

Chapter 3. The Convergence of European Welfare States

Two questions motivate this chapter. First, is there evidence of convergence among European welfare states? Second, is any convergence explained by European integration? Based on an analysis of trends in social policy in Europe since the 1970s, I argue that the rise of technocratic capitalism in the 1980s that was defined and enforced by the European Union contributed to deep changes in EU welfare states in the subsequent two decades. These changes have resulted in a marked decline in the heterogeneity of EU welfare states, as some welfare states cut back on the social rights of citizenship, others expand, and still others stay the course.

I make this case drawing on several kinds of evidence. First, in contrast to previous research that groups welfare states together based on OECD or “rich democracy” status, I compare convergence trends for various groupings: OECD, EU, non-EU, and liberal market economies (LMEs). Disaggregating the set of rich democracies allows me to evaluate competing claims that convergence is global, European, or specific to the set of liberal market economies. Second, in contrast to previous research that uses the country-year or simply the year as the unit of analysis, I use the dyad-year as the unit of analysis. Reflecting the basic concept that convergence is the reduction of differences between welfare states, analyzing dyads allows for a direct test of hypotheses about the drivers of those differences.¹

As discussed in the last chapter, I also draw on case studies to develop narrative accounts of how these changes in welfare states have taken place. European integration launches different processes in different welfare states, depending on the policy domain, time period, and baseline policy in question. That is, European integration affects welfare states differently in different

¹ For the suggestion to analyze dyads, I am grateful to Sijeong Lim, who served as my discussant at the *Toward ‘Social Europe’?* conference convened by James Caporaso at the University of Washington EU Center of Excellence in 2011.

times, places, and policies. While this variation is quite important, I see it as variation around the central tendency I describe. The goal of this chapter is to establish the central tendency. The next chapter details the variation of EU welfare states around that central tendency.

In what follows, I contextualize the analysis with a discussion of the theoretical foundations of my argument and an overview of prior studies of welfare-state convergence. Convergence is one of the most hotly contested questions in social science; debate over it reaches back many decades. There are varying definitions of convergence, varying methods for assessing convergence, and varying accounts of whether convergence, divergence, or something else is the best description of welfare-state development in Europe. My argument is that this extensive debate has missed something very important, and so a key part of making my case is to establish that the competing explanations are wrong or at least only partial, and that attention to European integration adds something.

The Great Convergence Debate

The argument that regional integration should bring convergence among welfare states builds on institutionalist theory from sociology and the “Europeanization” literature from political science. Institutional theory has been developed to explain the growing international similarity of states across a wide variety of policy domains – i.e., polity convergence (Boli and Thomas 1997, 1999; DiMaggio and Powell 1983; Meyer 2000; Meyer and Rowan 1977; Meyer et al. 1997; Starke et al. 2008; Knill 2005).

How does this convergence happen, according to institutionalist theory? Several mechanisms of political convergence have been proposed in sociology and political science.

These range from the more structural, such as external pressure for domestic reform in order to achieve economic competitiveness and to attract economic capital, to the more agent-centered, such as countries' own initiatives of reforming their welfare systems by customizing available policy ideas (Drezner 2005; Hemerijck 2002; Meyer et al. 1997). While the former mechanism usually predicts a race to the bottom toward the lowest common denominator in welfare and wages (Sharpe 1999), the latter does not predict a clear direction of change, because convergence depends on the domestic environment, as well as on the available policy models, scientific discourses and cultural ideals (Drezner 2005; Meyer et al. 1997). This may even entail an increase in welfare spending (instead of retrenchment) as a compensatory reaction to economic globalization (Brady and Finnigan 2013; Drezner 2005; Rodrik 1998).

Thus, applied to the case of the EU, dominant social science theory remains underspecified. This is because the policy scripts – detailed ideas about how states should react to practical problems – are not given by the abstract theory. Note that world polity studies usually start out with the presentation of a policy script in a given area, then proceed to show how these scripts are adopted as nation-states deepen their involvement in international organizations. My argument is that policy scripts can actually vary across regions, such that even in the presence of globalization regions can vary quite a lot in what is considered right and proper policy. This idea builds on the finding that the so-called “world” polity has actually become a lot more regional in its structure since World War II (Beckfield 2010), which may provide the organizational structural foundation for regional variation in scripts. In the European Union, the 1980s saw the development of a specific market technology that became the number one priority of policymaking in itself, and also became defined as the means through which any other goal should be accomplished.

The policy script wasn't and still isn't neoliberalism. There are two differences. The first is that European technocratic capitalism is geographically bounded to Europe; globalization is not called for, and is even criticized as a bad model. The second is that European technocratic capitalism doesn't see the state and market in a battle for space; the argument is not that the state should get out of the way and let the market work, as is usually the case in American political discourse. Instead, European technocratic capitalism calls for the state to serve the market, to enable the market, to activate the market. It is an ironically Polanyian script (Caporaso and Tarrow 2009). And it is why the pragmatist approach to conceptualizing social mechanisms resonates so strongly: the state retains its agency and actorhood, but European technocratic capitalism defines the problems and the solutions.

The literature on Europeanization from political science provides the strongest evidence to date that convergence in the EU has occurred (Borzel and Risse 2000; Caminada et al. 2010; Chalmers and Lodge 2003; Cowles et al. 2001; Knill and Lehmkuhl 1999; Le Galés 2001; O'Hagan 2004; Van Vliet 2010), although the literature is not marked by consensus. Focused case studies fail to find convergence (Bonoli and Palier 2000; Geyer 1998; Martinsen 2004; Pitruzzello 1997; Schulz 2000; cf. Rhodes 1996), while large-sample quantitative studies have found convergence, stability, and divergence (Caminada et al. 2010; Castles 1995; Corrado et al. 2003; Delhey 2001; Garrett and Lange 1991; Greve 1996; Kosonen 1995; Montanari 1995; Starke et al. 2008; Van Vliet 2010). Describing convergence in Europe, while quite challenging empirically, is not the same of course as connecting it to European integration, and so the Europeanization literature suggests that both questions motivating this chapter are up for grabs.

The oldest part of my prima facie case that European integration has caused convergence is that the EU itself has long called for welfare states of member nations to grow more similar (although similarity is usually replaced by a more politic term such as “harmonious”).

The EU has established several rules and organizations to encourage harmonization of social policy. The founding treaties of the European Union identify the coordination of welfare policy as an objective of European integration; the European Commission (the body charged with advancing and monitoring integration) promulgates specific policies in the welfare-state domain; the Open Method of Coordination (OMC) encourages member states to learn best welfare practices from one another and design customized methods for implementing them; and the development of regional rules in other policy domains indirectly drives the adoption of common social policy.

In general terms, the harmonization of European states has been on the European Union’s agenda since its original founding in 1957 as the European Economic Community among Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. As it has expanded to include 15 Western European states by 1995, and 25 states by 2004, welfare policy has remained part of the treaties that have been institutionalized by the European Court of Justice as a constitution. For instance, Article 140 of the 1957 Rome Treaty states:

[T]he Commission shall encourage cooperation between the Member States and facilitate the coordination of their action in all social policy fields under this chapter, particularly in matters relating to: employment, labour law and working conditions, basic and advanced vocational training, social security, prevention of occupational accidents and diseases, occupational hygiene, the right of association and collective bargaining

between employers and workers (*Treaty Establishing the European Community*, consolidated version, C-325, 2002:95).

A reasonable inference is that the founding states of the European Union anticipated common developments in social policy, the impact of which would be to reduce differences among the welfare states of EU members.

This commitment to common social policies continues in the current proposed Constitution for Europe. Article III-103 reads:

The Union and the Member States, having in mind fundamental social rights such as those set out in the European Social Charter signed at Turin on 18 October 1961 and in the 1989 Community Charter of the Fundamental Social Rights of Workers, shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between the social partners, the development of human resources with a view to lasting high employment and the combating of exclusion. To this end the Union and the Member States shall act taking account of the diverse forms of national practices, in particular in the field of contractual relations, and the need to maintain the competitiveness of the Union economy. They believe that such a development will ensue not only from the functioning of the internal market, which will favour the harmonisation of social systems, but also from the procedures provided for in the Constitution and from the approximation of provisions laid down by law, regulation or administrative action (*Treaty Establishing a Constitution for Europe*, provisional consolidated version, 2004:153-4).

It is notable that, reflecting the complex politics of EU social policy, the article mentions both the “diverse forms of national practices” and the “harmonisation of social systems.” This is in keeping with longstanding sensitivities concerning the preservation of cultural diversity within the EU. It is also notable that the proposed constitution anticipates the “harmonisation of social systems” through the “functioning of the internal market” – in other words, it should be regional economic integration, and not regional political integration, that drives harmonization.

While the EU’s founding treaties reflect the connection between regional integration and the convergence of European welfare states, the treaties do not contain specific policy recommendations. An example of the diffusion of more specific welfare-state models is the European Commission's white paper on social policy, *European Social Policy: A Way Forward for the Union* (European Commission 1994). The white paper makes specific policy recommendations, and it is clear that the Commission views the development of common social policies as part of the ongoing creation of the European polity and market. The Commission proposes “a wide-ranging technical revision and restructuring of the coordination of social security provisions” (European Commission 1994), and commits to “coordinating provisions for certain new types of benefit created by Member States in recent years, such as education benefits and benefits for persons in need of long-term care.” The European Union’s role in national welfare states and welfare policy is a controversial and, to date, limited one, but it is clear that the EU does engage the welfare state through the dissemination of policy scripts. Further indication of this engagement of social policy and this drive toward coordination is the Commission’s 1993 Green Paper on European Social Policy, which identified “convergence of

social policies” and “extension of the coverage of social security coordination” as policy priorities (European Commission 1993).

Another example of a specific EU policy that should pressure welfare states to become more similar is the “convergence criteria” of the Maastricht treaty that require low public sector deficits and low debt levels (Boje et al. 1999; Pierson 1996; Pitruzzello 1997; Rhodes 1996; Schulz 2000). Compliance with these convergence criteria limits deficit spending in EU welfare states, and thus should level out differences in welfare-state spending among EU members. EU policy is enforced through several mechanisms, ranging from less formal public pressure placed on member states by high-profile European Commission publications such as the “Internal Market Scoreboard” to lawsuits brought by the European Commission against the member states in the European Court of Justice. Thus, the proper adoption of market technology is observed, reported, and enforced.

The EU’s direct “competence” (its coercive capacity) in the area of social policy is exerted through ‘soft law’ mechanisms, which rely on cooperation and imitation rather than coercion to spread policy scripts. In fact, soft law is itself a governance model spread in the world polity among modern supranational institutions (Meyer et al. 1997; Mörth 2006). A recent method of soft-law governance defined by the EU at the Lisbon Summit (2000) is the Open Method of Coordination. In line with the Council’s decision to focus on social cohesion in Europe as part of the 2000 Lisbon Agenda (Caminada et al. 2010), the aim of the OMC is to harmonize social and employment policy in the member states without imposing one-size fits-all regulation from above. Rather, following guidelines set by the Council of Ministers, the OMC encourages member states to take inspiration from other “model countries”’ best welfare practices, which are used as benchmarks but implemented in idiosyncratic ways, tailored to the

national context (Hemerijck 2002). As a further incentive for the implementation of policy goals, member states periodically evaluate one another's progress. The OMC thus encourages mutual learning (from and with others) in welfare in an effort to avoid 'naming and shaming' during the peer review process. In the 2000s, the OMC focuses on fighting poverty, combating social exclusion and unemployment, and modernizing systems of social protection, such as health, elderly care and pensions (Hemerijck 2002). Thus, the OMC is concerned with "providing a constitutional architecture for the European Welfare State" (Chalmers and Lodge 2003:2).

However, the slow and delayed effects of OMC-induced policies have generated some criticism of the method's effectiveness in catalyzing welfare convergence. Although the Council has established quantitative indicators for the social policies pursued through OMC, no benchmarks have been set, which makes it hard to design effective strategies and discern progress (Chalmers and Lodge 2003). Moreover, national action plans in the welfare domain are restricted by the EU's more stringent economic regulations, which often privilege "market-enabling" policy over welfare spending, especially through the Broad Economic Policy Guidelines set regularly to ensure the implementation of the Council's economic goals. This rewards states for implementing market tools and meeting welfare targets, thereby making welfare convergence unnecessary and defeating the very purpose of the OMC (Chalmers and Lodge 2003). Whether OMC encourages or hinders welfare convergence is an open empirical question, and it is difficult to disentangle the effects of OMC from more indirect convergence mechanisms.

In fact, one of the EU's general policies that should indirectly foster welfare-state convergence is precisely the reduction in economic inequality among EU states and regions.

Toward this end, the EU provides poorer member states with development aid in the form of so-called “structural” and “cohesion” funds. These funds include the European Agricultural Guidance and Guarantee Fund (established in 1962 to aid rural areas) and the European Regional Development Fund (established in 1972 to even out the dramatic economic disparities among sub-national regions within the EU). If economic disparities among EU member states are reduced through EU policy, then welfare states in the poorer countries should have the resources to catch up to the more generous EU welfare states. European welfare states may grow increasingly similar with deepening integration, given that regional integration reduces economic differences among national economies in Europe (Beckfield 2009; Ben-David 1993) and thus makes similar resources available to European states.

Finally, regional political integration creates other (and even more diffuse) institutional forces that should catalyze convergence. In support of “ever closer union,” the European Commission – the body of the EU charged with promoting and monitoring integration – publishes policy papers and issues directives, many of which are aimed at “harmonizing” the policies of member states. Moreover, the EU has a common currency, open internal borders, and Europe-wide elections for the European Parliament. The free movement of capital and labor within Europe may also create demands for the alignment of welfare states, as corporations seek common tax and regulatory environments and workers seek familiar social programs. Research on the effects of adoption of the single European currency supports this view, in that monetary union reduces national sovereignty in the areas of fiscal and monetary policy (Dyson 2000; cf. Garrett 2000; Pierson 2001). Scharpf (1999) goes even further, arguing that “negative integration,” or the removal of barriers to international economic exchange within the EU,

undermines national sovereignty in the area of social policy and produces “regulatory competition,” or a race to the bottom:

Negative integration disables existing national policy solutions by prohibiting subsidies to producers, monopolistic and cartelized practices in the provision of goods and service, and all regulations that have the effect of protecting domestic producers from foreign competitors or of restricting in any way the free mobility of goods, services, capital, and labour across national boundaries. As a consequence, national firms are exposed to more intense competition from suppliers producing under different national systems of taxation, regulation, and industrial relations – which greatly reduces their opportunities for shifting to consumers the costs of higher taxes and wages or more burdensome regulations. At the same time, national capital owners, firms, and skilled professionals are themselves free to move to locations governed by different regulatory regimes. The theoretically expected result, then, is a form of economically motivated “regulatory competition” among nation states and unions which undercuts their capacities to regulate and tax mobile factors of production, and to improve the distributive position of labour through collective bargaining (84-85).

The more direct impact of freedom of movement within the European Union can be seen in the 1961 European Social Charter, which is referenced in the Maastricht Treaty and the provisional European Constitution. Article 12 of the Charter commits the signatories:

to take steps, by the conclusion of appropriate bilateral and multilateral agreements, or by other means, and subject to the conditions laid down in such agreements, in order to ensure: a equal treatment with their own nationals of the nationals of other Contracting Parties in respect of social security rights, including the retention of benefits arising out of social security legislation, whatever movements the persons protected may undertake between the territories of the Contracting Parties (Council of Europe 1961:8).

This is one example of how freedom of movement within the European Union creates pressures for convergence among welfare states, in part by altering the “boundaries of welfare” (Ferrera 2005). What my account adds to Ferrera’s is the argument that not only are the boundaries of welfare shifting in Europe, they are doing so because the relationship between state and market have altered as technocratic capitalism has placed the state firmly in service to the market.

This process, whereby the development of common policies in one domain generates demand for common policies in another, resonates with the logic of “functional spillover.” The spillover idea is fundamental to the neofunctionalist theory of integration from political science (Haas 1958). Glossing some complexities, the key insight is that integration is a self-sustaining process driven by the demand that the creation of regional policy in one domain creates for regional policy in other domains. For instance, the creation of the common Euro currency could be understood, in part, as spillover from the policies allowing for free movement of labor and capital across national boundaries, which could themselves be understood, again in part, as spillover from the creation of common markets for goods in the early years of the European Economic Community. But there is a difference between the process that I argue drives welfare-

state convergence and functional spillover. The difference is that with spillover, new supranational policies are developed by policymakers to ensure the success of existing policies; but with institutional convergence, state policies become more similar as a consequence of being drawn into a strongly institutionalized field. I am arguing that regional integration creates Europe-wide policy scripts concerning “proper” “European” welfare states.

Those who are sympathetic to this argument might conclude that a causal role for European integration in welfare-state convergence is over-determined. There are, however, several compelling alternative approaches to the welfare state that give good reasons to be skeptical.

Prominent among these is the varieties of capitalism approach of Hall and Soskice (2001), which anticipates maintenance of the institutional differences (among these, welfare states) that confer comparative institutional advantage upon national firms. Hall and Soskice are skeptical of the convergence hypothesis (54), and even suggest that cross-national institutional differences may be reinforced with globalization: “Over time, corporate movements of this sort should reinforce differences in national institutional frameworks as, as firms that have shifted their operations to benefit from particular institutions seek to retain them” (2001:57). Fligstein (2001) and Campbell (2004:129) make similar points, arguing against the globalization thesis of converging national institutions.

Pierson (2001) strongly argues against convergence among the advanced democracies: “convergence in national social policy structures is not to be expected ... all the authors in this volume share this view” (4). Lastly, as noted above, the OMC’s ambiguity and ineffectiveness may actually hinder convergence by encouraging countries to ‘cheat’ in order to get positive

evaluations and even to use resistance against convergence (as an expression of national autonomy) as an electoral asset (Chalmers and Lodge 2003).

Thus, the central questions of whether European welfare states are converging, and if so why, remain unresolved. If my argument that European integration drives welfare-state convergence is correct, one implication is that there should be strong evidence of convergence within the European Union, and little evidence of convergence elsewhere. I also evaluate the alternative arguments, which imply convergence among the global set of “rich democracies” that compose the OECD, convergence among the set of liberal market economies, convergence driven by globalization, and convergence driven by common national pressures such as economic growth and population aging.

Convergence: Only in Europe

The analysis is presented in two stages. First, I analyze trends in quantitative variation for each of three measures of the welfare state. Second, I shift the unit of analysis to the dyad level, and regress the absolute difference in each of the three welfare-state measures on an array of predictors. The goal of the quantitative analysis is to establish three facts: there is welfare-state convergence in Europe, there is not welfare-state convergence elsewhere, and convergence in Europe cannot be explained by traditional macroeconomic variables.

The first measure of the welfare state is social security transfers (benefits for sickness, old-age, family allowances, social assistance, and welfare) as a percentage of GDP. Data are available for the 1960-2010 period, and come from the Comparative Political Dataset I, assembled by Armingeon et al. (2013). While there is debate over the proper measurement of

the welfare state (Korpi 2003), and certainly this spending measure is highly aggregated, I use it to facilitate comparison to classics of welfare-state research (Hicks 1999; Huber and Stephens 2001; Starke et al. 2008; Swank 2002), and because it is valid as a broad-based indicator of the effort a state makes at securing social welfare.

In response to the argument that programmatic measures of the welfare state such as replacement rates are better indicators of welfare policy (Korpi 2003), I also use two measures that incorporate information on replacement rates. Replacement rates quantify both the generosity and the population coverage of social policy that replaces market income as individuals experience various risks. That is, the replacement rates analyzed here include information on both the level of support one receives from the social safety net, and the portion of the population that is covered depending upon the size of the safety net.

To combine information on the strength and size of the social safety net, I use Lyle Scruggs' recently updated Comparative Welfare Entitlements Database II (Scruggs 2013). Decommodification refers to "the degree to which individuals can maintain a decent standard of living independently of labor market participation" (Starke et al. 2008: 993). This index includes information on income from unemployment, pension and sickness benefits. Data are available for 1971-2010.

The third measure of the welfare state is the OECD's "summary measure of benefits entitlements" (OECD 2002). The OECD's summary measure is the "unweighted average of 18 Gross Replacement Rates: three household types (single, dependent spouse and spouse in work); three time periods (the first year, the second and third year, and the fourth and fifth years of unemployment); and two earnings levels (average earnings and two-thirds of this level)" (OECD 2002:38). The replacement rate should not be as responsive to recession and unemployment as

the level of social expenditure. Data on this measure come from the OECD Benefits and Wages (2013), and are available for every other year from 1961 to 2007.

Measurement of convergence is contested. The standard measure of dispersion for a quantitative dependent variable is the coefficient of variation, which is the standard deviation divided by the mean. Pluemper and Schneider (2009) argue that this standard measure can overlook some forms of convergence, and advocate instead the use of the standard deviation by itself, not divided by the mean. I use both measures in the analysis shown below.

In considering convergence, it is also important to consider the fact that some welfare states have larger populations than others. It is one question to ask whether welfare states are growing more similar over time; it is entirely another to ask whether people are living with safety nets that are increasingly similar over time. To answer the first question, I give equal weight to each welfare state in the calculation of variation. To answer the second question, I give more weight to larger welfare states (like the United States, Germany, Japan, France, and Italy) and less weight to smaller welfare states (like Luxembourg, Switzerland, and New Zealand). In calculating weighted and unweighted variation, I am following the examples of social demographer and stratification scholar Glenn Firebaugh (1999, 2009) and economist Branko Milanovic (2005).

I show the results in a set of twelve figures. For each of the three welfare-state measures, there are four trend graphs: the unweighted coefficient of variation (each welfare state gets equal weight), the unweighted standard deviation, the weighted coefficient of variation (each state receives unequal weight, depending on its population), and the weighted standard deviation. Each of the twelve graphs shows four trends: the solid line represents dispersion among EU welfare states, and the other lines depict dispersion among the other groupings of welfare states.

I show trends in dispersion for four theoretically-relevant groupings of welfare states: the OECD, the European Union (EU-15), non-EU members, and liberal market economies.

Figure 3.1 shows the trend in dispersion in transfers expenditure for the global set of 23 OECD welfare states (this group includes the United States, Japan, Australia, New Zealand, Canada, Iceland, Switzerland, Norway, plus the EU-15 listed below). The solid line, which shows the unweighted coefficient of variation, indicates strong evidence of convergence over the 1960-2000 period. The dashed line, which shows the population-weighted coefficient of variation, also indicates strong evidence of convergence over the same period. At first glance, then, these trends would appear to support a strong globalization hypothesis: OECD member states have grown more similar in the effort they devote to social transfers, and citizens living in OECD member states experienced a much more common transfers regime in the year 2000 than they did in 1960. I note that up to this point, the findings replicate several studies that show evidence of quantitative convergence in the OECD. Such evidence is often interpreted as evidence for the “logic of industrialism” convergence thesis, or the globalization thesis.

Turning to Figure 3.2, I restrict the analysis to core Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The trend in the EU-15 is even stronger toward convergence. The coefficient of variation drops from a high of about .43 to a low of about .18. This holds for both unweighted and population-weighted analyses. Comparing Figure 3.1 to Figure 3.2 suggests that the convergence among the EU-15 is responsible for the apparent convergence among the OECD welfare states.

Figure 3.3 shows the trend in dispersion in transfers spending for the eight members of the OECD that do not belong to the EU. The trend supports the inference that convergence in

the EU-15 is driving the apparent convergence among the OECD-23: the unweighted coefficient of variation increases in the earlier part of the period and decreases in the later part, but the range of movement is much smaller, with most of the movement between .25 and .35. The weighted coefficient of variation follows a different trend, decreasing, increasing, then decreasing again.

Figure 3.4 shows the trends in weighted and unweighted dispersion for the liberal market economies (Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States). The unweighted and weighted figures are perhaps best characterized as “trendless fluctuation,” bounded within a relatively narrow range of coefficients of variation (.2 to .3 for the unweighted coefficients). In transfers expenditure at least, there is little evidence of strong convergence among the set of liberal market economies.

Of course, transfers expenditure is a highly-aggregated measure that combines welfare effort in several distinct domains, and is normed by GDP, so it is possible that finer-grained, policy-based measures will show different trends. Figure 3.5 shows the results for decommodification, a summary index developed by Lyle Scruggs to measure Esping-Andersen’s classic concept that welfare states vary substantially in the degree to which they make it possible for citizens to maintain a living without reliance on the market. Indeed, comparing Figure 3.1 to Figure 3.5, we find that the OECD follows a different trend in dispersion in decommodification: slightly increasing through the 1970s, then slightly decreasing through the 1980s and 1990s. However, the population-weighted trend does not show the early divergence, suggesting that it was driven by changes in welfare states with smaller populations. In both figures, it is important to note that the evidence of convergence since ca. 1980 is very subtle, from about .35 to about .25 in the unweighted case, and from about .25 to about .20 in the weighted case.

Figure 3.6 suggests that if there is modest convergence in decommodification in the OECD since the 1980s, it is being driven by clearer convergence among the EU-15. In both the unweighted and population-weighted analysis, the coefficient of variation decreases from about .20 to about .10. European welfare states became more similarly decommodifying in the 1980s and 1990s, and these changes were evenly spread across more and less populous members of the European Union.

Figure 3.7 strengthens the inference that any recent convergence in decommodification among the OECD is driven by the EU. For the non-EU OECD countries, the recent trend is clearly toward divergence. Since the 1970s, both the unweighted and weighted coefficients of variation increased by about .10.

Figure 3.8 also shows results that are in line with this inference of convergence in the EU but not elsewhere. The liberal market economies trend neither toward convergence nor divergence, fluctuating within a fairly narrow range of .14 to .19 (unweighted) and .11 to .18 (weighted). Advocates of the varieties-of-capitalism hypothesis of convergence within LMEs might argue this is a kind of floor effect: perhaps variation among LMEs is too low throughout the period to show convergence. There is some evidence for this: the coefficient of variation's lower bound is zero. But it is interesting to note that at the end of the period for which data are available, the level of dispersion in decommodification is actually lower in the EU-15 than in the set of LMEs.

The Scruggs/Esping-Andersen decommodification index has three components: (1) unemployment insurance generosity and coverage, (2) sickness insurance generosity and coverage, and (3) pension generosity and coverage. Close scrutiny of the trend in the distribution of each component across core Europe reveals cross-cutting trends, with upward

convergence in the unemployment domain through 2000, and slight downward convergence in the other two domains.

Using the latest Comparative Welfare Entitlements Database (Scruggs, Jahn and Kuitto 2013), it is possible to extend the analysis up to 2011, and disaggregate decommodification not just by domain, but also by replacement rate vs. coverage. The trends in coefficients of variation for income replacement rates and coverage rates confirm that unemployment insurance drives the growing similarity in decommodification. Replacement rates grow more similar for both single workers and workers with families, from coefficients of variation of .65 and .52 in 1971, down to .29 and .13 in 2011. While convergence of replacement rates is evident for both singles and families, the reduction in the replacement rate for singles (from a peak of 61% in 1992 to 59% in 2011) is counter-balanced by an increase in the replacement rate for families (from 66% to 68% over the same period). In contrast, convergence in replacement rates in the domains of sickness insurance and pension benefit replacement rates is more difficult to discern.

Turning from replacement rates to coverage rates, the EU average coverage of sickness benefits decreases from a peak of .88 in 2004 to .82 in 2010, while the EU average coverage of pension benefits increases steadily through the 1970s and 1980s to around .95 by 2010. Again, the change in unemployment insurance is more striking than in the other two domains: here the coverage rate peaks at .83 around 2003 and decreases to .76 in 2010.

Figures 3.9-3.12 show the same sequence of results for dispersion in the OECD's summary measure of benefit entitlement (SMBE), which represents the income replacement rate from unemployment insurance. Unemployment insurance has been an especially active area of policymaking for the European Union, given concerns about employment disincentives and labor market activation. Indeed, since the 1994 OECD Jobs Study, unemployment insurance has been

a global concern. Thus, the SMBE measure of the welfare state (which Kenworthy [1999] characterizes as the “social wage”) represents a critical test of the globalization and regionalization hypotheses at issue here.

Figure 3.9 shows evidence of a very strong trend toward convergence in this measure among the OECD member states. Dispersion decreases from about .8 to about .4, and the trend is much less “noisy” than the trends discussed above. The weighted coefficient of variation shows similarly strong evidence for convergence.

Comparing Figure 3.9 to Figure 3.10, which shows the trend for the EU-15, suggests once again that the apparent convergence in the OECD is driven by real convergence in Europe. Here, dispersion declines from around .80 in 1961 to just above or just below .3 by 2005 (depending on whether one examines unweighted or weighted coefficients). To contextualize this trend, recall that the coefficient of variation in real GDP per capita among the world’s economies decreased from 1.19 in 1960 to 1.16 in 1989 (Firebaugh 1999). A decrease from .80 to .30 on the scale of the coefficient of variation is a substantively meaningful change. That the trend is so similar for weighted and unweighted dispersion suggests that EU citizens are now living within a much more similar welfare regime than was the case in the 1960s.

Figures 3.11 and 3.12 show the dispersion trends for non-EU and LME welfare states, respectively. All the trends in these figures can be characterized as showing evidence of convergence through the early 1980s, followed by divergence afterward. The timing suggests that welfare-state convergence among the OECD is widespread across all subsets of states in the sixties and seventies, but the convergence in the 1980s, 1990s, and early 2000s was driven exclusively by the EU.

Convergence in Europe: An Effect of Other Causes?

The foregoing clearly establishes that welfare states in the EU-15 have become more similar on expenditure- and replacement rate-based measures. Still, it could be the case that these trends in core Europe that differ so clearly from trends elsewhere could be driven by common economic or demographic pressures that are specific to core Europe. That is, the trends could be effects of causes other than European integration.

To assess the alternative explanations for convergence of EU welfare states, I shift the unit of analysis from the political-geographic categories above to comparisons of all pairs of welfare states. The set of 23 OECD nations yields 253 ($[n \times n-1]/2$) pairs of nations for each year of data. I construct the dependent variable by taking the absolute value of the difference in each of three welfare-state measures. I then test hypotheses about the causes of convergence with indicator variables measuring co-membership in the EU (both the EU-15 and a time-varying EU), and joint status as LME, CME, Scandinavian, and Continental European nations. For each indicator variable, a “1” denotes that each nation in the dyad shares the same membership/status.

I also use the dyadic analysis to explore the causal mechanisms that may explain the convergence observed above. Specifically, I include measures of globalization, economic growth, and population aging. If I am able to “explain away” any association between, for instance, co-membership in the EU and a reduction in the difference between dyads’ welfare states by adding a measure of economic convergence to the model, this would undermine the inference that regional integration causes welfare-state convergence.

Globalization is measured as the sum of the dyad’s exports (where each nation’s exports are expressed as a percentage of GDP). Data on exports are taken from the IMF; GDP data are

from the Penn World Table. Economic convergence between dyads is measured as the absolute difference between the two values of GDP per capita. Finally, common pressure from population aging is the absolute value of the difference between the two values of the population aged 65 and over as a percentage of total population.

The dyadic regression coefficients are estimated by OLS, with standard errors from the Huber-White “robust-cluster” heteroskedasticity-consistent covariance matrix estimator (HCCME). The Huber-White HCCME is robust to an array of general forms of heteroskedasticity. To assess the sensitivity of the results to unobserved heterogeneity, I also estimate models that include dyad fixed effects. I find that the results are robust to time-invariant differences among dyads.

Table 3.1 shows baseline results for the transfers measure of the welfare state; Table 3.2, decommodification; and Table 3.3, the OECD’s summary measure of benefit entitlement. All three tables show results for six sets of welfare states: a time-varying EU that captures the 1973, 1981, 1986, and 1995 expansions; a time-constant EU-15; liberal market economies; coordinated market economies; Scandinavian; and Continental European. Each model includes a variable indicating that both welfare states in the dyad are members of the same welfare-state set, a linear year term to capture any global convergence trend, and a set-by-year interaction term that allows for an assessment of whether the average dyad in each set is growing more or less similar over time. In all the models, convergence within a set (EU, LME, CME, Scandinavia, Continental Europe) is indicated by a negative set-by-year interaction term.

Results from Table 3.1 show that there is evidence of statistically significant convergence among EU dyads; the coefficient for the EU-by-year interaction term is statistically significant and negative for the time-varying and time-constant EU. The coefficient is larger in absolute

magnitude in the time-varying EU than in the time-constant EU, which suggests that EU membership itself makes a meaningful difference. Continental European dyads are the only other dyads that show evidence of convergence over time. Scandinavian welfare states diverge in transfers expenditure, and LMEs and CMEs show evidence of neither convergence or divergence.

Turning to decommodification, the results shown in Table 3.2 again suggest that convergence characterizes the EU member states: the EU-by-year interaction term is negative and statistically significant in both Model 1 and Model 2. Again, the coefficient is larger in the time-varying EU than in the time-constant EU. There is no evidence of convergence (or divergence) among the other sets of welfare states that are analyzed here: LMEs, CMEs, Scandinavia, and Continental Europe.

Table 3.3 shows the regression results for the OECD's summary measure of benefit entitlement. Again there is evidence of convergence among the time-varying EU: the EU-by-year interaction term is negative and statistically significant. In contrast to the results discussed above, the interaction between year and time-constant EU does not reach statistical significance, although the sign is once again negative ($b = -.075$; $s.e. = .053$). The only other set of welfare states that shows evidence of convergence is Continental Europe.

A common finding across all three measures of the welfare state is that there is more evidence of convergence between dyads when co-membership in the EU is allowed to vary over time as new member states accede (Denmark, Ireland, and the UK join in 1973; Greece joins in 1981; Portugal and Spain join in 1986; Austria, Finland, and Sweden join in 1995). I interpret this as suggestive evidence that the association between regional integration and welfare-state convergence is generated both by a causal treatment effect and an effect of selection into

treatment. That is, pairs of states that will later join the EU are already more likely to have similar welfare profiles. But, pairs of states that have previously joined the EU are more similar than pairs of states that will join later.

It could still be argued, of course, that globalization is the “true” cause of welfare state convergence in the EU. Perhaps Europeanization and globalization are shades of the same underlying process. Or perhaps Europeanization prepares European political economies for globalization. Table 3.4 examines the possibility that globalization accounts for the association between EU co-membership and welfare-state convergence. For each measure of the welfare state, I show two models: a model with EU co-membership, year, and an EU-by-year interaction effect, followed by a model that adds a measure of how globalized the dyad is as a unit (we sum, over the two states in each dyad, global exports as a percentage of GDP). For all three dependent variables, the EU-by-year interaction term retains its direction, magnitude and statistical significance. The results show that the association between EU membership and welfare-state convergence is robust to globalization. That is, EU membership brings welfare-state convergence among pairs of states regardless of how globalized they are.

Europeanization and globalization are just two of the many theorized causes of welfare-state convergence. Also prominent in the literature are economic convergence and population aging. To assess whether these variables explain the association between EU membership and welfare-state convergence, Table 3.5 shows results from models that include the absolute difference between the per-capita GDPs of each state in the dyad, and models that include the absolute difference between the proportion of the states’ populations that are aged 65 or older. For both of these covariates, I would hypothesize a positive association: dyads that are more different economically or demographically should also have more different welfare states. The

results do not support this hypothesis: of six estimated coefficients, three are negative, two are positive, and one fails to reach significance. Nor is it the case that including these covariates explains away the association between EU membership and welfare-state convergence: the EU-by-year interaction term again retains its direction, magnitude, and statistical significance in all the models. As noted above, the association between (time-varying) EU membership and welfare-state convergence is also robust to fixed-effects estimation.

Conclusion

This chapter develops the argument that the creation of a regional European polity drives increasing convergence among Western European welfare states. I argue that differences among the welfare states of the European Union are reduced as regional integration in Western Europe has advanced, and welfare states adopt the market-enabling policies prioritized by technocratic capitalism.

I assess this argument with time-series data on 23 OECD member states (including 15 “core” members of the European Union) since the 1960s. Descriptive analysis of the trend in dispersion among welfare states shows that variation among the 15 welfare states decreased over this period. This finding of growing convergence among EU welfare states holds for three different measures of the welfare state: social security transfers as a percentage of GDP, a common measure of welfare effort; a decommodification index that includes information on replacement rates from unemployment, sickness, and pension programs; and the OECD’s summary measure of benefit entitlement, a measure based on the replacement rates of unemployment benefits. There is little evidence of welfare-state convergence among the liberal

market economies, coordinated market economies, non-EU welfare states, Scandinavian welfare states, and Continental European welfare states. Any apparent convergence among OECD welfare states is a function of convergence among EU welfare states. This finding of convergence in the European Union but not elsewhere is robust to a range of statistical controls that proxy other candidate causes, including globalization, economic convergence, and population aging.

Before placing these findings in a more general context, it is important to note specific limitations of this analysis. First, although the results are consistent with the argument that regional integration drives welfare-state convergence through institutional mechanisms, these mechanisms are not explicitly tested through incorporation in the statistical models. The mechanisms are unmeasured, although I find it suggestive that convergence is stronger in the EU among the time-varying than the time-constant set of member states. Second, although the analysis uses several measures of the welfare state that encompass the state of the art in the quantitative comparative literature, it must be acknowledged that the results could differ with other measures.

Acknowledging the limitations of this study, the evidence that EU welfare states have converged is still surprising, given the limited evidence in the literature for convergence among welfare states in advanced industrial societies. For instance, O'Connor (1988) finds evidence of divergence among OECD welfare states, and Montanari (2001) finds mixed evidence of convergence and divergence. One explanation for these contrasting findings is that convergence is not a general phenomenon among the rich societies of the world, but instead a place-specific phenomenon among societies undergoing regional integration.

Evidence for increasing convergence among EU welfare states is, however, consistent with claims from the Europeanization literature. It does appear that European Union member states are becoming more similar, at least in terms of overall welfare spending, replacement rates of unemployment insurance programs, and overall decommodification. It remains to be seen what the direction of this convergence is. The next chapter focuses on the national rather than the regional level of analysis, to determine whether European integration moves welfare states to a more generous model of social provision or pressures welfare states toward retrenchment. The next chapter also incorporates case analysis of specific welfare reforms, in an effort to assess the causal mechanisms that may account for the strong associations discussed above.

Table 3.1: Dyadic OLS Regression Models of Absolute Difference in Transfers Spending

	(1)	(2)	(3)	(4)	(5)
Year	0.0191*** (7.66)	0.0196*** (7.59)	0.0186*** (7.46)	0.0209*** (7.84)	0.0689*** (10.59)
EU	-0.362** (-3.05)	-0.529*** (-4.44)	-0.374** (-3.17)	-0.330** (-2.74)	-0.770*** (-5.65)
EU * Year	-0.0365*** (-9.43)	-0.0370*** (-9.51)	-0.0364*** (-9.43)	-0.0355*** (-9.04)	-0.0185*** (-4.23)
LME		-1.662*** (-7.15)			
LME * Year		-0.0157* (-2.01)			
Scandinavia			-2.918*** (-5.88)		
Scandinavia * Year			0.0234 (1.41)		
CME				-0.168 (-1.31)	
CME * Year				-0.00961* (-2.26)	
GDP Difference					0.149 (0.64)
GDP Difference * Year					-0.0230** (-2.83)
Aged Population Difference					0.568*** (15.61)
Aged Population Difference * Year					-0.00410*** (-3.77)
Partisan Difference					-0.192*** (-4.06)
Partisan Difference * Year					0.00501*** (3.37)
Mean Openness					0.0391*** (15.70)
Mean Openness * Year					-0.000880*** (-12.63)
Constant	4.378*** (57.76)	4.564*** (57.90)	4.424*** (58.28)	4.418*** (54.28)	1.157*** (5.37)
N	12132	12132	12132	12132	11158

t statistics in parentheses

* p<0.05, ** p<0.01, *** p<0.001

Table 3.2: Dyadic OLS Regression Models of Absolute Difference in Decommodification

	(1)	(2)	(3)	(4)	(5)
Year	0.000581 (0.41)	-0.000902 (-0.60)	-0.000290 (-0.20)	0.00186 (1.20)	0.0113* (2.32)
EU	-0.0294 (-0.34)	-0.117 (-1.35)	-0.0321 (-0.37)	0.0102 (0.12)	0.269** (2.90)
EU * Year	-0.00309 (-1.21)	-0.00213 (-0.85)	-0.00307 (-1.21)	-0.00342 (-1.35)	-0.00951*** (-3.56)
LME		-0.726*** (-6.04)			
LME * Year		0.00611 (1.75)			
Scandinavia			-1.000*** (-4.26)		
Scandinavia * Year			0.0189* (2.53)		
CME				-0.0299 (-0.34)	
CME * Year				-0.00611* (-2.36)	
GDP Difference					0.437 (1.95)
GDP Difference * Year					-0.000681 (-0.10)
Aged Population Difference					0.224*** (10.71)
Aged Population Difference * Year					-0.00586*** (-9.56)
Partisan Difference					0.0296 (1.08)
Partisan Difference * Year					-0.000685 (-0.86)
Mean Openness					-0.00880*** (-3.94)
Mean Openness * Year					0.000182** (3.01)
Constant	0.997*** (20.12)	1.116*** (21.34)	1.037*** (20.80)	1.022*** (18.90)	0.606*** (3.54)
N	3292	3292	3292	3292	3285

t statistics in parentheses

* p<0.05, ** p<0.01, *** p<0.001

Table 3.3: Dyadic OLS Regression Models of Absolute Difference in the Social Wage

	(1)	(2)	(3)	(4)	(5)
Year	0.0298*	0.0317*	0.0294*	0.0544***	0.292***
	(2.14)	(2.17)	(2.10)	(3.66)	(7.48)
EU	4.001***	3.460***	4.006***	3.683***	0.252
	(6.41)	(5.48)	(6.42)	(5.89)	(0.33)
EU * Year	-0.112***	-0.114***	-0.112***	-0.101***	-0.0241
	(-5.24)	(-5.26)	(-5.24)	(-4.73)	(-0.96)
LME		-4.681***			
		(-3.82)			
LME * Year		-0.0402			
		(-0.94)			
Scandinavia			0.660		
			(0.25)		
Scandinavia * Year			0.0332		
			(0.36)		
CME				3.627***	
				(5.15)	
CME * Year				-0.111***	
				(-4.60)	
GDP Difference					-1.742
					(-1.31)
GDP Difference * Year					-0.00313
					(-0.07)
Aged Population Difference					-0.780***
					(-3.77)
Aged Population Difference * Year					0.0116
					(1.82)
Partisan Difference					-0.333
					(-1.28)
Partisan Difference * Year					0.00766
					(0.92)
Mean Openness					0.263***
					(13.49)
Mean Openness * Year					-0.00663***
					(-13.36)
Constant	13.30***	13.90***	13.29***	12.49***	4.536***
	(32.45)	(32.30)	(32.23)	(28.48)	(3.32)
N	5212	5212	5212	5212	4668

t statistics in parentheses

* p<0.05, ** p<0.01, *** p<0.001

Figure 3.1: Coefficient of Variation in Transfers Expenditure (Each State Weighted Equally)

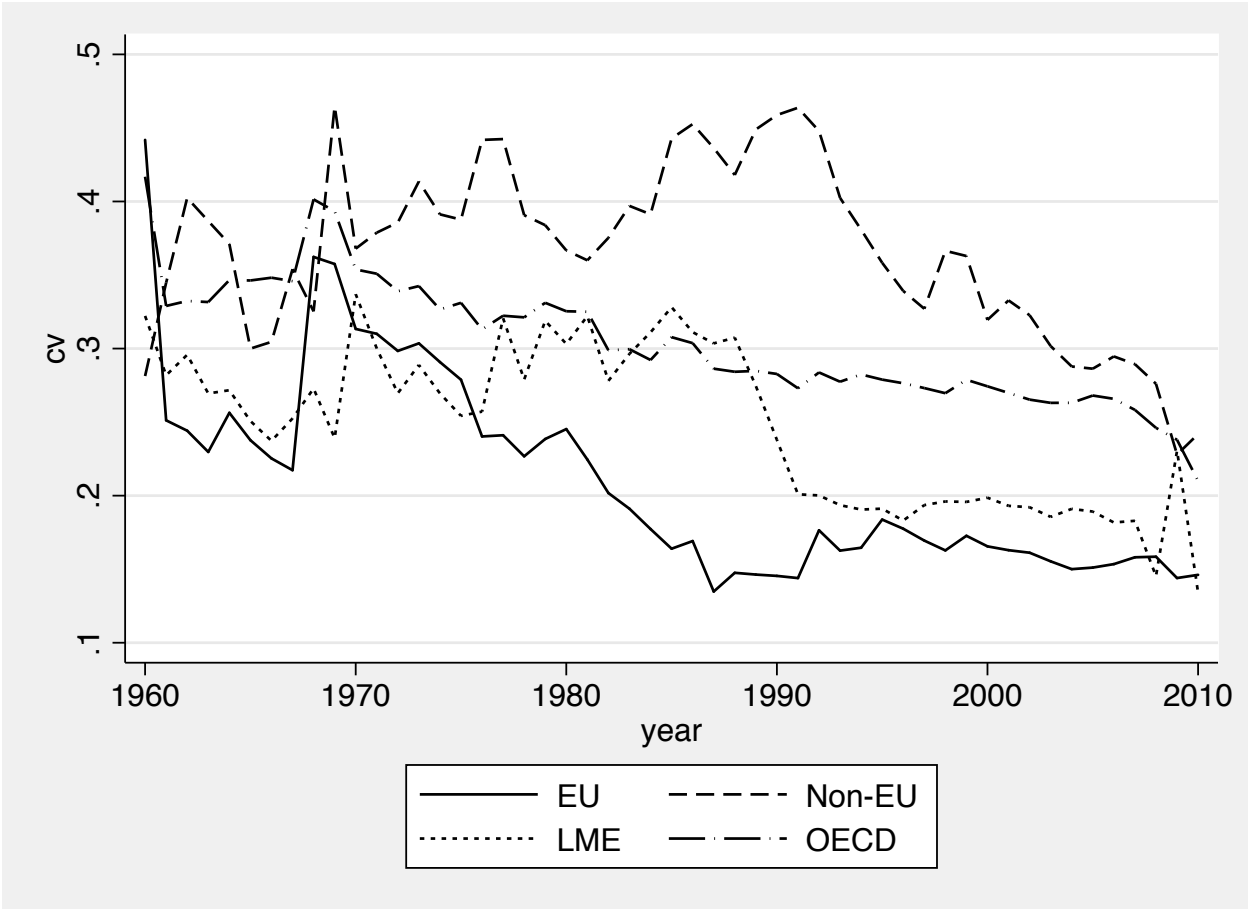


Figure 3.2: Standard Deviation in Transfers Expenditure (Each State Weighted Equally)

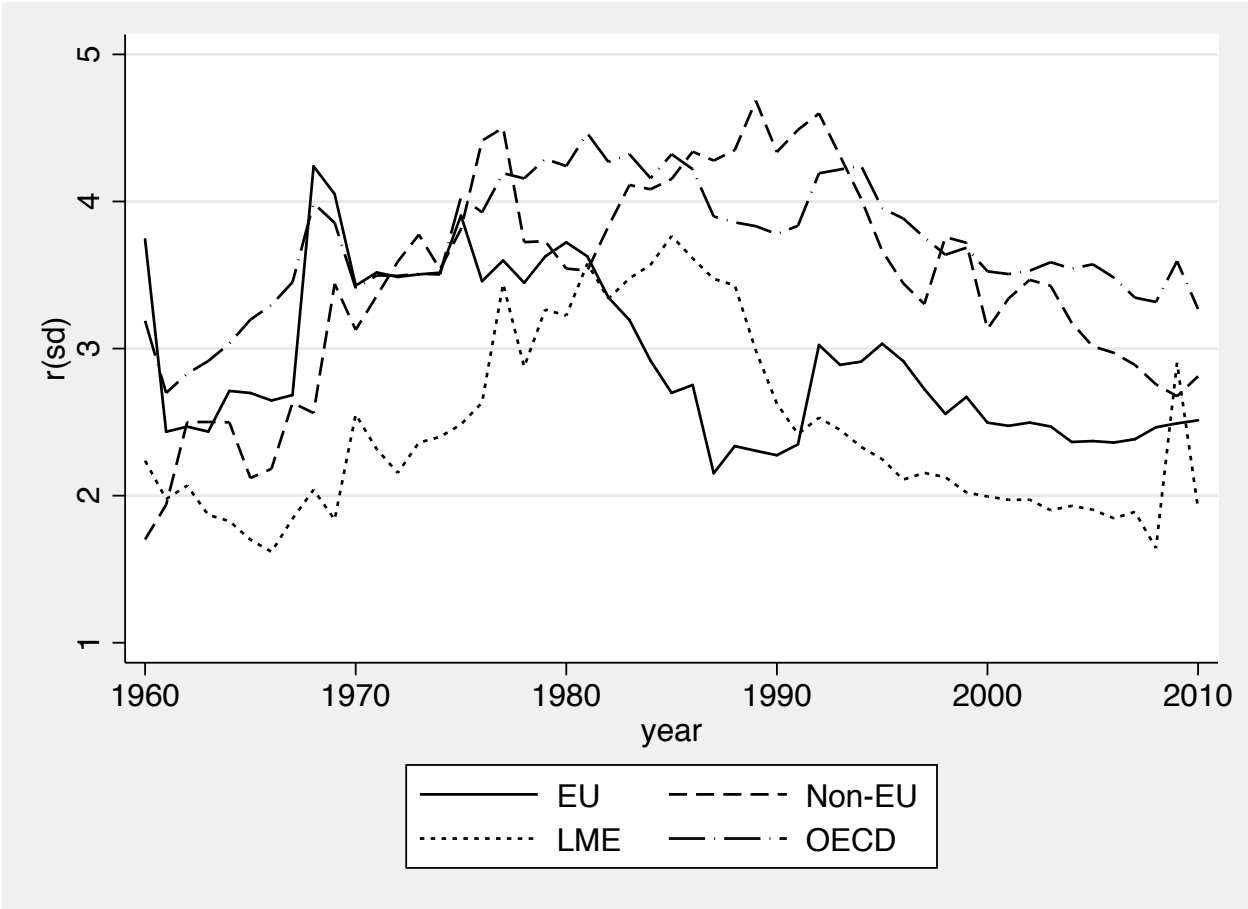


Figure 3.3: Coefficient of Variation in Transfers Expenditure (States Weighted by Population)

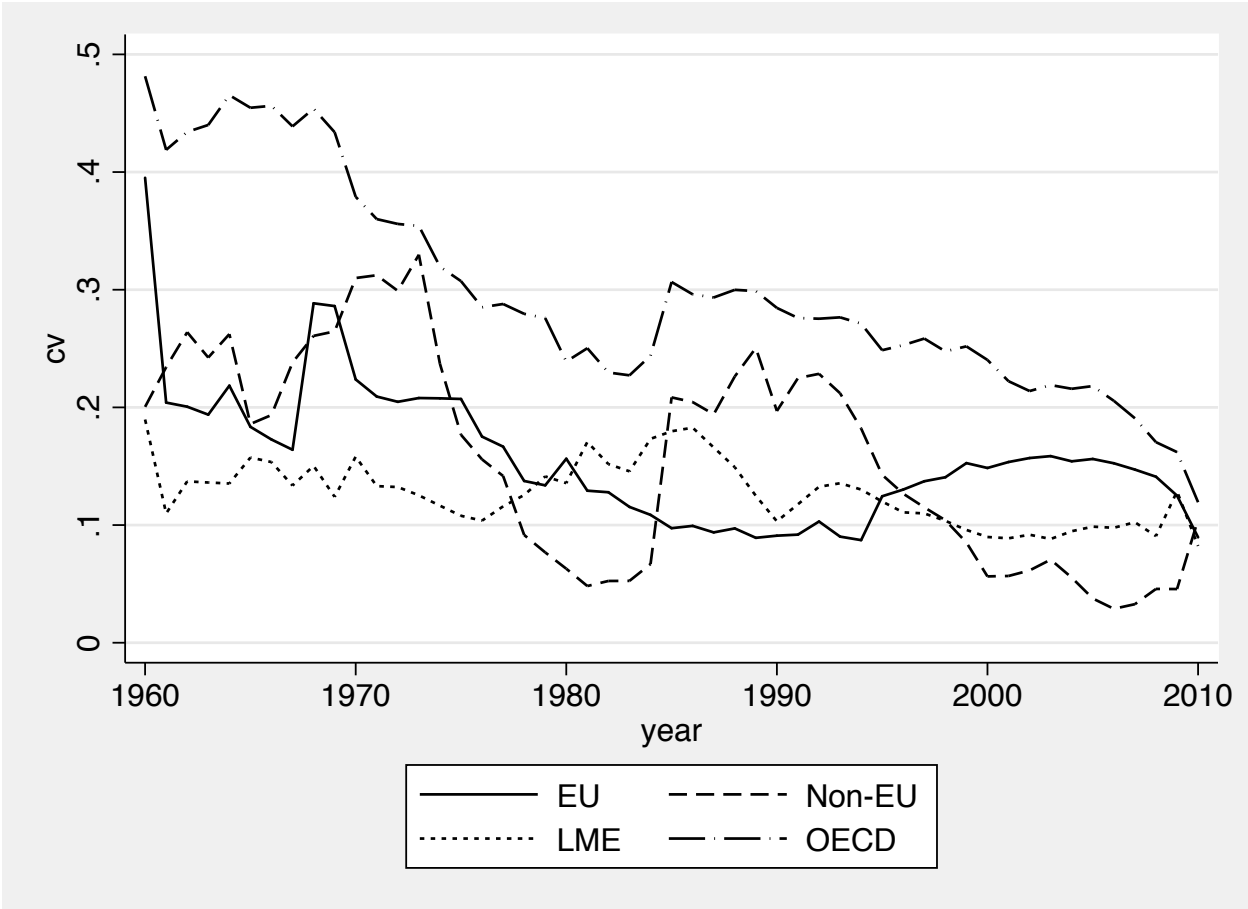


Figure 3.4: Standard Deviation in Transfers Expenditure (States Weighted by Population)

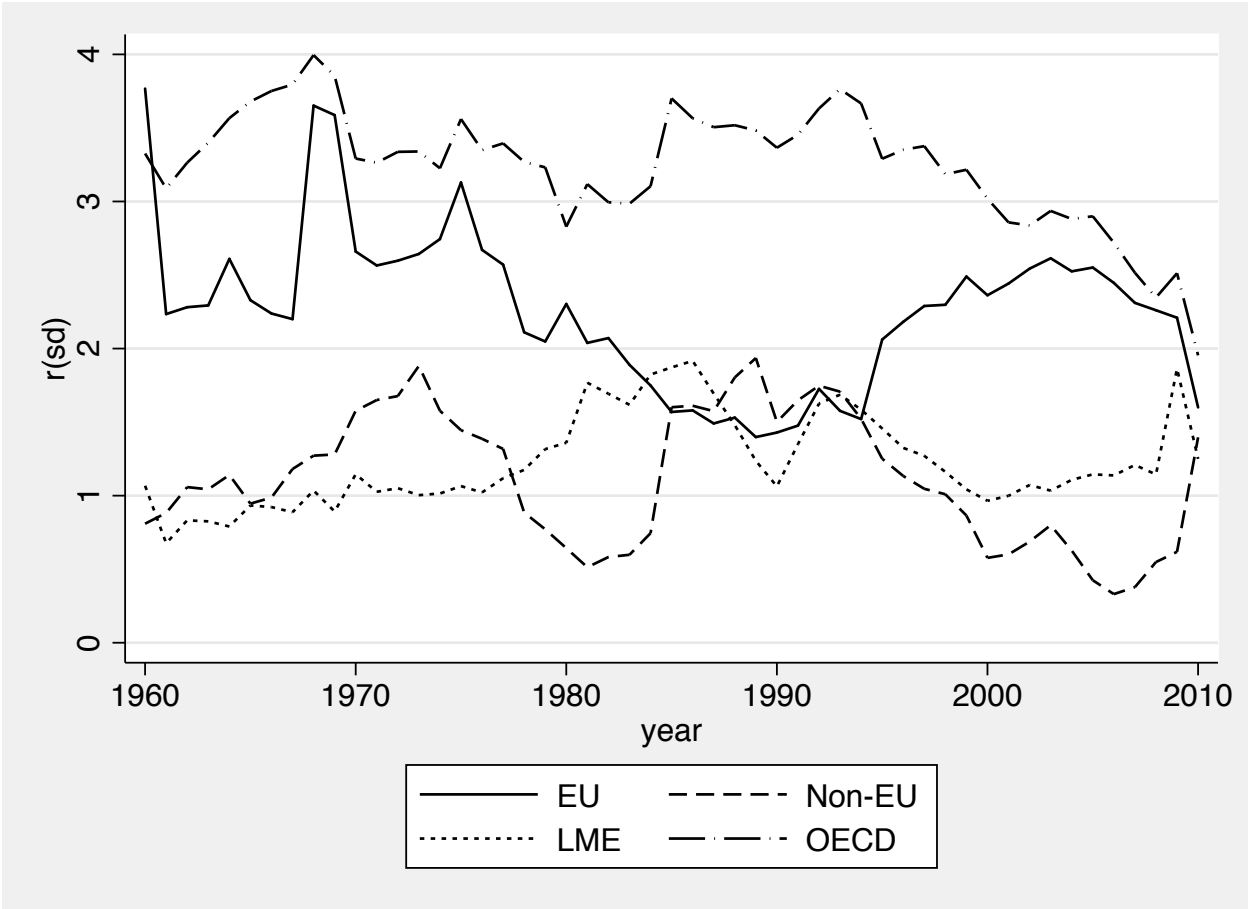


Figure 3.5: Coefficient of Variation in Decommodification (States Weighted Equally)

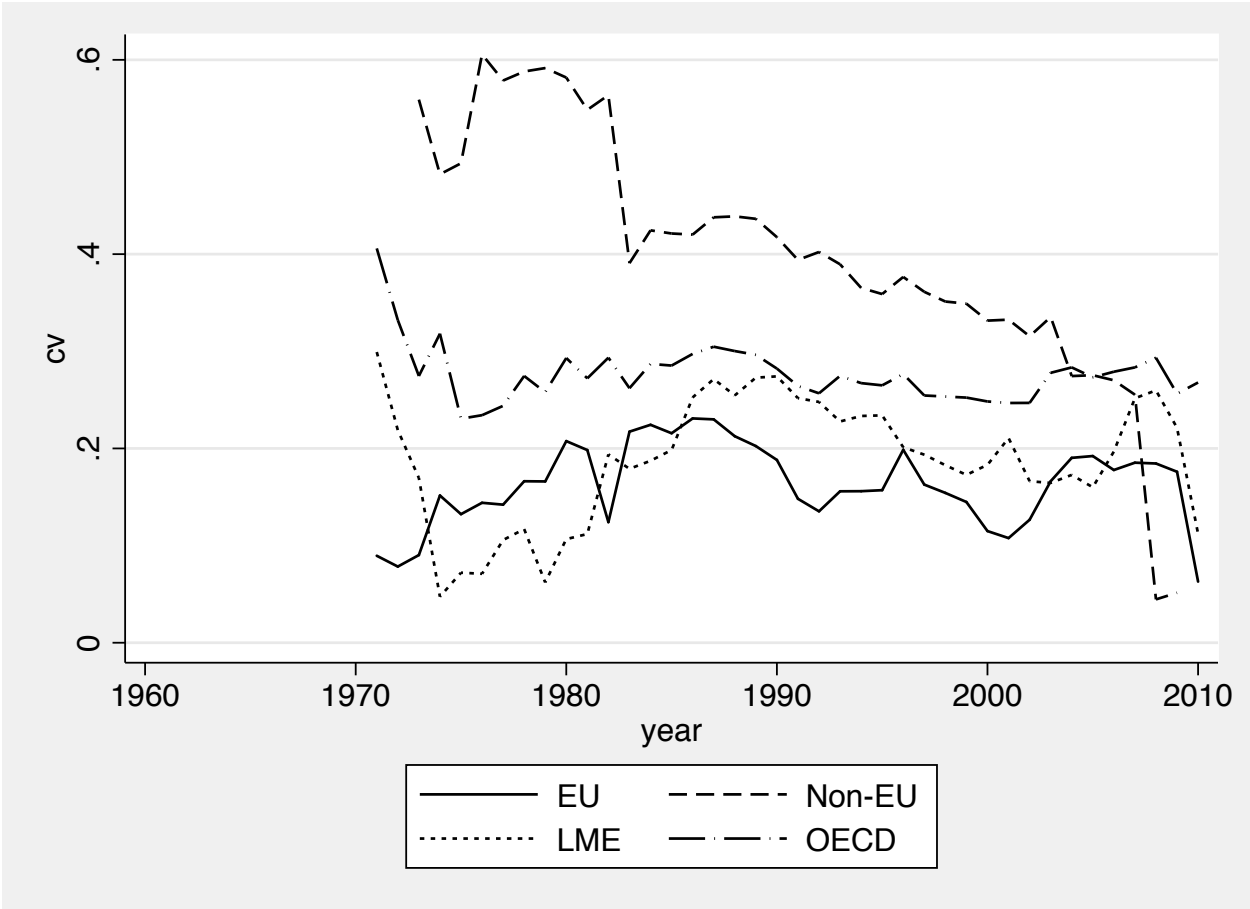


Figure 3.6: Standard Deviation in Decommodification (States Weighted Equally)

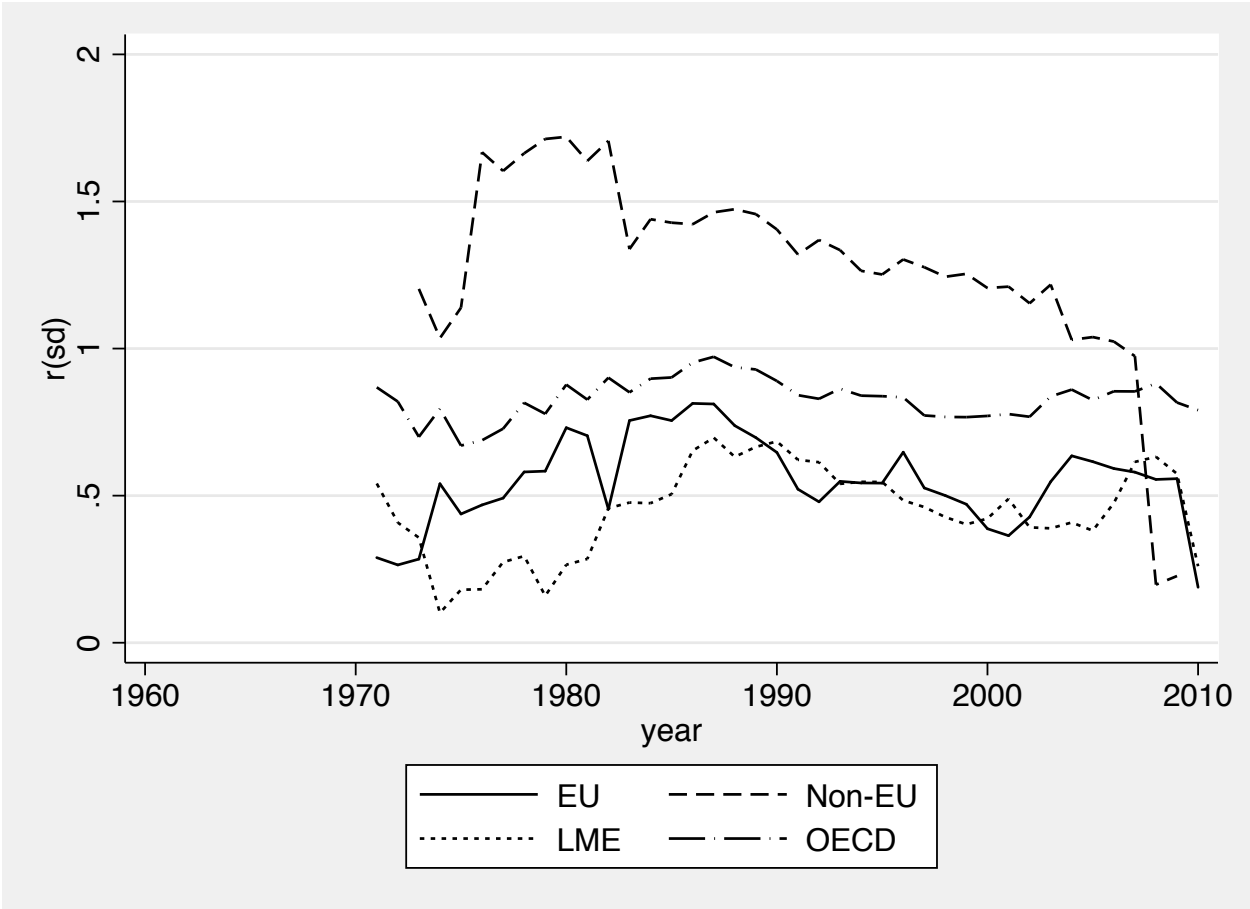


Figure 3.7: Coefficient of Variation in Decommodification (States Weighted by Population)

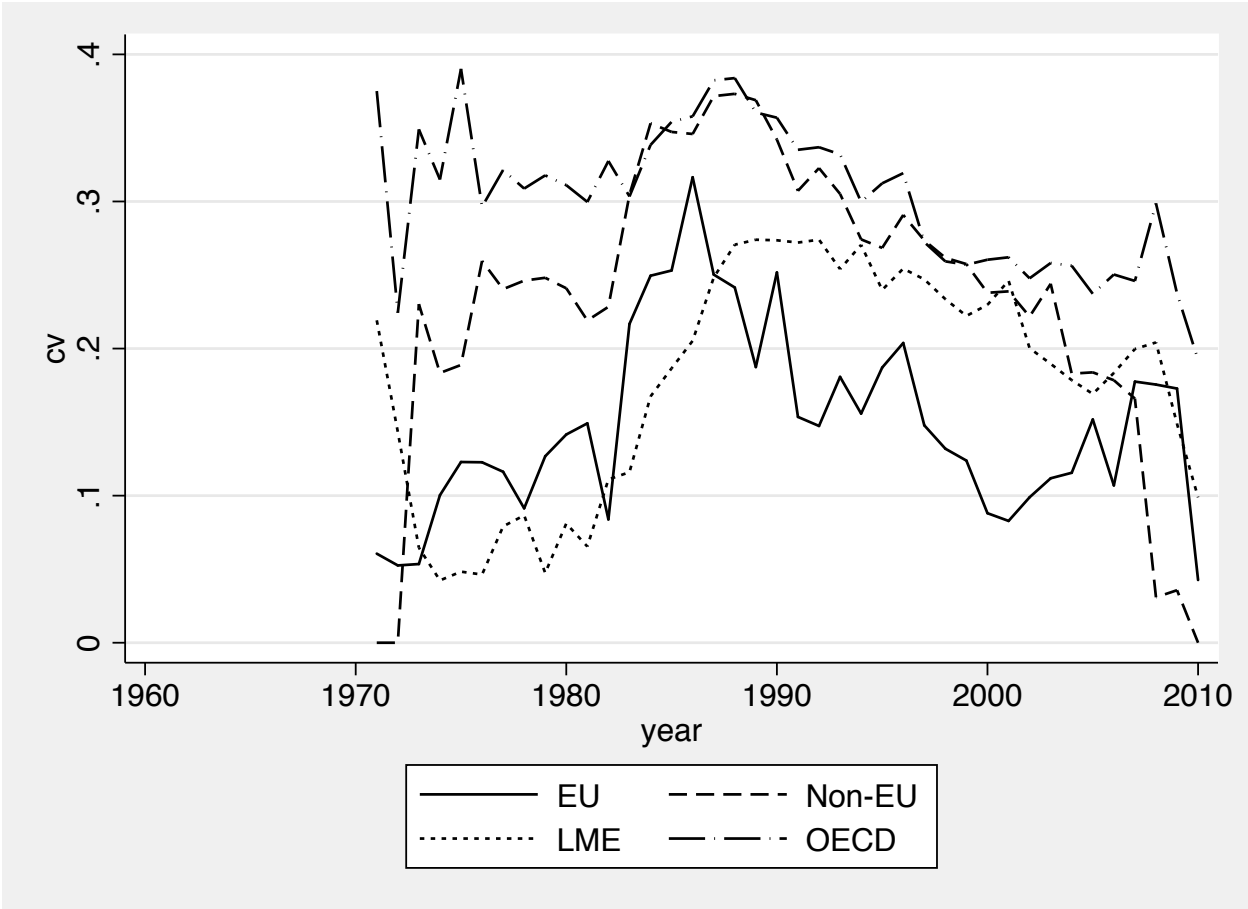


Figure 3.8: Standard Deviation in Decommodification (States Weighted by Population)

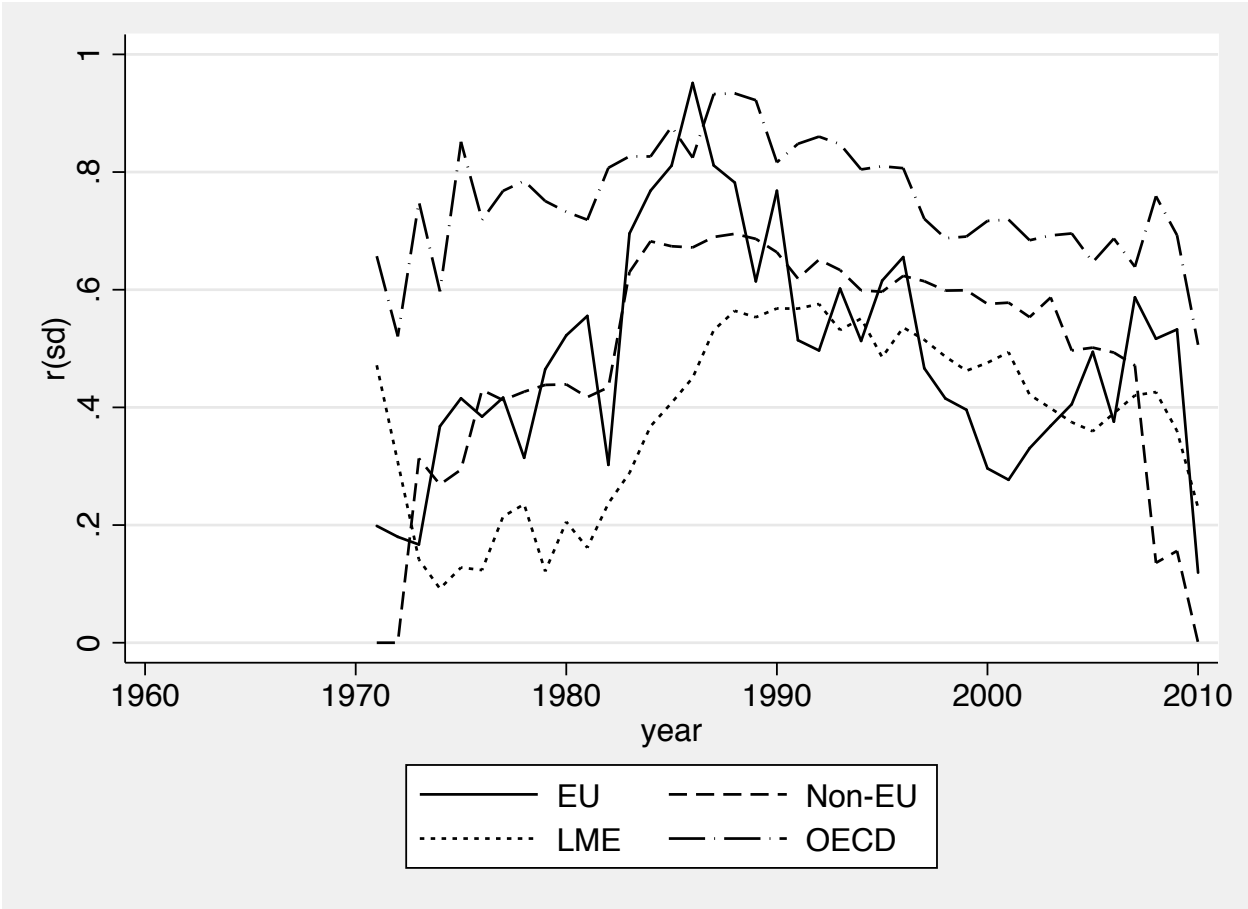


Figure 3.9: Coefficient of Variation in Social Wage (States Weighted Equally)

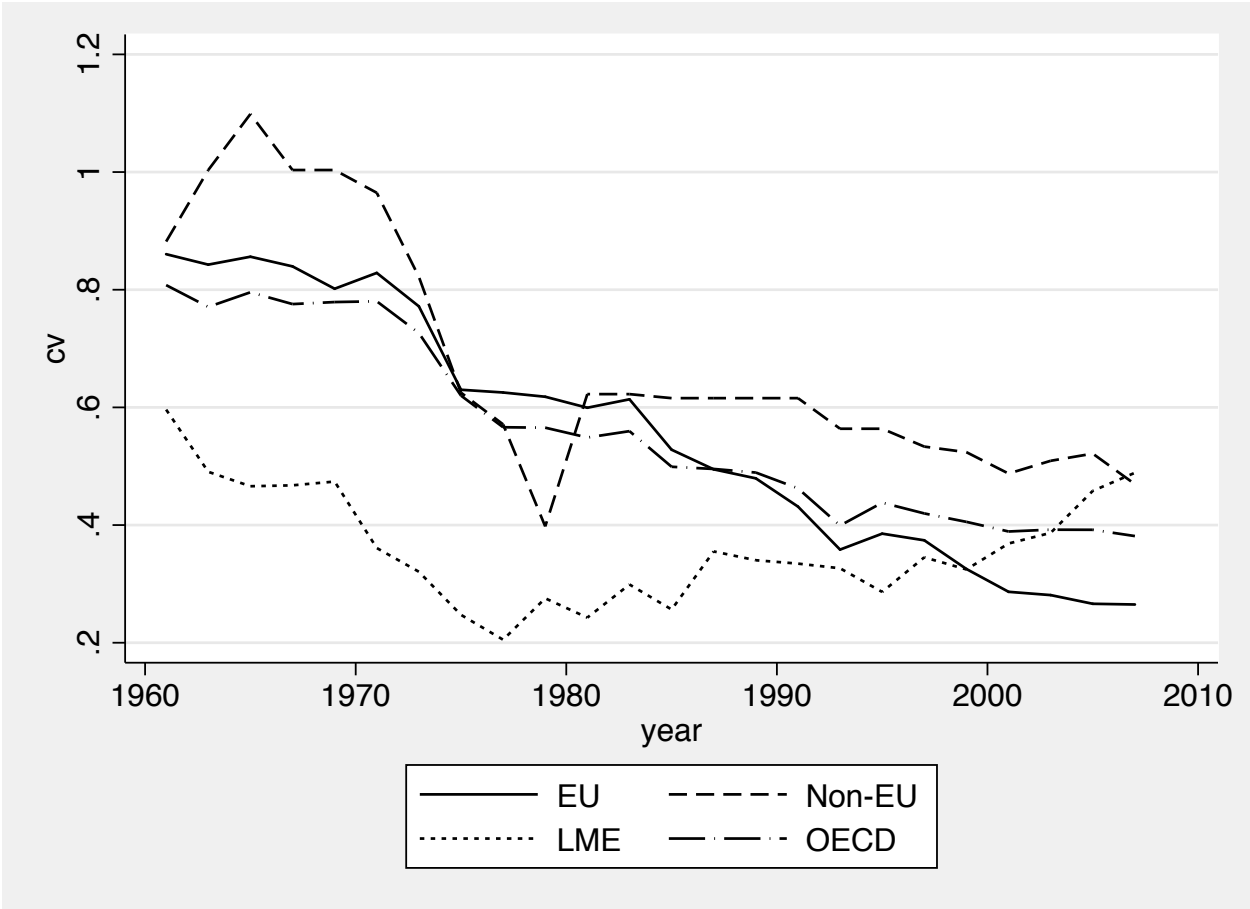


Figure 3.10: Standard Deviation in Social Wage (States Weighted Equally)

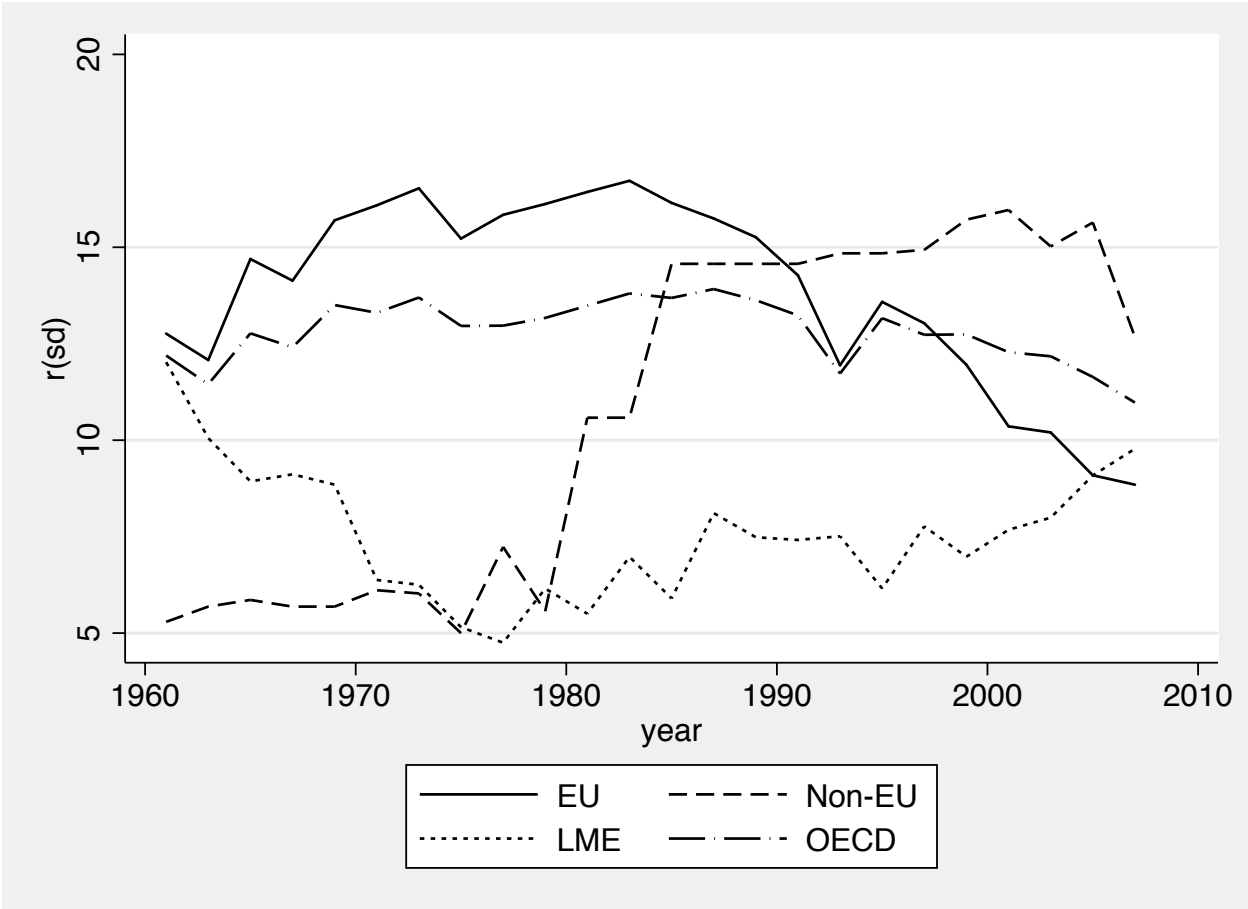


Figure 3.11: Coefficient of Variation in Social Wage (States Weighted by Population)

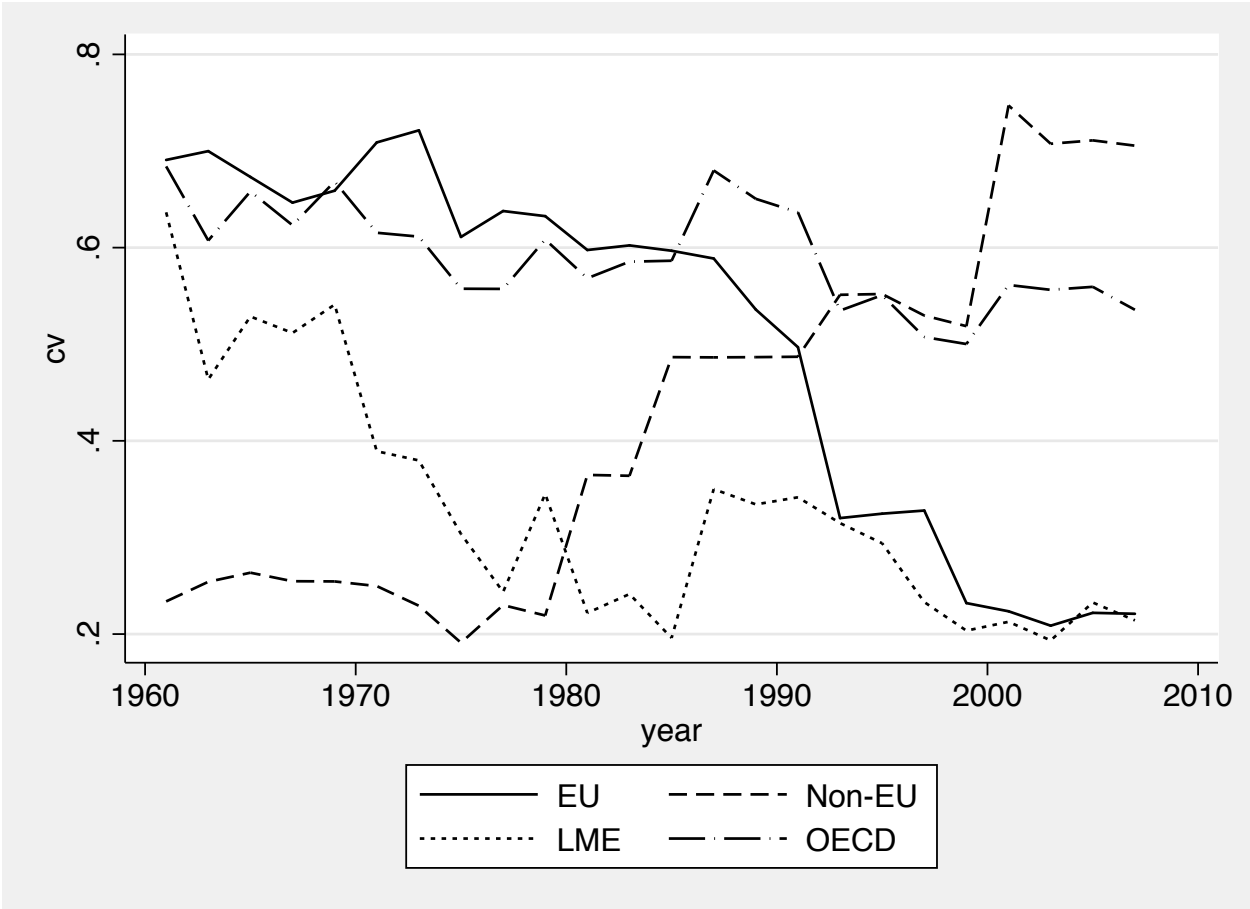


Figure 3.12: Standard Deviation in Social Wage (States Weighted by Population)

