

REGIONALIZATION AND RETRENCHMENT:
THE IMPACT OF EUROPEAN INTEGRATION ON THE WELFARE STATE*

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ABSTRACT

This paper demonstrates the utility of a sociology of regional integration by addressing two central questions that have sparked much debate over the welfare state. Is there evidence of long-anticipated retrenchment? Does globalization cause that retrenchment? I redirect these debates by showing that there is evidence of retrenchment in Europe, and that regional integration – not globalization – accounts for it. Regional integration is conceptualized as the construction of supranational political economy in negotiated and bounded regions through political institutionalization and market expansion. I develop the argument that regional political integration should constrain the welfare state through policy feedbacks, the politics of blame avoidance, and the diffusion of classical-liberal policy scripts, while regional economic integration should constrain the welfare state by expanding labor markets and undermining labor unions. I assess these arguments with time-series cross-section models and data from 13 European Union (EU) and non-EU states. The results show that (1) there is evidence of retrenchment, (2) regionalization is significantly associated with retrenchment, and (3) the effect of regional integration is dampened in the strongest welfare states. I draw the general conclusion that regional integration is a new and consequential part of the social context that should receive more attention from sociologists.

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While social scientists debate globalization, a different form of international embeddedness – regional integration – too often escapes attention. This is surprising, because regional integration is a near-worldwide phenomenon, and several regional polities are institutionally robust (Duina 2006; Katzenstein 2005). For instance, the establishment of the European Economic Community in 1957, its transformation into the European Union (EU) in 1992, and its expansion to ten new member states in 2004, is a dramatic and far-reaching development that encompasses over 375 million people and restructures society, culture, economy, and polity in the advanced capitalist countries of Western Europe (Berezin and Schain 2003; Ferrera 2005; Hooghe and Marks 2001; Schmidt 2006). The EU has progressed much further toward integration than other regionalist efforts such as the North American Free Trade Agreement (Fligstein forthcoming; Mann 1997; Stone Sweet, Fligstein, and Sandholtz 2001), and yet we still have far too little systematic empirical research on its potential consequences. Research on the determinants of welfare-state expansion and transformation offer very good reasons to expect that one consequence of regionalization should be the restructuring of welfare states. This paper builds on this work and contributes new empirical analysis that addresses the question: What is the impact of regional integration on the welfare state?

This question touches on the debate surrounding globalization and the welfare state (Brady, Beckfield and Seeleib-Kaiser 2005; Burgoon 2001; Esping-Andersen 1999; Fligstein 2001; Frieden and Rogowski 1996; Garrett and Mitchell 2001; Gilbert 2002; Huber and Stephens 2001; Iversen and Cusack 2000; Kenworthy 2004; Korpi and Palme 2003; Swank 2002;

Wilensky 2002) in that both regionalization and globalization involve international exchange, but regionalization is more narrowly bounded geographically, more strongly institutionalized, and more accurate as a characterization of contemporary international economic and political flows (Beckfield 2006; Duina 2006; Kim and Shin 2002; Schmidt 2002). For instance, since the formation of the European Economic Community with the 1957 Treaty of Rome, Europe has formed a regional market, a monetary union with the Euro, and strong political institutions such as the European Court of Justice. Its national economies are more Europeanized than globalized (Fligstein and Merand 2002).¹ Indeed, the arguments and analysis detailed below suggest that the great welfare state debate has been misdirected, as attention to globalization has eclipsed work on a different form of international embeddedness: regionalization.

Many theorists in fact implicate regional integration in the retrenchment of the Western European welfare state, through convergence criteria requiring low public sector deficits and low debt levels (Boje et al. 1999; Huber and Stephens 2001; Pierson 1996; Pitruzzello 1997; Rhodes 1996; Schulz 2000), accession requirements (Rhodes 1996), interstate tax competition created by capital mobility (Moses 1995; Scharpf 1997), and other policies of the European Union (Ferrera 2005; Grahl and Teague 1997; Martin and Ross 2004).² But too little empirical research has been conducted to assess the impact of European integration on the welfare state. Instead, much contemporary research on the welfare state centers on evidence for and against retrenchment (Castles 2004, 2007; Korpi and Palme 2003; Pierson 2001). Nevertheless, despite calls for attention to the variety of supranational forces that may influence the welfare state (Burgoon

¹ Huber and Stephens (2001:7) note: “In the European context, of course, one needs to separate analytically European integration from globalization; the former process clearly has had an even more restrictive impact on full employment policies than the latter, as most kinds of subsidies of production have become illegal and the process of monetary integration has imposed a highly deflationary policy regime.”

² There are arguments for the view that regional integration could expand welfare states. For instance, if the EU develops a supranational welfare policy, EU welfare effort would likely filter through national welfare states under the EU’s principle of subsidiarity (Leibfried and Pierson 1995).

2001), the few studies that examine welfare effort in the context of regional integration show contradictory results, and none directly measures regional integration (Ferrera 2005; Pitruzzello 1997; Rhodes 1996; Schulz 2000; Taylor-Gooby 2004, 2007).³

This study examines regional integration as a possible explanation for the “welfare-state regress in Western Europe” (Korpi 2003). I use data from 13 Western European countries (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom) on standard measures of welfare effort, statistical controls, and measures of regional integration to estimate the association between regionalization and welfare effort. Results from OLS models with panel- and autocorrelation-corrected standard errors offer evidence that regional integration undermines the welfare state. However, this negative effect is attenuated in those welfare states that have institutionalized high levels of decommodification.

In what follows, I place this analysis within the context of the welfare state literature, extending welfare-state theory to the role of regionalization; discuss the data and method used; detail the results; and conclude with a more general treatment of the contributions, implications and limitations of this study.

BACKGROUND

The welfare states of the advanced capitalist countries are under pressure. The forces for retrenchment include slowing economic growth, the decline of the industrial sector, continuing high levels of unemployment that undermine the tax base, and the growing power of firms to demand less regulation and taxation that arguably results from market liberalization (Clayton and

³ A common comparative approach is to contrast EU members to non-EU members, which is informative, but somewhat limited because such an approach does not allow for variation in the depth of political or economic integration among EU member states.

Pontusson 1998; Gilbert 2002; Huber and Stephens 2001; Kenworthy 2004; Korpi 2003; Korpi and Palme 2003). Conversely, the forces for the maintenance of generous welfare benefits are also strong, given that welfare states generate constituencies interested in their survival (Pierson 1994, 2001), public opinion provides a powerful resource for the persistence of welfare states (Brooks and Manza 2007; cf. Myles 2006), and national institutions exhibit path dependency and evolve slowly (Campbell 2004; Thelen 2004).

As noted above, this retrenchment debate, along with the debate over whether globalization undermines the welfare state, frames much of the contemporary literature on the welfare state (Allan and Scruggs 2004; Brady et al. 2005, 2007; Campbell 2004; Castles 2004, 2007; Clayton and Pontusson 1998; Fligstein 2001; Huber and Stephens 2001; Mishra 1999; Pierson 2001). A key issue in the debate is measurement. Korpi (2003) and Gilbert (2002) argue that retrenchment appears to have gone further if one examines programmatic indicators such as benefit replacement rates rather than the more commonly used expenditure measures. That is, retrenchment may appear in policy before it appears in spending, especially since the demands for spending (e.g., unemployment and population aging) continue to grow.

If there is retrenchment, then does regional integration explain it? Why and how does regional integration affect the welfare state? I develop answers to these questions by building two approaches to the welfare state – which I call “polity-centered” and “class-centered” – that build on insights from nation-state-oriented welfare-state theories and internationally-oriented world-polity and globalization literatures.

A Polity-Centered Approach to Regional Integration and the Welfare State

Here, I build on state-centered welfare-state theory and world-polity theory to develop a polity-centered approach to regional integration and the welfare state. Following the state-centered approach (Evans et al. 1985; Skocpol and Amenta 1986; Weir, Orloff, and Skocpol 1988), we would anticipate regional integration to affect the welfare state by constraining the policy choices available to state actors via policy feedbacks. For instance, the EU convergence criteria, which constrain fiscal policy by limiting debt levels, should reduce resources and restrict the capacity for welfare spending. European integration also provides opportunities to strategic political actors: Pierson (1996) argues that under the “politics of retrenchment” – whereby policymakers seek to avoid blame for rolling back popular welfare programs – EU member states can blame the EU for retrenchment. This suggests that retrenchment may go further inside the EU than outside of it since non-EU member states may be unable to shift blame so easily. The politics of retrenchment and blame avoidance may insulate welfare spending in non-EU countries from significant cuts. This approach suggests that European integration should have consequences for the welfare state, and underscores that state actors should be conceptualized as engaged in retrenchment projects rather than passive “victims” of globalization.

For an understanding of the role of international organizations and supranational embeddedness in policymaking, I draw on world polity theory (Meyer et al. 1997). Briefly, world polity theory explains the surprising degree of isomorphism among states by looking to how states embedded in the world polity receive and follow “policy scripts” that prescribe legitimate action (Boli and Thomas 1997; Meyer et al. 1997). International organizations like the EU create, carry, and embody the world culture in the world polity, diffusing policy scripts to states (Meyer 2000; Strang 1990; Strang and Meyer 1993). The impact of the world polity on

national policy has been demonstrated in a wide variety of domains: for instance, decolonization (Strang 1990), education (Schafer 1999; Schofer and Meyer 2005), the environment (Frank, Hironaka and Schofer 2000), science (Finnemore 1993), women's suffrage (Ramirez, Soysal and Shanahan 1997), welfare provision (Strang and Chang 1993), same-sex sexual relations (Frank and McEneaney 1999), population (Barrett and Tsui 1999), and war (Finnemore 1999).

The institutionalist logic of world polity theory can be extended to the regional polity of the European Union. The EU increasingly sets the broad policy agenda and defines which policies are legitimate for EU member states (Pierson 1995; Stone Sweet et al. 2001). The EU is a polity that member states are embedded in, and that diffuses policy scripts to its member states. This is not to say that EU scripts are independent from national interests – the role of states in generating vs. adopting policy scripts is an open question – but world polity theory does offer a scenario whereby EU member states adopt increasingly similar policy scripts as the regional polity institutionalizes. A weakness of the theory is that it predicts isomorphic change through the adoption of policy scripts, but remains silent on the direction of the change and the content of the policy scripts. To use welfare effort as a concrete example, world polity theory anticipates that regional integration – especially political institutionalization – should drive welfare states to become more similar. But nothing in the theory suggests the “direction” of that similarity: welfare states can converge upward or downward, becoming increasingly generous or increasingly stingy. In this way, world polity theory is akin to other work on diffusion, in tending to under-theorize the role of power and interests in shaping the content of the culture that is diffused (Kaufman and Patterson 2005).

Building on the state-centered and world-polity traditions, a “polity-centered” account of regional integration and the welfare state can be developed. I argue that regional integration –

especially political integration – drives welfare-state isomorphism by diffusing policy scripts that define regionally-legitimate welfare policy, and state actors use the regional scripts to justify changes that are consistent with previous policies toward the regional polity (policy feedbacks) and avoid blame for taking unpopular actions (blame avoidance). In other words, national policy shapes the character of regional integration, the regional polity diffuses policy scripts to member states that were shaped in part by those states’ earlier policies, and welfare states become increasingly similar in the direction determined by the character of regional integration. Thus, the direction of the isomorphic change can vary by regional polity.

In the European Union, the direction of that change should be toward less expansive welfare states, given the generally liberal character of the EU project. This is a controversial claim that requires elaboration.⁴ Many welfare-state scholars cite the classical-liberal character of the EU in implicating European integration in the retrenchment of Western European welfare states (Huber and Stephens 2001; Korpi 2003). The European Union may be described as a liberal project, in its emphasis on free trade, common markets, and tight monetary policy (Boje et al. 1999; Bornschier 2000; Mattli 1999; Pierson 1996; Pitruzzello 1997; Rhodes 1996; Schulz 2000; Streeck and Schmitter 1991). The EU is a market-led project where “negative integration,” or the removal of barriers to trade and market regulations, surpasses “positive integration,” or regional regulations that correct market dysfunctions (Scharpf 1996, 1999). Very generally, the EU advances liberal, market-centered policies, such as deregulation, privatization, tax competition, and “market compatibility requirements” (Pierson and Leibfried 1995; Rhodes 1995; Scharpf 1997). For instance, Huber and Stephens cite “the move to financial deregulation that had begun in the early 1970s [that] was essentially completed in

⁴ Gillingham hails the classical liberal character of European integration, writing that it has produced “an invisible hand that is no longer lamed” (Gillingham 2003:xii), while Alesina and Giavazzi (2006) lament the lack of liberalism that remains in Europe.

western Europe by the beginning of [the 1990s] due to the Europe 1992 [single market] project” as a force for retrenchment in the 1990s (also see Martin [2006]). Scharpf calls this dynamic “regulatory competition,” and he cites political integration through the European Commission and the European Court of Justice as forces that bring EU member states into this competition:

Through the “constitutionalization” of competition law, the European Commission and the European Court of Justice have greatly reduced the capacity of democratic polities at the national level to impose market-correcting regulations on increasingly mobile capital and economic interactions. As a result, national polities find themselves under conditions of a “competition among regulatory systems” that may prevent all of them from maintaining market-correcting policies that were previously supported by democratic majorities (2-3).

Further evidence of the liberal character of EU policy is that the Single European Act, which revived European integration in the 1980s by implementing qualified majority voting on the Council of Ministers for matters concerning the internal market, was an initiative of the European Commission, urged by multinational capital (Bornschiefer 2000). Capitalists and the Commission also drove the Single Market Program, the collection of legislation under the “Europe 1992” banner that liberalized trade (Fligstein and Mara-Drita 1996). The goals of the single market program were to “promote trade, increase competition, and promote European-wide economies of scale and scope by eliminating non-tariff trade barriers, such as differences in taxes, regulations, and health and safety standards” (Fligstein and Mara-Drita 1996:9). The European Union thus makes many social policy options incompatible with the SMP, thereby restricting state sovereignty in the area of social policy (Pierson 1995). European Union policy is marked by deregulation and limited social policy, and the EU requires member states to accept free trade, capital mobility, and a minimum of state intervention in the market (Streeck and Schmitter 1991).

The drive to Economic and Monetary Union (EMU) and the adoption of the common Euro currency also reflects the market orientation of the EU. A key part of EMU is the Maastricht treaty's convergence criteria, which (among other requirements) restrict government budget deficits to 3% of GDP. This constrains national policymakers (Martin 2006). For example, the European Commission notes that this requirement makes pension reform essential so that spending on pensions not be expanded (COM(2001)362:6).

The generally liberal character of the European Union can also be seen in the founding treaties of the European Union. Article 2 of the 1957 Treaty of Rome states:

The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 4, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.

While these objectives are in keeping with a high level of social provision and the amelioration of inequality inherent in the dominant traditions of European social policy, and thus can hardly be described as "liberal," the means by which the EU and the member states commit to pursuing these objectives are market-oriented. This is evident in several Articles of the founding treaty, including Article 98, which commits the EU member states to market-led economic policy:

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2, and in the context of the broad guidelines referred to in Article 99(2). The Member States and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4.

The market orientation of EU policy can also be seen in the volume of European law that concerns trade liberalization, relative to the volume of EU law concerning social policy. As of January 1, 2005, the Council of Ministers had issued 118 directives concerning social policy (e.g., gender pay equity), and 383 directives concerning the environment and consumer and health protection, versus 1,807 directives concerning customs union, the right of establishment and freedom to provide services, competition policy, taxation, economic and monetary policy, the internal market, and corporations.⁵

Specific examples of the market orientation of European policy include the Commission's drive to integrate financial markets (Commission of the European Communities 1983): "the barriers set up by exchange regulations and taxation techniques must be removed" (1). In its recommendations to the member states on fiscal policy, the Commission highlights the "adverse effects of public expenditure" and notes that "the completion of the internal market will, independently of Community tax approximation measures which are directly connected with it, make for increased competition between public finances in different countries" (COM(89):333:33).

Finally, the Commission holds that generous welfare programs, and in particular high replacement rates in unemployment benefits, undermine job growth. In its 2000 "social policy agenda," the European Commission links the welfare state to economic growth and jobs, crediting the European welfare state for investing in human capital, while at the same time noting that the welfare state must "modernize" and "adapt to the changing world of work"

⁵ These data are taken from the European Union's CELEX database, which categorizes EU legislation and Court of Justice cases by 20 classification headings: "General, financial and institutional matters; Customs Union and free movement of goods; Agriculture; Fisheries; Freedom of movement for workers and social policy; Right of establishment and freedom to provide services; Transport policy; Competition policy; Taxation; Economic and monetary policy and free movement of capital; External relations; Energy; Industrial policy and internal market; Regional policy and coordination of structural instruments; Environment, consumers and health protection; Science, information, education and culture; Law relating to undertakings; Common Foreign and Security Policy; Area of freedom, security and justice; People's Europe."

(COM(2000)379:11). The central goal of the social policy agenda is promoting employment by moving “from an agenda of tackling social exclusion to one which fosters social inclusion” (12). The Commission notes that “in practice this will mean adapting social protection systems to make work pay and provide secure income, make pensions safe and pension systems sustainable, promote social inclusion and ensure high quality and sustainability of health care” (20). The Commission advocates “an active welfare state that encourages employment participation” (COM(2002)89:20). With the objective of sparking job growth, the Commission recommends that member states cut employers’ social security contributions (COM(93)629:3; Commission 1993) and modernize pension systems to ensure labor market flexibility (COM(2001)362:7). In sum, there is ample evidence of “the relative dominance of the neoliberal project, and for the relative failure of social democratic visions of Europe” in the European Union (Sandholtz and Stone Sweet 1998:1-2).

In the context of Western European welfare states, the impact of regional political integration should vary according to the relative institutionalization of the welfare state. That is, more expansive, deeply institutionalized welfare states with established constituencies for social programs should resist the pressures of regional integration. Public opinion may make welfare retrenchment untenable in these states, or there may be such support for social programs that the state has the resources to fund social spending in the face of pressure from the EU to maintain low budget deficits, privatize public enterprises, maintain “safe and sustainable pensions,” and the like. Furthermore, states with more expansive social policies may be reluctant to expose themselves to the pressure of regional integration (witness Sweden’s rejection of the Euro common currency, and Finland and Sweden’s late accession to the EU in 1995). Also, policymakers in states where the EU is less popular may avoid welfare cutbacks to preserve

popular consent to the integration project. Finally, there is evidence that the adoption of common European economic policy (viz., Economic and Monetary Union in the EU) fosters corporatist-style “social pacts” (Rhodes 2001). This suggests that the effect of regional integration on the welfare state should be dampened in the most generous welfare states. This is consistent with the general argument that the effect of internationalization on the welfare state depends on national institutions (Pierson 2001; Swank 2001).

Thus, the key hypothesis of the polity-centered approach is that regional political integration negatively affects the welfare state, but that this effect is buffered in the most strongly institutionalized welfare states.

A Class-Centered Approach to Regional Integration and the Welfare State

A “class-centered approach” can be developed by building on insights from power-resources welfare-state theory with ideas about how globalization structures class struggle. The power-resources approach emphasizes not political process, but class, in that power-resources theory conceptualizes the welfare state as an object of and vehicle for the struggle of labor against capital (Korpi 1983; Korpi and Palme 2003). Here, the key motors of welfare spending are labor’s organizational strength and support for left political parties. Like the state-centered approach to the welfare state, the power-resources perspective emphasizes national social forces and downplays international factors like globalization and regional integration.

While scholars are just beginning to explore the consequences of regional integration for class struggle, there is a well-established tradition of considering the global dimension of class conflict more generally. The impact of late-20th-century globalization on labor is a strong theme in the globalization literature, and these insights can be developed to link regional integration to power-resources theory. Globalization may weaken the bargaining position of labor as

multinational corporations employ geographically disperse workers, increase competition within their intra-firm but inter-national labor pools, and bypass longstanding but nation-specific labor practices (Alderson 2004; Alderson and Nielsen 2002). In light of work that shows how market competition undermines labor organization (Western 1997), globalization may undercut the welfare state by weakening a major force behind the expansion of the welfare state according to power-resources theory: labor unions.

The claim that globalization undermines the welfare state has been hotly debated (Berger 1996; Boyer 1996; Brady et al. 2005; Fligstein 2001; Frieden and Rogowski 1996; Garrett and Mitchell 2001; Gilbert 2002; Huber and Stephens 2001; Swank 2002). Some blame globalization for welfare-state retrenchment while others cite alternative factors or deny retrenchment altogether, but the debate may be better advanced by attending to the specific geographical pattern of internationalization, given that most of the international economic flow is among industrialized countries (Alderson 2004; Fligstein and Merand 2002; Kim and Shin 2002). The insight that international competition undermines labor can be joined with the argument that labor drives welfare state expansion to develop a “class-centered” approach to regional integration and the welfare state: regional integration – especially economic integration – increases labor competition, which undermines unions, which weakens support for the welfare state. This class-centered approach suggests that regional integration brings retrenchment.

However, in the context of Western Europe, it must be appreciated that the small, open economies of Western Europe have developed institutional arrangements – strong welfare states and corporatist bargaining among labor, capital, and the state – that help to insulate workers, firms, and the state against the instabilities of the international market. This suggests that the effect of economic integration on the welfare state may be dampened in the most expansive

welfare states, given the logic of the argument that links economic integration to welfare effort. That is, if regional economic integration weakens welfare effort by undermining one of the key foundations of the welfare state – labor unions – by expanding the labor pool and subjecting labor to international competition, then the effect of economic regionalization on the welfare state should be weaker where a strong welfare state insulates labor from this competition.

Of course, corporatist institutions also insulate employers from international competition, thereby altering their policy preferences. The varieties-of-capitalism (VoC) tradition in comparative political economy emphasizes the role of employers in shaping social policy, and offers good theoretical reasons to expect a contingent effect of regional integration on the welfare state (Hall and Soskice 2001; Iversen 2005). Specifically, Hall and Soskice (2001) argue that international economic integration should raise the bargaining power of capital vis-à-vis labor more in liberal market economies (LMEs) than in coordinated market economies (CMEs) because firms in CMEs rely on the “comparative institutional advantages” that the state provides by facilitating the interfirm coordination of economic activity. Firms are less likely to shift production outside the home economy in CMEs than in LMEs. This suggests that international economic integration should undermine labor unions less in CMEs, since capital mobility is one of the mechanisms through which the formation of international markets puts labor under increased international competition. Thus, the VoC approach implies that the impact of regional integration on national welfare states should be reduced in the very coordinated market economies that support generous welfare states:

In the face of more intense international competition, business interests in LMEs are likely to pressure governments for deregulation, since firms that coordinate their endeavors primarily through the market can improve their competencies by sharpening its edges. The government is likely to be sympathetic because the comparative advantage of the economy as a whole rests on the effectiveness of market mechanisms. Organized labor will put up some resistance, resulting in mild forms of class conflict. But, because

international liberalization enhances the exit option of firms in LMEs, as noted above, the balance of power is likely to tilt toward business. The result should be some weakening of organized labor and a substantial amount of deregulation, much as conventional views predict. In coordinated market economies, however, the political dynamic inspired by globalization should be quite different. Here, governments should be less sympathetic to deregulation because it threatens the nation's comparative institutional advantages. Although there will be some calls for deregulation even in such settings, the business community is likely to provide less support for it, because many firms draw competitive advantages from systems of relational contracting that depend on the presence of supportive regulatory regimes. In these economies, firms and workers have common interests to defend because they have invested in many co-specific assets, such as industry-specific skills. Thus, the political dynamic inspired by globalization in these countries is likely to entail less class conflict and to center around the formation of cross-class coalitions, as firms and workers with intense interests in particular regulatory regimes align against those with interests in others (57-58).

In sum, the key hypothesis of the class-centered approach is that regional economic integration negatively affects the welfare state, but that this effect is dampened where entrenched decommodification insulates labor and capital from international competition.

DATA AND METHOD

This study employs a cross-national panel design where observations on the same countries are repeated for multiple years (Beckfield 2006; Brady et al. 2005; Hicks and Misra 1993; Huber and Stephens 2001; Kenworthy 1999; Moller et al. 2003).

My strategy for the analysis is to first address the question of retrenchment by exploring two functional forms of the trends in the welfare-state measures: a linear specification, and a curvilinear specification. To anticipate the results, given that there does appear to be retrenchment, or at least a slowdown in the expansion of the welfare state and the generosity of unemployment benefits, I then attempt to explain the trend using first a baseline model (a modification of the synthetic Huber-Stephens [2001] model), then the baseline model plus globalization, then a model that adds the regional integration covariates and their interaction

terms. The objective of the analysis is thus to determine what regional integration adds to our understanding of welfare-state evolution.

Sample: 13 Western European Countries, 1972-1998

The sample includes all the Western European countries and years for which data on all variables are available: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom, for the 1972-1998 period. Of the countries in the sample, five are founding members of the EU (originally the European Economic Community): Belgium, France, Germany, Italy, and the Netherlands. In 1973, Denmark, Ireland, and the U.K. also joined the EU (then known as the European Community), and in 1995, Austria, Finland, and Sweden joined. Norway and Switzerland are not members of the EU. The post-1972 period is the essential one for an analysis of retrenchment because the end of the “golden age” of welfare-state expansion coincides with the 1971 collapse of the Bretton Woods system of fixed exchange rates and the 1973 oil crisis (Huber and Stephens 2001). For instance, Korpi and Palme (2003) argue that the 1975-1985 period marked the end of welfare-state expansion. Thus, the 1972-1998 period examined here captures the peak of welfare-state expansion and the (debated) beginning of the retrenchment period.

Dependent Variables: Transfers Expenditures and Unemployment Benefit Replacement Rate

I use two measures of the welfare state: state spending on income transfers as a percentage of GDP, and the Organization for Economic Cooperation and Development (OECD) Summary Measure of Benefit Entitlement (SMBE). The social spending, or “transfers measure” is commonly used in quantitative cross-national studies of the welfare state (Brady et al. 2005;

Huber and Stephens 2001). It represents the sum of government expenditure on sickness, old-age, family benefits, social assistance grants, unemployment benefits, and general welfare as a percentage of GDP. Data come from the OECD's *Historical Statistics* (2001) and *Statistical Compendium* (2003).

While this social spending measure is widely used, it is also widely criticized because it only imprecisely tracks programmatic changes in welfare states (Esping-Andersen 1990; Korpi 2003). That is, social spending happens well “downstream” of actual social policies. To complement the social spending measure, I also use the OECD's summary measure of benefit entitlement. This measure is the average replacement rate from unemployment benefits for “two earnings levels, three family situations and three durations of unemployment” (OECD 2002), and has been used in research on the welfare state and poverty (Kenworthy [1999] refers to it as the “social wage”). Policy in the unemployment domain is especially important in the Western European context, where generous unemployment benefits have been blamed for labor market inflexibility and high unemployment rates.

Key Independent Variables: Regional Political and Economic Integration

Political integration is measured as the number of cases referred from national courts to the European Court of Justice (ECJ) under Article 177 of the 1957 Treaty Establishing the European Economic Community. Under Article 177, if a case is relevant to EU law, the national court may and sometimes must forward the case to the ECJ, the judicial body with final and binding authority to interpret EU law. Under this so-called “preliminary reference” procedure, the ECJ issues rulings that are incorporated into national law by the national courts (Stone Sweet and Brunell 1998). In the language of integration theory within political science, the number of cases

forwarded from member states of the EU in a given year is an indicator of “jurisdictional integration” (Nye 1968:867). An increase in the cases sent to the regional court indicates increasing integration of regional law into national law in that the measure faithfully reflects the ECJ’s role in laying “the legal foundation for an integrated European economy and polity” (Burley and Mattli 1993:42). The preliminary reference procedure forms “vertical networks” between national and supranational actors that “enable the supranational institution to be maximally effective” (Slaughter 2004:13-14) and are “instrumental in promoting European integration” (Carrubba and Murrah 2005:399). In this way, the ECJ can be called “an agent of Europeanization” (Panke 2007). The European Commission tracks these cases as an indicator of the “application of Community law by the national courts.” Data are available through 1997 and come from Stone Sweet and Brunell (1999).

I argue that this measure is a valid indicator of political integration, but other measures, such as contributions to the EU structural and cohesion funds, have utility, especially in research on economic outcomes such as convergence (Bornschieer et al. 2004). For the purposes of this study, I assessed the validity of the Article-177 cases measure of political integration by calculating Pearson correlation coefficients between it and each of several alternative measures, most of which are available for fewer country-years. The number of Article-177 cases is significantly and positively correlated with the number of years a state has been a member of the EU ($r = .70; p < .05$), as well as the square of the number of years ($r = .69; p < .05$). The proportion of European Council directives integrated into national law is also significantly and positively correlated with the cases measure ($r = .80; p < .05$). The cases measure is also significantly and positively correlated with the percentage of the population who approve of efforts toward European integration ($r = .35; p < .05$). Finally, the cases measure is positively

and significantly associated with the number of regional non-governmental organizations ($r = .55; p < .05$). It is not possible to enter all of these alternative measures into the regressions below in place of the preferred Article-177 cases measure, because most are available for only a very narrow range of countries or years.

Economic integration is measured as the percentage of a country's total exports that go to European Union countries, or the intraregional trade share.⁶ The intraregional trade share is the conventional measure of economic integration in the economics and political science literatures, and it captures the pattern rather than the level of trade (Caporaso 1976; Frankel 1997; Nye 1968; Sapir 1992). By this measure, economic integration increases if countries within the region trade with each other more, and economic integration decreases if countries within the region trade with each other less, as a proportion of their total trade. Data come from the IMF's *Direction of Trade CD-ROM* and were kindly provided in dyadic format by Andrew Rose.

To test the hypothesis that the effect of regional integration depends on the relative institutionalization of the welfare state, I include interaction terms for each integration measure by Scruggs and Allan's decommodification index. Conceptually, decommodification is the freeing of the citizen from the market by the state: a state decommodifies when "a person can maintain a livelihood without reliance on the market" (Esping-Andersen 1990:22). The decommodification index is the sum of decommodification scores for unemployment, sickness, and pensions, where the scores for unemployment and sickness are based on the replacement rate, duration limit, qualifying period, waiting period, and coverage, and the score for pensions is based on the minimum pension replacement, standard pension replacement, qualifying period,

⁶ Frankel (1997:21-25) notes that intraregional trade shares will be larger for regions with more countries, which makes intraregional trade shares inadequate measures of regional integration in the context of inter-regional comparisons. The impact of region size on intraregional trade share also makes time-series analysis problematic, if the size of the region varies over time. Neither issue is relevant to this analysis, since I do not compare regions, and I hold constant the number of EU members (at 15, the number of EU member states as of 2003).

employee funding, and coverage. Based on the underlying programmatic data, scores are assigned to each aspect of unemployment, sickness, and pension programs following the procedures described in Scruggs and Allan (2004:10-12) and Esping-Andersen (1990:54), and the scores for each area are then summed to create the decommodification index.

There are several advantages to using the decommodification index in the interaction terms that capture the dampening effects of strong welfare states. The first is that the decommodification index has a good conceptual fit with the notion of the institutionalization of the welfare state, given that decommodification is a broad measure based on several areas of welfare-state policy. The second is that using decommodification rather than the other two welfare-state measures avoids the problems of including a lagged dependent variable in the model (Baltagi 1995: 125). The third is that the decommodification index changes more slowly from year to year than the other measures, accurately capturing institutional persistence (graphical evidence of this is available from the author; also see Scruggs and Allan [2003]).

Two potential disadvantages to including decommodification in regressions of spending on transfers and unemployment insurance replacement rates are that doing so (1) potentially inflates the standard errors with collinearity, and (2) biases the coefficient estimates with endogeneity. I checked for these problems by estimating variance inflation factors (Wooldridge 2003) and assessing endogeneity with a Hausman test (Davidson and MacKinnon 1993). The variance inflation factors were consistently below 10 for models of both dependent variables, and the Hausman test failed to reach significance in both models, suggesting that neither collinearity nor endogeneity is cause for concern. A third potential drawback to including decommodification in the models is that trends in decommodification account for any trends observed in the dependent variable, which might bias the coefficient estimates for regional

integration. I checked for this problem by excluding the decommodification main effect from the models; doing so did not change the results. I also re-estimated the models by replacing the decommodification main effect and regionalization-by-decommodification interaction terms with country indicator variables and regionalization-by-country interaction terms; again the results were substantively identical. It is important to note that this last test is quite stringent, because it controls for all unmeasured between-country differences by incorporating country fixed effects.

Baseline Model

I constructed a baseline model of the welfare state by taking the synthetic Huber-Stephens (2001) model as a point of departure. Because Huber and Stephens include all the advanced capitalist democracies, rather than just Western Europe, in their analysis, the model requires some modification. Specifically, I include the strength of right parties rather than Christian Democratic parties because the results for Christian Democratic parties are nonsignificant in most models, and because right parties have been shown to influence welfare states in the retrenchment period (Allan and Scruggs 2004; Brady and Leicht forthcoming). Next, based on graphical evidence of a curvilinear relationship between transfers and GDP, I include a squared term for GDP in the transfers model. Based on similar evidence for a curvilinear relationship between the welfare-state measures and economic openness (driven by very high levels of openness in Belgium and Ireland), I include a squared term for openness as well.⁷

⁷ For the sake of parsimony, I exclude those variables that fail to reach significance consistently in Huber and Stephens' analysis, or are highly collinear with other covariates in the model (female labor force participation, the left-by-female LFP interaction term, turnout, strikes, authoritarian legacy, inflation, military spending, foreign direct investment, and corporatism). Additional analysis confirms that the results are substantively identical in models that include measures of corporatism and union density (see below). On the connection between the armed forces and the welfare state, see Gifford (2006).

The strength of left parties is measured as the cumulative presence of left parties in government cabinets since 1946. This variable is used to control for the expected positive relationship between left strength and welfare effort (Huber and Stephens 2001). Data come from Huber et al. (1997, 2003). The strength of right parties is also measured as cumulative cabinet presence since 1946. This measure is included to control for the expected negative relationship between the strength of the right and welfare spending (Allan and Scruggs 2004). Data come from Huber et al. (1997, 2004).

Constitutional structure is measured as the sum of “veto points” in the polity as a function of federalism, presidential vs. parliamentary system, single-member districts vs. proportional representation, strength of bicameralism, frequent referenda, and judicial review. This variable controls for the expected negative relationship between veto points and welfare-state generosity (Huber and Stephens 2001). Data come from Huber et al. (1997, 2004).

Demographic pressure from population aging, and real GDP per capita are included to control for the relationship between economic development and welfare effort theorized by the “logic-of-industrialism” approach to the welfare state. The argument is that as economies grow, the supply of resources available to the state rises, and as populations age, demand rises for retirement benefits and health care. This combination results in an expanded welfare state that spends more on social programs (Wilensky 1975, 2002), although demographic pressure can also be a force for retrenchment during the period examined here (Hicks and Zorn 2005). Data come from Huber et al. (1997, 2003). Demographic pressure from population aging is measured as the percentage of the population aged 65 and over. The original source for the demographic data is OECD (various years). The GDP data are originally from the *Penn World Table* (Heston, Summers, and Aten 2002). The *Penn World Table* provides internationally comparable data on

GDP based on a purchasing power parity (PPP) conversion. Real GDP is coded in thousands of 1996 US dollars.

Unemployment is also included in the models, to control for the expected positive relationship between unemployment and welfare spending resulting from the increased political demand for unemployment benefits from the unemployed constituency (Pierson 2001), or the increased need for expenditure at higher levels of unemployment (cf. Hicks and Zorn 2005). Unemployment is measured as the unemployment rate, quantified by the total unemployed labor force divided by the total labor force. Data come from Huber et al. (1997, 2003), and the original source is the OECD's *Labor Force Statistics*.

Finally, economic openness is included to test the hypothesis that it is globalization, not regionalization, that impacts the welfare state. If globalization is what matters for the welfare state, or if regionalization proxies globalization, then including globalization in a model of the welfare state should explain away the effects of regional integration. Economic openness is the sum of imports and exports, as a percentage of GDP. Data come from the *Penn World Table* (Heston et al. 2002).

Panel Analysis: OLS-PCSE Models with an AR(1) Autocorrelation Correction

For the analysis of social spending, the data form a balanced panel, with 27 observations for each of 13 countries. For time-series cross-section data like these, the now-standard estimation technique in the welfare-state literature is OLS with panel-correct standard errors (PCSEs) that adjust for contemporaneous correlation of the errors among countries. This technique was pioneered by Nathaniel Beck and Jonathan Katz, who published a series of articles demonstrating the advantages of OLS-PCSE over earlier techniques (see Beck [2001] for a

review). OLS-PCSE models retain the unbiased but inefficient OLS parameter estimates, and replaces the OLS standard errors with standard errors that account for the panel structure of the data. The contemporaneous correlations among the panels are estimated using the information from the repeated observations from each panel, as shown in Beck and Katz (1995:638).

The panel-corrected standard errors account for the panel structure of the data, but not the serial dependency. Because the observations are repeated over time, the errors will exhibit serial autocorrelation. A common solution to the serial autocorrelation problem is to employ a first-order autocorrelation, or AR(1), correction to the observations. The first-order autocorrelation parameter ρ is estimated, and then the data are partial-differenced (the observation for year $t-1$ is multiplied by the autocorrelation parameter, and then subtracted from the observation for year t), thus essentially removing much of the variation from the data for a more conservative test.

The analysis proceeds as follows: I first estimate regressions of the welfare state measures on the linear and second-order polynomial specifications of the trend to assess whether the measures support the retrenchment thesis. Next, I add the covariates from the baseline model (except openness) to assess whether these factors explain retrenchment. Then, I add openness to the model to determine if globalization explains retrenchment. Finally, I add the regional integration covariates, their interaction terms, and the main effect of decommodification to determine if regional integration explains retrenchment. All independent variables are lagged one year. In conducting statistical tests, in addition to the usual t -tests I also estimate joint F -tests in cases where interaction terms are included (Wooldridge 2003).

RESULTS

Table 1 shows results from regressions of the two welfare-state measures on the linear and second-order polynomial specifications of the trend. Models 1 and 2 show that the second-order polynomial is a better specification of the trend in social security transfers: the year-squared term is negative and statistically significant in Model 2, and the R^2 increases from .26 to .29. This shows that there is a curvilinear positive, then negative, trend in transfers. The inflection point, where an additional year fails to raise expenditures on transfers, is 1989, supporting the above conjecture of retrenchment in the 1990s. Models 3 and 4 are regressions of the OECD's summary measure on linear and second-order polynomial specifications of the trend. Again, the second-order polynomial fits better, though the R^2 only increases by .01. Still, the year-squared term is statistically significant. The inflection point for the OECD summary measure is later than that for transfers – the curve does not peak until 2003. Clearly, this estimate is unreliable, given that 2003 is well outside the range of these data. Inside the range of these data, the trend in the unemployment insurance replacement rate is a decreasing positive trend.

TABLES 1 AND 2 ABOUT HERE.

Table 2 shows coefficient estimates for the baseline model, excluding the year terms. I show these models to give a basis for comparison, since many of the covariates in the baseline model are highly correlated with year (e.g., aged population), and Huber and Stephens (2001) exclude the trend from their preferred model. Model 1 shows results for social security transfers. The political and state structure covariates are not significant, though the left and right cabinet coefficients do display the “correct” signs (positive and negative, respectively). The linear

specification of GDP per capita is not significant. The coefficients for aged population and unemployment are positive and statistically significant, as expected. This model supports the argument that welfare spending grows in response to the demands of demographic pressure and economic conditions. The model does not support the “power constellations” approach (Huber and Stephens 2001), but it is important to note that the political variables perform better in earlier years, a finding also noted by Huber and Stephens (2001).

A puzzling finding from Model 1 is the nonsignificant coefficient for GDP per capita. This coefficient is typically robustly positive in studies of welfare expenditure. Graphical exploration (not shown) confirms that the GDP effect in Model 1 is misspecified. Consistent with the evidence for retrenchment in the transfers measure presented above, a second-order polynomial specification fits the data better. Model 2 incorporates this specification. The results for the other covariates are substantively unchanged, but in this model both the GDP and GDP-squared term reach significance. The results indicate that transfers expenditure increases with growth at low levels of wealth, but decreases with further growth at higher levels of wealth.

Model 3 shows results from a regression of the OECD’s SMBE on the baseline covariates. Again, the political party variables are not significant (though they are signed correctly); nor is aged population. Constitutional structure is statistically significant and negative, which is consistent with the argument that veto points stall welfare-state expansion (Huber and Stephens 2001). GDP per capita and the unemployment rate significantly raise the unemployment insurance replacement rate. Model 4 incorporates a second-order polynomial specification of the economic development effect. The squared term does not reach significance, suggesting that the linear specification is adequate.

Table 3 shows results from models that include the second-order polynomial specification of the trend, along with the baseline covariates from Table 2. Does the baseline model explain welfare-state retrenchment? The results suggest that it does not. Adding the covariates from Table 2 reduces the magnitude of the year coefficients only slightly, and both the linear and squared terms retain their statistical significance. This means that retrenchment is not driven by the levels of the other covariates. Neither the changing balance of left and right parties, nor population aging, nor economic fluctuations, nor unemployment explains retrenchment. While the largely null findings for the baseline covariates seem surprising, they are actually consistent with previous work that shows weaker effects of power-resources covariates in later periods of welfare-state evolution (Huber and Stephens 2001). These results suggest that something other than these domestic political factors account for retrenchment.

TABLES 3 AND 4 ABOUT HERE.

Does globalization explain retrenchment? Model 1 of Table 4 adds a linear term for economic openness to the model. The openness coefficient is significantly negative, which is at odds with the argument that economic openness actually raises welfare spending as the state develops programs to insulate labor from the instabilities of international competition (Cameron 1978; Katzenstein 1985). However, graphical exploration confirms that the effect of openness is misspecified in this model. Because of recent retrenchment in the highly open Belgian and Irish economies, the second-order polynomial specification of openness fits the data better. This model, Model 2, shows that openness raises expenditure on transfers at low levels of openness, but decreases it at higher levels (also see Hicks [1999]). This curvilinear relationship also holds

in Model 4, where the dependent variable is the OECD's SMBE. It is notable that the effect of the linear openness term is significantly positive in the model of the unemployment insurance replacement rate, Model 3 – the unemployment insurance replacement rate is arguably a better indicator of the state's response to international economic instability than is the total expenditure on social security transfers (which also includes pension and sickness benefits).

Although openness itself does have important effects in these models, including this common measure of globalization does not explain retrenchment. Although the year-squared term is no longer significant in the transfers model, the coefficient barely decreases in size, and the standard error remains virtually the same (the p -value for the year-squared coefficient in Model 2 is .14). In the model of the OECD's summary measure, the year-squared coefficient retains its significance and its magnitude, suggesting that globalization does not explain the leveling off in the unemployment insurance replacement rate discussed above.

Does regional integration explain retrenchment? Table 5 shows results from models that introduce the regional integration covariates, their interactions with decommodification, and the main effect of decommodification. Recall that the key hypothesis of the polity-centered approach is that regional political integration negatively affects the welfare state, but that this negative effect is buffered in the strongest welfare states. Likewise, the key hypothesis of the class-centered approach is that regional economic integration constrains the welfare state, but that this constraint is lessened in highly-decommodifying welfare states that protect labor and capital from international competition. Table 5 shows some support for both hypotheses. In the transfers model, the economic integration terms are not significant (though they are correctly signed). The effect of the Article-177 cases measure of political integration is significantly negative, and its interaction with decommodification is significantly positive. In the SMBE

model, the economic integration covariates fail to reach significance separately – though once again, they are signed as expected, negative and positive – but do reach significance by a joint *F*-test. As in the transfers model, the effect of political integration is significantly negative, and its interaction with decommodification is significantly positive. On the whole, these results support the argument that regional integration negatively affects the welfare state, but robust welfare states dampen this pressure.

TABLE 5 ABOUT HERE.

In contrast to the results for globalization, regional integration does appear to explain retrenchment. In both models, the year-squared term loses significance. Moreover, the size of the year-squared coefficient decreases dramatically. In the transfers model, the baseline estimate of the year-squared term, shown in Table 1, is -.016; in the SMBE model, -.015. In the models that include the regional integration covariates, the year-squared coefficients are -.004 and -.002, respectively. Thinking of these statistics descriptively rather than inferentially, it can be said that there is still retrenchment in the data even net of regional integration, but there is very little unexplained retrenchment after controlling for regional integration.

How robust are these results? As noted above, the results are substantively identical in models that replace the decommodification main effect and interaction terms with country fixed effects and regionalization-by-country interaction effects. The results are also robust to the inclusion of additional controls. Two variables that have been shown to be important determinants of welfare-state spending are union density and neocorporatism. I excluded these variables from the baseline model for two reasons: they were not consistently significant in the

models shown in Huber and Stephens (2001), and they are highly correlated with the measure of left-party strength. In OLS PCSE-AR(1) models that incorporate these variables, the results for the regional integration covariates and their interaction terms are substantively identical to those shown in Table 5.

Another possibility is that the regional integration effects are spurious because regional integration is associated with migration: it could be that EU member states are more open to immigration, which might put downward pressure on the welfare state by undermining social integration, even though overall migration rates among EU countries remains low (Hadler 2006). An assessment of this hypothesis would require origin-destination data on migration for the 13 EU and non-EU states in this sample for the 1972-1998 period, and unfortunately such data are currently unavailable. However, “net migration” can be calculated with basic demographic data on total population, births, and deaths (on the complexities of interpretation of such rates, see Lieberman [1980]). Including this rough proxy for migration in the models does not substantively alter the results.

Are the trends in these two welfare-state measures really explained by the trend in decommodification? If so, as discussed above in the description of the decommodification index, this would suggest that it is the main effect for decommodification in the models shown in Table 5 that explains retrenchment, rather than regional integration. OLS PCSE-AR(1) models that regress the dependent variables used in this analysis on year, year-squared, and decommodification show that the (decreasingly positive) trend in decommodification alone does not explain the trends in the dependent variables. In both models, the year term is positive and statistically significant, while the year-squared term is negative and statistically significant. Likewise, in models equivalent to those shown in Table 5 except that they omit the main effect

for decommodification, the year-squared terms remain nonsignificant (providing more evidence that it is not the inclusion of the decommodification main effect that explains retrenchment). In sum, the results shown here are robust to a wide range of model specifications, including models that capture unobserved heterogeneity with indicator variables for the states in the sample.

DISCUSSION

This study develops two approaches to understanding the consequences of regional integration for the welfare state, and tests them using data from members and non-members of the European Union. The first of these two approaches is a polity-centered approach that builds on (1) ideas from state-centered theory about the role of policymakers, bureaucrats, political institutions, and policy feedbacks in the welfare state, and (2) insights from world polity theory about the role of international organizations in diffusing policy scripts that shape national policy. This polity-centered approach suggests that regional integration – especially in its political dimension – should constrain the welfare state as states increasingly adopt the generally liberal policy scripts of the European Union. In this way, regional integration and retrenchment are conceptualized as political-economic projects that are accomplished by state actors. The second approach is class-centered, and builds on (1) the argument from power-resources theory that organized labor is a powerful force for the growth and maintenance of the welfare state and (2) the conceptualization of globalization as a “labor control strategy” (Alderson 2004) that undermines labor organization (Western 1997). This class-centered approach suggests that regional integration – especially in its economic dimension – should constrain the welfare state as national labor markets are exposed to international, intraregional competition. These negative effects of regional political and economic integration should vary according to the strength of the welfare state, given that

the small, open economies of Western Europe have developed strong welfare states in response to international integration and market competition, which changes the policy preferences of employers (Hall and Soskice 2001; Iversen 2005).

The hypotheses that regional political and economic integration reduce welfare effort are tested with data from 13 Western European countries over the 1970-98 period. Results from models that account for contemporaneous correlations among countries and correct for serial residual autocorrelation within countries support both the polity-centered and class-centered approaches. Economic integration significantly reduces the unemployment insurance replacement rate (the OECD's Summary Measure of Benefit Entitlement), although this effect is dampened in highly-decommodifying welfare states. Political integration significantly reduces expenditures on social security transfers and the unemployment insurance replacement rate, and this effect too is dampened in highly-decommodifying welfare states. In addition to lending support to the polity- and class-centered approaches to regionalization and the welfare state, the results of this study bolster the claims of many EU scholars who have argued that European integration undermines the welfare state (Boje et al. 1999; Moses 1995; Pitruzzello 1997; Rhodes 1996; Scharpf 1997; Schulz 2000). However, the evidence suggests a story that is much more complex than the race-to-the-bottom, least-common-denominator account that is sometimes offered of the impact of regional integration on the welfare state. The results show that strong welfare states resist the downward pressure of integration.

This study makes significant advances in the sociology of regional integration. The central implication of this study is that regional integration is a significant part of the sociological context that should be taken into account in our understanding of welfare-state retrenchment. National and global processes have been highlighted in welfare state scholarship,

and the results of this study show that regional processes also matter. In this way, regionalization can be conceptualized as a form of embeddedness, alongside, for instance, world polity formation and colonial relations (Strang 1990). There is evidence that regionalization matters *net* of factors identified by previous work: national economic development, population aging, union density, strength of the political left, strength of the political right, corporatism, and globalization. These effects of regional integration appear despite the fact that the European Union stays out of direct interventions in the area of social policy, in light of the political sensitivities (Fligstein forthcoming; Haverland 2007; Leibfried and Pierson 1995; Wallace et al. 2005); in this way, retrenchment offers a conservative test of regionalization effects.⁸ Nevertheless, the findings reported here support the contention that “advances in the process of European integration have decisively contributed to the creation and establishment of regulatory constraints and policy-making resources above and beyond the traditional nation-state” (Hemerijck 2002).

That regionalization, not globalization, accounts for retrenchment suggests the globalization debate in the welfare state literature may be misdirected. It may be that regionalization, not globalization, restructures the European welfare state. I argue that regional integration matters where globalization does not because European labor is subjected to more intense international competition from other European countries than from outside Europe, but there are alternative interpretations. It could be that regional integration represents the mechanism through which globalization undermines the welfare state, or that regional integration cancels out a positive effect of globalization that is plausible under a corporatist scenario (Katzenstein 1985). Future work could assess these alternative interpretations and clarify the

⁸ This is not to say the EU has no role in social policy, but it remains the case that “social policy has only progressed in areas directly relevant to economic issues, such as equal rights for women in training, education, employment and pay, or the use of structural funds to foster employment opportunities” (Taylor-Gooby 2007: 22).

mechanisms through which regionalization reduces welfare effort. If this study shows *what* impact regional integration has on the welfare state, then scholars interested in further examination of the welfare state in the context of regional integration should conduct focused case studies to reveal *how* regional integration matters for the welfare state. In the larger project from which this paper is drawn, I am engaged in such research (identifying reference omitted).

This study also holds several implications for the globalization literature. The findings support the conceptualization of the internationalization of production as a strategy whereby capital controls labor (Alderson 2004; Alderson and Nielsen 2002). This makes internationalization and regionalization as consequential as globalization, and suggests that key debates within the globalization literature (Guillén 2001) might productively be recast. For instance, the questions of whether globalization produces convergence, undermines the authority of nation-states, or generates global culture (Guillén 2001), could be addressed through an examination of regional integration (Schmidt 2002). Future work could explore whether regional integration drives convergence, how it might undermine national sovereignty, and whether it builds regional cultures that complement or clash with national ones. Another promising direction for future work is a consideration of how regional polities reconfigure relationships among labor unions (Kay 2005).

The finding that regional integration reduces welfare effort suggests that the world polity literature could benefit from sustained attention to policy domains outside the environmental and civil-rights areas that have received the most empirical scrutiny. Scholarship from this perspective shows that becoming enmeshed in international organizations leads to the adoption of progressive policies in many domains: education (Schafer 1999; Schofer and Meyer 2005), environmental protection (Frank et al. 2000), women's suffrage (Ramirez et al. 1997), and same-

sex sexual relations (Frank and McEneaney 1999), among others. World polity research has focused less on other policy effects, such as trade and investment liberalization that would be consistent with neoliberal policy scripts (Dobbin et al. 2007). A further implication of this study is that world polity research should examine more closely the *structure* of the world polity (Beckfield 2003). Does membership in the regional polity mean the same thing for states as membership in the world polity? How much might regional policy scripts differ from world policy scripts, and if there is conflict, what explains the adoption of one over the other? Are conflicts among policy scripts diffused at different levels of the world polity one explanation for the decoupling (Meyer et al. 1997) often observed between policy script and actual practice?

Taking a step back from considering the implications of this study, several limitations should be noted. First, the sample does not include all Western European countries. Due to data limitations, Greece, Portugal, and Spain are excluded. Thus, it remains an open empirical question what effects regional integration has had on these welfare states. Still, it is important to note that the sample does include all the advanced Western European welfare states that are typically included in cross-national quantitative research on the welfare state. Second, before strongly concluding that regional integration matters for welfare effort net of conventional explanations, more controls should be incorporated into the models. Third, by design, this study addresses only the political and economic dimensions of regional integration. Although I argue that the political and economic dimensions are essential in the context of European integration (Fligstein and Stone Sweet 2002), future work should consider the role of cultural and social integration. Finally, the question of how the integration of other regions affects social policy is also left to future work.

While this study holds important implications for several sociological literatures, its broader significance is that it contributes to a sociology of regional integration. Despite the theoretical and practical importance of regional integration, sociologists have tended to overlook this phenomenon, focusing instead on globalization and leaving the study of regional integration to others. Although regional integration has important political and economic dimensions, it is also a sociological phenomenon whose consequences may be far-reaching. This study shows that regional integration undermines welfare states in Western Europe, and at the same time, that strong welfare states are able to dampen the pressures of regional integration. As sociologists have demonstrated that the welfare state matters for a wide range of outcomes, the “downstream” consequences of regional integration should be explored. For instance, given that strong welfare states have been shown to reduce poverty (Brady 2003; Kenworthy 1999) and inequality (Alderson and Nielsen 2002), regional integration should be part of the explanation for the recent rise in income inequality in Western Europe (Beckfield 2006). But independently of its many effects (e.g., Gangl 2006; Geist 2005; Hook 2006; Lee 2005; Mandel and Semyonov 2005; Olafsdottir 2007; Sutton 2004), the welfare state is a significant object of sociological inquiry in its own right, and it is clear that sociological understanding of the welfare state is advanced by attention to regional integration.

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Table 1. Unstandardized Coefficients from Autocorrelation- and Panel-Corrected OLS Regressions of Two Measures of the Welfare State on Linear, Second-Order Polynomial, and Nonparametric Specifications of Trends, 13 Western European States, 1972-1998

| | <u>Transfers</u> | | <u>SMBE</u> | |
|--------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Model 1</u> | <u>Model 2</u> | <u>Model 3</u> | <u>Model 4</u> |
| Year | 0.144** (0.067) | 1.265** (0.409) | 0.540** (0.065) | 1.603** (0.356) |
| Year-squared | | -0.016** (0.006) | | -0.015** (0.005) |
| Constant | 10.210** (2.484) | -7.677 (6.852) | 10.152** (2.495) | -6.666 (5.958) |
| R-squared | 0.26 | 0.29 | 0.16 | 0.17 |
| Rho | 0.91 | 0.93 | 0.94 | 0.94 |

Notes: Standard errors in parentheses

* significant at 10%; ** significant at 5%

Table 2. Unstandardized Coefficients from Autocorrelation- and Panel-Corrected OLS Regressions of Two Measures of the Welfare State on Baseline Covariates, 13 Western European States, 1972-1998

| | <u>Transfers</u> | | <u>SMBE</u> | |
|------------------|--------------------|---------------------|---------------------|---------------------|
| | <u>Model 1</u> | <u>Model 2</u> | <u>Model 3</u> | <u>Model 4</u> |
| Left Cabinet | 0.090 (0.062) | 0.084 (0.059) | 0.225 (0.140) | 0.235* (0.142) |
| Right Cabinet | -0.032 (0.052) | -0.044 (0.046) | -0.024 (0.080) | -0.022 (0.082) |
| Const. Structure | 0.013 (0.251) | 0.007 (0.222) | -1.132** (0.480) | -1.123** (0.482) |
| Pop. 65+ | 0.736** (0.297) | 0.533* (0.281) | 0.442 (0.590) | 0.330 (0.606) |
| GDP per capita | -0.206 (0.137) | 1.327** (0.509) | 0.739** (0.206) | 1.773* (0.971) |
| GDP-squared | | -0.042** (0.014) | | -0.029 (0.028) |
| Unemployment | 0.182** (0.072) | 0.178** (0.067) | 0.280** (0.110) | 0.266** (0.112) |
| Constant | 6.312 (4.550) | -3.794 (5.234) | 6.639 (6.374) | -0.498 (8.735) |
| R-squared | 0.29 | 0.32 | 0.16 | 0.17 |
| Rho | 0.93 | 0.91 | 0.94 | 0.94 |

Notes: Standard errors in parentheses

* significant at 10%; ** significant at 5%

Table 3. Unstandardized Coefficients from Autocorrelation- and Panel-Corrected OLS Regressions of Two Measures of the Welfare State on the Second-Order Polynomial Specification of Trend and Baseline Covariates, 13 Western European States, 1972-1998

| | <u>Transfers</u> | <u>SMBE</u> |
|------------------|---------------------|---------------------|
| Year | 1.084** (0.403) | 1.488** (0.413) |
| Year-squared | -0.011** (0.005) | -0.015** (0.005) |
| Left Cabinet | 0.071 (0.054) | 0.177 (0.138) |
| Right Cabinet | -0.080* (0.045) | -0.105 (0.072) |
| Const. Structure | 0.131 (0.217) | -1.048** (0.479) |
| Pop. 65+ | 0.183 (0.274) | -0.296 (0.600) |
| GDP per capita | 0.364 (0.500) | 0.247 (0.309) |
| GDP-squared | -0.025* (0.014) | |
| Unemployment | 0.017 (0.070) | 0.063 (0.152) |
| Constant | -9.699 (6.936) | -4.878 (8.149) |
| R-squared | 0.36 | 0.19 |
| Rho | 0.91 | 0.93 |

Notes: Standard errors in parentheses

* significant at 10%; ** significant at 5%

Table 4. Unstandardized Coefficients from Autocorrelation- and Panel-Corrected OLS Regressions of Two Measures of the Welfare State on the Second-Order Polynomial Specification of Trend, Baseline Covariates, and Globalization, 13 Western European States, 1972-1998

| | <u>Transfers</u> | | <u>SMBE</u> | |
|------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Model 1</u> | <u>Model 2</u> | <u>Model 3</u> | <u>Model 4</u> |
| Year | 1.051** (0.395) | 0.918** (0.395) | 1.526** (0.419) | 1.350** (0.448) |
| Year-squared | -0.009* (0.005) | -0.008 (0.005) | -0.017** (0.005) | -0.015** (0.006) |
| Left Cabinet | 0.060 (0.052) | 0.035 (0.055) | 0.212 (0.145) | 0.148 (0.142) |
| Right Cabinet | -0.109** (0.045) | -0.108** (0.043) | -0.061 (0.084) | -0.053 (0.079) |
| Const. Structure | 0.034 (0.221) | 0.011 (0.218) | -0.806* (0.463) | -0.865** (0.427) |
| Pop. 65+ | 0.021 (0.270) | 0.012 (0.265) | 0.093 (0.586) | -0.058 (0.579) |
| GDP per capita | 0.424 (0.482) | 0.665 (0.524) | 0.134 (0.310) | 0.246 (0.310) |
| GDP-squared | -0.026** (0.013) | -0.032** (0.014) | | |
| Unemployment | 0.011 (0.069) | 0.018 (0.068) | 0.058 (0.147) | 0.066 (0.148) |
| Openness | -0.047** (0.016) | 0.041 (0.052) | 0.081** (0.035) | 0.328** (0.099) |
| Open-squared | | -0.001* (0.000) | | -0.001** (0.001) |
| Constant | -5.836 (6.935) | -8.177 (6.910) | -12.399 (8.455) | -16.201* (8.707) |
| R-squared | 0.37 | 0.38 | 0.19 | 0.21 |
| Rho | 0.91 | 0.91 | 0.95 | 0.94 |

Notes: Standard errors in parentheses

* significant at 10%; ** significant at 5%

Table 5. Unstandardized Coefficients from Autocorrelation- and Panel-Corrected OLS Regressions of Two Measures of the Welfare State on the Second-Order Polynomial Specification of Trend, Baseline Covariates, Globalization, and Regional Integration, 13 Western European States, 1972-1998

| | <u>Transfers</u> | <u>SMBE</u> |
|-------------------|---------------------|---------------------|
| Year | 0.577 (0.369) | 0.057 (0.517) |
| Year-squared | -0.004 (0.005) | -0.002 (0.007) |
| Left Cabinet | -0.034 (0.052) | -0.123 (0.124) |
| Right Cabinet | -0.100** (0.033) | 0.082 (0.053) |
| Const. Structure | -0.089 (0.191) | -1.691** (0.397) |
| Pop. 65+ | 0.197 (0.233) | 0.112 (0.503) |
| GDP per capita | 0.986** (0.472) | 0.840** (0.343) |
| GDP-squared | -0.039** (0.013) | |
| Unemployment | 0.060 (0.066) | 0.295 (0.188) |
| Openness | 0.091* (0.048) | 0.560** (0.082) |
| Openness-squared | -0.001** (0.000) | -0.003** (0.000) |
| Exports to EU-15 | -0.115 (0.089) | -0.076† (0.228) |
| EI*Decom | 0.005 (0.003) | 0.008† (0.008) |
| Article-177 Cases | -0.214** (0.080) | -0.464** (0.216) |
| PI*Decom | 0.008** (0.003) | 0.016** (0.007) |
| Decom | -0.199 (0.191) | 0.035 (0.534) |
| Constant | -3.568 (8.397) | -16.765 (17.122) |
| R-squared | 0.44 | 0.36 |
| Rho | 0.86 | 0.82 |

Notes: Standard errors in parentheses

* significant at 10%; ** significant at 5%; † joint F-test significant at 5%