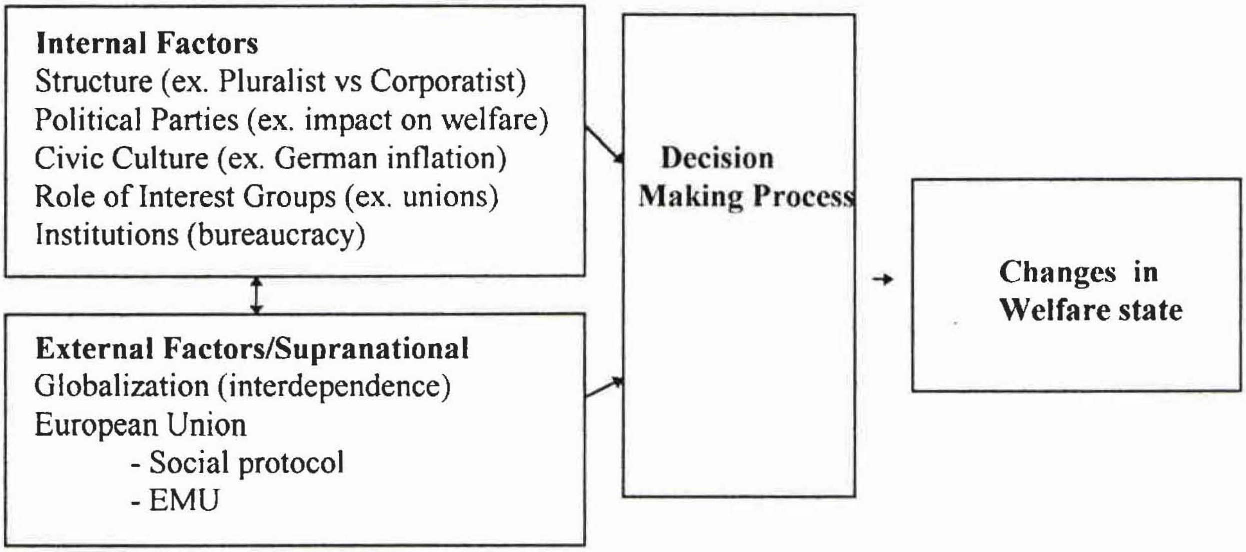


Table 1.2 represents some of the major sources of influence on the decision making process towards changes in Welfare state. Although it is acknowledged that both internal and external factors are important with regards to changes in various welfare state regimes this thesis will emphasised the external factors which are linked to the supranational structure; the European Union and one of its main policy EMU.

decision-making process. The reverse is also true, countries with a lot of leadership and power such as Germany, can have their internal factors influence the external with the European Union. A good example of this situation is the way the European Monetary Union was built. Changes in the welfare state will affect each nations differently since they have unique systems. Chapter 2 shall deal with various hypothesises on how European integration affects the welfare state depending on the integration theory and on the methodology used for analysing the welfare state.

The impacts of the European Monetary Union shall be analysed in comparative perspective in chapter 3 and 4 to empirically demonstrate that it has negatively influenced changes of national welfare state.

Theories of Integration vs Theories of Welfare State

Introduction

European integration has been the path chosen by most European countries to face the challenge of globalisation. However, this integration with all its requirements and obligations added pressures on nation-states to adapt and change to confront this integration. In the face of integration, national policies and institutions such as these included in the welfare state must therefore be remodelled.

There exist many solutions and strategies to overcome the challenge of today. Nevertheless, to attempt to better comprehend the choices that nation-states face, a good understanding of the dynamic of integration and of the evolution of the welfare state is necessary. This chapter will review and analyse various theories of integration and discuss methodologies of the welfare state. It will provide a better understanding of the relationship between the modern welfare state and the EU. The amalgamation of these theories will lead to the adoption of an integration theory to analyse the future of the welfare state within European integration. This theory will also be used in chapter 3 and 4.

Review of Integration Theories

Ever since the foundation of the EU, numerous scholars have attempted to provide a theoretical explanation of European Integration. This section will briefly review three of the major contending paradigms: Functionalism (including neo-functionalism), Liberal Intergovernmentalism and Multitiered System[1].

Functionalism

Haas is one of the pioneers of integration theory. His book, Uniting Europe (1958), can be seen both as a strategy and a theory for European integration. This theory has also been viewed as a process from one element to the next towards integration (Cameron, 1992: 25; Harrison, 1990: 139). He was inspired from the work of Mitrany (1943), the father of functionalism. Mitrany believes that getting states closer together would indirectly eliminate war between them. Functionalist theory assumes that co-operation for a particular task generates a learning process in which 'interrelationships' and 'interdependences' pressure and encourage governments to further co-operate (Taylor, 1990a: 126-8). Haas' approach is quite different from Mitrany's although it includes the same theoretical foundation. First, the neo-functionalists argue that their theory would lead to a federation contrary to a community. Second, Haas believes that pressure from interest groups, not education, would lead to further integration (Harrison, 1990: 139-141)

[1] Leibfried and Pierson describes that the EU is a "multitiered system of governance" (Leibfried and Pierson, 1995: 3).

The major element of the theory is the concept of 'spill-over'. Simply put, what happens in one sector will have an impact in another, thus leading to further integration. Tranholm-Mikkelsen defines three types of spill-over: Functional, Political and Cultivated. First, Functional spill-over is the type of mechanism envisaged by Monnet. He believed that technical problems resulting from integration in one economic sector would lead to problems in other sectors because of the interdependence of industrial economies. Second, political spill-over results from the interaction of national elites. The mechanism is that elites will come to realise that their interests would be better served through integration. Haas explains the interaction of non-governmental elites while Lindberg emphasises governmental elites. Finally, cultivated spill-over was to create central institutions to move away from the lowest common denominator in achieving European decisions. As mentioned by Cameron, the tasks given by the supranational institution would be 'inherently expensive' (Cameron, 1992: 25). Haas and Lindberg foresee that the Commission would behave as a mediator and as a consequence, 'upgrade the common interest' (Tranholm-Mikkelsen, 1991: 4-6).

Although there has been a resurgence of neo-functionalism in academic literature, the theory came under strong criticism and almost disappeared in the mid-1970s (Tranholm-Mikkelsen, 1991: 7). First, the evolution of the European Union has not fulfilled neo-functionalist arguments in many ways. For example, the Commission never became 'the focus of the informal pressures of various national groups and of European wide umbrella organisations' (Harrison, 1990: 144). Instead, the Council of Minister became the strongest institution of the EC.

Second, the process or mechanism of spill-over has not been as strong as expected. The powers granted to EU institutions have not been sufficient to create a spill-over effect and interest groups have not 'fulfil(ed) the role described for them' (Harrison, 1990: 146-7). European integration has also been marked by an unpredictable 'stop and go pattern' that questions the validity of the spill-over mechanism[2] (Corbey, 1995: 253; see also Schneider and Cederman, 1994). The spill-over effect has never realised its ultimate goal - the creation of a political community.

Finally, the role of nation-states has remained more important than neo-functionalists predicted. For example, in areas such as social protection, the involvement of the EU is still very limited and member states continues to be the dominant actor in this sector. In addition, the theory could not explain the rise of nationalism and the anti-integration feelings experienced by De Gaulle with his 'Europe des Patries'. Similarly, twenty years later, Thatcher came to power with nationalist views of her own. Both blocked the EC from further integration. This evidence suggests that member-states can 'avoid the logical consequences of integration for an unexpectedly long time' (Harrison, 1990: 148; see also Tranholm-Mikkelsen: 1994: 7; and Wallace, 1993: 297).

Liberal Intergovernmentalism

The theory of Liberal Intergovernmentalism (LI) was developed by Moravcsik as a response to the resurgence of neo-functionalism after the completion of the Single European Act of 1986. LI provides a neo-realist approach to the understanding of

[2] Corbey created a neo-functionalist model which integrates the stagnation factor. She argues that dialectical functionalism can explain those stagnatory periods.

European Integration. Central to this paradigm is the assumption that states are the main actors in the international arena, in this case, the European Union. It is further assumed that changes that occur within the EU are the results of interstate bargaining between nation-states.

What Moravcsik then called intergovernmental institutionalism[3] comprises three main principles: Intergovernmentalism, lowest-common-denominator bargaining and 'strict limits on future transfers of sovereignty'. First, by intergovernmentalism, Moravcsik argues that the EC has mainly been a forum for interstate bargaining among member states. Second, he argues that interstate bargaining is reflected through the lowest-common-denominator among the 'large state interests' which are Germany, France and the UK. The threat of exclusion is the only weapon that can be used by any two countries to force a country to move above the lowest-common-denominator. Finally, by limitation on sovereignty, he means that states will 'avoid granting (an) open-ended authority to central institutions' that will take away parts of their sovereignty. Furthermore, states will safeguard their sovereignty by demanding unanimity in decision-making and therefore creating constraints on new reforms (Moravcsik, 1991: 27; see also Anderson, 1995: 444-5).

The theory of Liberal Intergovernmentalism was built upon Intergovernmental Institutionalism. The same theoretical framework is applied with the addition of a theory of national preference (Moravcsik, 1993: 480). The process which leads to an outcome within the European Union is demonstrated in Table 2.1. First, domestic actors, such as

[3] As mentioned below, intergovernmental institutionalism is a derivative from Liberal Intergovernmentalism. Liberal Intergovernmentalism includes intergovernmental institutionalism with a theory of national preferences linked to states' bargaining

private individuals and voluntary associations, will exercise pressure on their government which shapes the demands for outcomes of that particular state. Moravcsik argues that 'groups articulate preferences; governments aggregate them' (483). He further mentions that the government will be able to strike a deal within a certain range of outcomes (481-485 see also Moravcsik, 1995: 612). National governments will have an incentive to co-operate to achieve domestic policy goals which would otherwise be unachievable. Moravcsik argues that there are two major purposes for policy co-ordination: 'accommodation of economic interdependence' and 'policy harmonisation' (Moravcsik, 1993: 486-87 and 1995: 612).

Third, he assumes that governments will have uneven preferences and that some governments will oppose certain policies which might harm them. Governments will co-operate only if they succeed in overcoming these differences (1993: 486-7). Moreover, governments will delegate sovereignty through 'credible commitments under conditions of uncertainty...where non-compliance is tempting' (1995: 612).

Portions of Moravcsik's analysis are quite similar to Putnam's two level games. Putnam emphasises the aspect of interstate bargaining and how domestic factors shape these negotiations. Putnam defines both a domestic and an international level of negotiation which explains the name of his model - two level game. However, contrary to Putnam's theory, Moravcsik refutes in his model that external influences or actors will affect the agreement among member states and the preferences of domestic actors. This critique is also shared by Cameron who underlines the role of the European Council and

Table 2.1. The Liberal Intergovernmentalism Framework of Analysis.

Liberal Theories			**Intergovernmentalist Theories**	
(International demand for outcomes)			(International supply of outcomes)	
Underlying societal factors: pressure from domestic societal actors as represented in political institutions			Underlying political factors: intensity of national preferences; alternative coalitions; available issue linkages	
↓			↓	
NATIONAL PREFERENCE FORMATION	→ configuration of state preferences	→	INTERSTATE NEGOTIATION	→ OUTCOMES

Sources: Andrew Moravcsik, *Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach.* Journal of Common Market Studies, vol.31, No. 4. P.482.

of Community officials in achieving the SEA (Cameron, 1992: 63; see also Wincott, 1995: 602). Moreover, Moravscik confines the other member states to the role of by-standers since he implies that only Germany, France and the UK will have an impact on European bargaining. Hoogue and Marks, while accepting an actor-centred approach, argue that 'one has to look beyond national governments and include supranational and subnational actors to explain political outcomes' (Hoogue and Marks, 1996: 3-4).

Wincott raises another important criticism of Moravcsik's model. He argues that day-to-day operation of the EU also have an impact on the evolution of integration. Many articles concerning the SEA treaty were already informally implemented within the institutions of the EC (Wincott, 1995: 603). Moreover, judgements by the European Court of Justice also have a strong impact on domestic politics[4]. Andersen also points out that the exclusion threats are no longer theoretically acceptable following the opt-out clause gained by Denmark and the UK (Andersen, 1995: 449).

Multitiered System

This theory has been elaborated by Leibfried and Pierson in their edited book "European Social Policy" (1995). They have employed this theory to explain the evolution and the policy-making of social policy within the European Union. Although they agree with Moravscik that member states are very powerful and have a deterministic position within the EU, they, like Putnam, claim that the supranational institutions have an important role and influence in determining policies. They maintain that the environment surrounding the EU is very complex and can not be defined only by interstate bargaining (Leibfried and Pierson, 1995: 6).

They contend that "the central level (of the EU) - albeit a weak one - (is) an emergent multitiered system of governance" (Leibfried and Pierson, 1995: 3). The Union is not a federal state, but it nevertheless has powers of its own which limit the sovereignty of member states. Leibfried and Pierson claim that constituents of the EU limited the powers of the supranational structure to ensure a relative controls over policy-making and thus avoid an "institutional suicide" (Leibfried and Pierson, 1995: 8).

[4] For example, see Cameron's account of the 'cassis de Dijon' case (Cameron, 1992: 52-3).

According to Leibfried and Pierson, four distinct features contradict the view that the EU is simply an apparatus for interstate bargaining under the absolute control of its members:

> "(1) the autonomous activity of EU organisations; (2) the impact of previous policy commitments at the EU level, which lock member states into initiatives that they otherwise might not choose; (3) the growing scope and overlap of issues in the European Union, which produces spillover to new initiatives and widespread unanticipated consequences; and (4) the activity of non-state actors, operating independently rather than exclusively through member states" (Leibfried and Pierson, 1995: 10).

For example, in the same order, the Court of Justice constraints the member states to follow its recommendation; the institutions of the EU ensures that any member state do not attempt to free-ride once it has committed itself to a certain policy; the creation of the single market has led to the creation of policies in many areas such as health and safety regulations, transfers of rights, and monetary policies; the Commission has initiatives over the prioritisation of policies.

No theory is perfect, and the thesis of the multitiered system does not escape this reality. Leibfried and Pierson provide us with a strong theoretical framework to interpret the functioning of the EU which is a complex system with different layers which reduces the sovereignty of the member states (Leibfried and Pierson, 1995: 7). However, they fail to explain the evolution and the transformation of the EU. For example, their theoretical analysis cannot clearly explain how the EU become what it is today or why some of the power attributed to the, then, European Community was never employed by the organisation.

Another problem arises from the "positioning" of their theory. They distance themselves from both the functionalist and the intergovernmental liberalist school by suggesting that member states are very powerful and that the EU have an important role in policy making. They do emphasise the conflictual nature of both aspect, it is nevertheless very difficult to establish how this multitiered system functioned. For example, it would be arduous to describe the specific role of the various actors within the EU regarding the development of the European Monetary System (EMU).

Review of Comparative Theories of the Welfare State

As underlined in chapter one, the welfare state has been studied in various ways and by different fields in social science. This research focuses on comparative approaches since it evaluates the impact of integration on five nation-states. The study of welfare state in comparative politics is, however, a recent field of study. The movement from a national basis of studies of the welfare state to a comparative approach was elaborated in the beginning of the 1980s. These "shift(s) in analytical emphasis" were "attempts ... to bring the two levels together, exploring the experiences of individual states but locating them firmly within the wider context of welfare state development" (Cochrane and Doogan, 1993: 86). According to Cochrane and Doogan the comparative approach helped to better understand various national welfare systems through the comprehension of their distinctiveness. Moreover, the comparative approach led to a better apprehension of the various changes and constraints which affects national welfare states. This understanding accentuate the belief that similar pressures often leads to various responses depending on the nature of the national welfare system (Doogan and Cochrane, 1993: 86-87).

This section will examine two comparative approaches to the study of welfare state. First, the expenditure method which has been used as to compare welfare efforts will be analysed. It will be followed by the typology method which has been often used to differentiate and classify welfare regimes.

Expenditure

Authors such as Cameron (1984), O'Connor (1988) and Kosonen (1991) all have studied the variations of government's spending in the social sphere over the years as to measure welfare efforts among capitalist nations. They all seek to explain what has lead governments to increase or shrink expenditure overtime and thus imply that welfare expenditure matters in discerning various welfare states. Social spending is considered a measure of the welfare state primarily because it represents the portion of a state's wealth which has been 'socialised' (Cameron, 1984: 172). In other words, a high level of government spending on welfare, or social programs, indicates a state's commitment to greater economic equality. Thus, countries that spend a lot of money on social protection will have a more developed welfare state. For these authors, the use of time-series analysis, using government's expenditure as a dependent variable to study the evolution of welfare, has been a common tool. Independent variables such as corporatism, government and GDP have been used to support most theories presented in chapter one.

Cameron is interested in explaining the variation among states in their responses to the economic crises of the 1970s. In relation to the development of the welfare state, he argues that political factors - such as the degree of corporatism and left wing government - help to understand the differences *in social spending* among states (Cameron, 1984).

Kosonen compares various measures of the activities of governments such as share of social expenditure of the GDP, average share of public expenditure of the GDP and transfers as a percentage of public expenditure between European countries to illustrate the consequence of integration on national welfare states (Kosonen, 1991: 6, 7, 15, 17). On the basis of his statistical analysis, he concludes that there is a convergence pattern between EFTA countries and EC countries (Kosonen, 1991: 24). He employs the variations of these data to *define welfare state efforts*.

Although this methodology helps us to better understand spending pattern of national welfare states, it fails to take into account institutional factors, and it assumes that "all spending counts equally". Moreover, "(c)ountries will spend in different areas with different goals in mind" (Esping-Andersen, 1990: 19-20). One dollar spent in Sweden will not necessarily be spent in the same manner in the UK. One country may favour health over pensions; one may allow benefits to everyone in the society while the other restricts it to a certain class of people; or another country may even have programmes that are not even existent elsewhere. Every West European country experienced strong positive growth which was accompanied by an increase in social spending in the post-war era yet no welfare state was developed in the exact same pattern.

Furthermore, variations of spending in the social arena does not necessarily explain *its development*. It remains to be proven that the development of the welfare state has evolved at a similar rate than that of spending. In the same vain, when a recession occurs we usually experience a reduction in social spending but that does not imply that there is a dismantlement of the welfare state since the main institutions or benefits may remain intact although reduced in size or funding for a certain period of time.

Typology

One of the most influential books in the study of the welfare states is Esping-Andersen's The Three Worlds of Welfare Capitalism (1990) which makes extensive uses of typologies to accentuate the variance between welfare regimes. The use of typology in the study of welfare comes from the belief that rights and/or institutional factors, rather than government's expenditure, should be analysed as a way to better understand national welfare systems. This kind of analysis also permits us to better comprehend "the general shifts and pressures which are taking place and the implications they have for different systems" (Cochrane and Doogan, 1993: 86).

Esping-Andersen believes that there are two major questions regarding the welfare state: "(w)ill the salience of class diminish with the extension of social citizenship and ... (w)hat are the *causal* forces behind welfare state development"

(Esping-Andersen, 1990: 9)[5]. According to the author, the 'granting of social rights', which corresponds to the de-commodification of individuals with regards to the market, is of importance in detecting any specific changes in the type of welfare a government provides its population. De-commodification represents the extent in which "a person can maintain a livelihood without reliance on the market" (Esping-Andersen, 1990: 21-23).

Esping-Andersen creates de-commodification indexes and realises that welfare states cannot be classified on an unidimensional scale since they do not function in the same way. The use of these indexes combined with an analysis of factors such as political culture, institutions and power politics leads him to this conclusion. Instead of a numerical classification, he regroups nation-states into three distinct groups of welfare regime. The first type is the liberal welfare state. The main features of this system include modest universal transfers, means tested assistance and modest social-insurance plans. Leibfried states that this type of regime is a "compensator of last resort" which encourages the entry into the labour market through force rather than training or subsidised work (Leibfried, 1993: 141). The benefits are usually modest and distributed to low income individuals. In this type of regime, found in Anglo-Saxon countries such as Canada and the United Kingdom, the private sector provides alternative welfare schemes to individuals. The level of de-commodification is low which leads to the creation of two classes, one which can afford private welfare and the other which rely on the state for minimal benefits (Esping-Andersen, 1990: 26-27).

[5] Emphasis added

The second type, the corporatist welfare regime, includes nation-states such as Germany, France and Italy. Contrary to the Anglo-Saxon countries, the government's preoccupation with markets was not predominant. The conservation of social classes and status are, however, at the forefront in the creation of the corporatist welfare regime. Because these governments were not preoccupied by market forces, providing welfare through the state was not a contested issue. Workers are highly compensated when they leave the labour market. Leibfried refers to this welfare regime as a compensator of first resort (Leibfried, 1993: 140). To maintain status differences, these states have held weak redistributive policies. Moreover, the upholding of traditions is another important component since it helps to conserve previous status and, as a consequence, many benefits are family oriented and also influenced by the Church (Esping-Andersen, 1990: 27).

Finally, the third type, which is termed 'social democratic' welfare regime, has a very high de-commodification index. Contrary to the liberal regime, it is universalist as benefits are available to almost everyone whatever the class, thus it creates an equality of the "highest standards" (27). It nevertheless takes into account earnings. Furthermore, the social democratic regime is committed to full employment and has a policy of "employer of first resort" where subsidising work is preferred over the exit of the labour market (Leibfried, 1993: 140). This regime is also built for the individuals rather than the family. This regime is found primarily in the Scandinavian countries (Esping-Andersen, 1990: 27-28).

Leibfried (1993) and Ferrera (1996) argue that there exists another type found in the Mediterranean countries (Spain, Greece, Portugal and to some extent Italy)[6]. According to Leibfried, these countries have rudimentary welfare states in which they are trying to catch up to the other European welfare states. One of the particularities of this system is that many citizens do not even have the right to claim many benefits (Leibfried, 1993: 141). However, Ferrera disagrees with the notion of rudimentary welfare system and demonstrates the 'Latin Rim' countries have some of the largest benefits in the EU (Ferrera, 1996: 18). Both Leibfried and Ferrera agree on the main characteristics of this regime: strong influence of the Catholic church, low percentage of unemployed who receives benefits, weak institutions, the presence of a shadow economy, and a dualism of protection which has a large spread between the well protected white collar workers and the poorly protected farmers (Ferrera, 1996: 19-21 and 25; and Leibfried, 1993: 141-142).

Although Esping-Andersen's model led to a better understanding of welfare, it nevertheless faced criticism from various authors. On the methodological front, Esping-Andersen has been criticised for putting too much emphasises on class analysis which favours countries such as Sweden (Kemeny, 1995: 91). Furthermore, this kind of typology has only been done once, using data from 1980, and has not been tested over a long period of time. Regimes and institutions evolve overtime and this kind of analysis can not reflect and explain changes within any given systems (Cochrane and Doogan, 1993: 87). Theoretically, his conception of corporatism which leads him to separate welfare systems of countries such as Austria and Sweden, which are well known for their

[6] Leibfried mentions that Southern Italy qualifies for this kind of regime since many national programmes vary across regions in their implementation. Ferrera maintains that Italy as a whole is part of this welfare regime.

high level of corporatism, is quite questionable (Kemeny, 1995: 91-92). As mentioned earlier, his categorisation has also been questioned. Besides the Mediterranean countries, the place of France within the corporatist regime has also been criticised by Leibfried and Haupt (Leibfried, 1993 and Haupt, 1989).

The Combination of Theories: Integration Theories and Welfare State Theories

The amalgamation of both theories of integration and of theories of welfare state leads to different evolution of the modern welfare state as demonstrated in table 2.2. These possible changes correspond also to different understandings of the impact of European integration on national welfare state. Each theory of integration is linked to two theories of welfare.

For the analysis of both typologies and expenditure, there are also two ways to examine their variations. First, change in welfare policy can be combined at both levels to create a single welfare state variable. Secondly, both levels can be analysed and studied separately. Since this thesis is mainly concerned with the impact of the EU on national welfare states, the second option was chosen.

Transformation of the Welfare State from a Functionalist Approach

According to this perspective, the social dimension will in the long run evolve in the same way as the EMU. The undertaking of the common currency project has been a giant step towards further integration and has demonstrated the need to converge policies to ensure fairness, high productivity and efficiency within the EU. The creation of a social charter is, like the first attempt to maintain a common monetary policy through

Table 2.2 The Transformation of Welfare State with Regards to European Integration

Theory of Integration/ Comparative Theory of the Welfare State	Liberal Intergovernmentalism	Multitiered System	Neo- Functionalism
Typology	The European Union will not directly influence national welfare states unless nation-states agree to co-operate further on this issue. Therefore, no significant changes in de-commodification indexes are expected due to the EU.	Reduction in the de-commodification indexes for countries with a 'social democratic' regime due to direct and indirect EU pressure. Possible expansion of right for 'Latin Rim' countries.	Strong convergence due to the active role of the EU which could lead to a single and uniform de-commodification index for all member states.
Expenditure	The European Union will not affect directly the level of spending in member countries unless member states agree to co-operate on social protection.	Decrease in spending in high spending countries such as Sweden. Increase for poorer countries such as Portugal. Move towards convergence.	Reduction in national spending as the EU takes an increasing role in the social sphere. Convergence as countries pay the relatively the same amount to the EU.

the EMS, an initial step which will emphasise the need to create a common policy.

As member states realise that certain types of welfare policies provides an *unfair* advantage to other states, interest groups and élites are most likely to pressure both the EU and their domestic governments to co-operate further in this field. This pressure would lead the EU to expand its powers and control over the evolution of social policy even within areas which have traditionally belonged to national welfare state.

Expenses at the national level are expected to diminish as a consequence of the increasing role of the EU in this sphere. Nevertheless, it could be assumed that the EU would adopt a middle-of-the-road welfare state which would imply uniform spending among various nation-states. The high spending countries would probably lose while the poorer countries would gain from this take-over if the EU practices a policy of welfare convergence.

The Transformation of the Welfare State from a Liberal Intergovernmentalist Perspective

Due to the national nature of the welfare state it is very unlikely that domestic actors would pressure their national governments to move towards an agreement regarding a European welfare state. National leaders and parties have been reluctant to give national sovereignty in the area of social protection However, nation-states with weak welfare system may want to employ the EU as a potential ally to improve their national systems. For example, the Mediterranean countries have successfully negotiated fiscal compensation for their signature of the Maastricht Treaty. Because consensus is required, the possibility of an agreement between the members of the EU is very slim since there exists gigantic disparities between their welfare regime and their level of expenses as shown by Esping-Andersen (1990), Leibfried (1993) and Andersen (1995). It is also worth mentioning that such negotiations tend to favour the lowest common denominator which would, in this case, imply a very low profile in welfare due to the economic policy of the government in London. This vision of government, which represents a neo-conservative ideology, has little support outside of Britain although it has been gaining ground elsewhere.

Furthermore, the notion of citizenship, which represents an essential component of the welfare state, is still very well enshrined within nation-states. As demonstrated in the case of France, although the Juppé government blamed the EU for his cuts in welfare programme, protesters are directing most of their attention towards the French government and not towards the EU. The citizens were relying on the Juppé government and not the EU to propose viable options to preserve their welfare state. Liberal intergovernmentalist would argue that these changes result from a negotiated agreement which will include gains that would have not appeared without this agreement. In brief, the French government is willing to transform its welfare state since it believes that it will be more beneficial in the long run than the status quo. It can also be argue that the Juppé government was employing the tactic of blame avoidance hoping that voters will blame other actors than his government for the cuts in the welfare state. Nevertheless, citizens recognise that the French government has signed the Maastricht Treaty and is therefore committed to meeting the convergence criteria to enter the EMU.

Changes in expenses within this paradigm are not directly influenced by the EU. This imply that EU institutions do not **directly** affect the spending pattern of member states. On the other hand, the EU has an **indirect** impact on national welfare states through an increase in competitiveness which results from the negotiated open market and the new neo-liberal order. Nevertheless, the solution for these problems would be dealt with at the domestic level without the influence of EU institutions. Expenses at the supranational level to favour fairness in this new competitive market are accepted but limited. Total expenses will vary according to changes at the national level since social expenditure are very limited within the EU and are most likely to remain at this extent.

With regards to typology, the same logic can be employed. The de-commodification indexes should remain the same, and even if reduced it would be caused from external factors exclusive of EU actors. However, rights may be granted by national governments to favour the internal market. The granting of rights can be very inexpensive as demonstrated by Cram where she argues that most EU activities occur through regulations (Cram, 1993: 137). A possible liberal intergovernmentalist explanation would be that these regulations are part of the negotiated deals to favour the well functioning of the internal market and reflect national preferences. Here, due to the increasing number of rights gained through EU regulations, de-commodification indexes may increase although national governments seek to reduce the number of rights granted. This of course, depends on the strength of the cuts of individual member states.

The Transformation of the Welfare State from a Multitiered System Approach

Due to the complex nature of the interaction between member states and the supranational structure, the evolution of social policy within the EU is unpredictable. Although the emergence of a European welfare state is not considered a possible outcome, the multitiered system shall nevertheless create a system with dual responsibilities. The welfare state is well established within nation-states but there is 'policy space' which can be occupied by the EU. Negotiations among member states with the participation of EU actors as well as EU institutions may transform national welfare states.

Institutional actors such as the European Court of Justice or the Commission can influence policy-making in the social sphere. Judgements rendered by the ECJ must be obeyed and therefore affect national states. The Commission acts as an initiator of transformation within the EU and has assumed leadership for the Single European Act and Maastricht (See Cameron, 1992 and Leibfried and Pierson, 1995). The Commission can also initialise 'package deals' to obtain consensus among member states to gain certain powers.

Although the interventions of the EU are not seen as legitimate as the ones established by member states, the EU has nevertheless demonstrated leadership in various sectors - such as health and safety of workers and social security for migrant workers - that are underrepresented at the national level. Cram views the Commission as an opportunist actor which seeks to increase its power within the social sphere through 'precedent and competence'. The Commission must however ensure that it does not provoke member states (Cram, 1993: 143).

Welfare expenditures at the national level will probably converge for several reasons. First, countries such as Sweden will probably reduce their social spending to be more competitive and to meet the requirements for the EMU. Poorer countries, although in need of an improved welfare state, may have to do the same to enter EMU. However, supranational involvement through programmes, such as the European Regional Development Fund (ERDF) and the European Social Fund (ESF), may alter the balance in favour of increasing spending in welfare state.

Countries embracing a 'social democratic' regime will be under pressure to alter their system to reduce the possibility of leakage[7]. One possibility would be to undertake reforms towards earned rights which implies a move towards a 'corporatist' regime (Leibfried and Pierson, 1995: 65). Thus, the Scandinavian countries are most likely to experience a decrease in their de-commodification indexes. The new rights acquired through EU laws and regulations would probably not offset this kind of loss.

Although the Mediterranean countries have benefited from programmes such as structural funds, these dollars have nevertheless not been transformed into rights. Most of the funds have been used in short term projects like construction of infrastructure. Andersen argues that these countries do not want to expand their social institutions to keep a competitive advantage over countries such as Germany (Andersen, 1995: 152). Therefore, although the 'Latin' nation-states have received financial support to offset the

[7] Defined as the possibility for non-Swedish citizens to enjoy the benefits and rights of social services because of their EU passport.

cost of integration, citizens will not experience an increase in the de-commodification index unless national governments continue to practice expensionary policies converging towards the European average.

Conclusion

The impact of European integration on national welfare states represents a theoretical battle with diverse options as to what direction(s) member states are heading. However, there are striking implications in the three theories of integration. First, the Functionalist paradigm suggests a strategy or even a forecast on the future of the European Union. So far, the establishment of a European welfare state remains unlikely and this situation represents a big dilemma for functionalits. Furthermore, this theory does not attempt to explain how the European Union functions at this moment as the Multitiered Approach, does.

Secondly, the Liberal Intergovernmentalist approach explains the transformation of the European Union as a result of *passed* agreements between member states. In this paradigm, the evolution of the EU will continue to go along that path. As demonstrated by authors such as Cram (1993), Cameron (1992) and Tranholm-Mikkelsen (1991), the EU does play a role in the internal affairs of the state and has the capacity to influence directly and indirectly national policies. Furthermore, the capacity of the state to evaluate future gains during a bargaining session is also very questionable.

Finally, I believe that the Multitiered System approach is the most applicable to the study of social protection in Europe. This theory has the advantage of being designed to study welfare policies. In addition, it is the only theory which takes into account the complex relationship between the member states and the EU.

The most serious methodological obstacle that this thesis will have to encounter involves the determination of what factors are causing changes in the welfare state. For example, a key argument of the Liberal Intergovernmentalist model that the institutions of the EU do not affect national welfare states. To test this proposition, it must therefore be proven that EU action, for example, EMU are responsible for the downsizing of the welfare state rather than the new liberal policy agenda within national politics. The impact of the EMU on pensions and health care is analysed in chapter three and four.

Old Age pensions in France, Germany, Italy, Sweden and the UK

Introduction

The maintenance of income beyond the working years is a key feature of all welfare states, and thus by following the theoretical framework described in chapter one and two, any changes resulting from exogenous factors will also indirectly have an impact on old-age pension. This chapter will study the recent evolution of old-age pension policies in the five countries studied.

Pension policies have been a feature of welfare policy in Germany for more than 100 years, and following the German lead, other European countries implemented some forms of old-age pensions in the late 1800s and early 1900s. Due to its roots, and like the welfare state in general, pension policy is strongly established within the national framework. As a consequence, this sector fits the theoretical framework adopted in chapter two.

The first part of this chapter will analyse a factor which is of crucial importance in this policy area: age. As briefly mentioned in chapter one, the age distribution of population has been considered an important variable in explaining welfare state spending. In the pension sector, where benefits are strongly linked with age, studying the demography of European countries is necessary.

The second section discusses individually the development and recent changes in pension policies in the five countries studied. Although each country faces similar challenges, their solutions are different and are in accordance with their own welfare regime. This qualitative overview will underline the differences in a comparative perspective and lead to a better understanding of the various welfare regimes in this field.

Finally, the last part of this essay consists of a statistical analysis of external and internal factors as introduced in the first chapter of this thesis. These factors should influence old-age pension spending over the sixteen year period 1980-1995. This quantitative analysis will evaluate different theories related to old-age pension and the welfare state as a whole.

Demographic Factors

The improving living conditions experienced in advanced democracies has led to an increase in life expectancy. Better health care, finances, housing and living standards have created an environment in which people enjoy longre lives. Furthermore, these trends have been accompanied by a low birth rates. The five countries studied in this thesis fit this reality as these conditions have led to an increasing proportion of people over 65 in these countries (Hedin, 1993: 20-22).

As demonstrated in figure 3.1, the percentage of population over 65 as a percentage of the total population has been steadily increasing in France, Germany, Italy, Sweden and the UK since 1950. People over 65 represented on average (in the five countries) 10.07% of the total population in 1950. They now account for 15.79% of the

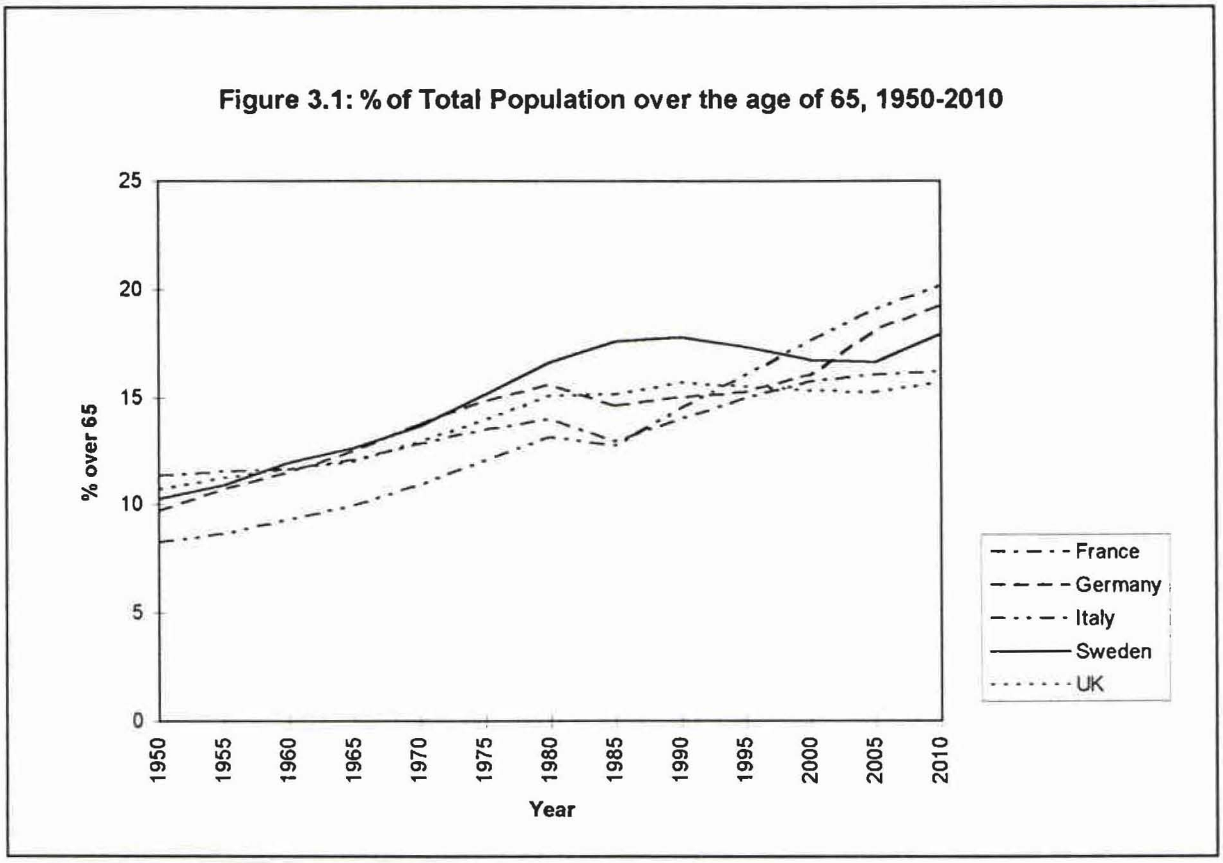


Figure 3.1 The importance of elderly population keeps increasing in all five countries studied and this trends is much likely to continue. Adapted from United Nations' The Sex and Age Distribution of the World Population (1994).

total population and it is estimated that this figure will reach 17.82% by the year 2010. As a result, this change in the demographic structure adds pressure on the government which must spend more on old-age pension. Furthermore, the working population, which finances government programmes and services through taxation, has been experiencing a greater financial burden due to its decreasing percentage of the total population.

Sweden is the only country of this study which is currently experiencing a certain stability in the share of its aged population. In a comparative perspective, it can be inferred that Sweden completed its "graying" process earlier than the other four countries, leading to a decrease in its elderly population relative to the rest of its population. However, this trend is only temporary as studies demonstrate that Sweden is likely to return to its 1990 level by the year 2010 (Hedin, 1993: 20).

More and more researchers have now taken into account this demographic change which affects all EU members. Governments must now take care of an increasing number of elderly people and this has repercussions on the welfare state as a whole. Mahler discovered that the proportion of the elderly population is the best indicator in studying the levels of social benefits (Mahler, 1990: 22). Furthermore, based on Pampel and Williamson, Huber et als mention that "the presence of large (elderly) population will *automatically* result in high spending on pension" (Huber et als, 1993: 743, emphasis added). They further argue that the political question regarding the aged lies on how much their interests are organised and whether or not they can get higher levels of benefits (ibid., 743).

Although not often studied, demographic changes are having an impact on the welfare state. This section has demonstrated that qualitatively the issue of age is relevant to the study of pension policies and that it certainly deserves to be studied quantitatively.

Pensions in a Comparative Perspective

The industrial revolution created pressures for government to adopt new social measure. Old-age pensions, an important feature of all modern welfare states, were established to ensure that elderly populations would no longer have to rely on work to obtain economic security (Hermansson, 1993: 300). Despite similar goals and objectives in mind, nation-states have nevertheless adopted very different pension systems. To better understand their actual transformation, it is imperative to study their history and their evolution. This shall be done by examining the five countries according to their respective welfare regime as defined by Esping-Andersen. Sweden will be analysed on its own as part of the social-democratic regime, Germany, France and Italy as part of the corporatist regime. Finally, the UK is considered to be a liberal regime in most aspects. However, it should be noted that Esping-Andersen recognises that with regards to pension policy, the UK stands in a special category of its own outside his established regimes (see Esping-Andersen, 1980: 50-53 and 87).

This historical overview is important in understanding how changes have occured in the past. It allows to compare how the reforms of today are implementing following past policy experience. Furthermore, this overview provides a tool which underlines how fast reforms are done to join the EMU.

Sweden

The Swedish system of old-age pensions is inbued with social democratic values which reflect the hegemonic domination of the Left in the post World War II period. The principal idea and rule behind the Swedish system is "*lika for alla*" (same for everyone) (Hermansson, 1993: 301). Although most observers link the actual system with the Social Democratic Party, the introduction of the first form of assistance to the elderly was actually introduced by the Liberals, a right-wing party.

Following the implementation of the German pension system, in Sweden, several committees were established to adopt a proposal regarding income maintenance for the aged. Many of the proposals presented were based on German ideas and received very little support. The establishment of a pension system in the late 1800s was not as pressing as it was in Germany and Britain because these two countries were already becoming very industrial at the time while Sweden was still mainly agrarian. As a consequence, the political power of the farmers in Sweden was still strong enough to reject a pension system favouring industrial workers (Williamson and Pampel, 1993: 71 and Heclo, 1974: 180-1). However in the 1880s, like in Germany, there was growing support for the Social Democrats and members of the Riksdag were hoping to find a solution to bring social peace (Heclo, 1974: 183). Nevertheless, support for the creation of a pension system for the aged, to replace the inadequate poor relief system, was growing and, following reports and proposals from the fourth committee on Pension, the world's first universal pension system was adopted in 1913 (Coughlin and Tomasson, 1991: 149; see also Heclo, 1974).

The Liberal government was able to introduce its version of the pension system with the support of the Social Democrats and the Conservatives. As mentioned by Heclo: "the new departure in Swedish social policy was supported by but scarcely attributable to the advocacy of the Left" (Heclo, 1974: 193). The Swedish Pension Act of 1913 was, as most legislation in Sweden, the result of a compromise between the various political actors. The new legislation included two distinct components. First, it introduced an earning-related pension system similar to the one elaborated in Germany. However, contrary to its German counterpart, the pension fund was to be administered by an independent body and the employees were the sole contributors. Secondly, it introduced a government financed supplementary pension system for the needy and invalids regardless of age. This new legislation would cover anyone over 67 (Heclo, 1974: 191-3; see also Coughlin and Tomasson, 1991).

Swedes would have to wait until the end of World War II to experience a major change in pension policy. Although pensions were raised in 1935, this increase was not large enough to relieve most old-age people from poverty. The Beveridge report in the UK, published in 1943, was highly discussed in Sweden and most parties began to promote raising the quality of life for all citizens. In 1946, with a strong conservative support, the social democratic government adopted a universal pension plan which meant that three-quarters of pensioners would now be relieved from means-tested benefits. Soon after, Sweden became the first country in the world to index their pensions with the Consumer Price Index (Heclo, 1974: 230).

The following reform would bring one of the most conflictory political battles in modern Swedish history. The debate would lead to a referendum and two elections on the matter. Never before had social policy occupied such an important place in politics. In the 1950s there was consensus that the old pension scheme needed reform to provide higher benefits to pensioners. However, the question, how to reform the system to increase pensions, was highly debated by various committees. The Landsorganisation (LO), the most powerful union in Sweden, had a membership almost exclusively composed of manual workers proposed a mandatory supplementary pension plan. LO claimed that only a compulsory plan would ensure that all workers would be covered. Moreover, the LO plan would lead to a reduction in the disparity of benefits between the white-collars and blue-collars (Hedin, 1993: 38). Following a small decrease in support after the election of 1956, the Social Democrats were not wholeheartedly behind the LO plan. However, after threats from the labour organisation and long debate within the Social Democratic Party, the LO plan was included in the party's programme.

The right wing parties favoured a voluntary pension plan with an increase in the current state pension. The employers' association (SAF), business groups and most white collar groups favoured this option as well. The farmer's party was also in favour of a voluntary plan as long as the plan was administered by the government.

Unable to settle the issue in consensus, the socialist government decided to call a referendum on the issue. The government put forwards three options reflecting the views of most groups:

1. Compulsory supplementary earnings-related pensions paid for by the employers and administered by the government.
2. A voluntary supplementary plan administered by the government.
3. A voluntary supplementary plan administered by a nongovernment agency (Taken from Coughlin and Tomassin, 1993).

Option 1 received most votes with 45.8% of the ballots. However, the voluntary options combined received more than 50% support. Both right and left claimed victory. The farmer's party left the government, forcing the Social Democrats into a minority government position. The minority government then presented a bill similar to option one which was defeated in the Second Chamber. To resolve the issue, the government called an election (Heclo, 1974: 243-5; Hermansson: 1993: 318-320).

The Social Democratic Party recorded its best results since 1944 with 46% of the popular vote and gained five extra seats. Both the Centre and Conservative Parties made gains while the Liberals, who put forth many compromise solutions, lost 20 seats

(Esaiasson, 1990: 204). With a Social Democrat Speaker in the Riksdag, both the socialist and bourgeois bloc ended up with 115 seats. The election did not resolve the pension conflict and there was no hope for reform. However, a Liberal member from a blue-collar region, Königsson[1], announced that he would abstain if the proposed legislation were introduced in the Riksdag. In 1959, a mandatory supplementary pension was finally adopted in the Riksdag by one vote thus implementing a complementary pension system to the already existing basic pension (folkpension)(Heclo, 1974: 246-7).

Since 1959, there has been no major reform to pension policies in Sweden. However, adjustments and reforms in line with the introduction of supplementary pension (ATP) have occurred in the fields of retirement age, early retirement and partial pension (Coughlin and Tomasson, 1993: 150).

The Swedish pension system has a redistributive impact through the *folkpension*. The ATP does not have such a component because it is mainly earning-related, however, any amount received from the supplementary pension plan is taxable which is an indirect form of redistribution. Sweden is one of the few countries in the world to have a universal pension plan. Esping-Andersen ranks Sweden as the most de-commodified country with regards to pensions in his book, The Three Worlds of Welfare Capitalism. He attributes this result to the long political dominance of the Social Democrats (Esping-Andersen, 1990: 52-3).

Every citizen is entitled to the *folkpension* which is indexed annually. The amount given under the basic pension is calculated from the base amount (basebeloppet). In

[1] Heclo explained in details the reason of Köningson abstention in page 246 of his book Modern Social Politics in Britain and Sweden (1974).

1993, as a part of an austerity plan, pension benefits were reduced to 96% of the base amount (Hedin, 1993: 39). In 1997, the base amount (basebeloppet) will be equal to 36 300 kronor (CDN $6460) (Socialdepartementet, 1996-08-15). Individuals with no or low supplementary benefits are also eligible for a pension supplement. Both the *folkpension* and the pension supplement are financed through taxation (Hedin, 1993: 43).

The ATP utilises the base amount for financing purposes. "Only amount in excess of the base amount... up to an amount equal to 7.5 times this amount is treated as pensionable income for ATP purposes" (Coughlin and Tomasson, 1993: 152). For Full ATP, contributions have to be accumulated for at least 30 years. The ATP benefits represents 60% of the annual average of the best 15 years of employment. This amount is also adjusted to reflect inflation (Hedin, 1993: 43). Contrary to the earnings-related pension schemes of Germany and the UK, the system is entirely financed by the employers through a payroll tax. The employees do not make any direct contributions (Williamson and Pampel, 1993: 76).

Apart from the *folkpension* and the ATP many workers have been receiving pension benefits from collective agreements. According to Coughlin and Tomassin, around 90% of blue-collar workers receive an extra private pension through centralised bargaining (Coughlin and Tomasson, 1993: 153).

Although Sweden has been often cited as having the most generous and efficient pension system in the world, the current system has been under review since 1984 (see Williamson and Pampel, 1993: 77). The latest economic recession, the increasing number of old-age people as well as pressure from integration and globalisation have forced the government to find new alternatives to finance and transform the pension system. In 1991, the Bildt government created the Working Group on Pensions to "make pensions more responsive to the general state of the economy, strengthen the link between contributions and benefits, and encourage an increase in long-term saving" (Socialdepartementet, 1994: 5; see also International Social Security Review, 1996: 43). All seven political parties were represented and the rapport was adopted unanimously with reservation from the Left Party and New Democracy.

Following the propositions from the Pensions Commission in 1990 and the Working Group on Pension in 1994, the current social democratic government is planning to reform the pension system. The future pension plan is most likely to be more "Germanic" since it will definitely be more related to earnings. All previous pensions plan will most likely be merged together under one umbrella controlled by the government. Minimum benefits starting in year 2000 will correspond to 2.1 times the base amount, however, this amount will probably represent less than the current system due to the elimination of the pension supplement and various subsidies. Furthermore, the Working Group proposed the introduction of an economic index linking pension benefits to the state of the economy (Socialdepartementet, 1994: 5-17).

Although the actual reforms are supported by all parties in the Riksdag, with the exception of the Left Party, there has been strong opposition, mainly from pensioner's associations, which might even lead to the creation a Pensioner's Party (Sveriges pensionärers intresseparti) for the next election in 1998 (Svenska Dagbladet, 97-01-08). Pensioner's groups now formally meet the social minister four times a year which indicates that the government is actually trying to workout a compromise with these organisation (Socialdepartementet, 1997). Besides these organisations, many important groups from the Social Democratic Party, such as the youth and women wings, have publicly voiced their oppositions to the planned reforms (Svenska Dagbladet, 96-11-28). The proposed legislation was supposed to be introduced in the fall 1996 but will now most likely be introduced in fall 1997.

United Kingdom

Although considered a liberal welfare regime by most welfare policy analysts, pension policies in Britain is somewhat unstable. This could be partly explained by his parliamentary system which favours a bipartite system, single party majority with a strong executive. As a result, policies are more easily changeable du to the competitive and confrontational aspects of British politics.

By 1870, only 23% of the labour force was still working in the agricultural sector compared to 50% in Germany (Esping-Anderson, 1980: 89). The presence of industrialisation was already felt in most of the UK. However, even though the United Kingdom was the most industrial nation in Europe at the turn of the 19th century, its citizens would have to wait until 1908, almost 20 years after the Germans, for the appearance of an old-age pension plan.

The idea of pension although already introduced in the 1880s was very difficult to sell to any government in a country which praises laissez-faire liberal values. Moreover, contrary to Germany, the labour movement in the UK was very weak at the turn of the century. Nevertheless, from the 1890s, there was growing national dissatisfaction with how respectable old-age persons were handled through poor-relief (Orloff, 1993: 211) and group of citizens from various backgrounds started to organise themselves to promote the idea of old-age pension. The emergence of this growing organisation led to the creation of the National Pension Committee. The NPC was unable to convince the Tory government to introduce a national pension plan because of strong opposition from the Friendly Societies. Moreover, the Boer War, 1899-1902, induced the government to postpone any discussion on matters related to social policy since it would need the financial resources to support the war. (Heclo, 1974: 165-170).

The Friendly Societies, which were voluntary savings associations, had very strong roots in Britain. They would gather membership mainly from the "skilled and well-off portions of the working-class" and offered basic insurance against illness, burial costs and disabilities (Heclo, 1974: 157). In 1880, 50% of working-class males belonged to one (Esping-Andersen, 1980: 91). The Friendly Societies vehemently opposed any government intervention in pension since it would reduce significantly the number of their members. However, by the late 1880s, the portion of young workers in Friendly Societies started to decline, thus leading to major financing difficulties for many of the Societies in the 1890s.

Indeed, many Friendly Societies were very close to insolvency. The extent of these problems forced the Friendly Societies to finally join the movement supporting the introduction of old-age pension in 1904. This shift forced the government to seriously consider the issue of old-age pension and cleared the path to its introduction (Williamson and Pampel, 1993: 49).

Neither major political party in the late 1800s was particularly eager to introduce old-age pension legislation. However, as the Friendly Societies changed their position on pensions reform, which itself reflected a growing popular support for pensions, both parties started to make promises regarding pensions. The Liberals finally introduced a bill in 1908 after resolving questions of financing in 1907. The Liberals opted for a non-contributory pension plan to avoid strong opposition from the Friendly Societies, Labour and employers' groups. Moreover, the government did not have the bureaucracy necessary for the implementation of a contributory scheme (Orloff, 1993: 212; Heclo, 1974: 174-5). The Liberals hoped to gain public support for the following election, however the fact that pensions were only going to be accorded to those over the age of 70 resulted in "laughter and sarcasm" among most workers (Heclo, 1974: 176).

The Old Age Pension Act differed from the German one in four distinct ways. First, the government was to give a universal flat rate pension payment. Every pensioner was to receive the same amount independent of age and previous income. Second, the scheme was non-contributory and paid through taxes. Third, this new pension plan was means-tested and only available for old-age people below a certain income and finally, it was centrally administered by the government (Williamson and Pampel, 1993: 51).

The first wave of reforms were introduced in 1925. The main feature of these reforms was the introduction of a contributory pension plan. The establishment of a contributory scheme was only feasible after most participants in the pension debate came to realise that any improvement or supplementary pension scheme would not be financially possible without contribution. The new pension scheme advocated contributory pensions for those aged between 65 and 70 and the means-test non-contributory pension benefits starting at age 70 remained in place. Those who earned benefits through their contributions between 65 and 70 were also entitled to an universal pension. Contributions were to be similar for all workers irrespective of wage differentials and the new plan was financed by workers, employers as well as by the government. Furthermore, this new system was incorporated into the British social insurance program (Heclo, 1974: 208; Williamson and Pampel, 1993: 51).

The post-war years led to the production of one of the most influential reports on social policy in modern history: the Beveridge report. After many years of pressures from the Trades Union Congress (TUC) the government created the Beveridge Committee to review the social British system. The report was published in 1942, and "called for a comprehensive universal contributory social insurance scheme that would provide flat-rate benefits to the aged, widowed, disabled, sick and unemployed" (Williamson and Pampel, 1993: 52)[2]. However, the flat-rate system led to benefits that were too minimal for pensioners who could not afford the high levels of private occupational pensions necessary to obtain a decent living standard (Heclo, 1974: 255 and 261). The flat-rate approach resulted only in a small upgrading of the "old minimum pension" (Esping-Andersen, 1980: 101).

[2] For more details regarding the impact of the Beveridge on social policy in Britain, see Peter Bladwin's *Beveridge in the longue durée* in International Social Security Review, Vol. 45. P. 53-72.

Although, benefits were slightly improved overtime (usually preceding an election), inefficiency and increasing costs for pensions to relieve the aged from poverty after the changes of 1946 forced both the Labour and Conservative party to initiate proposals for reforms in the 1950s. The Labour Party adopted a study presented by academics under the leadership of Titmuss. It proposed a new earnings-related pension plan which would be financed by the employees, employers and government. The plan also included a redistributive approach which would guarantee a pension worth half the average wage of workers. The Labour Party added a contracting out option to their plan and utilised this plan as a new Party policy for the election of 1959 hoping to regain power. In reaction to the Labour proposal, the Conservative Party, with the support of many interest groups, mainly private insurers and businesses, proposed its own version of an earnings-based scheme. The Tory plan would provide much less pension benefits than the Labour plan, or to use Heclo's word, the benefits proposed were "meager at best". The Conservative government went ahead with this plan and the bill was accepted in parliament. The Labour Party made pension policy their number one policy issue for the 1959 election and actually lost further support. As a result, the Conservative plan stayed (Heclo, 1974: 261-272). The British obtained a two-tiered pension system featuring a basic pension aggregated to an earnings-related component (Williamson and Pampel, 1993: 54).

Although the Labour Party had many opportunities while in office to reform the pension system in accordance to their own perspective, they did not make any significant changes until 1975 when they introduced the Social Security Pension Act with the support of the Conservatives (Pierson, 1994: 58). Strong pressures were exerced by the TUC to increase pension benefits (Chamberlayne, 1992: 307). The new Act included improvements for the earnings-based scheme by providing higher benefits to pensioners. The State Earnings-Related Pension Scheme (SERP) gave pensioners, who participate in the plan, benefits equal to 25% of their 20 best years of coverage adjusted to the cost of living. This scheme also encouraged employers to "contract out" of the SERP (Williamson and Pampel, 1993: 54-5). This reform paved the way for a more Germanic, albeit a weak one, pension system (Chamberlayne, 1992: 307). However, a "right wind" would soon strike the UK with the arrival of Thatcher as Prime Minister.

The election of the new market oriented Conservative government in 1979, would dramatically change the nature and the role of the state with regards to social policy. The goal of the government was to revitalise the economy through the reduction of the state's involvement in social policy. The New Right believes that less government intervention is necessary to compete in the new world market. The first reform introduced by the Thatcher government was to index basic pension with consumer's prices instead of a combination of both price and earning This change will have major consequences in the long-run as it has been estimated that some pensioners may lose up to 40% of benefits (Pierson, 1994: 59). The basic pension benefits, which now represent 15% of citizens' average wage, is expected to represent only 7% of the average wage by the year 2020 (Milne, 1994: 18).

Following the first re-election of the Thatcher government, a very controversial proposal was introduced to eliminate the SERPS. Besides the Conservatives, almost no one supported the proposal including their own supporters. The government backed down and introduced a reformed SERPS (Pierson, 1994: 60-61). The Social Security Act of 1986 established cuts to the old system as well as favouring private pension schemes. Benefits were cuts from 25% of average salaries to 20% starting in the year 1998. As a result of the Thatcher reforms, the United Kingdom now ranks last among the top 12 industrial nations with regards to wage replacement (Williamson and Pampel, 1993: 55-6).

There are now 150 000 occupational pensions schemes covering close to 50% of all workers in the UK (Foreign and Commonwealth Service: 1994, 12). Due to the increasing importance of the private sector in the pension field, which was accentuated through the 1986 reform, it will be extremely difficult for any government to attempt major reforms in this area (Pierson, 1994: 64).

Following the complaints from some of the now estimated 600 000 citizens who lost all or part of their savings in fraudulous private pension plans (Labour, 1997: 1), the government introduced a new Pension Act in 1995 to improve the security of occupational pension schemes. A Compensation Pension Board was created and stricter rules now apply for private pension schemes (Department of Social Security, 1996).

Although Labour is expected to win the May 1st election, pensioners should not expect much change. The party does not propose any major changes to the current pension system and it does not seem like it will readjust the full value of basic pensions. Labour has only promised "to maintain the state pension as the foundation of provision and increase it at least in line with inflation" (Labour, 1997b: 1).

France, Germany and Italy

According to Esping-Andersen's classification, France, Germany and Italy are considered to have a corporatist welfare regime where social status is maintained through the execution of services. Moreover, church and family values are very important in these systems. Pensioners for these three countries had to make sacrifices during the post-war reconstruction which resulted in limited reforms in pension policies relative to countries such as Sweden and the UK (Chamberlayne, 1992: 308). As a consequence, modern pension policies were developed later than in Sweden and the UK. The similarity of their welfare regimes have often lead to internal EU division since their system contradicts social democratic and liberal values present in countries such as Sweden, Denmark and the UK.

Germany was the first nation in the world to introduce a national mandatory old-age pension system in 1889. This pension system was designed mainly to cover industrial workers whose population was increasing rapidly. By introducing social security benefits in the form of insurance, Bismarck, who feared the increasing support for the socialist party, wanted to appease the working class As a new nation, Bismarck wanted to ensure peace and order within the confederate state. His intervention in the field of welfare was inspired from "the social control value of Napoleon III's limited protection efforts" (Williamson and Pampel, 1993: 22 - 27). Moreover, Bismarck wanted to maintain patriarchal values against an increasing liberal bourgeoisie (Myles, 1989: 35).

Opposition in the parliament forced Bismarck to adopt an earning-related plan mainly financed by workers and employers instead of a flat-rate pension system financed by the state. Benefits were low and represented only a small portion of a worker's wage. As mentioned by Esping-Andersen: "Germans who did receive a pension were probably unable to live on it" (Esping-Andersen, 1990: 96). Moreover, benefits were only available at age 70 which left most workers cynical since only 20% of workers lived passed that age. In 1911, a distinct earning-related pension system was created for white-collar employees, contributions were much higher than the plan instaured in 1889 but so were the benefits (Williamson and Pampel, 1993: 27-28).

In France, the first legislation on old-age pension was introduced in 1910 and consisted of a mandatory earning-related scheme based on the German system. The legislation was designed to respond to the new problems of industrialisation and institutionalisation. The pension scheme was financed by employers, employees and the state and it was compulsory for all workers with an income below 3000 Francs. Contrary to Germany, the retirement age was set at 65 and was lowered to 60 in 1912 (Renard, 1996: 98). Unfortunately, this legislation was never fully implemented and France would have to wait until 1930 to obtain a comprehensive pension system based on "German" principle for workers in industry and commerce who earned below a certain income. In 1945, coverage was extended to all workers in these sectors regardless of income but benefits were now limited to a certain ceiling (Cayatte, 1991: 66). The pension scheme has since been administered by employers' and employees' representatives with a majority of members coming from union membership (Ministere des Affaires Etrangeres, 1993: 1).

A compulsory insurance pension plan was introduced in Italy in 1919 following "social disruption and material destruction" resulting from World War I . The main feature of this legislation remained through the fascist era and social policies were employed as a tool to satisfy the population with the regime (Ferrera, 1986: 388).

As in France and Germany, following World War II, major reforms in pension policies were put to rest with the main priority placed on reconstruction. This had the effect of keeping the existing scheme with the different benefits which maintained status differentials. However, the work of committees and intellectuals immediately after the war would lead to changes in pension policies in the late 1950s and in the 1960s in Italy.

In Germany, one of the most important reforms occurred in 1957 with the Pension Reform Act. This legislation was approved through a consensus and led to a new goal in pension policies: maintenance of previous income. The value of one's pension was now based on the wage and number of years covered. Furthermore, an annual indexation of pension benefits was introduced (Williamson and Pampel, 1993: 30). Furthermore, the perpetuation of state pensions led to a further acceptance of paternalistic values with regards to pension policies (Chamberlayne, 1992: 307).

In 1972, adjustments and improvements were introduced based on the 1957 Pension Reform Act. Early retirement was now available to those aged 63 with a minimum of 35 years of coverage. The 1972 reform also increased the voluntary base of the pension scheme for the self-employed and house wives.

Contrary to Germany and Italy, France did not introduce a major pension reform following the end of World War II. All attempts to significantly alter the old pension schemes by trade unions were stopped by middle class interest groups in the 1950s. This inertia from the French government led to a strong increase in contractual supplementary pension schemes. Another major trade union protest in the early 1970s was followed by minor changes which raised the basic levels guaranteed for the aged unemployed. Finally, in 1981, Mitterand opted to raise significantly basic levels. This raise can partly explain the relatively higher de-commodification index for France compared with the one for Germany and Italy. However, the old-age pension scheme developed in 1910 and 1945 has remained virtually unchanged (Chamberlayne, 1992: 307-8).

The post World War II evolution of pensions in Italy is extremely difficult to follow and comprehend. According to Maestri, 600 pension laws were established between 1948 and 1983 (Maestri, 1986: 483). The proximity of a general election usually leads to a political bargain on pensions (Ferrera, 1986: 446). This complexity has even led Peter Flora, the editor of the series Growth to Limits, to include an appendix on pension politics in Italy. Italian pensions have also been greatly affected by the clientelistic nature of Italian politics and the economic division between the North and the South (see Maestri, 1986 and Ferrera, 1986: 446-450). These factors have forced the creation of a very fragmented and complex pension system. Nevertheless, a pension reform in 1952 raised pension standards and following a strong decade of economic growth, a major institutional reform completed in 1969 (Ferrera, 1986: 391-2).

The 1969 reform led to the creation of an earnings-related and social pensions. Pensions were to be linked with previous earnings and the cost of living. Contributions are paid by the employers (2/3) and the employees (1/3) (Ferrera, 1986: 392 and 406-7).

This reform also extended coverage for the poor aged and the elderly in the south. Social pensions were attributed to those in poverty aged over 65 and "generous 'disability pensions', for which no medical certificate was required, to those living in an 'economically disadvantaged are'" (Chamberlayne, 1992: 307).

Although the economic crisis of the 1970s forced the alteration of pension policies, most major changes are now occurring as Germany, France and Italy strive to enter the EMU. Old-age pension is one of the largest component of social welfare and often accounts for the greatest expenditure area, therefore, this sector has been quite vulnerable for cuts.

All three states have been downsizing their pension systems in accordance with their current institutions with the exception of Italy which introduced a major pension reform in 1993. For example in France, the contribution requirement has been raised from 37.5 years required to obtain full benefits to 40 (Le Monde Diplomatique, Mars 1997: 8). Balladur was also able to negotiate a modification in the calculation of pensions for the private sector. Pensions will now be issued according to the 25 instead of the 10 best years of the contributor (Le Monde, III Déc. 1996). The Juppé government has further announced that tax deductions for pension contributions for big companies would be abolished (Financial Times, Feb. 19, 1997). Finally, the method of calculation of pension benefits is now in line with price changes instead of wage changes (International Social Security Review, 1996: 21).

Nevertheless, the French need to further cut their welfare system if they want to meet the Maastricht criteria and pensioners who account for roughly 50% of social spending are an obvious target. However, contrary to most European countries, instead of co-operating with the government to find new ways to reduce the burden of pensions, many unions are actually pressing the government to improve pensions by *reducing* the retirement age from 60 to 55. The Juppé government created a dangerous precedent by according full pension benefits to public-transport workers at age 55 (Economist, Feb. 15, 1997; see also Le Monde, 13 Déc. 1996). The French government has already tried to reduce public-sector pensions but it hit a wall of protests in 1995 when strikes and violent disruptions shocked the country and forced Juppé to shelve his proposals. Even with the support of evidence, in public reports, emphasising the existence of a deep crisis in the French public pension system, public employees still refuse to compromise on the issue of pension reform (Le Monde, III Déc. 1996). Jacques Chirac, in a surprise move, announced a general election for the end of May 1997 to legitimise the French government's agenda. However, contrary to Chirac's expectation, the Left coalition won the election creating high uncertainties in Europe due to the Left's commitment to the preservation of the welfare state.

With increasing speculation regarding the possibility of Germany not meeting the deficit criteria of the EMU project, the current Finance Minister is already paving the way for new cuts in welfare (Financial Times, Feb. 19, 1997; see also FT, Jan. 16 and Jan. 27, 1997). As early as last year, the Kohl government increased the retirement age from 63 to 65 for men and from 60 to 63 for women starting in year 2000 (Economist, May 4, 1996). However, in the German corporatist model, the government must negotiate with its partners (management and unions) and as in the issue of reducing the costs of early-retirement, union opposition is very strong and radical reforms to the current systems seem unlikely (see Economist, Feb. 17, 1996).

Italy has been the most active country with regards to pension reform. With a system that covered only 50% of all pension costs, the Italian government introduced a reform in 1995 which aimed at harmonising the existing pension plans, distinguishing between insurance and assistance, linking the contributions to the amount paid, introducing a flexible retirement age (based on the Swedish reform of 1994) and applying means tested relief for the survivors' and disability pensions (Reynaud and Hege, 1996: 66). The retirement age has also been progressively raised from 61 to 65 for men and from 56 to 60 for women (reaching total implementation by year 2001) (US Social Security Office, 1996: 177). Workers are now treated equally irrespective of the category of work and their political affiliation. Prior to the reform there were more than 50 mandatory pension schemes which had different features according to the category of employment. This reform thus attempts to eliminate the "particularist-clientelist" model which closely linked interest groups and political parties leading to different systems of coverage (Reynaud and Hege, 1996: 66-68).

Nevertheless, as in France, further reduction are necessary if the Italian government wants to join EMU at the appropriate deadline. Due to the timetable of the 1995 reforms, it is still possible for a women in the public sector to retire after only 19 years with a pension offering around 80% of her final salary. Furthermore, there are still numerous complaints and criticism suggesting that the previous reform is not good enough and that areas of super protection and under protection, which plagued the Italian welfare state, have not been altered (Financial Times, March 25, 1997: 2). Moreover, as mentioned in the Economist, the Italian government still spends about 3% of GDP more than the EU average and offers among the best and the worst protection even after the latest reform (Economist, Nov. 2, 1996: 51; see also Table 3.1).

Following a deficit of about 7.5% of GDP for 1996, further cuts of the Italian welfare system are expected. The government has reaffirmed its goal of attaining the magic number of 3% and has attempted to present its 1998 budget this summer. Moreover, Carlo Azeglio Ciampi, the Treasury Minister has announced that his next budget will have the backing of the opposition since it will "seek an overhaul of pensions" even though the system has just been reformed (Financial Times, Jan. 29, 1997: 2).

Contrary to Sweden and the UK, none of the corporatist countries has opted for a radical reform of its pension scheme. There still exists a strong faith in the contributory system which links pension benefits to contributions and a belief that alteration to pension schemes are appropriate to resolve the financial obligations of EMU. However, the three governments have had various success in implementing pension reforms. France has not yet been able to obtain the support of its public sector employees and the government still seeks a solution that will not result in a confrontation similar to the one experienced in 1995. The Italians did too little in the short run and pressure to reform the pension system are well alive despite strong union opposition. Finally, the Germans, who have the least pressure to reform their pension schemes, believe that consensus within the corporatist structure is possible and necessary to reach the financial objectives set in the Maastricht Treaty.

In the UK, the Conservative era has led to a strong importance for the private sector in the field of pensions. As mentioned earlier, such a shift is almost impossible to replace and the Labour Party has already hinted that it would not attempt major transformations on the current pension system.

Sweden has abandoned its system and its reform is a clear indication of a movement towards a less redistributive contributory system. The pay as you go component is also a radical change for the Swedes since it rejects social democratic values. The 1994 reform can lead to a basic pension which could become more means-tested. Contrary to other countries, the latest pension reform was carried by a consensus of the four major parties and has, therefore, the highest chance of surviving.

Empirical Analysis

This section consists of an empirical analysis of recent pension developments in the five countries studied. It will incorporate the previous theoretical framework, by examining the impact of internal and external factors on pension spending in the past 15 years.

Hypotheses[3]

Authors such as Esping-Andersen have demonstrated that a policy area can not solely be examined on how much governments spend on it (Esping-Andersen, 1990: 103). By creating de-commodification indexes, Esping-Andersen partly resolves that problem. However, this sort of analysis can not be reproduced over a period of time since institutional factors, as demonstrated in the preceding section, are not very likely to vary enough to affect de-commodification indexes because institutional adjustments take years to take form[4]. In some cases, like in Germany, there has never been a major reform of pension policies which could have significantly altered its de-commodification index. The EMU and internal market projects are so recent that another kind of variable must be looked upon to analyse changes in pension policies. Therefore, I have chosen to use pension expenditure as a percentage of GDP in France, Germany, Italy, Sweden and the United Kingdom over the period 1980-1995 as my dependent variable. Expenditure (OLDAGE) can preamble institutional changes since a government is likely to try to reform a policy from within first, by adding restrictions to certain aspects of a programme and thus cutting funding, than creating a brand new one.

The major hypothesis of this thesis is that EMU negatively affects various sectors of the welfare state. EMU influences negatively pension policies because it forces governments to reduce the welfare state in order to meet the Maastricht criteria established to create a common currency. To represent the EMU project, I have created the variable EMU which combines the individual Z scores from debt ratio as a

[3] Most hypotheses are based on the theories mentioned in chapter 1

[4] For a further discussion of this issue, see chapter 2.

percentage of GDP, inflation and deficit as a percentage of GDP in France, Germany, Italy, Sweden and the UK during the period 1980-1995.

Therefore, I expect a positive relationship between OLDAGE and EMU. So as government reduces inflation, debt ratio and deficit to meet the Maastricht criteria, Old-age expenditure decreases reflecting the fact that governments cut into sectors of its public economy such as pensions.

The second hypothesis that I shall test is that the proportion of the population over 65 will have an impact on pension policies. Since this portion of the population is the main beneficiary of old-age pensions, it is logical to assume that they will have a strong impact on pension expenditure. This argument has long been associated with pension reforms and as mentioned earlier, the increasing number of pensioners as a proportion of the total population increases the burden of governments and working populations[5]. To represent demographic pressure, I included the variable (DEMO) which is the proportion of the population 65 and over as a percentage of the total population again from the period of 1980-1995. Since population census are done on average every 5 years, I have extrapolated the figures for the missing years using the function linear interpolation on SPSS. This function has the advantage of evaluating the trends between the available variables. For example, if year 13 to 15 are missing, this function will analyse both year 12 and 16 and then estimate the missing variables. I suspect that an increase in DEMO will lead to an increase in OLDAGE.

[5] see page 2-4 of this chapter

The five countries studied have different welfare regimes and institutions which must be taken into account when evaluating their spending patterns. To consider the various welfare regimes, I have included Esping-Andersen's de-commodification index for pension (EAOLDAGE). I suspect that high de-commodification levels will be associated with high levels of spending because the government will most likely be involved. Sweden's generous public welfare system leads this country to spend much more than a country like Britain who relies more and more on the private sectors for its pension schemes. Moreover, due to these differences in welfare regimes, governments will probably behave differently with regards to EMU. For example, Sweden is more likely to raise taxes to meet those new challenges, while the UK is more likely to cut spending. Therefore, I expect the variable EAOLDAGE to be statistically significant.

The fourth assumptions is linked to institutions. Following the arguments of authors such as Esping-Andersen (1990), Huber et als (1993), Crepaz (1992) Hicks and Misra (1993), the level of corporatism should be positively associated with high spending patterns. I used an index of corporatism (CORPISM) developed by Crepez which is standardised measure including "12 judgements made by experts who attempted to quantify corporatism" (Crepaz, 1992: 148). I suspect that this variable can explain national variation between the five countries studied.

Another important hypothesis is related to the ideological character of government. As mentioned in chapter 1, social democratic parties are more inclined to support welfare policies, and spend more on social policies. Once again, using Crepez, I employed an index of "dominant tendency in government" ranging from 1 (bourgeois hegemony) to 5 (social democratic hegemony) to assert the validity of the social democratic school. I expect that the variable GOVTEND can, like EAOLDAGE and CORPISM, explain the different spending patterns of France, German, Italy, Sweden and the UK.

Furthermore, still following the social democratic school, I suspect that the interaction of corporatism and left-wing government would further enhance spending on the welfare state. I created the variable CORPGOV which is a multiplication of the variables CORPISM and GOVTEND.

Finally, one of the major problem with time series analysis is linked to autocorrelation. What occurs the previous year is likely to influence what will happen in the following one. Such a pattern was discovered with the dependent variable. To resolve the problem, the dependent variable lagged one year was included as an independent variable. Although this processus leads to a decrease in the explanatory power of the R square, it nevertheless leads to a better substantive interpretation of the regression.

Therefore, public pension expenditure is a function of the proportion of the population over 65, EMU, de-commodification, institution, government tendency and the interaction between government tendency and institution. The final equation can be read as follow:

$$\text{OLDAGE} = \alpha + \beta 1 \text{ EMU} + \beta 2 \text{ DEMO} + \beta 3 \text{ EAOLDAGE} + \beta 4 \text{ CORPISM} + \beta 5 \text{ GOVTEND} + \beta 6 \text{ CORPGOV} + \beta 7 \text{ LAGOLDAGE} + \varepsilon$$

Data Analysis

Table 3.1 provides data for the corporatism index, the de-commodication index, the dominant tendency in government 1978-1988, as well as the interaction term between corporatism and government tendency. It also includes data for public pension spending as a percentage of GDP, EMU and the proportion of people over 65 for 1980, 1985, 1990 and 1995.

From table 3.1, we can conclude that all countries experienced an increase in old-age expenditure during the period 1980-1995. Although these figures seem to reject the main hypothesis of this thesis, the fact that most countries had higher levels of expenditure in the early 1990s than in 1995 must be considered. With regards to EMU, all countries with the exception of Germany, have moved in general towards lower inflation, debt and deficit during the period 1980-1995. In the case of Germany, the cost of unification has led the government to borrow more money which has affected its EMU score. Furthermore, all countries, with once again the notable exception of Germany, faced an increase in its aged population.

Table 3.1 also shows a usual pattern, Sweden has had left-wing hegemony, is considered the most corporatist and has the highest de-commodification index due to its highly universal pension plan. On the other hand, the UK has the lowest level of corporatism and has had right-wing hegemony. Germany, France and Italy somewhat stands in the middle. Therefore, there seems to be a divergence of cases justifying the analysis of these five countries on the basis of a different system design.

Table 3.1: Data influencing government spending on Old-Age pension

Country	FRANCE	GERMANY	ITALY	SWEDEN	UK
OLDAGE 1980	10.41	11.08	10.79	10.98	9.17
1995	10.6	11.1	13.3	11.8	10.36[6]
EMU 1980	1.58	-.9	2.25	1.16	2.69
1995	-1.4	-.68	2.01	-.7	-1.11
DEMO 1980	13.97	15.6	13.15	16.63	15.08
1995	14.91	15.22	16.03	17.31	15.46
EAOLDAGE	12	8.5	9.6	17	8.5
CORPISM	-.725	.480	-.851	1.396	-.862
GOVTEND	3	2	2	5	1
CORPGOV	-2.175	.96	-1.702	6.98	-.862

After performing a multiple regression with 5 of the 6 independent variables (CORPGOV was excluded), a pattern of multicollinearity was found between the following variables: GOVTEND and CORPISM, EAOLDAGE and GOVTEND, and finally, CORPISM and EAOLDAGE. To resolve this problem, the interaction variable CORPGOV was used instead of

both CORPISM and GOVTEND which is still theoretically sound. However, this variable was highly correlated to EAOLDAGE. As a result, all 3 internal factors (CORPISM, GOVTEND and EAOLDAGE) were combined to create the variable INTERNAL[7].

[6] Data is for 1991

[7] The variable INTERNAL was obtained by adding the zscore of EAOLDAGE, CORPISM and GOVTEND.

Findings

The variables CORPISM, CORPGOV, EAOLDAGE, GOVTEND, INTERNAL, DEMO and EMU were regressed separately with the LAGOLDAGE variables, and only DEMO and EMU were statistically significant. However, once in a multiple regression, the variable DEMO became statistically insignificant. This can be due to the fact that the variable DEMO was barely significant at the 95% level when it was regressed on its own. The nonsignficance of this variable in this case could also be attribute to multicollinearity between the variables DEMO and EMU. The results are presented in table 3.2.

Before interpreting the results, it is important to reflect on the importance of the R square for this study. Although the R square is very high, it does not have such a strong substantive significance because I have employed LAGOLDAGE to avoid problems of autocorrolation. By using this variable in the equation, the R square becomes strong.

Therefore, internal factors such as institutions, government tendency and corporatism do not seem to explain recent changes in old-age expenditure. These results do make sense since most countries have been reducing old-age expenditure irrespective of the internal pressures they have faced. All of the internal variables were not even close to being significant with T statistics varying between -.319 and . 159. Nevertheless, caution is required since all internal variables used for this case study did not vary overtime and there were only 5 countries studied in this analysis which is very little considering that most studies including these factors usually employ all OECD or

Table 3.2: Regressions with the variable Old-Age expenditure as a % of GDP

Ind. Var.	Constant	R square	SE Y	Slope	SE beta	ST Beta	DW	N
EMU	1.45	0.95**	0.33	0.09**	0.02	.14	1.41	74
LAGOLDAGE				0.88**	0.03	.88		
INTERNAL	0.43	0.95**	0.36	0	0.02	0	1.31	74
LAGOLDAGE				0.97**	0.03	.97		
EAOLDAGE	0.42	0.94**	0.36	0	0.01	.01	1.31	74
LAGOLDAGE				0.97**	0.03	.97		
CORPISM	0.45	0.94**	0.36	0	0.01		1.4	74
EMU				.1	.02			
LAGOLDAGE				0.97**	0.03			
GOVTEND	0.44	0.94**	0.36	0	0.03	0		74
LAGOLDAGE				.97**	0.03	.97		
DEMO		0.94**	0.35	-0.06*	0.03	-.06	1.35	74
LAGOLDAGE				0.96**	0.03	.96		
CORPGOV	0.45	0.94**	0.36	0	0.01	-.01	1.31	74
LAGOLDAGE				0.97**	0.03	.97		
DEMO	2.3	0.95**	0.32	-0.5	0.03	-.05	1.47	74
EMU				0.09**	0.02	.14		
LAGOLDAGE				0.87**	0.03	.87		
EMU	1.53	0.95**	0.33	0.1**	0.02	.15	1.40	74
INTERNAL				0.01	0.01	.02		
LAGOLDAGE				0.87**	0.03	.87		

*95 % level of confidence
**99% level of confidence
SE Y = Standard Error on Y
Slope = Slope of the independent variable
SE beta = Standard Error on beta
ST Beta = Standardised Beta
DW = Durbin Watson
N = number of cases

European countries. Further empirical studies with a greater number of countries is necessary to obtain conclusive results.

Demographic factors seems to matter but the significance of the variable DEMO was very weak in this model. The "automatic" link that used to exist between the number of people over 65 and pension seems to be vanishing. This could be explained in numerous ways. First, to meet the EMU criteria governments have to cut expenditure even though its aged population increases. Second, due to the increasing number of people over 65 accompanied by the decreasing proportion of workers/pensioners in most OECD countries, governments must now reform their pension systems to reflect this new reality. Finally, workers are now covered more and more from their employers (mostly through collective bargaining), private schemes and the government which reduces the pressure of the latter in this domain.

Finally, this empirical survey strongly suggests that the EMU project has a negative impact on old-age expenditure. As the EMU variable goes down so does old-age expenditure implying that a reduction in inflation, debt and deficit leads to a reduction of pension expenditure in the various welfare regime in EU countries. The EMU variable is always significant at the 99% level confirming the theory that governments are reducing, among their programmes, pension expenditure to enter the EMU.

Conclusion

Through the examination of pensions, it has been possible to observe a trend towards the reduction of welfare benefits from the state. Moreover, internal institutional pressure does not seem to be strongly related to these reductions. As the population grows older, an increase in pension expenditure is experienced. However, the variable

Health Care in France, Germany, Italy, Sweden and the UK

Introduction

Following the end of World War II, one of the pillar of the welfare state, the sector of health care, began to expend at a very fast pace. As a result of this expansion, health expenditure had doubled from 1960 to 1990 in the OECD countries (OECD, 1995: 9). However, since the recessions of the 1970s, the growth in health care expenditure has not been matched by a similar growth in national economies which has forced governments to seek solutions to resolve the relative increasing costs of this sector. Even prior to the signature of the Maastricht Treaty and EMU, all member states had experienced great difficulties at controlling their health care budget (EU, 1994: 97). Today, the EMU project further enhances the governments to act on this matter as they must reduce the size of their deficits. So far, in the five countries studied, only Sweden was able to contain costs in health care and it did so during the 1980s (OECD, 1994: 39). Nevertheless, **all** western European countries have implemented cost-control measures hoping to reduce or stabilise health care spending (Elola, 1996: 264). This chapter will tackle the issue of health care and EMU in the five countries studied.

As mentioned in the health care literature, it is very difficult to evaluate the quality of health care in a comparative perspective (EU, 1994: 53 and 97-110). Most national health systems are extremely complex. In addition, the way in which health care is financed and delivered diverges greatly from country to country. To resolve this problematic, this chapter will study the recent evolution of *health financing in accordance with the various health systems* in France, Germany, Italy, Sweden and the United Kingdom. As in chapter three, using the theoretical framework of chapter one and two, it is suspected that external factors will indirectly influence health policies.

This chapter is divided into three sections similar to the ones presented in the preceding chapter. The first section will present the recent changes and reforms in health policy emphasising the sectors of financing and health insurance in France, Germany, Italy, Sweden and the UK. They will also be studied according to their welfare regimes. This qualitative review will help to understand the various responses of governments in dealing with external pressure.

The second section will analyse the influence of age on health policies. The increasing proportion of elderly has had a strong impact on national health care systems since it exercises pressure in dealing with an increasing number of patients requiring long-term health care. As in pensions, the increasing costs of health care have been partly attributed to the rising number of people over the age of 65[1].

Finally, the third section will discuss empirically the internal and external factors and their impact on national welfare state. The elements introduced in chapter one, then used in chapter three, will be used here as well. These factors should have influenced health policies during the fifteen year period 1980-1994. As in the study of pension

[1] See Mahler, 1990.

policies, this quantitative analysis should allow for an evaluation of the theories related to the welfare state.

Recent evolution of Health Care systems

As in pensions, Germany has been the first country to introduce health insurance as part of a social insurance scheme elaborated in the late 1800s under the leadership of Bismarck. Other European nations followed this lead to create health policies in order to maintain a relatively insured population. Health insurance, like old-age pension, is strongly established within the framework of national welfare systems in what Esping-Andersen termed the corporatist countries here represented by France, Germany and Italy. Health insurance in these countries covers both sickness benefits and medical care. In this sector, Italy differs greatly from Germany and France. Italians had to wait until 1980 to obtain a mandatory insurance scheme and still, mainly because of regional disparities, they have a system which is equally financed by both national taxes and insurance.

Sweden and the United Kingdom have a universal health care system maintained through public taxation. Everybody is insured although citizens do not directly pay for their insurance for the exception of sickness benefits. A national health service (NHS) provides care for their citizens. However, although quite similar, both systems differ greatly on many accounts such as funding, division of responsibilities between levels of governments and the reliance on the family in the British case.

This section will be divided into sections similar to the one presented in chapter three. However, because of the uniqueness of the Italian system, Italy will be analysed on its own after the study of the corporatist regime.

Sweden

As stated in the Health and Medical Services Act, "the goal of the health care system is good health and the provision of care on *equal* terms to the entire population" (Hedin, 1993: 77; emphasis added). Like in Italy and the UK, Sweden has a National Health Service (NHS) which is responsible for administering and delivering health care services. However, contrary to the above two countries, the Swedish systems is highly decentralised and county councils are ultimately responsible for delivering health care according to their needs and budget. The system is mainly financed through public taxation and has mainly public providers (OECD, 1994: 265 and 11). Local income tax represents 73% of health revenues, health insurance and government subsidies 25% and fee-for-service payment 2% (Diderichsen, 1993: 185).

As in other NHS systems, the Swedish governments faced problems such as waiting lists, inefficient management and limitations in the choice of providers (Elola, 1996: 244-5). In addition to these common problems, Sweden was facing decreasing productivity, conflicting roles for politicians and unclear incentives to produce higher productivity and quality within the system.(Diderichsen, 199: 185). To resolve these problems, the government highly decentralised its system in 1983 and placed the control of health care management in the hands of county councils. However, when the national government began to contain health care costs by diminishing in real term funding to county councils and forbidden any tax raise by the councils, the problems which were never fully resolved reappeared (Diderichsen, 1995: 149). The national government has maintained the taxation banned which was again extended in 1993 (OECD, 1994: 270).

Although health care provision is a regional responsibility, There has been a strong focus on emphasising the difference between purchasers and providers at the national level. The Swedish government has enacted policies favouring controlled competition among providers of health services while maintaining the same conditions for purchasers. Furthermore, the national government now allows freedom for its citizens to chose their hospitals and doctors. These two measures have attempted to increase efficiency within the system without harming the equity aspect of national health care (Diderichsen, 1995: 150; OECD, 1995: 187). Nevertheless, because of its decentralised nature, health care reforms have been quite diverse with counties adopting their own policies (Annell, 1996). Even if it is too early to analyse the results of the reforms in Sweden, there has been some positive effects such as increasing accessibility and diminishing waiting times (Eckerlund et al, 1995: 136).

As Sweden strives to achieve the conditions of EMU, further cost-containment legislation is expected. However, as demonstrated in a study conducted by Eckerlund et al (1995), Swedes are satisfied with the current health spending levels and there even seems to be a willingness to slightly pay further taxes to boost expenditure by 2.5% (Eckerlund et al, 1995). Furthermore, Sweden has been so far the only successful country with Denmark to make absolute reduction in health spending between 1982 and 1992

(OECD, 1994: 39). Due to this "success" and to the fact that most reforms at the local levels have only been implemented since 1992, the government is most likely going to wait for a certain period of time to re-evaluate these reforms before considering major changes.

United Kingdom

The United Kingdom also has a National Health Service (NHS) which was developed after World War II following the recommendations of the Beveridge report (Mendoza and Hendersen, 1995: 300). The NHS is financed mainly through public taxation. However, the Health Services Act of 1980 has allowed a greater role for the private sector and as a results, this sector now controls 25% of all hospital beds in the UK (SoS, 1993: 90).

Even if the UK has a NHS like in Sweden, it is nevertheless quite different from its Swedish counterpart. First, the UK health care system relies more on other public organisations, especially in the areas of treatment and care where many voluntary organisations complement the public sector (SoS, 1993: 11). Secondly, the British NHS is highly centralised and is directly linked to the national government (Mendoza and Hendersen, 1995: 309). Finally, following the Conservative Era, the private sector now plays a bigger role in the UK than it does in Sweden.

To improve efficiency and resolve problems such as waiting lists, the Conservative government introduced major reforms which were also part of their ideological perspective promoting reduction in government's services. The most important policy has been the creation of a controlled internal market and a more decentralised NHS in 1991 (SoS, 1993: 93; see also Danzon, 1996: 11). Most reforms recently introduced in Sweden are partly based on the waves of these changes produced in the UK in the early 1990s. Although these reforms have been successful in cutting waiting lists (Department of Health, 97/044), the number of hospital beds shrank by 34% and administration costs rose by as much as 110% for the period 1987/88-1992/93. The reforms have been very unpopular in the general public; a poll conducted in 1995 indicated that 67% of the population were in favour of "reversing the government's health reforms" (Fierlbeck, 1996: 537-39).

The election of a Labour government will probably halt the reforms introduced by the previous Conservative governments. There has been talks the NHS being the only denationalisation the Labour Party would consider. Nevertheless, it seems very unlikely that this government will start to increase health spending again (Fierlbeck, 1996: 542).

As in Sweden, the UK does not have serious problems controlling its health expenditure even if there has been overspending recently (Financial Time, Jan. 4/5 1997: 1 and 22). Nevertheless, the latest reforms has led to an increase in the purchase of private health insurance (EU, 1993: 102). As the UK attempts to keep the door open to a possible membership in EMU, further cuts to health care are for now unlikely since it has faced many changes during the Conservative Era.

France & Germany

Both France and Germany finance their health care system through a statutory health insurance in which contributes mainly employees and employers. The health insurance system dates back to 1883 in Germany and the French one to 1928. Both countries are a typical example of a social security system in which no NHS exists and where the private sector plays an important role in providing health care for its citizens (see Elola, 1996: 241; see also OECD, 1994: 11).

Both systems also differs greatly from the Swedish and British health care structures. They are more complex in their organisation and financing, less automated and more demanding for the individual which accentuate social disparities and less uniform which allows greater freedom (SoS, 1993: 38).

The health insurance systems of France and Germany are based on the family and many sectors of care involve family's responsibilities Although insurance premiums are not paid by all citizens, extended coverage by the state ensure great general coverage. Those not covered by health insurance (0.4% in Germany) rely on social assistance (SoS, 1993: 12-13 and 47). In both countries, citizens can joined various insurance plans according to their professions and status. For example, the German Statutory Health Insurance funds is subdivided into 1300 separate funds (Pfaff, 1990: 95).

Citizens pay for medical services and then get reimbursed by the funds to which they belong. Still in both countries, people are allowed to chose where they want to health services according to the conditions established by their insurance coverage. The French government exerts little controls over health spending while the German government do not have any control regarding spending (EU, 1993: 106-7). The social security system makes it really difficult for any governments who wants to control or reduce costs since it relies on insurance funds in which state officials have no say. Both French and German governments have had great difficulties in influencing the management and evolution of their own health care systems especially if we compare them to countries with a NHS system (see Elola, 1996).

Both countries have attempted to increase their powers within the health systems over recent years as governments strive to reduce budget deficits in order to join EMU (Danzon, 1996: 11). For example, the French government has now taken the duties of its social partners in establishing the general objectives of social security (French Government, 1997: 1). Nevertheless, any attempts to drastically change the French health system by the government has been met by fierce resistance from various interest groups SoS, 1993: 42).

The French and German governments have had more success with reforms indirectly affecting health care services. Already in 1991, France established a universal social contribution of 1.2% on all salaries to raise further revenues to compensate for the growing deficit in social services (SoS, 1993: 38). Juppé also raised insurance contributions by 1.2% in 1996 and 1997 and the government has also planned to unify the 19 different health insurance plans to ensure greater equality and control (Buchan, 1995: 2). Nevertheless, these measures were not strong enough to reach the target of a FR12 millions deficit which has been revised to 30 millions (Economist, Jan. 18, 1997: 50). In Germany, an increase in contributions has been rejected by the government as pressure for lower wage costs continue in order to "bring back" competitive wages (Economist, May 4, 1997: 11). Since 1996, all members can now chose their health insurance funds which is expected to relieve some pressure from the government's scheme (German Government, Social Security, 1997: 1). The German government has also planned to raise expenditure according to increases in health insurance funds (EU, 1993: 107).

Italy

Like Germany and France, status and family are two of the most important values with regards to health care (SoS, 1993: 12). However, like in the sector of old-age pensions, the Italian system has been much more fragmented than its two corporatist counterparts.

Prior to the 1978 reforms, the Italian mandatory health insurance arrangements, which was income related, covered 93% of the population. The state was providing care for its poorer citizens who could not afford health insurance. The health system was fragmented between health funds, public and private health care organisations. The health funds were financed through the health insurance scheme, the public one through taxation and the private sector by private insurance. The health funds were the key feature of the Italian system. However, in 1974, a huge deficit emphasised the shortcomings of this system. First, it was not efficient in dealing with prevention of disease. Secondly, there was a rising disparity between the quality and quantity of services between the rich and the poor. The contributions were also not evenly collected among workers. Finally, this fragmented system did not allow the government to properly control or manage health care policies. To resolve these problems, the government introduced minor reforms which did not prove successful (OECD, 1994: 181-3 and 15).

In 1978, a major reform of the health care system was introduced to correct the failures of the old system. The government instituted a national health service (NHS) similar to the ones present in countries such as the United Kingdom and Sweden which are based on universality. The objective of the NHS would be to achieve equity, extend coverage to all citizens and standardise financial contributions which would lead to better provision for the South (OECD, 1994: 15). Patients would now have universal access to any hospital in Italy regardless of their means (SoS, 1993: 57). Nevertheless, the old mandatory insurance scheme was maintained to a certain degree to finance the system and covered all employees in Italy. All previous public insurance funds were merged into one plan for all citizens (Ferrera, 1986: 391). Furthermore, private insurance was not abolished which has lead to the maintenance of health care provision by the private sector (Mendoza and Hendersen, 1995: 253; see also Zanetti et al, 1990: 244-45; OECD, 1994; and SoS, 1993).

The Italian system is still based on the reforms of 1978 which were implemented in 1980. It is financed by both general taxation (48%) and social insurance (52%) and the health sector is mainly dominated by public providers (OECD, 1994: 11). Although this reform has been very successful at achieving equality among Italians, limited success was attained with regards to the other shortcomings presented above (OECD, 1994: 183).

Pressure to reduce health care spending in order to reduce the government deficit has led the government to institute minor reefers to the current system. One reform, implemented in November 1993, is related to the relation of the NHS with the regions. Under the 1978 reform, the NHS would allocate a budget to each region and province to provide health care services according to the policies adopted by the central organisation. However, because of a regulation which allows regions and provinces to overspend and run deficits, cost control measures instituted by the NHS were never fully achieved since local governments believed that their funding was insufficient (EU, 1994: 103). This lack of control on local budgets led the government to change the composition of the local units by replacing elected officials with professional managers. The government also reduced the number of local units from 650 to 200-300. Furthermore, the government introduced a new legislation in 1995 which allows patients to opt-out from the NHS to join a supplementary insurance plan (OECD, 1994: 30-1).

Compared with the sector of pensions, health care is still quite underdeveloped in Italy. Health expenditure accounts to 6.3% of GDP while old-age pensions represents 13.3% of GDP. Although Italian expenditure on welfare accounts to 23% of GDP, 2% below the EU average, spending on pensions as a percentage of welfare expenditure represents 61.5 %, almost 20% above the European average. Because of this disparity, other welfare expenditure fall quite below the EU average (Graham, 1997: 2). Therefore, it is more likely that major reform will be first introduced in the pension sector. Nevertheless, minor changes are expected to be done to the actual health system.

Conclusion

In this sector, the presence of a National Health Services (NHS) has been strongly linked with successful attempts at cost-containment policies. Although Sweden, Italy and the UK spend less on average than France and Germany mainly due to their efficient control of health care management, they nevertheless experience similar health indicators (see Elola, 1996: 244). It has also been easier for countries with a NHS to reduce spending as part of the fight to reduce the deficit to join EMU. Sweden, Italy and the UK do not have a pressure similar to France and Germany to cut funding in health care. Furthermore, all governments are committed to maintain or only slightly reduce the actual levels of financing which enhance the beliefs that previous measures were successful. On the other hand, France did not succeed in implementing the policies required to adequately reduce the deficit of social security to enter EMU and the recent victory of the Left does not presuppose any significant changes in the near future. Germany has only recently elaborated its policies and it remains to be seen whether or not they will be fully implemented.

From the following analysis, we can clearly describe the movement in health policies with the five countries studied. First, countries with a fully NHS system (Sweden and the UK) have favoured controlled market solutions to improve efficiency without affecting equity. Italy through the elaboration of its own NHS, has clearly favoured a move towards increasing implication for the public sector. France and Germany are also attempting to improve government control over health care without having to face the burden of this involvement. These changes are best represented in table 4.1.

Table 4.1: Changes in Health Care in Five European Countries

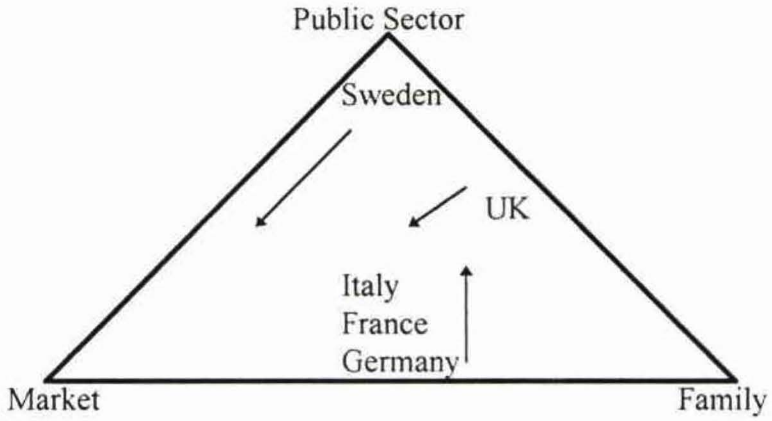


Table 4.1 Recent evolution of health policies in the five countries studied. Adapted from SoS's Health Care and Social Services in Seven European Countries, 1993. P. 10.

By using Esping-Andersen's analogy, we can conclude that Sweden and the UK have become less de-commodified since the state is taking on fewer responsibilities In addition, individuals will probably have to rely more on the market as a consequences of the reforms which have been implemented since the 1980s. It is still important to note that the UK has leaned much more towards the market than has Sweden. Italy on the other hand is becoming more de-commodified as government involvement increases in the health sector in order to reduce regional differences between the North and the South. Furthermore, pressure to reduce social spending mainly rests with the sector of pensions. Although they are attempting to increase their control over health spending, France and Germany are most likely to experience a decrease in de-commodification as benefits are reduced while social contributions are not.

Demographic Factors

As in old-age pensions, the increasing number of people over the age of 65 has affected most health care systems in Europe. However, contrary to pensions, this issue is highly controversial because old age people tends to use more of the health care system than younger individuals. For example, the Directorate General for Employment, Industrial Relations and Social Affairs (DGV) partly attributes increases in health spending in the 1980s to the ageing population claiming that older people utilise more the health care system than the rest of the population (EU, 1993: 98). In another example, it has been argued that those over 75 in Sweden has used 40% of health care funds in 1985 compared to 30% in 1976, an annual increase of 2%. This fundamental imbalance in the consumption of welfare has partly been pointed as a strong reason why there has been a shift towards individualistic values in Sweden (Diderichsen, 1995b: 190).

On the other hand, OECD publications strongly reject this suggestion. Although the aged consumed more than the rest of the population, the OECD argues that this situation has remained virtually unchanged:

> "(Mechanical) simulations suggest that, for the countries listed (all OECD) ageing has not been a dominant factor in overall health expenditure growth over the past three decades" (OECD, 1995: 13).

In another publication of the OECD, Abel-Smith (1996), argues that the ageing population is only responsible for an annual increase in health care costs of 0.3% in the Netherlands and France (OECD, 1996: 17).

Due to the controversial nature of this argument, I have decided to include age as a possible factor explaining the growth of health care costs. The assumption being that an increasing share of ageing population will lead to an increase in health care spending.

Empirical Analysis

This section will consist of an empirical analysis of various theories of welfare and their applicability to the sector of health care in the five countries studied. Internal and external factors will be studied in the time period 1980-1994. A methodology similar to the one presented in chapter three will be employed and, with the exception of the dependent variable, the same data set will be used.

First, a brief analysis of the dependent variable will introduce this segment and it will then be followed by the hypotheses linked to the theoretical framework established in chapter one and two. Finally, a discussion of the results will analyse and discuss the various findings.

Analysis of the dependent variable

The dependent variable consists of the percentage of public health spending as a proportion of GDP. This variable has been labelled HEALTH%. For the same reasons previously mentioned in chapter 3, a public spending measure has been utilised over a de-commodification index since institutional changes have been occurring since the early 1990s. Furthermore, as in pension policies many policy changes are so minor that they would probably not affect institutional measures. Nevertheless, these changes do occur and reflect external and internal pressure on the welfare state[2].

As it is usually the case with time series analysis, the HEALTH% variable exhibits a strong pattern of autocorrelation which implies that previous spending have an

[2] For the developed argument see chapter three - Hypotheses

impact on current spending. First, a new variable, LAGHEALTH, was created to resolved the problem using a similar technique employed in chapter three. However, in this case the degree of autocorrelation was so powerful that another had to be used. Therefore, I transformed the independent variable in an attempt to reduce or eliminate this pattern of autocorrelation. The technique of differences was used for this purpose and resolved the problems with the dependent variable. This technique consists of using the differences between each year of study in the time series in the following way: X1 and X2, X2 and X3, X3 and X4 and so on[3]. The new variable HEALTH represents the **change** in health spending as percentage of GDP per capita for the period 1980-1994[4]. The changes in health expenditure as a % of GDP are reproduced in table 4.2.

Table 4.2 demonstrates that France has had many difficulties in cutting its share of health expenditure as a percentage of GDP. Italy has experienced difficulties as well but the latest reforms seem to be effective. Germany had high cuts as well as large increases which led it at approximately at the same level than 1980. Sweden is the only country which has a significantly lower spending than in 1980. The UK has a slightly higher level than in 1980.

Whether or not a country has a NHS seems to be a better explanation for spending cuts than the type of welfare regime they represent. However, as mentioned in the qualitative section, many reforms have been implemented in the early, mid 1990s which will take quite a while before it is reflected in terms of spending.

[3] The first variable is now the results of X2 - X1, the second, X3-X2 etc....
[4] Because of this technique, a year is lost in the process since X0 does not exist and therefore can not be subtracted from X1.

Table 4.2: Yearly Changes in Health Expenditure as a percentage of GDP

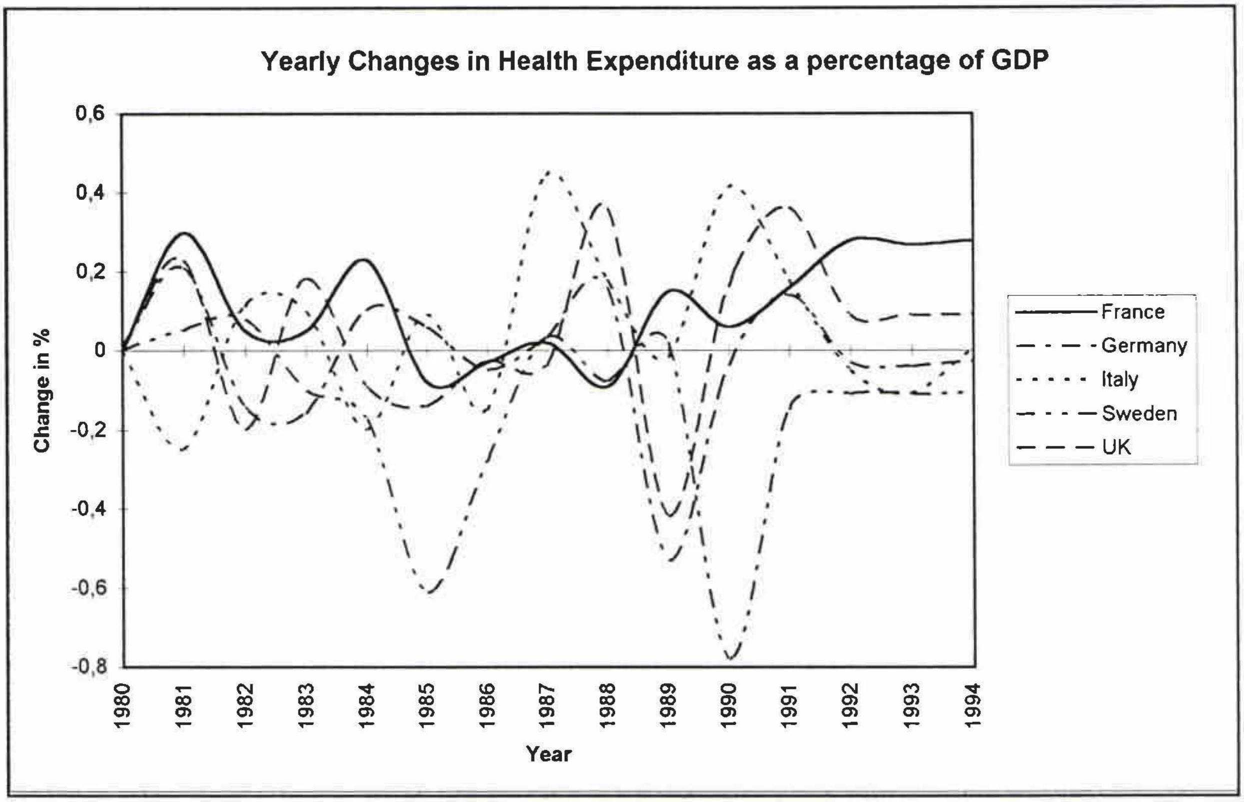


Table 4.2: Yearly Changes in Health Expenditure as a percentage in GDP. Only Sweden has been "successful" in reducing its expenditure as a % of GDP in the 1990s. Germany and Italy have had limited success in 1992, 1993 and 1994.

Hypotheses

As in chapter three, I suspect that EMU will negatively influence changes in health spending. To met the criteria put forward by the Maastricht Treaty, governments are forced to cut spending. Therefore as EMU decreases, so should health spending resulting in negative differences as the years go by reflecting cuts into health care.

The second hypothesis is once again very similar to the one presented in chapter three. Ageing should have a positive impact on health spending. As the percentage of population over 65 increases, so should spending towards health to which depends so many elderly. As mentioned earlier, this argument has been quite controversial but nevertheless deserves to be studied. Therefore, I suspect that an increase OLDAGE will lead to an increase in HEALTH.

Thirdly, I suspect that internal factors such as institutions (EAHEALTH), corporatism (CORPISM), government tendency (GOVTEND) and the interaction between corporatism and government tendency (CORPGOV) to be statistically significant in the same theoretical way explained in chapter three. The variable EAHEALTH is Esping-Andersen's de-commodification index for sickness benefits which here represents the likelihood of government's intervention in the domain of health care. Once again, to avoid multicollinearity in multiple regressions, I used the variable INTERNAL which was used in the previous analysis.

Finally, contrary to the previous analysis, the use of differences usually leads to a lower R square which rarely exceeds .3. Once again, prudence is required in dealing with the interpretation of the R square. Nevertheless, the substantive value of these regressions remain significant.

Therefore, changes in health spending as a percentage of GDP is a function of EMU, the proportion of population over 65, the de-commodification index for sickness benefits, the level of corporatism, government tendencies and the interaction between government tendencies and corporatism. The function can be read as follow:

$$\begin{aligned} \text{HEALTH} = \quad & \alpha + \beta 1 \text{ EMU} + \beta 2 \text{ DEMO} + \beta 3 \text{ EAHEALTH} + \beta 4 \text{ CORPISM} \\ & + \beta 5 \text{ GOVTEND} + \beta 6 \text{ CORPGOV} + \varepsilon \end{aligned}$$ [5]

[5] I acknowledge that this equation can not be statistically significant since many of these variable are strongly correlated. Nevertheless, the theoretical framework suggests that all of these variables have an impact on changes in health spending.

Findings

Contrary to the sector of pensions, the results here are much less convincing. The variables CORPISM, CORPGOV, EAOLDAGE, GOVTEND, INTERNAL, DEMO and EMU were regressed separately. In this case, the variables DEMO , INTERNAL, GOVTEND, CORPISM, EAHEALTH and CORPGOV were statistically significant. They all reflect internal factors and the external variable EMU was not significantly significant. However, once in a multiple regression, all variable became statistically insignificant even if all internal factors were replaced by the variable INTERNAL which was also strongly correlated to the variable DEMO. The non-signficance of these variable in this case could be attributed to multicollinearity between the independent variables. The results are presented in table 4.3.

The results are extremely surprising. All significant variables exhibit negative relationship which were expected to be positive. In the example of DEMO an increase in population of 1% leads to a decrease of .053% health spending as a percentage of GDP. This suggest that an increase in the proportion of population over 65 results in a *decrease* in health spending which would refute the argument that age negatively influences health spending. Furthermore, left-wing government associated with high level of corporatism suggests a decrease in health spending higher than with right-wing parties with low corporatism.

There are many possible explanations for these trends. First, Sweden has been the only successful country to reduce significantly health care spending. Sweden is highly de-commodified, has the highest proportion of elderly, is highly corporatist and has been dominated by a left-wing government. Yet, it contradicts most theories with regards to

Table 4.3:Regressions with the variable change in health expenditure as a % of GDP

Ind. Var.	Constant	R square	SE Y	Slope	SE beta	ST Beta	DW	N
EMU	.006	.001	.21	.003	.012	.034	1.75	69
DEMO	.812	.13**	.206	-.053**	.017	-.353	1.99	69
EAHEALTH	.371	.16**	.201	-.035**	.010	-.404	2.07	69
CORPISM	-.006	.17**	.2	-.099**	.026	-.416	2.12	69
GOVTEND	.13	.09**	.21	-.048**	.018	-.3	1.9	69
CORPGOV	.023	.19**	.198	-.028**	.007	-.436	2.16	69
INTERNAL	.002	.13**	.205	-.029**	.009	-.356	1.98	69
DEMO INTERNAL	.47	.15**	.204	-.031 -.017	.024 .013	-.205 -.214	2.04	69
DEMO CORPGOV	-.264	.19**	.2	.019 -.036**	.034 .015	.128 -.548	2.17	69

*95 % level of confidence
**99% level of confidence
SE Y = Standard Error on Y
Slope = Slope of the independent variable
SE beta = Standard Error on beta
ST Beta = Standardised Beta
DW = Durbin Watson
N = number of cases

health spending but reinforce the argument that country with NHS systems are better equipped to control spending. Nevertheless, it must be reminded that Sweden had by far the highest level of spending on health care in the five countries studied in 1980 and even following the cuts, only France spends more than Sweden in this field.

Secondly, as mentioned earlier France and Germany have had great difficulties at controlling their expenditure due to their institutional structure. France has been dominated by right-wing parties, has a low de-commodification level and is not very corporatist. Under these institutional circumstances, Germany has nevertheless been

quite successful at maintaining the status quo while France saw its share of spending in health care rise from 5.95% of GDP in 1980 to 7.6% in 1994. Strong structural reforms are needed in France if it wants to reverse this trend even with external pressure from the EU.

Thirdly, even if the UK has had Conservative dominance for the 14 years studied it nevertheless slightly increased its level of spending if we compared the years 1980 and 1994. Because there are only five countries studied, the significance of these "anomalies" in the four countries studied greatly affect this empirical studies. Further studies with all EU countries is required if we want a more definitive answer. Still, the argument that countries with NHS systems are better able to control their spending is strongly validated in this case study. Therefore, the question regarding the impact of EU could be more whether or not the state has the capacity to effectively reduce spending in health care than whether or not it is willing to do so.

Conclusion

This section explored the impact of the European Monetary Union project on the health care system of France, Germany, Italy, Sweden and the UK. Contrary to the sector of pensions where national governments, with the notable exception of Italy, have been able to control their spending, it seems that health care exhibits a particular pattern which is linked to the institutional structure of the state.

For example, France which is highly committed to the EMU project has been unable to control the rising share of health spending as a percentage of GDP. The austerity measures prescribed by the Juppé government where considered too harsh by most Frenchmen who turned their support to the Left who are more unlikely to produce the major reforms needed in this sector in order to reach the financial objectives of EMU.

However, as in pensions, this section has demonstrated that once a national government gives a lot of responsibility to the private sector, its capacity to control its scope is greatly diminished. France, Germany and Italy rely strongly on the private sector for the delivery of health services and they all have had difficulties controlling their spending. On the other hand, the UK and Sweden, although they are opening the doors to the private sector, they are still strongly controlled by the public sector which make cost-containment policies much easier.

Then, as mentioned earlier, the question regarding external factors remains whether or not a state can efficiently control its health sector to attain financial targets.

Conclusion

The EMU project implies a loss of sovereignty for all EU members including Germany who assumed strong leadership in this area. Monetary integration means that member countries will no longer be able to control monetary policy. Furthermore, the Maastricht convergence criteria has forced national Finance Ministers to reduce budget deficits, debt levels and inflation, thus restraining fiscal policy. In order to achieve the requirements laid out in Maastricht, member states have made difficult decisions, these decisions have had a strong impact on their welfare states. The word reform is now associated with cutbacks since governments cutback their systems in order to alleviate the burden of their fiscal responsabilities.

There is a lot to learn from the experience of France, Germany, Italy, Sweden and the United Kingdom. This section will explore the consequences of the major reforms introduced in all five countries and their impact on their welfare regimes. But first, some general conclusions which apply to all five countries studied need to be examined.

Privatisation has deep consequences

As shown in both sectors of pensions and health care, once a government decides to privatise, the implications of these changes are more extensive than leaving a responsibility to the private sector. Although privatisation has led to some gain in efficiency and a reduction in government spending, it has nevertheless affected the government's capacity to control the functioning and the delivering of services. Two examples are striking in this regard: pensions in the UK and health care in France.

In the UK, by encouraging its citizens to rely on the private sector for their old-age pensions, the government has opened the door to uncertainty in the delivery of pensions. Under the government's pension plan, the regulations and benefits were clear and there was little uncertainty involved besides the threat of cutbacks by the government. Yet, these cutbacks usually have an impact on future years and therefore, do not threathen past contributions. With a private plan, the conditions are not as clearly defined especially if someone considers that there are now more than 150000 occupational pensions schemes available. These schemes are not as risk free as the government's pension plan. In addition, many citizens have already lost all of their savings in fraudulous pension scheme (600 000). Furthermore, By going private, for those in a non contractual pension plan, the employee has to pay his share and the share of its employer which implies that the less wealthy will probably end up with a much lower pension since they will not be able to match the previous level of contribution. As mentioned earlier in chapeter 3, it will be extremely difficult for any government to regain the control it lost.

The attempts to reduce spending in the health care system in France has been extremely difficult and so far it has failed because the government has little control over the functioning of the overall system. In this case, no significant reforms have been implemented due to the fact that the private sector plays an important role in the French health sector which is quite fragmented.

These two examples demonstrate that a growing private sector might be very harmful in replacing old programs and that a private sector does not necessarily result in lower costs. Privatisation has to be implemented very slowly and governments must attempt to control these changes as much as possible if it wants to be able to quickly resolve any policy problems.

Is the Pension sector more vulnerable to changing economic climate?

The empirical analysis of old-age pensions and health care strongly suggests that the pension sector has been much more vulnerable than the health care system. There are two major explanations which will be discussed.

First, it has been shown that governments find it easier to reform pension systems because of their strong control over pension management. The conditions and the amount given to pensioners are easily changeable without redefining the whole system. In France and in the UK, the amount of contribution has been raised while in Italy and Germany governments have opted to increase the age of retirement. Only Sweden has introduced major reforms in this sector following four years of internal research and discussion with all major political actors and experts in this field. Furthermore, many reforms will only affect future pensioners and thus, the real burden of the reforms will be experienced by future generations. Thus, most pensioners and citizens do not realise the impact of these changes. However, reforms in health care are much harder to implement because they need the support of professionals working in the field. Changes in health care are also very noticeable. The closing of an hospital is much more noticeable than a cut in old-age pensions.

Secondly, the risk associated with the implementation of an incompetent pension policy are almost non-existant relative to the cost of a bad policy in health care. The media and the population in general is much more likely to protest to closure of an hospital or a death associated with a new policy than a cut in old-age pensions. The political risk associated with a raise in the number of incidents revolving around health care issues are much higher than in the pension sector.

These two reasons, in part, explain why governments have implemented health care reforms much more slowly than old-age pensions cutbacks. Furthermore, because of the sensitivity of health issue, the government is more likely to also wait longer for policy feedbacks.

How have these changes affected the welfare regimes of the five countries studied?

In this section a country by country analysis will be undertaken to evaluate the extent to which reforms have affected the welfare regimes of France, Germany, Italy, Sweden and the UK. Furthermore, what the implementation of the EMU project means in terms of welfare regimes will also be analysed.

Sweden's reforms in the domain of old-age pensions clearly signaled a shift towards an insurance based system similar to the systems of France and Germany. The new pension system endorse the principle of benefits linked to contribution level and thus, reduces significantly the importance of redistribution. Therefore, Sweden's de-commodification index for pension benefits is likely to decline, thus aligning it with a corporatist-statist regime.

In the health sector, the latest reforms undertaken by the regional councils indicate that the private sector will have an increasing role in the delivery of health care. There is also a move towards more individualistic values which define liberal welfare regimes. Although not fully implemented, the reforms introduced by regional council such as Stockholm are very similar to the changes introduced in the UK in the late 1980s. Therefore, there is a move towards a more market oriented solution with a decreasing role for the public sector.

In general, Sweden is definitely attempting to converge its policies with more mainstream European countries. Individuals will have to contribute much more to obtain previous levels of protection. These policies are unlikely to change as competition with other European nations increases and with the loss of sovereignty in monetary policy.

The United Kingdom under the neo-conservative agenda of the government in the 1980s, has had little to do in terms of reforms in order to join EMU. Whether or not it will enter the EMU remains an open question, however, if the UK desires to do so, it will qualify with respect to deficit, inflation and debt level. In terms of old-age pensions, the Thatcher government cut deep into the private sector and has therefore reinforced its position within the liberal welfare regime. With the 1986 reform, it now remains almost impossible for the UK to adopt a pension plan similar to the ones of Germany and France.

With respect to health care, the UK has also moved towards privatisation even though it had one of the lowest level of health spending in Europe. This trend reinforces the claim that it will remain within the liberal welfare regime. Although a centre-left government was elected in May 1997 very few changes have been expected.

Germany has adopted very few changes to its pension and health scheme which are both mainly financed through insurance contributions by both employers and employees. This quasi status quo is mainly due to the fact that it contributes very little towards the insurance scheme. Nevertheless, the government pushed upward the age of retirement and the current wave of employers' protest over social costs are likely to result in the downisizing of services. Changes in health care will be extremely difficult since the government does not control it. Germany remains a corporatist-statist regime and all reforms are minor and do not threaten the system as a whole.

France, which has an insurance scheme like Germany, now faces a real dilemma with the election of the left parties. Although the previous governments implemented some reforms such as extension in years of contributions and a social insurance contribution tax, it was nevertheless unsuccessfull in attaining the objectives laid in Maastricht. In both the sector of pensions and health care the Juppé government faced extremely strong opposition which halted the reforms. Furthermore, as in Germany, it lacks the necessary control to introduce changes in health care. So far, France is the only country which has not been able to adequatly transform its system. If Esping-Andersen was to do his analysis again, I suspect that France and Germany would have a de-commodification index which would be quite similar to the those presented in his book The Three Worlds of Welfare Capitalism (1990).

Italy surprises many observers by being relatively close to meeting the criteria for joining the EMU membership. The government is planing to introduce a budget this summer to reduce spending further and it has already introduced a EMU tax. Italy has transformed its pension system which now covers more people and takes into account the disparity between the North and the South. However, most changes will occur in the years to come and do not help the government meet the EMU criteria. The health system under the NHS has done extremely well in containing costs and improve coverage. Still, the Italian system has improved from 1980 since most reforms are done within the corporatist-statist structure and attempt to answer the problematic of regional disparities.

Is there a future role for internal theories of welfare and will the EU leads towards convergence?

As demonstrated in the sector of pensions and health care, internal factors are playing a lessor role with respect to invoking changes. The EU has reduced the inflence and scope of influence of many national political actors. Nevertheless, national institutional settings are still extremely influent in responding to changes. The variety of solutions implemented across Europe and the way they have been implemented strongly suggest this conclusion. The internal functioning of the state in the five countries studied is quite diverse and the major political actors do not have the same influence across nations. For example, labour is much more inflential in affecting policy changes in

Germany and Sweden than it is in the UK. These differences leads to solutions which are divergent even if member states are attempting to reach the same goal and responding to a similar pressure.

With regards to convergence in the EU countries, Liebfried and Pierson's have emphasised that in the field of services, the European Court of Justice have inforced the accessibility of social services for EU citizens even if they receive them in another EU

country. Since most individual can now claim necessary social services, such as health care if a patient is ill, the authors argued that:

> "Coordination requirements (social policy exportability requirements) work best with individualized, earned social right of the employed, and worst with collective provision of services to all citizens. Policymakers are thus encouraged to follow the program designs of Bismarck (benefits based on contribution) rather than Beveridge (universal, flat rate benefits). These requirements for coordination are likely to restrict many national social policies.... This restriction will make it more difficult for member states to employ a significant part of their policy repertoire for combating low incomes" (Leibfried and Pierson, 1995b: 57).

This argument needs to be revisited to include EU restrictions which are policies *indirectly* related to social protection such as the EMU project. Clearly, Sweden is given up on its high universal programmes and is now endorsing "Bismarckian" values. The UK stands as an opposition to this argument because neo-Conservative governments opted to reduce, or in certain cases eliminate, means-tested benefits. However, by including the changes in France and Germany with those of the UK and Sweden, all lower income groups have lost rights and benefits as a consequence of cutbacks. Only in Italy has coverage been extended in health care to cover more citizens which reflects the need to expand coverage in the poorer regions.

Although there is a convergence towards a type of system, welfare states are still strongly rooted in national settings which remain very distinct. Nevertheless, closer co-operation in the area of social protection is required by the EU in order to avoid social competition favouring the lowest common denominator.

Bibliography

Adnett, Nick. "Social Dumping and European Economic Integration." Journal of European Social Policy 5.1 (1995): 1-12.

Ambler, John S., ed. The French Welfare State. New York: New York University Press, 1991.

Amenta, Edwin. "The State of the Art in Welfare State Research on Social Spending Efforts in Capitalist Democracies since 1960." American Journal of Sociology 99.3 (1993): 750-763.

Amoros, Perez and Rojo, Eduardo. "Implications of the single European market for labour and social policy in Spain." International Labour Review 130.3 (1991): 359-372.

Anderson, Jeffrey. "The State of the (European) Union: From the Single Market to Maastricht, from Singular Events to General Theories." World Politics 47.April (1995): 441-465.

Anderson, Jeffrey J. "Structural Funds and the Social Dimension of EU Policy: Springboard or Stumbling Block?" European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 123-158.

Anell, Anders. "The monopolistic integrated model and health care reform: the Swedish experience." Health Policy 37 (1996): 19-33.

Baldwin, Peter. "Beveridge in the longue duree." International Social Security Review 45.1-2 (1992): 53-72.

Baldwin, Peter. "Class interests and the post-war welfare state in Europe: a historical perspective." International Social Security Review (1990): 255-269.

Batifoulier, Philippe. L'economie sociale. Paris: Presse Universitaire de France, 1995.

Bean, Charles R. "European Unemployment: A Survey." Journal of Economic Literature 32.June (1994): 573-619.

Begg, Iain and Nectoux, Francois. "Social Protection and Economic Union." Journal of European Social Policy 5.4 (1995): 285-302.

Benington, John and Taylor, Matthew. "Changes and Challenges Facing the UK Welfare State in the Europe of the 1990s." Policy and Politics 21.2 (1993): 121-134.

Berman, Peter, ed. Health Sector Reform in Developing Countries: Making Health Development Sustainable. Boston: Harvard University Press, 1995.

Bezat, Jean-Michel. "Financement des régimes de retraite français: attention, travaux!" Le Monde 3 déc. 1996: III.

Buchan, David. "Juppé grasps the welfare nettle." The Financial Times 1996: 2.

Cameron, David. "Social Democracy, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society." Order and Conflict in Contemporary Capitalism. Ed. John Goldthorpe. Oxford: Oxford University Press, 1984.

Cameron, David. "The 1992 Initiative: Causes and Consequences." Euro-Politics: Institutions and Policymaking in teh "New" European Community. Ed. Alberta M. Sbriaga. Washington: Brookings Institution, 1992. 23-74.

Carlsson, Ingvar. "Statement of Government Policy presented by the Prime Minister to the Swedish Parliament.": Utrikesdepartmentet (UD), 1994.

Casparie, Hermans and Paelinck, ed. Competitive Health Care in Europe: Future Prospects. Aldershot: Dartmouth, 1990.

Cassen, Bernard. "Dans l'étau de l'euro." Le Monde Diplomatique Mai 1997 1997.

Castles, Francis G. "Comparing the Australian and Scandinavian Welfare States." Scandinavian Political Studies 17.1 (1994): 31-46.

Castles, Francis G. "Welfare State Development in Southern Europe." West European Politics 18.2 (1995): 291-313.

Cayette, Jean-Louis. "France." International Handbook on Old-Age Insurance. Ed. Martin B. and Pampel Tracy Fred C. Westport: Greenwood, 1991. 65-73.

Chamberlayne, Prue. "Income Maintenance and Institutional Forms: a comparaison of France, West Germany, Italy and Britain 1945-90." Policy and Politics 20.4 (1992): 299-318.

Chassard, Yves and Quintin, Odile. "Social protection in the European Community: Towards a convergence of policies." International Social Security Review 45.1-2 (1992): 91-108.

Chryssochoou, Dimitris N. "Democracy and Symbiosis in the European Union: Towards a Confederal Consociation?" West European Politics 17.4 (1994): 1-14.

Clasen, Jochen and Gould, Arthur. "Stability and Change in Welfare States: Germany and Sweden in the 1990s." Policy and Politics 23.3 (1995): 189-201.

Cochrane, Allan and Doogan, Kevin. "Welfare Policy: the dynamics of European integration." Policy and Politics 21.2 (1993): 85-95.

Commission, The Health Care and Medical Priorities. "No easy choices - the difficult priorities of healthcare.": The Ministry of Health and Social Affairs, 1993.

Corbey, Dorette. "Dialectical functionalism: stagnation as a booster of European integration." International Organization 49.2 (1995): 253-84.

Coughlin, Richard M. and Tomasson, Richard F. "Sweden." International Handbook on Old-Age Insurance. Ed. Martin B. and Pampel Tracy Fred C. Westport: Greenwood, 1991. 147-164.

Courtois, Gérard. "Monnaie unique, privatisations, emploi, retraites..." Le Monde 13 déc. 1996: 6.

Cram, Laura. "Calling the Tune Without Paying the Piper? Social policy regulation: the role of the Commision in European Community social policy." Policy and Politics 21.No. 2 (1993): 135-146.

Crepaz, Markus M. L. "Corporatism in Decline? An Empirical Analysis of the Impact of Corporatism on Macroeconomic Performance and Industrial Disputes in 18 Indstrialized Democracies." Comparative Political Studies 25.2 (1992): 139-168.

Danzon, Marc. "La santé malade de l'économisme." Le Monde Diplomatique Mars 1996 1996: 11.

De Swaan, Abram. "Perspectives for Transnational Social Policy." Government and Opposition 27.Winter (1992): 33-52.

Department of Social Security (UK) (1996). "What are you doing after work?". www.dss.gov.uk.

Dempsey, Judy. "Counting cost of Bismarck's welfare legacy." The Financial Times 95-12-29 1995: 3.

Deppe, Hans-Ulrich. "Health and society in times of change." World Health Forum 17 (1996): 194-196.

Deppe, Hans-Ulrich and Oreskovic, Stjepan. "Back to Europe: Back to Bismarck?" International Journal of Health Services 26.4 (1996): 777-802.

Deviney, Stanley. "The Political Economy of Public Pensions: A Cross-National Analysis." Journal of Political and Military Sociology 12.Fall (1984): 295-310.

Diderichsen, Finn. "Market reforms in health care and sustainability of the welfare state: lessons from Sweden." Health Policy 32 (1995): 141-153.

Diderichsen, Finn. "Market Reforms in Swedish Health Care: A Threat to or Salvation for the Universalistic Welfare State." International Journal of Health Service 23.1 (1993): 185-188.

Dinan, Desmond. Ever Closer Union: an introduction to the European Community. Boulder: Lynne Rienner Publishers, 1994.

Doogan, Kevin. "The Social Charter and the Europeanisation of Employment and Social Policy." Policy and Politics 20.3 (1992): 167-176.

Economist, The. "No Escape?" Nov. 25, 1995.

Economist, The. “The chancellor’s old-age table talk”. Feb. 17, 1996: 45

Economist, The. "Restoring Germany's shine." May 4 1996: 11-12.

Economist, The. “Is the model broken?” May 4, 1996: 17.

Economist, The. “Boo to a taboo”. Nov. 2, 1996: 51.

Economist, The. "Pas la même chose." Jan. 18, 1997: 50-51.

Economist, The. “Retire early, bust the state”. Feb. 15 1997: 47

Elola, Javier. "Health Care System Reforms in Western European Countries: The Relevance of Health Care Organization." International Journal of Health Services 26.2 (1996): 239-251.

Ersboll, Niels. "The European Union: the immediate priorities." International Affairs 70.3 (1994): 413-419.

Esping Andersen, Gosta. The Equality - Employment Trade Off: Europe's Welfare States at the End of the Century, 1995. 28.

Esping-Andersen, Gosta. The Three Worlds of Welfare Capitalism. Princeton: Princeton University Press, 1990.

EU. La protection sociale en Europe en 1993. Luxembourg: Commission des Communautés européennes, 1994.

EU. Social Europe: Medium-Term Social Action Programme 1995-1997. Luxembourg: European Commission, 1995.

Falkner, Gerda. "The Maastricht Protocol on Social Policy: Theory and Practice." Journal of European Social Policy 6.1 (1996): 1-16.

Feldt, Kjell-Olof. Alla dessa dagar... i regeringen 1982-1990. Stockhol: Norstedts, 1991.

Feldt, Kjell-Olof. Rädda Välfärdsstaten! Stockholm: Norstedts, 1994.

Ferrera, Mauricio. "Italy." Growth to Limits: Germany, United Kingdom, Ireland, Italy. Ed. Peter Flora. Berlin: Walter de Gruyter, 1986. 385-481. Vol. 2. 5 vols.

Ferrera, Maurizio. "The Southern Model of Welfare in Social Europe." Journal of European Social Policy 6.1 (1996): 17-37.

Flora, Peter, ed. Growth to Limits: Germany, United Kingdom, Ireland, Italy. Vol. 2. Berlin: Walter de Gruyter, 1986.

Fierlbeck, Katherine. "Policy and ideology: the politics of post-reform health policy in the United Kingdom." International Journal of Health Services 26.3 (1996): 529-546.

Finance, The Expert Group on Public. "Social Security in Sweden - How to Reform the System.": Ministry of Finance, 1995.

Fisher, Andrew. "Themes ancient and modern in contest to design Europe's common banknotes." The Financial Times 1996: 2.

Foreign and Commenwealth Office (1994) Older People in Britain.

France, Government of. "La réforme de la Sécurité social entre dans les faits." .www.premer-ministre.gouv.fr/ACTGVT/LXSECU3.HTM (1997): 3.

Germany, Government of. "Health Insurance." . www.bma.de/soziales/english/chaptr10.htm, 1997. 9.

Giljam, Mikael and Holmberg, Sören. Väljarna inför 90-talet. Stockholm: Norstedts Juridik, 1993.

Ginsburg, Norman. Divisions of Welfare. London: SAGE Publications, 1992.

Goetschy, Janine. "A Further Comment on Wolfgang Streeck's 'European Social Policy after Maastricht'." Economic and Industrial Democracy 15.3 (1994): 477-485.

Gould, Arthur. "The end of the middle way? The Swedish welfare state in crisis." New perspective on the welfare state in Europe. Ed. Catherine Jones, 1993. 157-176.

Graham, Robert. "Italy may advance its 1998 budget." The Financial Times Jan. 29 1997: 2.

Graham, Robert. "Italy braces itself for welfare system overhaul." The Financial Times March 29 1997: 2.

Guzzini, Stefano. "La longue nuit de la premiere republique." Revue Francaise de Science Politique??? (1994): 979-1013.

Haaland, Jan I. "Comparative Advantage, Terms of Trade and Welfare Effects of European Integration: Some Preliminary Assessments." Scandinavian Journal of Economics 94.3 (1992): 373-391.

Harrison, M. L., ed. Corporatism and the Welfare State. Aldershot: Gower, 1984.

Harrison, R. J. "Neo-functionalism." Frameworks for International Cooperation. Ed. A.J.R. Groom and Paul Taylor, 1990. 139-150.

Haupt, H. G. Sozialgeschichte Franreichs seit 1789. Frankfurt: Suhrkamp, 1989

Health, Department of. "Cuts in NHS management costs.", 1997.

Health, Department of. "NHS maintains gains made in recent years on waiting times.", 1997.

Health, Department of. "Provisional waiting list figures: 31 December 1996.", 1997.

Health, Department of. "Stephen Dorrell annouces 1.6 billion pounds budget boost for patient services.", 1996.

Heclo, Hugh. Modern Social Politics in Britain and Sweden. New Haven: Yale University Press, 1974.

Heclo, Hugh and Madsen, Henrik. Policy and Politics in Sweden. Philadelphia: Temple University Press, 1987.

Hedin, Bernt. Growing Old in Sweden. Goteborg: The Swedish Institute, 1993.

Hemerijck, Anton and Bakker, Wieger. "A pendulum swing in the conception of the welfare state." Convergence or Diversity? Ed. Ungert van Waarden. Aldershot, England: Avebury, 1995. 144-181.

Hermansson, Jörgen. Politik som Intressekamp. Stockholm: Norstedts Juridik, 1993.

Hicks, Alexander and Misra, Joya. "Two Perspectives on the Welfare State: Political Resources and the Growth of Welfare in Affluent Capitalist Democracies, 1960-1982." American Journal of Sociology 99.3 (1993): 668-710.

Hicks, Alexander and Swank, Duane. "On the Political Economy of Welfare Expansion: A Comparative Analysis of 18 Advanced Capitalist Democracies, 1960-1971." Comparative Political Studies 17.1 (1984): 81-119.

Hicks, Alexander; Swank, Duane and Ambuhl, Martin. "Welfare expansion revisited: policy routines and their mediation by party, class and crisis, 1957-1982." European Journal of Political Research 17 (1989): 401-430.

Hix, Simon. "The Study of the European Community: The Challenge to Comperative Politics." West European Politics 17.1 (1994): 1-30.

Hoefer, Richard. "Swedish Corporatism in Social Welfare Policy, 1986-1994: An Empirical Examination." Scandinavian Political Studies 19.1 (1996): 67-80.

Hooghe, Liesbet and Marks, Gary. Birth of a Polity: The Struggle Over European Integration. Chicago, 1996. 49.

Huber, Evelyn and Stephens, John D. Internationalization and the Social Democratic Welfare State: Crisis and Future Prospects. Chicago, 1996. 41.

Huber, Ragin and Stephens. "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State." American Journal of Sociology 99.3 (1993): 711-749.

Immergut, Ellen. Health Politics. New York: Cambridge University Press, 1992.

Jack, andrew. "France prepares to top up its private pensions." The Financial Times Jan. 6 1997: 2.

Jallade, Jean-Pierre. "Is the Crisis Behind Us? Issues Facing Social Security Systems in Western Europe." Social Policy in a Changing Europe. Ed. Zsuzsa Ferge and Jon Eivind kolberg. Boulder: Westview Press, 1992. 37-56.

Janoski, Thomas and Hicks, Alexander, ed. The Comparative Political Economy of the Welfare State. Cambridge: Cambridge University Press, 1994.

Jessop, Bob. "Towards a Shumpeterian Workfare State? Preliminary Remarks on Post-Fordist Political Economy." Studies in Political Economy 40 (1993): 7-39.

Johannesson, Eckerlund, Johansson, Tambour and Zethraeus. "Value for money? A contingent valuation study of the optimal size of the Swedish health care budget." Health Policy 34 (1995): 135-143.

Kelstrup, Morten, ed. European Integration and Denmark's Participation. Copenhagen: Copenhagen Political Studies Press, 1992.

Kemeny, Jim. "Theories of Power in the Three Worlds of Welfare Capitalism." Journal of European Social Policy 5.2 (1995): 87-96.

Kenis, P. "Social Europe in the 1990s: beyond an adjunct to achieving a common market." Futures 23.7 (1991): 724-38.

Kitschelt, Herbert. The Transformation of European Social Democracy. Ed. Peter Lange. Cambridge: Cambridge University Press, 1994.

Korpi, Walter. The Democratic Class Struggle. London: Routledge and Kegan Paul, 1983.

Kosonen, Peter. "Convergence or Diversification of the Welfare State?" Deprivation, Social Welfare and Expertise. Ed. Juhani Lehto. Helsinki: National Agency for Welfare and Health, 1991. 92-99.

Kosonen, Pekka. "European Welfare State Models: Converging Trends." International Journal of Sociology 25.1 (1995): 81-110.

Kosonen, Pekka. The Impact of Integration on Welfare State Development: a comparative perspective. Vuoranta (Helsinki), 1991. 27.

Labour Party, the (1997). Electoral platform. www.olp.co.uk.

Ladrech, Robert. "Social democratic parties and EC integration." European Journal of Political Research 24 (1993): 195-210.

Lamoureux, Jean-Claude. "La santé, malade de l'argent." Le Monde Diplomatique Février 1995 1995: 21.

Lange, Peter. "Maastricht and the Social Protocol: Why Did They Do It?" Politics and Society 21.1 (1993): 5-36.

Lange, Peter. "The Politics of the Social Dimension." Euro-Politcs: Institutions and Policymaking in the "New" European Community. Ed. Alberta M. Sbragia. Washington: Brookings Institution, 1992. 225-256.

Lash, S. and Urry, J. The End of Organized Capitalism. Cambridge: Polity, 1987.

Laursen, Finn. "The Maastrich Treaty: Implications for the Nordic Countries." Cooperation and Conflict 28.2 (1993): 115-141.

Leibfried, Stephan. "Towards a European welfare state?" New perspective on the welfare state in Europe. Ed. Catherine Jones, 1993. 133-156.

Leibfried, Stephan and Pierson, Paul. "The Dynamics of Social Policy Integration." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 432-467.

Leibfried, Stephan and Pierson, Paul. "Multitiered Institutions and the Making of Social Policy." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 1-40.

Leibfried, Stephan and Pierson, Paul. "Semisovereign Welfare States: Social Policy in a Multitiered Europe." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 43-77.

Lodge, Juliet. "Social Europe." Journal of European Integration 13.2-3 (1990): 135-50.

Maestri, Ezio. "Pension politics and pension policy in Italy: an institutional analysis of pension bill and laws." Growth to Limits: Germany, United Kingdom, Ireland, Italy. Ed. Peter Flora. Berlin: Walter de Gruyter, 1986. 483-500. Vol. 2. 5 vols.

Mahler, V A. "Explaining the growth of social benefits in advanced capitalist countries, 1960-1980." Environment and Planning 8 (1990): 13-28.

Majnoni d'Intignamo, Beatrice. "Financing of health service systems: Recent developments and reforms." International Social Security Review 44.3 (1991): 5-21.

Majone, Giandomenico. "Cross-National Sources of Regulatory Policymaking in Europe and the United States." Journal of Public Policy 11.1 (1991): 79-106.

Majone, Giandomenico. "The European Community Between Social Policy and Social Regulation." Journal of Common Market Studies 31.2 (1993): 153-170.

Mendoza, Edward M. and Henderson, Bryn J. International Health Care: A Framework for Comparing National Health Care Systems. Tampa, Florida: Hillsboro Printing Company, 1995.

Milner, Henry. "The Welfare State as Rational Choice: Social Democracy in a Post-Socialist World." Scandinavian Political Studies 19.2 (1996): 151-166.

Mishra, Ramesh. The Welfare State in Capitalist Society. Ed. MacPherson and Midgley. Toronto: University of Toronto Press, 1990.

Mitchell, Deborah. "Welfare states and welfare outcomes in the 1980s." International Social Security Review 45.1-2 (1992): 92.

Moravcsik, Andrew. "Liberal Intergovernmentalism: A Rejoinder." Jouranl of Common Market Studies 33.4 (1995): 611-628.

Moravcsik, Andrew. "Negotiation the Single European Act: national interests and conventional statecraft in the European Community." International Organization 45.1 (1991): 19-56.

Moravcsik, Andrew. "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach." Journal of Common Market Studies 31.4 (1993): 473-524.

Moravcsik, Andrew. "Taking Preferences Seriously: A Positive Liberal Theory of International Politics.": Department of Government, Harvard University, 1996.

Morgan, Roger. "European Integration and National Interests." Government and Opposition 29.Winter (1994): 128-34.

Mosley, Hugh. "The 'social dumping' threat of European integration: A critique." Convergence or Diversity? Ed. Unger and van Waarden. Aldershot, England: Avebury, 1995. 182-199.

Myles, John. Old Age in the Welfare State: The Political Economy of Public Pensions. Second ed. Kansas City: University Press of Kansas, 1989.

Niskanen, William. "A Reflection on Bureaucracy and Representative Government." The Budget-Maximazing Bureaucrat. Ed. Andre Blais and Stephane Dion. Pittsburgh, PA: university of Pittsburgh Press, 1991. 13-31.

Nordiska Museet. Den Svenska Historien. Stockholm, 1994.

Norman, Peter. "Bonn hints at cuts in welfare." The Financial Times Feb. 19 1997: 2.

Norman, Peter. "German budget deficit tops target." The Financial Times Jan. 16 1997: 2.

Norman, Peter. "German cabinet tnesions rise on tax and welfare." The Financial Times Jan. 28 1997: 2.

Norman, Peter. "Germany may only just hit its Emu target." The Financial Times Jan. 27 1997: 1.

Nugent, Neill. The Government and Politics of the European Community. Ed. Vincent Wright. Second ed. London: Macmillan, 1991.

O'Connor, Julia. "Convergence or divergence?: change in welfare effort in OECD countries 1960-1980." European Journal of Political Research 16 (1988): 277-299.

Obradovic, Daniela. "Prospects for corporatist decision-making in the European Union: the social policy agreement." Journal of European Public Policy 2.2 (1995): 261-283.

OECD. Social Expenditure 1960-1990: Problems of growth and control. Paris: OECD, 1985.

OECD. The Future of Social Protection. Paris: OECD, 1988.

OECD. Reforming Public Pensions. Paris: OECD, 1988.

OECD. New Orientations for Social Policy. Paris: OECD, 1994.

OECD. The Reform of Health Care Systems. Paris: OECD, 1994.

OECD. New Directions in Health Care Policy. Paris: OECD, 1995.

OECD. OECD Economic Outlook 58. Paris: OECD, 1995.

OECD. OECD Economic Outlook 60. Paris: OECD, 1996.

OECD. Ageing in OECD countries. Paris: OECD, 1996.

OECD. Health Care Reform: The Will to Change. Paris: OECD, 1996.

Offe, Claus. "Some contradictions of the modern welfare state." Contradictions of the Welfare State. Ed. John Keane. Cambridge, Mass.: MIT Press, 1987. 147-161.

Orloff, Ann Shola. The Politics of Pensions: A Comparative Analysis of Britain, Canada and the United States, 1880-1940. Madison: University of Wisconsin Press, 1993.

Overbye, Einar. "Convergence in Policy Outcomes: Social Security in Perspective." Journal of Public Policy 14.2 (1994): 147-174.

Overbye, Einar. "How Do "Organizational Designs" Influence Welfare Politics? A Study of the Nordic Pension Systems." Scandinavian Political Studies 19.3 (1996): 227-255.

Palier, Bruno, ed. Comparing social welfare systems in Europe - Oxford conference. 3 vols. Paris: Imprimerie Nationale, 1994.

Passet, René. "La grande mystification des fonds de pension"". Le Monde Diplomatique. Mars 1997.

Peters, Guy. "The European Bureaucrat: The Applicability of Bureaucracy and Representative Government to Non-American Settings." The Budget-Maximizing Bureaucrat. Ed. Andre Blais and Stephane Dion. Pittsburgh, PA: University of Pittsburgh Press, 1991. 303-353.

Peterson, John. Policy Networks and European Union Governance. Chicago, 1996. 35.

Pfaller, Gough and Therborn, ed. Can the Welfare State Compete? London: Macmillan, 1991.

Pierson, Chris. Beyond the Welfare State? University Park, Pa: The Pennsylvania University Press, 1991.

Pierson, Chris. "Comparing Welfare States." West European Politics 18.1 (1995): 197-203.

Pierson, Paul. Dismantling the Welfare State? Ed. Peter Lange. Cambridge: Cambridge University Press, 1994.

Pierson, Paul. "The New Politics of the Welfare State." World Politics 48.January (1996): 143-79.

Pierson, Paul. "The Path To European Integration: A Historical Institutionalist Analysis." Comparative Political Studies 29.2 (1996): 123-163.

Pierson, Paul. "When Effect Becomes Cause: Policy Feedback and Political Change." World Politics 45.July 1995 (1993): 595-628.

Piiasheva, L. I. and Pinsker, B. S. "Neoconservative Economics: Theory and International Practice." International Journal of Political Economy .Summer 89 (1988): 13-44.

Putnam, Robert D. "Diplomacy and domestic politics: the logic of two level games." International Organization 42.3, Summer 1988 (1988): 427-460.

Renard, Didier. "The relations between assistance and insurance in the constitution of the Franch welfare system." Comparing social welfare systems in Europe. Ed. Bruno Pallier. Paris: SICOM, 1996. 93-113.

Reynaud, Emmanuel and Hege, Adelheid. "Italy: A fundamental transformation of the pension system." International Social Security Review 49.3 (1996): 65-74.

Rhodes, Martin. "'Subversive Liberalism': market integration, globalization and the European welfare state." Journal of European Public Policy 2.3 (1995): 384-406.

Rhodes, Martin. "A Regulatory Conundrum: Industrial Relations and the Social Dimensions." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995b. 78-122.

Rhodes, Martin. "The Social Dimension after Maastricht: Setting a New Agenda for the Labour Market." International Journal of Comparative Labour Law and Industrial Relations 9.Winter (1993): 297-325.

Ridding, John. "Chirac stresses welfare reform in deficits drive." The Financial Times 95-11-09 1995: 2.

Ridding, John. "Weighed down by burden of care." The Financial Times 95-11-01 1995: 22.

Ringen, Stein. The Possibility of Politics: A study of the political economy of the welfare state. Oxford: Clarendon Press, 1987.

Rosanvallon, Pierre. L'Etat en France: De 1789 a nos jours. Paris: Seuil, 1990.

Rosanvallon, Pierre. La crise de l'Etat-providence. Paris: Editions du Seuil, 1981.

Rosanvallon, Pierre. La nouvelle question sociale. Paris: Seuil, 1995.

Rosenthal, Uriel. "Welfare State or State of Welfare?: repression and welfare in the modern state." Comparative Social Research 6 (1983): 279-297.

Rosin, Björn Erik. "Valfiaskot tvingar Juppé att avgå." Svenska Dagbladet 97-05-27 1996.

Ross, George. "Asssissing the Delors Era and Social Policy." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 357-388.

Ross, George. "The European Community and Social Policy: Regional Blocs and a Humane Social Order." Studies in Political Economy 40 (1993): 41-72.

Salafia, Antonio. "Italy: The draft legislation for reform of Italy's statutory and complementary pension schemes." International Social Security Review 48.3-4 (1995): 143-150.

Sartori, Giovanni. "Compare Why and How: Comparing, Miscomparing and the Comperative Method." Comparing Nations. Ed. Mattei Dogan and Ali Kazancigil. London: Blackwell, 1994. 14-34.

Scharpf, Fritz W. Crisis and Choice in European Social Democracy. Ed. Peter Katzenstein. Ithaca: Cornell University Press, 1991.

Schmitter, Philippe. "Still the Century of Corporatism?" Trends Toward Corporatist Intermediation. Ed. Philippe and Lehmbruch Schmitter Gerhard. Beverley Hills: Sage Publications, 1979. 7-52.

Schneider, Gerald and Cederman, Lars-Erik. "The change of tide in political cooperation: a limited information model of European integration." International Organization 48.4 (1994): 633-662.

Scruton, Roger. A Dictionary of Political Thought. London: Pan Books, 1982.

Shalev, Micheal. "The Social Democratic Model and Beyond." Comparative Social Research 6 (1983): 315-351.

Smedmark, Goran. "Sweden: The Swedish social insurance system: A model in transition." International Social Security Review 47.2 (1994): 71-77.

Socialdepartementet. (1995). Social Security in Sweden - How to Reform the System.

Socialdepartementet. (1996-11-22). "Regeringen förstärker smarbetet med pensionärsorganisationerna". Press Release. www.sb.gov.se/databas/press-848658462.html

Socialdepartementet. "Socialdepartementet och budgetpropositionen.", 1996.

Socialstyrelsen. "Health Care and Social Services in Seven European Countries.": Socialstyrelsen, 1993.

Story, Jonathan. "Social Europe: Adriane's Thread." Journal of European Integration 13.2-3 (1990): 151-165.

Steinmeyer, Heinz-Dietrich. "Federal Republic of Germany." International Handbook on Old-Age Insurance. Ed. Martin B. and Pampel Tracy Fred C. Westport: Greenwood, 1991. 75-85.

Steinmo, Sven. Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern States. New Haven: Yale University Press, 1993.

Streeck, Wolfgang. "From Market Making to State Building? Reflections on the Political Economy of European Social Policy." European Social Policy. Ed. Stephan and Pierson Leibfried Paul. Washington: Brookings, 1995. 389-431.

Streeck, Wolgang. "European Social Policy after Maastricht: The 'Social Dialogue' and 'Subsidiarity'." Economic and Industrial Democracy 15.2 (1994): 151-177.

Svenska Dagbladet (1997-01-08) "Thorén gör nytt försök bilda parti". www.svd.se.

Svenska Dagbladet (1996-11-28) "S-förbund underkänner nytt pensionssystem". www.svd.se.

Swenson, Peter. Employers Wanted the Social Democratic Welfare State: The Cross-Class Alliance for Universialistic Social Policy in Sweden. Chicago, 1996. 30.

Swenson, Peter. "Labor and the Limits of the Welfare State." Comparative Politics .July 1991 (1991): 379-399.

Taylor, Paul. "Functionalism: the approach of David Mitrany." Frameworks for International Cooperation. Ed. A.J.R. Groom and Paul Taylor, 1990. 125-138.

Taylor-Gooby, Peter. "The Future of Health Care in Six European Countries: The Views of Policy Elites." International Journal of Health Services 26.2 (1996): 203-219.

Tiilikainen, Teija and Petersen Ib Damgaard, ed. The Nordic Countries and the EC. Copenhagen: Copenhagen Political Studies Press, 1993.

Timmins, Nicholas. "Overspend by health bodies set to reach 150m pounds." The Financial Times 1997: 1 and 22.

Tovias, Alfred. "A Survey of the Theory of Economic Integration." Journal of European Integration 15.1 (1991): 1-23.

Tranholm-Mikkelsen, Jeppe. "Neo-functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC." Millennium 20.1 (1991): 1-22.

Unger, Brigitte and van Waarden, Frans. "Introduction: An interdisciplinary approach to convergence." Convergen or Diversity? Ed. Unger and van Waarden. Aldershot, England: Avebury, 1995. 1-35.

United Nations. The Sex and Age Distribution of the World Population. New York: UN, 1994.

United Nations. 1993: Demographic Yearbook. New York: United Nations, 1995.

US Social Security Administration (1996). Social Security Programs Throughout the World - 1995.

Van Deth, Jan W. "Comparative politics and the decline of the nation-state in Western Europe." European Journal of Political Research 27 (1995): 443-462.

Voirin, Michel. "Private and public pension schemes: Elements of a comparative approach." International Social Security Review 48.3-4 (1995): 91-141.

Wallace, Helen. "European Governance in Turbulent Times." Journal of Common Market Studies 31.3 (1993): 293-303.

Wessels, Wolfgang. "Rationalizing Maastricht: the search for an optimal strategy of the new Europe." International Affairs 70.3 (1994): 445-457.

Wilensky, H.L. The Welfare State and Equality: Structural and Ideological Roots of Public Expenditure. Berkeley: University of California Press, 1975.

Williamson, John B. and Pampel, Fred C. Old-Age Security in Comparative Perspective. New York: Oxford University Press, 1993.

Wilson, Dorethy. "United Kingdom." International Handbook on Old-Age Insurance. Ed. Martin B. and Pampel Tracy Fred C. Westport: Greenwood, 1991. 199-215.

Wilson, Thomas and Wilson, Dorothy J. The Political Economy of the Welfare State. Ed. Charles Carter. Vol. 19. London: George Allen and Unwin, 1982.

Wincott, Daniel. "Institutional Interaction and European Integration: Towards an Everyday Critique of Liberal Intergovernmentalism." Journal of Common Market Studies 33.4 (1995): 597-609.

"Analysis of recent development." International Social Security Review 49.2 (1996): 17-48.

"Developments and trends in social security 1993-1995. Part 1. Social security in the 1990s: The imperative of change." International Social Security Review 49.2 (1996): 5-15.