LUND UNIVERSITY

Department of Political Science

STVM01
Spring 2008
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The Social Democratic Welfare State in a Neo-Liberal Context, does it Fly?

- On Social Policy Convergence.

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Abstract

This thesis is a theory-testing analysis of the free-market commercial neo-liberal welfare-regime convergence hypothesis, stating that welfare regimes in a globalized international economy will converge towards the liberal welfare regime. Given the structural settings of the EU context, the cases of Denmark, Finland and Sweden, i.e. the social-democratic welfare regime within EU, constitute 'most likely' cases of the convergence theory. The analysis is divided into three legs after dissecting the 'x'(globalization)- and 'y'(welfare regimes)-variables of the hypothesis. Firstly, employing G. Esping-Andersen's conceptualization of welfare regimes, I analyze the Lisbon Strategy of 2000 to lay down a point of reference which will facilitate further analysis. Secondly, the mid-term review and re-launch of the Lisbon Strategy of 2005 are analyzed to establish the direction of development at the regional/regime level. Thirdly, economic performances of social-democratic welfare states in relation to the convergence-theory predictions are analyzed in order to evaluate the precision of the convergence theory at the national level.

The analyses manifest important shortcomings with the implementation of the Lisbon Strategy and economic performances in contradiction with the predictions of the convergence hypothesis. This leads me to conclude that the convergence theory, in present-day EU, has been falsified.

Key words: Social Policy Convergence, Neo-liberalism, Social Democracy, Globalization, Lisbon Strategy

Number of words: 9'982

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1 Introduction

In a world with increasingly mobile capital and ever-growing interdependence, a vociferous neo-liberal camp predicts the convergence of welfare-state regimes towards the liberal ditto. Taking aim at the social-democratic welfare regime, neo-liberal theorists proclaim that the universalistic, egalitarian and market interfering features of the former will cause a comparative disadvantage and unsustainable costs, in turn, forcing welfare retrenchment and, hence, a shift towards the liberal welfare regime.

With this deterministic way of reasoning the convergence of welfare regimes is deemed to be unavoidable and even logic, stripping policy makers of alternative actions. The structural setting of the international economy simply leaves only one desirable way out for the utility-maximizing policy maker. In this fashion, neo-liberals are arguing in favor of the 'economic logic', thus, depoliticizing the policy area of social policy.

My aim with this essay is to test the neo-liberal hypothesis of welfare-regime convergence. Put shortly, the convergence hypothesis states the following: *If* globalization occurs, *then* welfare regimes will converge towards the liberal welfare regime. In order to do this, I will analyze the social-democratic welfare regime in the context of the European Union (EU), focusing on the Lisbon Strategy and the economic performance of countries within the social democratic welfare regime in relation to the difficulties professed in the convergence hypothesis. By conducting a study of the significance and implementation of the Lisbon strategy in the light of Esping-Andersen's models of capitalist welfare, I hope to be able to establish whether or not the EU, as of the 1990's a predominantly neo-liberal project in terms of economic-political development, is causing the social democratic welfare regime to converge with the liberal regime. And by analyzing the economic performance of social-democratic welfare states within the EU I aim to test the accuracy of the hypothesis even further.

Thus, the essay revolves around the question of *whether the neo-liberal hypothesis of welfare-regime convergence will be verified or falsified by an analysis of the development of the social-democratic welfare regime in the EU?* The analysis is demarcated by the following sub questions: *What welfare regime dominates the original design of the Lisbon Strategy? What does the mid-term review and the 2005 re-launch of the Lisbon Strategy tell us of the implementation of the same and the general development of welfare-state regimes among EU Member States? How have the EU social-democratic states performed economically during the 2000's, in relation to the difficulties professed by the convergence hypothesis?*

1.1 Disposition and Methodology

As stated above, the purpose of my essay is to test the authenticity of the neo-liberal social-policy convergence hypothesis. In so doing, I will turn to 'the logic of falsifiability' as conceptualized by Karl Popper (Hay 2002:81 *ff.*; Bjereld *et al.* 2002:80-82). Thus, the first part of my essay will circle around the task of dissecting the 'x'(globalization) - and the 'y'(the social democratic welfare regime) -variable of the convergence hypothesis, in order to clarify what is in fact affecting what and how. In breaking down the 'y'-variable, I will employ G. Esping-Andersen's conceptualization of capitalist welfare regimes, thus, operationalizing welfare regimes, in turn facilitating subsequent convergence analysis. The neo-liberal convergence hypothesis will provide for the dissection of the 'x'-variable, and, thus, the information about what globalization is and how it is supposed to affect the social democratic welfare regime.

Having operationalized the hypothesis, I will turn to the task of empirically testing it against the reality of the European context within the EU area. Having in mind the neo-liberal character of the development of the EU cooperation as of the late 1980's or early 1990's, this case study should well constitute a "most likely" case, enhancing the importance of a potential falsification accordingly. The analysis, or empirical testing, will consist of three legs. First, I will analyze the character of the Lisbon Strategy in terms of welfare regimes. Being an intergovernmental social policy agreement lacking the supranational features of the EU's 'first pillar', it reflects the ideas of the involved governments and should as such manifest the overall attitude towards social policy in the EU. Therefore I will analyze the Lisbon Strategy in terms of Esping-Andersen's welfare regimes, to establish a point of reference for later comparison. Second, I will analyze the mid-term review and re-launch of the Lisbon Strategy and compare it to the findings of the previous analysis, to establish the overall direction of social policy development at a regional/regime level within the EU area. These two parts of the analysis will constitute an ideological analysis of the original Lisbon Strategy documents, through the use of Esping-Andersen's operationalization of welfare regimes. Third, I will complement the second leg with analyses of the economic performance of social-democratic welfare states, within the EU area, in relation to the problems projected by the neo-liberal convergence theory.

In conducting the analysis on both a regional/regime level and at a national level I hope to cover the statements of the convergence properly, as it in itself moves on both a regional level envisioning the regime convergence, and at a national level locating the causes of convergence, which are mainly believed to be created by structural conditions in the international economy.

Previous research that I have come across mainly focuses on single countries, e.g. Lindbom 2001, or on the regime level alone, e.g. Leibfried 2000, rarely, if ever, acknowledging the multi-level character of the convergence theory, something that I believe lends further importance to my approach of combining regional and sub-regional analyses.

2 Theoretical Framework

In the following chapter I will outline the main theoretical concepts of this analysis, namely neo-liberalism and a conceptualization of welfare regimes. The outlining of neo-liberalism will serve to present both the general notions and a more detailed discussion on the convergence hypothesis, whereas the welfare-regime theory will be of a more over-viewing approach serving the purpose of facilitating later convergence analysis.

2.1 Welfare Regimes

I will employ G. Esping-Andersen's conceptualization of welfare state regimes, first published in *The Three Worlds of Welfare Capitalism* in 1990, in structuring my analysis of social-policy development in the contemporary EU. With this publication Esping-Andersen grew to be a true authority in the field of Western-society welfare states. His analysis centers on the concepts of commodification/de-commodification and stratification. By commodification Esping-Andersen explains the development from self-sufficient individuals in the pre-industrialized economy, to market-dependent individuals as labor power was made a commodity in the industrialized economy. With this development the possibility for individuals to survive outside the market was circumscribed (Esping-Andersen 1990:35). Thus, Esping-Andersen understands de-commodification as the development of circumstances where the individual is no longer dependent upon the market to sustain a decent living. In relation to state welfare, de-commodification is to be understood as occurring "when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market." (Esping-Andersen 1990:22).

Turning to the concept of stratification, Esping-Andersen points to the importance of understanding welfare-policy structuring not only as a means of state interfering and correcting of inequalities, but as a force in itself capable of stratifying and ordering social relations (Esping-Andersen 1990:23). Thus, even if "inequalities in living standards decline, it may still be the case that essential class or status cleavages persist." (Esping-Andersen 1990:57).

Stressing the importance of de-commodification and stratification, Esping-Andersen over several empirical studies identifies three different clusters of welfare regimes, namely the liberal regime, the social-democratic regime and the conservative regime, the former two of which will be depicted in greater detail below, whilst the latter falls outside of the analysis' scope and therefore will be disregarded. However obvious, an important notification is the fact that the respective regimes are theoretical constructions derived from, but not fully corresponding to, empirical contexts, it is a matter of "*regimes*, not welfare *states* nor individual social policies" (Esping-Andersen 1999:73; italics in original text). For example, "[t]he Scandinavian countries may be predominantly social democratic, but they are not free of crucial liberal elements." (Esping-Andersen 1990:28). Furthermore, I am fully aware of the drawbacks curtailing an analysis when applying simplified models to empirical contexts. However, I view the loss of information and sometimes arbitrary demarcation between the different typologies to be weighed up by the parsimonious structure it allows, thus facilitating greater overview and more stringency in the subsequent analysis.

2.1.1 The Liberal Regime

The liberal welfare regime[1] revolves around the understanding that equality and prosperity should be pursued by creating a maximum of free markets and allowing only a minimum of state interference (Esping-Andersen 1990:10). The general assumption in shaping liberal welfare can, thus, be said to be that "the market is emancipatory, the best possible shell for self-reliance and industriousness" (Esping-Andersen 1990:42). That is to say that, if not interfered with, the market will achieve the optimal resource allocation, rendering work to those willing to work, hence, enabling them to secure their own welfare.

In terms of de-commodification, the liberal conception of appropriate state welfare leads them to argue that a guaranteed social minimum would further unemployment and poverty, rather than eliminating the same. Instead, the commodity logic is given supremacy, in that the public is obliged to interfere only when markets fail. And when markets do fail, means tested support is supplied in a way of "ensuring that non-market income is reserved for those who are unable to participate in the market anyhow." (Esping-Andersen 1990:43). In relation to insurances, private and social dittos, are accepted as long as they promote work and strengthen productivity. As an example, universally compulsory unemployment insurance is a way of avoiding the problem of disloyal competition that would occur if not everybody was insured (Esping-Andersen 1990:43-44).

Focusing on the free market, the basic assumptions of liberalism gives no justification for altering the outcomes of the market, which are deemed to be inherently just as they reflect individuals' motivation, adeptness and effort. Instead there is a belief that free markets without state interference or monopolies will eliminate classes, creating an interlinked web of individuals acting without restraint in the markets. The only just form of state intervention is, as mentioned above, targeted actions in relation to market failures, to soften the impact of externalities on the poor. As an effect, the attitude of poor relief towards social policies creates a social stigma in relation to having to benefit from state welfare, thus, stratifying the social relations of the society (Esping-Andersen 1990:62-64). In short, the liberal welfare regime is one promoting "[r]esidualist systems, in

[1] The most prominent members of this regime are Great Britain and the United States of America. In some contexts the model is referred to as the *laissez-faire* model.

which the market tends to prevail at the expense of either social security or civil-service privilege, or both" (Esping-Andersen 1990:86).

2.1.2 The Social Democratic Regime

The social-democratic welfare regime[2] revolves around the principles of de-commodification, universalism and egalitarianism. It is universal in the sense that the insurance systems extend to the entire population, though they are graduated in accordance with taxed incomes. Furthermore:

"It is at once genuinely committed to a full-employment guarantee, and entirely dependent on its attainment. On the one side, the right to work has equal status to the right of income protection. On the other side, the enormous costs of maintaining a solidaristic, universalistic, de-commodifying welfare system means that it must minimize social problems and maximize revenue income. This is obviously best done with most people working, and the fewest possible living off of social transfers." (Esping-Andersen 1990:28)

In other words, the ambition within the social-democratic regime to reduce market dependency through risk coverage and generous benefit levels puts great strains on the economy in times of poor economic performance and high levels of unemployment. The effect of unemployment is in this aspect twofold. As unemployment increases, so do the welfare expenditures, an increase that is paralleled by decreased tax revenues as increased unemployment equals less labor to tax, hence, further accentuating the influence of poor economic performance. Thus, in order to avoid the dual effect of unemployment the social democratic regimes contain a policy of full employment through active labor market policies aiming at securing that citizens have the proper resources and motivation to work, as well as providing opportunities to work (Esping-Andersen 1999:80).

In terms of de-commodification, the social-democratic regime sets out from the socialistic understanding of the commodification of labor as a process of making the formerly self sufficient individual dependent on the market to ensure its survival. Furthermore, as the worker's position *vis à vis* the employer is weakened, commodification is seen as a source of class division creating an obstacle to collective unity. The notion of class division and collective fragmentation is further enhanced by the competition between workers that follows from commodification, as commodities by definition do compete. Thus, the social-democratic regime sets out to de-commodify labor in an attempt to weaken the rule of capital. Clarifying social democracy's position towards the individual, conservatism's "dependence on family, morality, or authority is not the substitute for market dependence; the notion is rather that of individual independence. And, in contrast to liberalism, socialism's aim is to maximize and institutionalize rights." (Esping-Andersen 1990:47).

[2] This regime is constituted mainly by Denmark, Finland, Norway and Sweden and is, hence, often referred to as the "Nordic model".

The social-democratic regime, in the light of stratification is best understood through the above mentioned dedication to universalism. In strife for class unity and parliamentary majorities the idea of universalistic solidarity emerged to be the guiding star in trying to unite a "substantially differentiated and segmented working class" (Esping-Andersen 1990:68). Thus, by capturing parliamentary power the social democrats aim to mobilize the labor movement and its political wing in order to exercise political authority over economic power, to alter the stratifying outcomes of market capitalism. Furthermore, the concept of universalism equalized the status benefits and responsibilities of citizenship and helped build political coalitions (*Ibid.*). In short, universalism was perceived to be a way of making all benefit, parallel to making all feel obliged to contribute, whilst eradicating class differences and obstacles to collective unity.

The summary overview presented in Table 1 below constitutes the framework that I will employ in my ideological analysis of the Lisbon Strategy, mid-term review and re-launch. As such it will, along with above conceptualizations, make out my analytical screening instruments, especially in regard of the first two legs of the analysis.

Table 1. *A summary overview of regime characteristics*

	Liberal	**Social Democratic**
Role of:		
Family	Marginal	Marginal
Market	Central	Marginal
State	Marginal	Central
Welfare state:		
Dominant mode of solidarity	Individual	Universal
Dominant locus of solidarity	Market	State
Degree of de-commodification	Minimal	Maximal
Model examples:	Great Britain	Sweden

Source: Esping-Andersen, 1999

2.2 Neo-liberalism

As the name suggests, neo-liberalism has its roots in the liberal trajectory. Therefore, this part of the theoretical outlining will have its outset in Liberalism, to further the understanding of the thence originating theory and its positioning towards globalization and welfare.

2.2.1 Liberalism and Free-market Commercial Neo-liberalism

To begin with, the underlying assumption of Liberalism "is the intrinsic value of individuals as the primary actors in the international system" (Underhill, in Stubbs and Underhill, 2006:13). Hence, the four general assumptions that define the liberal trajectory mainly revolve around the individual and his/her rights:

"First, all citizens are juridically equal and posses certain basic rights to education, access to a free press, and religious toleration. Second, the legislative assembly of the state possesses only the authority invested in it by the people, whose basic rights it is not permitted to abuse. Third, a key dimension of the liberty of the individual is the right to own property including productive forces. Fourth, Liberalism contends that the most effective system of economic exchange is one that is largely market driven and not one that is subordinate to bureaucratic regulation and control either domestically or internationally." (Dunne, in Baylis and Smith, 2005:186)

Furthermore, the free market is seen as being self regulating, thus, intervening between the self interest of individuals and the public good, to achieve the optimal resource allocation. That is to say that as long as individuals are left to themselves, their interaction in the marketplace will automatically lead to the optimal distribution of resources. In this, economics and politics are believed to be separate domains with separate sets of laws and dynamics, and should thus be kept apart (Underhill, in Stubbs and Underhill 2006:13).

With a theoretical outset in the above four assumptions, one can easily see this paradigm pulling in, at least, two different directions emphasizing the features of Liberalism differently; one emphasizing freedom in economic and social spheres, thus, advocating minimalist government; the other advocating strong interventionist institutions in order to secure the democratic culture required for the above freedoms (Dunne, in Baylis and Smith, 2005:188). Out of the former, one can trace the neo-liberal free-market commercial Liberalism that is strongly advocated by Western financial institutions and liberal governments.

Free market commercial neo-liberalism concedes to the neo-realist assumptions of the centrality of states, the anarchic nature of the international system and the rationalist approach to scientific inquiry, but emphasizes the possibility to alter structures. Furthermore, free-market commercial neo-liberalism "advocates free trade and free markets or capitalism as the way to peace and prosperity" (Lamy, in Baylis and Smith, 2005:212). In light of this, free-market commercial neo-liberalism calls for minimal government interference in national or global markets. Moreover, they advocate the creation of institutions that safeguard free markets and discourage states attempting to interfere with market forces, as interference is believed to restrict markets and prevent rewarding trades from occurring. Taken into the perspective that globalization[3] is believed to be a positive force, free-market commercial neo-liberals argue that all states will benefit from the resource allocation that globalization allows for, mainly through the deconstruction of trade barriers (Lamy, in Baylis and Smith, 2005:220; Frieden and Lake 2004:10). Thus, the task of the state as a rational actor is "to recognize the advantages of the international market as yielding the greatest good for the greatest number, and to respond by reducing or eliminating 'artificial' political impediments to 'natural' patterns of exchange." (Underhill, in Stubbs and Underhill 2006:13). In other words, government is thought to be a means of creating the necessary foundations for functioning markets.

2.2.2 Neo-liberalism and the Social Democratic Welfare Regime

Derived from the arguing of free-market commercial liberalism, the globalization, or convergence, thesis argues that the increased liberalization of markets has decreased governments' ability to extract high taxes and to provide high levels of social security. Following the development of globalizing capital markets, the international economy has entered into an era of "quicksilver capital", where cross national capital flows are increasingly unhindered. As a consequence, countries will have to compete for capital investments, leading to a bidding war where tax rates and government welfare expenditure successively will be reduced (Lindbom 2001:172). As Layna Mosley puts it:

"Convergence scholars argue that growing trade and financial internationalization seriously impinge on government policy autonomy. At one extreme, global markets become masters over governments and eviscerate the authority of national states. Along these lines, many scholars' view international capital mobility as a severe limitation on government policy. Capital market openness provides governments with greater access to capital, but it also subjects governments to financial market discipline. Governments must sell their policies not only to voters but also to international investors." (Mosley 2000:738)

Governments need capital partly for extracting taxes to finance expenditure, partly to sustain possibilities of economic growth through investments. Thus, understood in terms of classical bargaining in negotiations, the globalization of capital markets has endowed capital owners with the possibility of making credible threats of exit, thus strengthening their bargaining position (Hopmann 1996:108-9). The way things were before capital markets were globalized, capital

[3] Understood here as the expansion and liberalization of markets and the integration of the world-economy.

owners facing deteriorating conditions could "wait and see, or convert their holdings to cash, but they [could not] move their holdings to a different investment market. Cross-border investments [were] impossible or, at best, very expensive." (Mosley 2000:741-742). But with the possibility of international capital movements, the prospect of punishing disliked turns of events becomes a credible option, altering the power relation between policy makers and capital owners.

With the above in mind, the principle differences between the social-democratic welfare regime and the liberal welfare regime becomes important. Whereas the social democratic regime aims to serve all its citizens according to generous benefit standards, the liberal regime provides aid only to those in need in accordance to needs tests letting the middle class turn to private insurance schemes for risk prevention. The difference in scope between the two regimes is mirrored in differing levels of expenditure, where the social democratic regime has to finance its greater expenses through extracting higher taxes, e.g. on labor and capital. The scope of the respective welfare regimes thus turns in to a comparative advantage in favor of the liberal regime, when it comes to attracting capital, as it offers lower taxes and greater returns. Because of this, globalized financial markets are believed to punish social democratic welfare programs through tax evasion, rendering extensive welfare programs obsolete. In the same fashion, Philip Cerny argues that "currency exchange rates and interest rates are increasingly set in globalizing marketplaces, and governments attempt to manipulate them at their peril. … Globalization has undercut the policy capacity of the national state in all but a few areas." (Cerny, quoted in Mosley 2000:738).

What, then, is the proper role of the state in a context of globalized markets? In line with the above outlining of free-market commercial neo-liberalism, Cerny argues in favor of the state designing policies to allow domestic firms and sectors to become more competitive in the international markets. The state is, thus, to be considered an agent serving to commodify the collective in a market-dominated playing field. Parallel to this, though, the state still has to provide crucial public goods[4] and manage specific assets[5], even if this has to be done in a context with lower levels of maneuverability than before (Cerny, in Frieden and Lake 2004:459). Thus, politics and economics are separated to the extent that policy makers are reduced to puppets, the surrounding economic structure being the puppet master. The question is, then, how this can be with a theory emphasizing the individual and its actual ability to change structures?

Colin Hay refers to this conundrum as "the paradoxical structuralism of rational choice" (Hay 2002:103). The paradox lies in the foundational suppositions of rational choice, which is indeed employed by free-market commercial neo-liberals, and its assumptions about the individual as an egoistic, utility maximizer behaving rationally in pursuit of its own preferences. In combination with assumed perfect, or near perfect, information of its surrounding

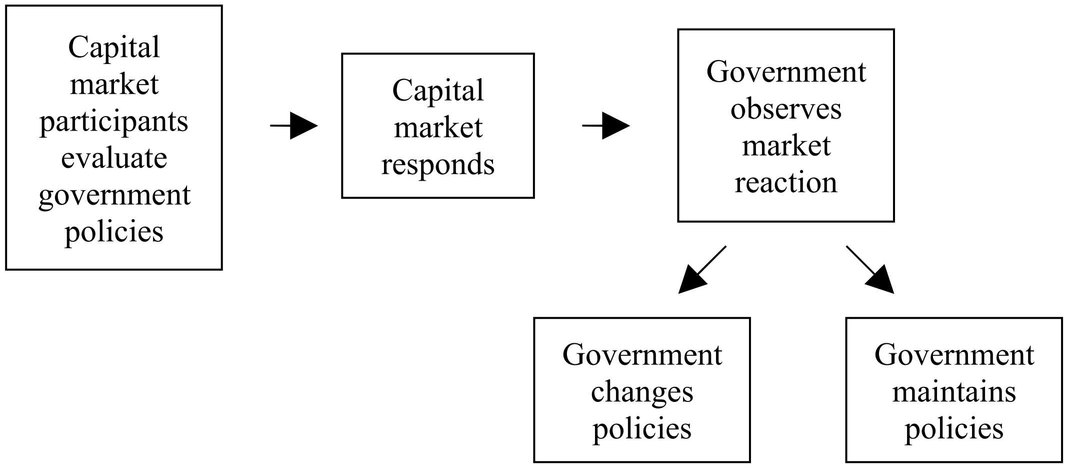
[4] Public goods are those that are non-divisible in crucial ways and from the use of which people cannot easily be excluded.

[5] A specific asset is one which is hard to substitute, and which's substitution would involve high transaction costs and/or high economies of scale. Due to problems with free riders specific assets are more suitable to produce in an authoritative structure.

context, the utility-maximizing individual ranks its preferences in an internally hierarchical fashion, e.g. $x > z > y \rightarrow x > y$. Thus, in any given context there can only be one rational choice of action that is consistent with a specific set of preferences. Consequently, an analyst using the rational choice model needs to know nothing of the individual, except for its preferences and their ranking, in order to predict the outcome of individuals' behavior. Hence, the paradox lies in the mutually exclusive claims of on the one hand the individual's autonomy and freedom to choose as it pleases, and on the other hand restrictions to the one rational option through preference ranking, utility maximization and rationality, "[f]or what sense does it make to speak of a rational actor's *choice* in a context which is assumed to provide only one rational option?" (Hay 2002:104, italics in original). It is in line with this "paradoxical structuralism" that free-market commercial neo-liberals predict economic structures to determine the outcome of welfare policy and expenditure in the increasingly globalized international economy (see Figure 1). Furthermore, this deterministic line of arguing is one of the reasons why free-market commercial neo-liberals neglect policy makers' possibilities to take action against, rather than in line with, globalization, as the prerequisites provided by globalization are seen as providing only one rational way of acting. For example, because capital owners can punish policy makers through tax evasion, high capital tax levels will be increasingly difficult to sustain. Thus, policy makers, in need of revenues through taxes to cover expenditures, are seen as being left with the one rational option of adjusting tax levels to competing markets' levels and capital owners' preferences. In so doing, the possibility of sustaining high government-expenditure levels and extensive state welfare programs will diminish in proportion to the decreasing tax revenues, thus facilitating welfare retrenchment and social-policy convergence.

Summing up the convergence theory, what does it have to say on the sustention of the social democratic welfare regime in a globalized world economy? Put shortly, state interference in markets, be it through extraction of taxes, employment legislation or other artificial impediments to free trade, will cause market-equilibrium disruptions and/or comparative disadvantages relative to other countries in the international economy. Because of globalized capital markets presenting exit options to capital owners, evasion will cause poor economic performance as investments decrease and unemployment rises. As unemployment rises, the social-democratic welfare state will experience increased expenditures, further straining the economy, in the longer run necessitating welfare retrenchment and convergence towards the liberal model. Thus, what the convergence theory state, is that, ceteris paribus, state intervention, as above, in globalized markets will cause poor economic performance and welfare-regime convergence. What characteristics, then, of the social-democratic welfare regime are pinpointed as being the cause of convergence? The main contending issue is high levels of expenditure necessitating high tax extraction, on capital in particular but also on labor as the labor force becomes increasingly mobile and the ability to compete for human capital is made increasingly important. Furthermore, the lack of incentives to enter into the labor market when unemployed is another source of criticism, caused by market interference. Hence, indicators of economic performance in relation to the above mentioned issues will be of interest in testing the accuracy of the free-market commercial neo-liberal convergence theory.

Figure 1. *Causal relationship between international capital markets and national government*



3 The Empirical Context

The aim of this chapter is to authenticate the relevance of a social-policy analysis on the intergovernmental level in the EU, even though EU institutions do not have legislative competence within the area. Thus, in order to further the understanding of the relevance of the EU in a welfare regime analysis, initially a brief historic odyssey will be undertaken, after which a presentation and analysis of the Lisbon Strategy will be carried out.

3.1 EU, Neo-liberalism and Indirect Welfare-state Affection

The EU cooperation in terms of neo-liberalism is best understood through the concepts of positive and negative integration. Positive integration, to create conditions, does in the EU context equal initiatives taken by the European Commission and the Council of Ministers constituting commonly achieved policies, as well as the rulings by the European Court of Justice in interpreting and sometimes extending the reach of European law. Negative integration is the means of eliminating impediments, e.g. to trade, thus facilitating further integration. The foremost example of such integration in the EU context is the Single European Act of 1986 with its four freedoms of unhindered mobility of goods, individuals, services and capital. Through the creation of the Single market and thence the deconstruction of artificial barriers between national markets within the region, the EU cooperation entered an era of free-market commercial neo-liberalism. Through the SEA the EU, as far as economic integration was concerned, adopted the neo-liberal belief of free trade and free markets as bearers of peace and prosperity with the conviction that all concerned countries would benefit from the improved resource allocation. Furthermore, explicit social policies were neglected in strive for increased employment through market creation (Jacobsson and Johansson, in Jacobsson *et al.* 2001:13; van Apeldoorn, in Stubbs and Underhill 2006:310; Leibfried 2000:46 *ff.*).

With the Maastricht treaty of 1992 came an era of so called embedded neo-liberalism. Without employing a pure *laissez-faire* policy, the primacy of free markets and freedom of capital movement, was to be the driving force in gradually restructuring the ‘European model’ with the Single market in full operation. Importantly, though, the state, through not going all in with neo-liberalism, was still given the needed maneuverability to maintain workforce education, provide infrastructure, maintain social stability etc. Nonetheless, “embedded neo-liberalism defines the social purpose of European integration primarily in terms of interests bound up with transnational capital, with the concepts of competitiveness and benchmarking being mobilized to promote a neo-liberal restructuring of the European political economy." (van Apeldoorn, in Stubbs and Underhill 2006:311). In other words a wanted development in the direction of Cerny's previously mentioned competition state in order to enhance the region's internal sectors and markets in the global competition for footloose capital. The restructuring was carried out step by step, in a fashion similar to Jean Monnet's 'integration by stealth', referring to demands for 'market compatibility', thus, social policy regulations on the national level that opposed the unimpeded 'free circulation' of labor, capital, transport and services were tried under European law before the ECJ, relativizing national sovereignty in order to prevent national welfare payments from being drawn abroad (Leibfried 2000:49).

Indirectly, the free markets put pressures on national welfare states through allowing capital owners to play off markets against each other through more credible threats of exit in search for lower taxes and greater payoffs, making it more costly to maintain high wages and taxes. Furthermore, the concept of 'social dumping' was brought onto the agenda in discussions concerning the differing levels of welfare expenditure, which were thought to lead to either "a race to the bottom […] through heightened regime competition or a nationalist, popularly backed backlash against integration or a genuine breakthrough to a European social role." (*Ibid.*).

In conclusion, the EU cooperation in terms of social policies have revolved around labor-market problems needed to be solved to secure the functioning of the Single market, e.g. to prohibit social dumping or to secure free mobility. This low profile on social policies on a regional level is further accentuated by Art. 129 EC stating that actions taken by the Council of Ministers in relation to employment policies must not concern harmonization of Member States' laws, thus, excluding one of the pivotal elements of social policies from EU legislation. Nonetheless, the Member States have worked their way around this obstacle in an effort to strengthen the competitiveness of the region through united actions coordinated at the regional level, namely the Lisbon Strategy of 2000, to which I now will turn.

3.2 The Lisbon Strategy

In a joint effort to strengthen employment, achieve economic reform and social cohesion the European Council in March 2000 agreed upon the Lisbon Strategy. To circumvent the above mentioned Art. 129 EC a new approach to joint venture was created. The new approach is built upon the concepts of soft law, peer review/-pressure, benchmarking and best practice.

Because the Council of Ministers is not endowed with the competence to legislate on social policy, following Art. 129, a new, open international coordination policy was instituted. This new policy enables the Council of Ministers to adopt non-binding guidelines, e.g. on social policy matters, through qualified majority votes. With an outset in these guidelines each country then draws up a national action program to pursue the achievement of the common goals. The system thence builds on the concept of 'soft law', that is non-binding rules and regulations, and 'voluntarism', since the implementation of the national programs and EU guidelines at least formally is to be considered voluntary and therefore is not of a legally binding, supranational character. To make headway on the matters at hand without being able to force non-compliant countries in the wanted direction, control- and surveillance mechanisms have been created. The aim is to build pressure on the Member States, e.g. through creating opinion in pressing issues, in order to make them move. One way of achieving this effect is through the use of 'peer pressure', i.e. through frequent, organized exchange of ideas, learning and through the power of example, in combination with strict schedules and repeated follow-ups. A second available alternative is through the use of 'benchmarking', i.e. strategic comparisons between countries in order to identify 'best practices', out of which recommendations to individual Member States are formulated. Benchmarking is mainly carried out by the Commission, which identifies, selects and publishes 'best practices' and recommendations to individual states, thus rendering themselves considerable opinion-creating and idea power. The third available option is 'peer review', through which pressure is meant to be built by countries reviewing and commenting on each other's action programs. It is thus apparent that the Lisbon Strategy has been granted means to achieve its goals and as such the Lisbon Strategy is best understood as a positive integration project with elements of negative integration, as will be shown, especially in relation to the completion of the Single market.. What I now will turn to is the question of what goals are to be achieved and how they will position the Lisbon Strategy relative Esping-Andersen's welfare regimes. That analysis will then provide the basis for testing the convergence theory on the regime level in the EU context, through comparison to the 2005 mid-term review and re-launch analysis. In trying to find the locus of the Lisbon Strategy relative Esping-Andersen's regimes I will analyze 'The Integrated Guidelines for Growth and Jobs'[6] and the Presidency Conclusions from the March 2000 summit of Lisbon.

Being a political summit with EU heads of state and government, the European Council in Lisbon, March 2000, encompassed a wide range of subjects, reflected in the Presidency conclusions. Being interested in the Lisbon Strategy solely, I will only work up the first section concerning 'Employment, economic reform and social cohesion'.

The overall strategic goal as stated in 5§ is "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (Internet3). This statement alone does not pinpoint the Lisbon Strategy relative Esping-Andersen's regimes, though it gives some clues of what is to come. Clearly, the authors of the document perceive the world economy as increasingly competitive, why they are concerned for the competitiveness of the EU Member States and thus wishes to strengthen the very same. This line of reasoning bears a clear resemblance to Cerny's 'competition state', elaborated in chapter 2, but the

[6] As presented on the Lisbon Strategy webpage, http://www.estrategiadelisboa.pt – Lisbon Strategy – Guide Lines.

means of achieving the overall goals are yet to be presented, why there can be no definite conclusion yet, concerning the nature of the state envisioned by the Strategy's creators. Therefore, what I will now turn to is to try to locate the means and guidelines of the Lisbon Strategy in order to render later conclusions on the overall regime locus of the Strategy possible. This will be done using the summary of welfare regimes presented in table 1 of chapter 2, focusing on the role of the state contra the market; the dominant mode of solidarity; the dominant locus of solidarity; and the degree of de-commodification.

Beginning with the role of the state contra the role of the market, it is evident that as far as the Lisbon Strategy is concerned the major role for governments to play is one of enhancing the competitiveness of the region, e.g. through further integrating the Single market, stressing the need for further negative integration, promoting efficient resource allocation (Internet2 3§) and through contributing to a well-functioning EMU (*Ibid.* 6§). The state does in this way have an important role to play, but the role is conditioned by market needs. In this way the state is subordinated to the market, through being reduced to maintaining a competitive market on the latter's provisos. The market on the other hand, is projected as holding solutions to problems of unemployment, social exclusion and underdevelopment. Spillover effects from a competitive market, it is said, "will be capable of improving citizens' quality of life and the environment" (Internet3 8§). Thence, as far as the roles of states and markets are concerned the Lisbon Strategy confesses to the liberal welfare regime.

Concerning the dominant mode of solidarity things are a little bit more uncertain, as there are individual as well as universal features of the Strategy. The dominant mode of solidarity is universal insofar as it aims for full employment, reducing illiteracy and exclusion but is individual as it mainly targets the poor, that is, those living below the poverty line:

"32. The number of people living below the poverty line and in social exclusion in the Union is unacceptable. Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year. The new knowledge-based society offers tremendous potential for reducing social exclusion, both by creating the economic conditions for greater prosperity through higher levels of growth and employment, and by opening up new ways of participating in society. At the same time, it brings a risk of an ever-widening gap between those who have access to the new knowledge, and those who are excluded. To avoid this risk and maximize this new potential, efforts must be made to improve skills, promote wider access to knowledge and opportunity and fight unemployment: the best safeguard against social exclusion is a job." (Internet3 32§)

Thus, even though there are hints of a universalistic approach the emphasis lies with poor relief and poverty eradication. As such welfare must be means tested and individualized in order to separate qualified from disqualified citizens, making the Lisbon Strategy's dominant mode of solidarity individual and in that sense Liberal.

As I have hinted above, the dominant locus of solidarity lies with the market. This is made explicit in 20§ of the Presidency conclusions: “Efficient and transparent financial markets foster growth and employment by better allocation of capital and reducing its cost. They therefore play an essential role in fuelling new ideas, supporting entrepreneurial culture and promoting access to and use of new technologies.” (Internet3). Taken into the context of the above mentioned belief in spillover effects from the transition to a knowledge-based society, efficient markets appear to be the main providers of welfare in terms of the Lisbon Strategy.

The importance of markets is further accentuated in relation to the degree of de-commodification that the Lisbon Strategy provides for. Because the Strategy mainly relies on markets to provide for resource allocation and welfare, the levels of de-commodification, if implemented, would be low, not to say minimal. As the role of state is centered on the task of strengthening the competitiveness of the region and its markets, in order to increase employment and, hence, lower levels of poverty and exclusion, e.g. through “making work pay for job-seekers” (Internet3), the welfare provision on behalf of the state in terms of de-commodification will be minimized. Instead, the individuals’ dependency on the market to provide for welfare through allocating resources in terms of jobs and wages equal increased or sustained levels of commodification, depending on the starting point. Thus, the Lisbon Strategy, in terms of de-commodification, is to be considered in parity with the Liberal regime. According to Esping-Andersen’s classification of welfare regimes the overall nature of the Lisbon Strategy corresponds to the Liberal welfare regime, albeit with some social-democratic features.

In summing up, it is evident that the requirements for social-policy convergence as stipulated by free-market commercial neo-liberalism are fulfilled in the European context, making the cases of Denmark, Finland and Sweden as parts of the social-democratic welfare regime in a neo-liberal context, ‘most likely’ cases of the neo-liberal convergence hypothesis. Concerning the Lisbon Strategy, it evidently is in accordance with the Liberal welfare regime, why the level of implementation will give a good hint of the development of welfare regimes in the EU at a regional regime level. Thus, what remains to be seen is what has actually happened to the social-democratic welfare regime and whether or not the economic performance of economies belonging to the social-democratic regime can be said to correlate to the convergence hypothesis? Have the granted means of implementing the Lisbon Strategy been sufficient or not? What direction has the development of the EU in relation to the Lisbon Strategy taken?

4 The Social Democratic Welfare State in a Neo-liberal Context

This chapter is devoted to carrying out the two final legs of the convergence analysis. First out is the regime-level analysis of the 2005 mid-term review and re-launch of the Lisbon Strategy, to identify the direction of welfare regime development in the EU context. Subsequently, a complementary analysis of social-democratic welfare states' economic performance in relation to the convergence hypothesis will be carried out, to estimate the accuracy of the latter at the sub-regional level within the EU.

4.1 Development of the Social Democratic Welfare Regime in Relation to the Lisbon Strategy

Initially, the mid-term review and re-launch analysis will be carried out in the same fashion as the above analysis of Presidency conclusions, to lay down the overall character of the re-launch and the potential development from the original Lisbon Strategy. Then the implementation issues will be analyzed to pinpoint to what extent the Strategy has been successful, what parts are lagging behind and how this affects potential welfare regime change. If the convergence theory is correct, the liberal character of the Lisbon Strategy should be preserved in the re-launch, and more importantly the Liberal features of the Strategy are to have been successfully implemented by the Member States, as necessitated by the surrounding structural settings.

To begin with, 4§ of the March 2005 Presidency conclusions states that the results of the Lisbon Strategy are mixed, including progress as well as shortcomings and obvious delays. Because of extensive dismay with contemporary levels of implementation, a re-launch and re-focus on growth and employment was agreed on. Accordingly, the follow-up instruments are to be refined and enhanced in order to promote better and faster implementation (Internet4 38-41§).

In relation to the original Lisbon Strategy, the market focus in terms of welfare provision and state subordination to markets, remain. The matter is still one of securing free circulation in and between markets to further resource allocation, attract footloose capital and achieve growth and increased employment, to decrease poverty levels and social exclusion. Therefore, the individual mode of solidarity, the market as the dominant locus of solidarity and the low levels of de-commodification, if implemented, are maintained as well

(Internet4 10-37§). There are two obvious questions rising out of these circumstances. Firstly, how can it be interpreted that the Member-state governments agree on the Lisbon Strategy without implementing it, then evaluates the very same and re-launches it on identical foundations? Secondly, what parts were left out in implementing the Strategy and what does this tell us about the welfare regime development? As I am not trying to uncover the reasons for the Lisbon Strategy failure of implementation, but rather focusing on establishing the direction of welfare regime development *per se* in order to evaluate the convergence hypothesis, the first question will be left for others to answer, whilst I now will try to answer the latter one.

The European Commission's communication document to the European Council, on recommendations on maintained and improved implementation of Lisbon Strategy, of February 2005, circles in on the following issues of importance to the convergence theory:

- Completion of the Single market
- State aid reform regarding innovation, R&D and risk capital
- Attracting more people into employment and to modernize social protection systems

Concerning the Single market, remaining impediments to trade and disruptions of the internal free market have been localized and need to be tended to. Moreover, the Single market needs to be improved through greater coherence and efficiency of existing directives and the financial services market must be consolidated and completed in order to facilitate wider access to capital at lower costs. The overall aim is said to be "to implement legislation in such a way that it makes the free movement of products and services work more simply and better." (Internet1 2005:7). The European Council confirms the need for increased negative integration, stating that "the European Union must complete its internal market and make its regulatory environment more business-friendly, while business must in turn develop its sense of social responsibility" (Internet4 20§). The continued struggle over the completion of the Single market indicates that the neo-liberal belief in the superiority of the market as 'resource allocator' is not fully shared by policy makers amongst the Member States. This is true especially in relation to the negative integration concerning the internal service market, to which issues of 'social tourism' have been linked making it a highly disputed issue in national debates (Jacobsson and Johansson, in Jacobsson *et al.* 2001:11, 13).

Turning to the advised state-aid reforms, the Commission emphasizes the centrality of the European and global markets in generating higher growth rates so as to compete with increasingly powerful emerging economies, and urges the Member States to "prevent incumbents from pursuing restrictive strategies to protect themselves against more dynamic and innovative competitors" (Internet1:12). Furthermore, the Commission stresses the importance of facilitating access to capital and reducing state aid that constitutes distortions to competition and as such impedes necessary structural change, very much in line with Joseph Schumpeter's cyclical restructuring of economies through 'creative destruction'(Internet1:13; Fregert and Jonung 2005:254). This is confirmed by the European Council calling "on Member States to continue working towards a reduction in the general levels of state aid, while making allowance for any market failures." (Internet4 23§). The displayed discontent with current levels of state aid and entrepreneurs' access to capital, indicates that the wanted transformation of the EU Member States towards 'competition states' is not occurring at wanted pace, if at all. As the very essence of the 'competition state' lies in competing, e.g. for capital, on the international arena, perceived failures on this matter very strongly hints towards failure of developing European states into pure 'competition states'. Thus, given the centrality of attracting capital as expressed in the neo-liberal convergence theory, this is a serious backlash to the Lisbon Strategy being part of the supposed overall movement towards liberal welfare regimes.

Turning the attention to the explicit urge for reform in order to attract more people into employment and to modernize social protection systems, the Commission suggests that "[b]etter social protection systems will enable and encourage people to take advantage of labour market and entrepreneurial opportunities, to extend their working life and to become less dependent on benefit" (Internet1:44). These suggestions are shared by the European Council as they call for reforms to "make work pay" (Internet4 31, 32§§). This is suggested to be come about through strengthening the conditionality of unemployment benefits and through enforcing income tax benefits (*Ibid.*).The fact that the Commission mentions cuts in state welfare expenditure as a means of increasing employment, is in itself a very strong indication towards the prevalence of high levels of unemployment benefits among the Member States. Consequently, the fact that general benefit levels have not converged towards the levels of the Liberal welfare regime proves that the free-market commercial neo-liberal idea of non-intervention in markets is not given supremacy in social-policy making.

In conclusion, the Lisbon Strategy has suffered from poor implementation on pivotal issues crippling welfare convergence on the regime level. Through the mid-term review and Commission action-program suggestions I have shown clear indications on lacks of implementation of the Lisbon Strategy in relation to state aid, social policy reform and negative integration. The question that remains is what speaks in favor of the Lisbon Strategy actually causing welfare convergence? As far as I can see, the fact that there has been a re-launch and that some progress was made during the first five years, is what speaks in favor of increased implementation and convergence following the 2005 spring summit. On the other hand, as the re-launch is built on the same foundations as the Lisbon Strategy of 2000, the political will to implement can, rightfully, be questioned. Thus, what now remains to be seen is how the individual countries of the EU social-democratic welfare regime have performed economically in relation to the convergence theory.

4.2 Economic Performance of Social Democratic Welfare States within the EU

This last leg of the convergence analysis aims at testing the precision of the neo-liberal predictions at the national level. That is, the problems supposedly curtailing social-democratic welfare states in a globalized setting that is thought to cause welfare regime convergence. Therefore, the subsequent analysis will focus on the economic performance of Denmark, Finland and Sweden, and try to answer the following questions:

- Have high levels of welfare expenditure, through necessitating high tax levels, caused poor economic performance?
- Has overall high levels of tax extraction caused capital outflows and low access to capital on behalf of entrepreneurs?
- Have generous unemployment benefits caused high levels of unemployment, specifically long term unemployment?

To answer the above questions I will employ Christian Ketels'[7] calculations in the 2008 'Nordic Globalization Barometer' to relate the performance of the social-democratic welfare states to the EU-15[8] and OECD member states, and when needed I employ my own calculations of OECD data in the same fashion. For Ketels' calculations the following applies:

Green for a position better than the OECD and EU-15 average, or a rank within the global top 10, or an improvement
Yellow for a position between the OECD and EU-15 average, or a rank between 10 and 20 globally, or no change
Red for a position below the OECD and EU-15 average, a rank lower than 20 globally, or a deterioration

Regarding my calculations the following applies:

Green for better average than EU-15 or improvement
Yellow for equal (+/- 0.05%) average to EU-15 or no (+/- 0.05%) change
Red for worse average than EU-15 or deterioration

Concerning the somewhat arbitrary determinism of the above questions, of course I acknowledge that there might be other causes than e.g. taxation levels as regards economic performance. But if no causality can be proved to exist, at least the assumption has been adequately falsified.

[7] Harvard Business School / Stockholm School of Economics.
[8] Referring to the EU Member States prior to the 2004 enlargement.

Starting out with the matter of high welfare-expenditure levels causing poor economic performance, the below matrixes show that overall the social democratic economies have high levels of social spending and higher-than-average taxes, whilst exhibiting top economical performance. In relation to the neo-liberal capital-owner tax-evasion theory, this might be explained by a large proportion of the overall tax burden being constituted by wage taxes. As the work force tends to be relatively immobile, higher tax extraction is possible without risking evasion. Nevertheless, the findings clearly contradict the neo-liberal assumption of capital movement undermining the sustainability of extensive welfare programs.

Another plausible explanation to this outcome is presented by Layna Mosley. After statistical analyses and interviews with market participants she concludes that:

"Despite financial globalization, the motivations for many government policies remain rooted in domestic politics and institutions. […] Moreover, evidence regarding market participants' use of the Maastricht criteria suggests that, under certain conditions, governments are quite capable of manipulating financial market behavior." (Mosley 2000:766)

In other words, the basic free-market commercial neo-liberal understanding of the 'structure-VS-agent' dilemma appears to be flawed and helps generating incorrect predictions as the agent's capability to alter its surrounding structures is neglected through applying rational-choice models. Furthermore, agents' preferences and internal ranking of preferences seems to be at odds with reality as market participants in assessing markets care nothing, or very little, of the means that governments employ in the pursuit of political achievements, but rather care about what promises of achievements are made and how credible these are. That is, government spending, expenditure policies, labor market policies and tax policies are deemed to be unimportant information in assessing a market prior to possible investments (Mosley 2000:748, 751). Anticipating the upcoming discussion on capital flows and accessibility, what matters to market participants is inflation levels and fiscal stability, not the nature of national tax policies.

Social Expenditure		
	2000	**2003**
Denmark		
Finland		
Sweden		

Social expenditure as % of GDP, in relation to the EU-15 average. Source: Internet5 (OECD, 2008)

Taxation Levels			
	Overall	**Wage**	**Corporate**
Denmark			
Finland			
Sweden			

Share of taxes in GDP in 2006. Source: Ketels, 2008

Prosperity			
	Level	**Growth**	**Rel. Growth**
Denmark			
Finland			
Sweden			

Prosperity is measured by GDP (PPP)/capita; level data 2007, changes 2002-2007. Source: Ketels, 2008

Continuing on the already begun analysis concerning the second question of taxation levels and capital flows and access, the below matrixes together with the above taxation-level matrix show that the social democratic economies experience deteriorating levels of capital outflow, higher-than-average and sustained levels of inflow along with high and stable levels of capital access. Thus, overall high levels of tax extraction cannot be said to have hampered entrepreneurial access to capital, nor have it caused tax evasion, which as above is likely to be explained by low corporate-tax levels and/or market-participant preferences diverging from those prescribed by free market commercial neo-liberals. E.g., rather than taxation levels and low labor costs, Colin Hay suggests that "educational attainment/skill level is the most critical factor in determining the attractiveness of a labour-market regime to mobile investors" (Hay 2005:202), as high labor costs can be matched by higher skills and productivity.

Outward FDI Stock			
	Level	**Growth**	**Rel. Growth**
Denmark			
Finland			
Sweden			

Level is measured by 2005 world outward FDI share relative to world GDP share, controlling for total GDP size. Growth is measured by change in outward FDI share, relative growth is measured by the change in of outward FDI share relative to GDP share; 2000-20005. Source: Ketels, 2008

Inward FDI attraction			
	Level	**Change**	**Rel. Change**
Denmark			
Finland			
Sweden			

Level is measured by 2005 world inward FDI share relative to world GDP share, controlling for total GDP size. Growth is measured by change in inward FDI share, relative growth is measured by the change in of inward FDI share relative to GDP share; 2000-20005. Source: Ketels, 2008

Access to capital			
	Overall	**Risk Capital**	**Change**
Denmark			
Finland			
Sweden			

Overall is measured by the first principal component of a country's GCR scores on financial market sophistication, access to loans, local equity market access, and risk capital availability. Level data is for 2007, changes for 2001-2007. Source: Ketels, 2008

Regarding the third question of work incentives through welfare-provision levels and unemployment, the below matrixes show that the overall unemployment rates among the social-democratic welfare states is lower than the EU-15 average, despite of higher benefit entitlements, not including Sweden that exhibit lower averages. Looking at the national level though, the picture is somewhat different concerning Sweden and Finland. The former country is facing rising unemployment rates whilst Finland is facing the reversed situation. Looking at long-term unemployment the picture is more consistent, with overall low and decreasing, except for Denmark, levels compared to the EU-15. Looking at long-term unemployment the effect of extensive social-democratic welfare policies is positive, in that it minimizes structural unemployment and facilitates greater circulation of laborers. The picture of short-term unemployment is not as coherent, but the overall level and development relative to the EU-15 is positive, rejecting any clear causality between high benefit levels and higher-than-average unemployment. Hence, the neo-liberal assumption that high unemployment-benefit levels will cause higher levels of and longer lasting unemployment, has been falsified.

Unemployment			
	Level	**Change**	**Rel. Change**
Soc. Dem.			
Denmark			
Finland			
Sweden			

Level is mean value of OECD unemployment rates 2000, 2003-2006. Change is the approximated linear tendency of development during 2000, 2003-2006. Relative Change is 'Change' relative to the EU-15. Source: Internet 5 (OECD, 2008)

Long-term unemployment			
	Level	**Change**	**Rel. Change**
Soc. Dem.			
Denmark			
Finland			
Sweden			

Level is mean value of OECD long term unemployment rates (% of total unemployment) 2000, 2003-2006. Change is the approximated linear tendency of development during 2000, 2003-2006. Relative Change is 'Change' relative to the EU-15. Source: Internet 5 (OECD, 2008)

Unemployment-benefit levels		
	2001	**2005**
Soc. Dem.		
Denmark		
Finland		
Sweden		

The OECD summary measure of the gross unemployment benefit replacement rates in relation to the EU-15. Source: Internet6 (OECD, 2007)

5 Conclusion

Concluding the above analyses, it is now evident that the free-market commercial neo-liberal welfare-regime convergence hypothesis could not predict the development of neither the EU social-democratic welfare states nor the EU social-democratic welfare regime. Rather than showing signs of convergence in a context fulfilling the structural preconditions of globalization, the implementation, or lack thereof, of the Lisbon Strategy exhibits setbacks on pivotal issues such as negative integration, state-aid and welfare-expenditure reform. Thus, to use the words of Karl Popper, this swan turned out to be black, apparently confirming the negation of the original assumption that globalization will cause welfare-regime convergence.

Striving for a model capable of producing reliable predictions free-market commercial neo-liberalism simplifies the reality to the extent that the predictions have very little, if any, value in analyzing the political economy of social policies within the EU. Having said that much, this conclusion does not imply that social-policy convergence will not happen, only that it has not happened this far in the context of the EU cooperation. It may very well be that convergence will occur if policy makers deem it necessary, thus, making it a self-fulfilling prophesy. What this analysis has shown, then, is that during the investigated time period and within the analyzed context, convergence has, as of this yet, not occurred. That is, even though the cases of Denmark, Finland and Sweden constitute 'most likely' cases and as such have severe implications on behalf of the hypothesis' reliability and validity, total refutation is not provided for, as this analysis can only account for the analyzed context. Nevertheless, this falsification should have far-stretching implications for the reliability of predictions made employing free-market commercial neo-liberalism in relation to social-policy development.

Furthermore, what is important to acknowledge is the faulty nature of the deterministic reasoning that distinguishes the convergence theory and causes the entailing 'de-politicization' of the social-policy area through stripping agents of the ability to choose and affect, and therein I believe one part of the problem with free-market commercial neo-liberalism lies. Would the integrated rational-choice model be modified to incorporate the real ability to choose, then the structural bias would be removed, the predictions would be less deterministic and the division between the economic and political spheres would be more evidently redundant as the political features of economy *per se* would become more visible. Moreover, I believe the persistency of contemporary structures is underestimated, neglecting the inertia often accompanying changes of present institutions and the adapting nature of the very same, rendering welfare regimes hard to transform. Therein lies another word of caution. As institutions are hard to transform it might be that change is happening, only not as immediate as Cerny, with his emphasis on the pressing need for developing towards the competition state, holds necessary.

Further research should, thus, focus on the significance of the re-launch of the Lisbon Strategy and the continued performance of individual social-democratic welfare states, and maybe even dig deeper into the individual state's actual implementation of the Lisbon Strategy to display what has been implemented and why. In that sense, this analysis has set the stage, but further analyses of near future developments within the EU region are necessary to judge whether or not the bumblebee will continue to fly.

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