I will talk about processes of convergence and whether social policies of member states in the European Union are becoming more similar. The idea of converging welfare states and social policies is not new. Rather, it is from time to time a salient feature of the political and academic debate. In earlier convergence studies, economic and technological developments were held to impose institutional conformity cross-nationally. Nowadays, the necessity to secure the rights and prerogatives of the market is often presented as the only way to organize institutional structures. In this sense, there are no real political alternatives.

There are at least two processes currently at work, which irrevocably are changing the capitalist economy in the advanced market democracies. One is the internationalization of labor markets, trade and capital; the other is the construction of the supra-national organization in Europe, the European Union. Here, a common theme in political discourse is the restructuring or reorganization of the welfare state in a market-friendly direction. Another theme is how to balance economic integration and supra-national regulations with national social policy legislation. Given these double pressures for restructuring of social policy in Europe, tendencies of assimilation of programs should be more evident in Europe than among, for example, OECD countries in general. Here, the process of economic and political integration in Europe is manifested in the discussion about a distinct European Social Model. In sum, recent developments of the European Union provide an excellent opportunity to subject argument about convergence to empirical tests.

I will present the results from an article that hopefully will be finished within a month or so. It is co-written with Ingalill Montanari and Joakim Palme and focus on the development of social insurance programs in 14 European Union member states. Two questions are addressed, are there significant signs of convergence in central dimensions of social insurance programs and are the converging trends of such entity that we can talk about converging institutional models of social insurance. Concerning the latter, we take as departure the social insurance typology established by Joakim Palme and Walter Korpi. Here we distinguish between five main ways of organizing social insurance; Targeted, Voluntary State Subsidized, State-Corporatist, Basic Security, and Encompassing. Targeted models of social insurance only apply to New Zealand and Australia, whereas Voluntary State Subsidized systems exist only in the area of unemployment benefits in some countries. Therefore, we will not talk about these models here.

A general characteristic of the basic security model is that it provides for relatively modest flat-rate benefits. Also in cases where benefits are formally earnings-related, as in Canada and the United States, the income ceiling is often too low or the graduation of benefits by income usually not sufficient to guarantee a high degree of income security in times of work incapacity. Today, two forms of the basic security model exist, wherein eligibility is based on contributions or citizenship. The latter usually have higher levels of coverage. Examples of countries with this type of insurance system are Denmark, the Netherlands and the United Kingdom. While contributory basic security programs in many ways originate from reforms similar to those introduced in Britain by Beveridge in the 1940s, the corporatist social insurance model resembles the programs introduced in Germany by Bismarck in the 1880s. Eligibility is in the latter case based on a combination of contributions and belonging to a specified occupational category, and benefits are clearly earnings-related. Examples of countries are here Austria, Belgium, France, Germany, and Italy. The encompassing social insurance model combines citizenship-based universal benefits with earnings-related compensation for the economically active population and therefore shares important features

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with both basic security and corporative programs. This type of insurances has been developed in, for example, Sweden and Finland.

Before I present the empirical results I will mention a few words about the means whereby countries are subject to convergence pressures because of their membership in the European Union. Formally, the effects from the European Union are of at least three types, which correspond to particular forms of convergence effects. First, lack of possibility of political decision-making in policy fields where authority has been ceded to the EU. Directives and regulations at the EU level are here binding and should be translated into national law. In effect the result of this pressure is harmonization of social policies. However, harmonization of social policy trough EU directives and regulations has so far not occurred, at lest if we define social policy in the traditional sense. That is, policies providing transfers and services as well as social regulation. Second, constraints on political decision-making in policy fields wherein authority is still located at the national level, which works indirectly because of the dependency to policies in fields wherein authority in fact has been handed over the EU. This may take the form of unintended convergence, where, for example, tha Maasticht criteria may cause some countries to reorganize social protection. Third, non-binding policy recommendations which may result in social policies emulating cross-nationally. Here we have the Open Method of Cooperation, where member states are to participate in benchmarking activities supposed to identify best practices.

In the area of social insurance, we do not expect to find any evidence of harmonization or emulation. The latter mainly because it is too recent to have influenced the empirical data analyzed. Rather, it is convergence due to unintended consequences which cannot be ruled out. Nevertheless, we do not find any clear signs of convergence among the countries studied here. This holds irrespective of whether we focus on the level of benefits or devote attention to the broader institutional configurations characterizing countries' social insurance systems. First, we may look at the development of social insurance benefits during the most recent decades. Here, it is evident that the development since 1985 is characterized by retrenchment rather than improvements in social insurance benefits. Although the processes involved in the curtailment of benefits differ across countries, for example, whether benefit reductions are due to political priorities or non-decisions (such as insufficient indexation), nearly all countries irrespective of broader institutional figurations have experienced cut-backs in benefits in recent decades.

The most evident examples of retrenchment are found in countries where social insurance aims to provide basic rather than income security, which includes Denmark, the Netherlands, Ireland and the United Kingdom. The most marked case is the development in the United Kingdom, where earnings-related supplements have been abolished and where benefits have been further reduced by the introduction of tax claw-backs. As a consequence of these curtailments, replacement levels have fallen to those recorded in the 1930s. Similar but more modest developments took place also in Ireland. In other countries, benefits have suffered from shrunken income-ceilings for benefit purposes, which even for citizens with average wages often makes effective replacement levels much lower than the formal ones. This type of benefit erosion has occurred in Denmark and the Netherlands, and similar processes can also be discerned in, for example, Sweden, which traditionally has placed stronger emphasis to also encompass the demand for income protection among the middle-classes. In addition, Sweden, together with its social insurance counterpart Finland, lowered the formal replacement levels in the early 1990s. Later on, these curtailments were restored to pre-1990s crisis levels.

Following the suggestions made in the comparative welfare state literature Greece, Portugal and Spain are joined together forming a group here referred to as the "Latin Rim". Significant for these countries are relatively extensive retirement schemes of social protection, whereas other parts of the social transfer and benefit system is less well developed. Also in these countries, where the welfare state is of a much younger date, social insurance has been subject to retrenchment, although cutbacks set in somewhat later that in the other countries, around the mid 1990s. Less signs of retrenchment are found among the continental European countries (Austria, Belgium, France, Germany, and Italy) where social insurance is organized along corporative structures. This is not a new phenomenon, several of these countries resisted post World War II ambitions to universalize the systems. Nevertheless, some changes are worth mentioning, although they do not appear in the figures presented here. In the French system, some provisions that initially received strengthened universality, have in fact been subject to means-tests and thereby targeted to the most vulnerable citizens in recent years. In France, also unemployment benefits have been reduced for those with long unemployment spells. In Belgium, wage continuation has been prolonged and in the case of old-age pensions, the system nowadays place stronger emphasis on basic rather than income security.

Despite the nearly univocal trend of social insurance retrenchment in recent decades, the description above gives no clear evidence of major changes in the broader institutional framework governing social insurance in respective countries. Most countries of Continental Europe is still characterized by fragmented social insurance schemes providing income security to the economic active population, whereas Sweden and Finland compared with for example Denmark, Ireland, the Netherlands and the United Kingdom, still combine universal basic security with income security for those in paid work. Hence, there is not enough evidence to speak of a convergence in social insurance models, although the problem of eroded wage ceilings for benefit purposes in the future may result in re-classification of Sweden as belonging to the wider set of countries with basic security rather than encompassing social insurance schemes. Some changes even appear to strengthen previous classifications of countries social insurance systems into different types or models, most notably the developments in the United Kingdom and Ireland.

Neither is there empirical evidence of social insurance benefit replacement levels becoming more similar across countries, see next slide which shows the Gini Coefficient of net social insurance replacement rates for the period 1980-2000. On the contrary, the development of social insurance since 1985 is characterized more by divergence than convergence. Unemployment compensation differs from this general pattern since benefits converged somewhat over this period. This development, however, is mostly due to changes introduced in the 1980s; where after the dispersion of benefits have been rather stable. These results are also confirmed by applying a hierarchical linear regression framework (multi-level regression).

Finally, I would like to emphasize that we do not claim that convergence of social policy in the European Union member states is not taking place. Maybe it is, but not in the area of social insurance. Of course, one could argue that social insurance is only one of several important policy fields of contemporary welfare states. One reason why we focus on this particular area is because the structure of social insurance is of outmost importance for explaining differences in, for example, income inequality and poverty between countries.

Looking at social expenditures, social insurance is also an extensive area of contemporary welfare states. However, it is both interesting and relevant to also take other social policy fields into consideration. The one most likely coming to mind is labor market policies. Unfortunately we still lack necessary empirical data in this respect. In order to extend convergence analyses also to other policy programs we must concentrate on collecting reliable data describing the institutional structure of for example active labor market policy measures. We hope to collect this data in the nearby future and present results, for example, in both active and passive labor market policy programs as well as convergence in various types of social services.
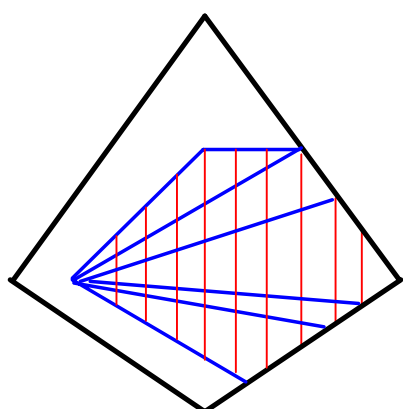
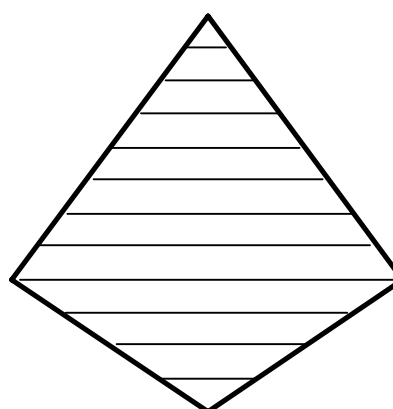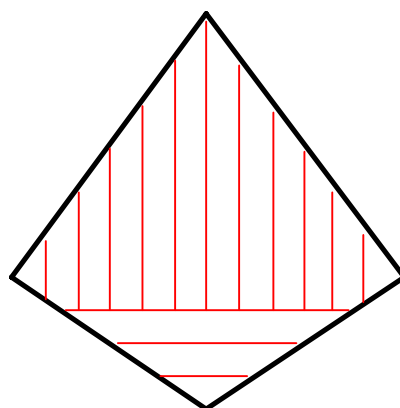# Ideal Typical Models of Social Insurance
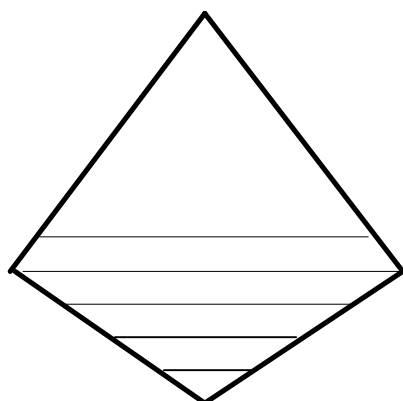
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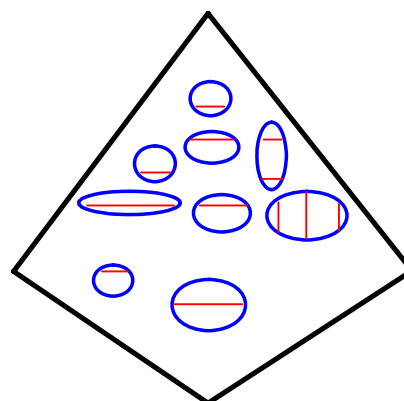
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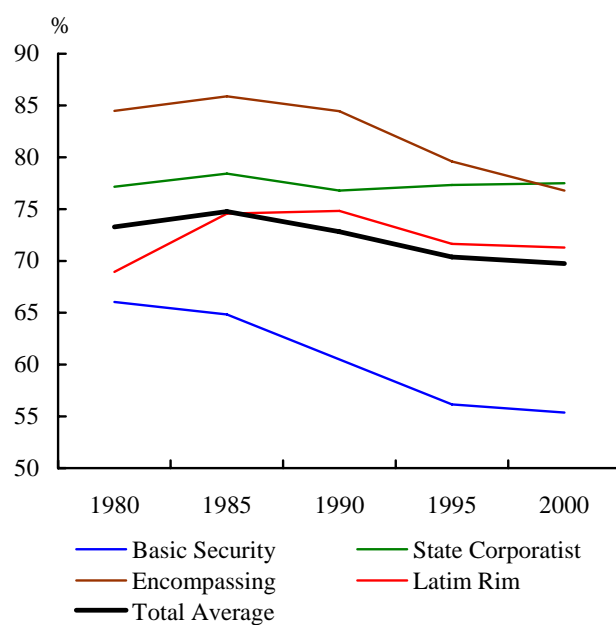
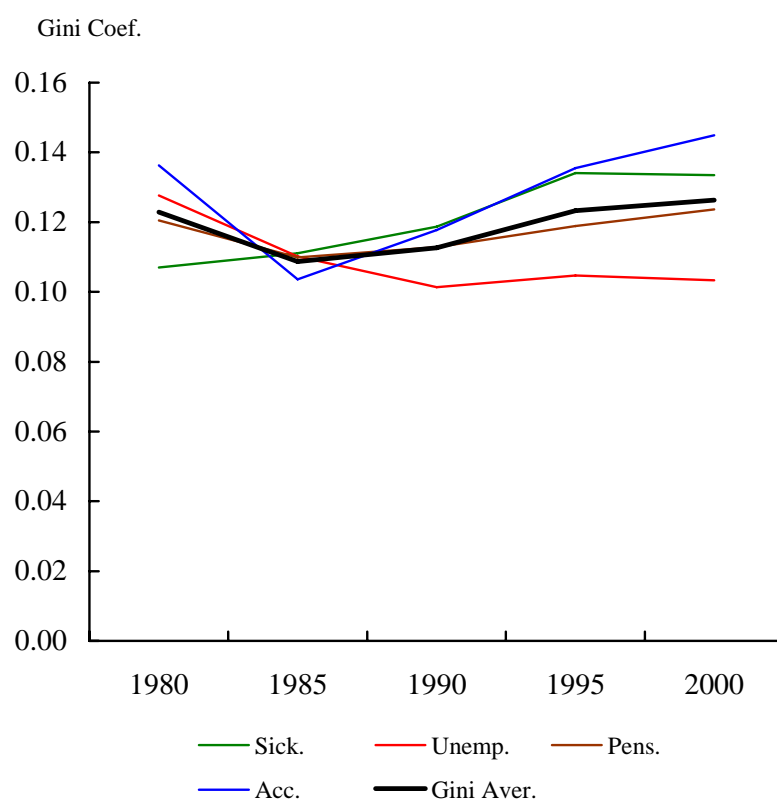**State-Corporatist**

Basic Security

Encompassing

Net Social Insurance Replacement Rates in 14 European Countries 1980-
2000, Average of Four Social Insurance Programs (Old-Age Pensions,
Unemployment, Sickness, and Work-Accident).

Source: SCIP

Dispersion of Replacement Rates in Sickness, Old-Age Pensions, Unemployment, and
Work Accident Insurance, 1980-2000.

Gini Coef.

Soruce: SCIP

Hierarchical Linear Regression of Net Replacement Rates in Unemployment, Sickness and Work Accident Insurance
in 15 EU Countries, 1980-2000 (Standard Errors Within Parentheses).

	I:a Average	II:a Sick.	III:a Unem.	IV:a Acc.	V:a Pens.
Fixed Effect					
Intercept	75.63	82.71	70.03	84.58	65.18
	(3.39)	(4.72)	(3.81)	(5.20)	(3.68)
Time	-1.14	-1.29	-1.13	-1.04	-1.12
	(0.33)	(0.38)	(0.58)	(0.60)	(0.48)
Random Effect (country)					
Intercept	143.83	289.28	151.86	323.29	153.85
	(55.28)	(110.34)	(60.65)	(125.36)	(60.31)
Random effect (year)	15.65	20.15	46.55	49.60	32.18
	(2.96)	(3.81)	(8.79)	(9.37)	(6.10)
Deviance	443.08	466.90	505.41	519.14	484.66
	I:a	II:a	III:a	IV:b	V:b
Fixed Effect					
Intercept	75.63	82.71	70.03	84.58	65.18
	(3.12)	(4.20)	(4.98)	(5.03)	(4.01)
Time	-1.14	-1.29	-1.13	-1.04	-1.12
	(0.55)	(0.62)	(1.01)	(0.97)	(0.70)
Random Effect (country)					
Intercept	128.48	235.91	328.71	327.65	209.64
	(51.37)	(92.80)	(130.66)	(133.57)	(87.57)
Time	3.55	4.41	12.58	10.57	4.85
	(1.62)	(2.04)	(5.38)	(4.93)	(2.64)
Intercept*Time	-2.48	2.63	-47.36	-15.75	-16.20
	(6.56)	(9.71)	(23.36)	(19.17)	(12.30)
Random effect (year)	7.26	9.72	16.79	24.61	20.70
	(1.59)	(2.12)	(3.66)	(5.37)	(4.52)
Deviance	423.33	447.62	477.69	502.38	476.83
Δ Deviance (model a-b)	*19.75*	*19.28*	*27.72*	*16.76*	*7.83*