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"The New European Economy and Social Welfare Reform"

0. Introduction

Although the European Union contains very specific national models of welfare state, we may distinguish four ideal types: a social-democratic one in the Scandinavian countries; a liberal one in the British Isles; a corporatist-conservative one in continental Europe; and a post-authoritarian model in the Mediterranean region. The structure of the various welfare states has been historically influenced not only by the productivity and performance of the individual national economies, but also by the social balance of power and the shifting patterns of political alliances and co-operation between various social forces (cf. Esping-Anderson 1990).

In the 1970s and 1980s, however, following a phase of expanding welfare-state benefits, the national regulatory models all over Western Europe found themselves in crisis. Against a background of economic crises, overstrained budgets, unfavourable demographic factors, etc. the national governments have been trying for some time now to reorganise the functioning of their labour markets and social welfare systems (cf. Bieling/Deppe 1997). This entitles us to advance the following – hardly controversial – theses:

- First, the structural reform of the welfare-state with regard to labour markets and social benefits is a general European phenomenon, in some ways even a global one;
- Secondly, all member states of the European Union are showing the same, or at least very similar, symptoms of crisis. They are experiencing the same problem situations (weak growth, unemployment, negative demographic trends, overloading of the social welfare systems), to which the reform process is a reaction;
- Thirdly, despite all national differences (local details, special financial or institutional arrangements, political welfare taboos) a basic strategic consensus has finally emerged that is driving the national reform processes.

This basic consensus mainly concerns enhancing the competitiveness of the European economy, partly by making labour markets more flexible, and partly by privatising and deregulating the social security systems (i.e. reducing benefits and limiting the number of beneficiaries). The argument is that this specific – largely neoliberal – concept of modernisation, or something very like it, has more or less been incorporated into the running of the new European economy. This will be elaborated below in three stages. The first stage will show what the new European economy basically means. The second will discuss the mechanisms linking the functioning of the new European economy to the reform of the social security systems. The third is a brief outline of the political options this situation offers left-wing organisations and movements.

1. The new European economy

Despite all differences in chronology, European integration is best described by Albert Statz who defines it as "a relative solution of the contradiction between the internationalisation of capital investment (trade, investments, financial relations) and the narrow confines of national markets and the limitations of the nation-state" (1989: 16). The creation of the common market and the partial merging of the functions of national governments – e.g. in the regulation of trade, competition and monetary policy – is mainly aimed at bridging the differences in reach of various economic and political functional spheres. This bridging process is, however, quite differently regulated in the various phases of integration:

(1) The old European economy matched the global economic arrangement of the post-war decades. As a product of the Bretton Woods system, the Marshall Plan, the Organisation for European Economic Co-operation (OEEC), the European Payments Union (EPU) and the European Economic Community (EEC), these institutions both promoted and politically controlled the opening of the national economies. The resulting interplay of international trade liberalisation strategies and Keynesian economic, social and employment strategies has often been studied and sometimes succinctly formulated. Take, for example, John Gerard Ruggie's formula (1982) of "embedded liberalism", which points out that the political regulation of the world economy in the post-war decades was aimed at reconciling the contrasting models or principles of "economic liberalism" and "social protection" (cf. Karl Polanyi 1978) to produce a highly productive synthesis. This state of affairs moved Robert Gilpin (1987: 355) to describe the constellation that emerged after the Second World War as a case of two complementary key schools of economic thought: "Keynes at home and Smith abroad". And Kees van der Pijl (1984), contemplating the balance of social power and political strategies, coined the phrase "corporate liberalism", a kind of synthesis or compromise between two opposing tendencies within industry and finance capital, one state-

monopolistic and the other liberal-internationalist. In the course of European integration this was reflected in the fact that most areas of policy – coal and steel, agriculture, services, and especially money and capital markets – remained highly regulated. At the same time, however, the customs union gave rise to a common market which acted as an additional stimulus to economic growth and increasing productivity. The old European economy was thus characterised by a limited opening-up of the national economies, an opening which did not weaken either the national Fordist paths of development or the welfare states but indirectly secured and stabilised them through the growth effects achieved without the need for any supranational welfare objectives (Ziltener 1999:123 et seq.).

(2) In the crisis and stagnation period of the 1970s and early 1980s this arrangement was already beginning to crumble before being fundamentally overhauled as a result of the global upheavals on the international monetary and financial markets and a new surge of integration. Consequently the new European economy differs from the old constellation outlined above in important respects: one, it fits into the global "Wall Street dollar regime", i.e. into a global monetary and financial architecture in which the actors of Wall Street and the US administration (Treasury and Commerce departments in co-operation with the International Monetary Fund (IMF) and the World Bank) pursue their global liberalisation and privatisation strategies (cf. Bhagwati 1998; Gowan 1999). Two, the concept of the new European economy also stands for the transition from market liberalisation to market integration, i.e. from the opening to the gradual regulatory alignment and intermeshing of the national economies. This is apparent in the fact that integration encompasses a growing number of policy areas: the liberalisation and integration of money and capital markets; the promotion of direct cross-border investments; the opening of the service sector; the (partial) privatisation and adaptation of public services to market realities; the abolition of non-tariff trade barriers; the centralisation of monetary policy in the hands of the EU; the restrictive definition of financial policy; and the abolition of the Exchange Rate Mechanism. This process of intensified market and monetary integration had enormous consequences for the national welfare-state systems. The restrictive macroeconomic EEMU regime sharply curtailed the scope of economic and financial policy, while the increased cross-border competition stepped up pressure for competitive deregulation, especially regarding labour markets, social welfare systems and public services. European integration (Bieling/Deppe 2003) no longer aims at stabilising and conserving the development of the national welfare-state models, but at promoting and advancing their reorganisation along market and competitive lines.

The development of the new European economy was also based on a series of key political integration projects. Without going into the interests, motives and negotiations in detail (cf. Bieling/Steinhilber 2000; 2002; Bieling 2003), the most important stages can be described as follows:

- The European Monetary System (EMS), created in 1979, was mainly intended to even out exchange rate fluctuations in order to counteract their negative consequences for inner-European trade. In view of the asymmetrical character of the EMS – and the dominance of the Bundesbank – it also promoted a process whereby the other countries drew closer to the "German stability culture", i.e. a combination of restrictive monetary and financial policy with supply-side economic, employment and social policies.
- The single market project launched in 1985 was intended not only to intensify inner-European competition, but also – in the course of competing within the Europe/ USA/Japan triad – to stimulate "economies of scale" and hence rises in productivity which would lead to higher investment, stronger economic growth, lower inflation and increased employment. At the same time, however, the steps taken to this end – the abolition of all non-tariff trade barriers, the introduction of qualitative majority decisions, and the comprehensive application of the principle of mutual recognition of national regulatory standards – ensured that the level and extent of national employment and welfare regulation came under strong pressure to modernise and adapt.
- From the late 1980s onwards a whole series of very specific monetary, economic, competitive and political power considerations caused the EEMU (Economic and Monetary Union) project to be placed on the European agenda with a view to giving the EU more weight in the global competition among currencies. What made the consequences of this project so momentous was that the design – an autonomous European Central Bank, the convergence criteria and the Stability Pact – was very much modelled on the German Bundesbank and the primacy of financial stability. In the absence of a differentiated set of economic, cyclical and employment-regulating instruments – i.e. additional financial resources including extended economic powers – national-level employment strategies and wage negotiations were placed under structural pressure to adapt once the exchange-rate factor had disappeared.
- Since the late 1990s the integration of financial markets has been intended to create further stimuli to modernise the European economy. The idea is that improved conditions of capital procurement across the EU will enable companies to raise their equity and

expand their capital spending and investment opportunities, thus boosting the rate of innovation, economic growth and employment. The EEMU has already defined a uniform framework for monetary and financial policy to act as a catalyst in the integration of financial markets. Nor should we underestimate the expansion and acceleration of regulatory legislation in the EU, as reflected in the Action Plan for Financial Services and the setting up of two new committees – an EU Securities Committee and an EU Regulators Committee – as proposed by the Lamfalussy Group.

Table 1: European projects for political and legal reorganisation and socio-economic restructuring

	EMS	**SEM**	**EMU**	**Financial market integration**
Structural change and public perception of problems	Collapse of the Bretton Woods system; world economic crisis; uncertainties of exchange-rate fluctuation	Sluggish economic growth, rising unemployment; relative weakness of European economies vis-à-vis North America (US) and South-East Asia (Japan)	Foreseeable instability of the EMS, power of financial markets and German Bundesbank to dictate; political control of Germany after unification	Deferred "take off" into a finance-led information economy; technological innovation gap in comparison to US
Concrete initiatives and policy measures	An arrangement of fixed, but adjustable currency exchange rates (ERM); backed by common currency unit (ECU)	Abolition of non-tariff trade barriers by a qualified majority decision-making procedure; some basic minimum regulation; mutual recognition of national regulatory standards	Three-stage implementation process; institutionalised autonomy of the European Central Bank (ECB); convergence criteria and stability pact	Action Plan on Financial Services; Lisbon strategy; a new mode of regulating securities markets by two new expert committees as suggested by the Lamfalussy group
Political interest and/or rationality	Stabilisation of exchange rates and price levels, improved international trade conditions	Intensified economic and regulatory competition; pressures for deregulation; economies of scale; productivity increases, additional employment as trickle-down effect of economic growth	Completion of the SEM; lower transaction costs for TNCs; common control of tight monetary policy; legitimising of sound budget policies; a better stance in global currency competition	Accelerated change due to more dynamic financial markets; intensified international competition through the medium of big banks and institutional investors; stimulus for a capital market- based

				reform of pay-as-you-go social security systems

Source: The author

The measures and initiatives listed above have had the effect of not only deepening and expanding the integration process economically, but also of giving a constitutional status to the European economic zone by underpinning it with treaties and institutions. Thus a specific mode of Euro-capitalist reproduction has emerged (cf. Bieling/Deppe 2003):

- This is borne out *first* by the fact that the economic core projects and their countless directives, guidelines and decisions have brought important aspects of capitalist accumulation in Europe – specifically goods, capital and lending – into alignment and integrated them. Thus over 60 percent of European countries' foreign trade is conducted within the EC; in many sectors transnational European supply, manufacturing and distribution structures have emerged; cross-border mergers, acquisitions and joint ventures have given rise to European corporate structures; an almost completely uniform currency has been brought into existence by the EEMU; and the integration of financial markets means that those seeking loans – whether governments or transnational corporations – are no longer limited to national markets.
- *Secondly,* over and above these contours of a transnational European accumulation regime a European mode of regulation has also emerged. It may be more fragmented and precarious in comparison to national regulations, but it is characterised by a specific assignment of powers and increasingly close patterns of interaction. Some fields, especially those of market and monetary integration, are buttressed by elements of a European statehood in the shape of very far-reaching political decision-making powers by supranational institutions such as the European Commission, the European Court, the European Parliament and the ECB. Other fields related to market and monetary integration – such as agricultural, regional, research, employment or environmental policy – are at least partially integrated into the Community. In others, where supranational powers either do not yet exist or only in rudimentary form – e.g. fiscal, tariff, employment, social, educational or infrastructure policy – issues are increasingly being voted on as part of trans-governmental co-ordination procedure and adapted to conform to the needs of the integrated economy.
- *Thirdly* and finally, embryonic forms of a transnational European civil society are also

discernible, which on the one hand lends legitimacy to the integration process as an institutional forum for reaching social consensus, and on the other provides repeated impulses for further specific steps along the road to integration (cf. Demirovic 2000; Bieling 2001a). European civil society comprises a large number of very heterogeneous actors or groups of actors. It not only involves cross-border mass-media communication or the activities of academics, think tanks and expert bodies, but also the strategies and initiatives of transnational political organisations in the narrower sense, such as parties, trade and professional associations, trade unions, NGOs, or social movements. Finally, a key role is played by the transnational corporations and their associations, which as "strategic planning bodies" clearly have privileged access to the European decision-making bodies – the European Commission, the Council of Ministers, and the EU Parliament.

The dimensions listed above make clear that the process of integration was extremely dynamic over the last two decades. Regardless of all crises, not only have the relations between the fields of economics, politics and society been redefined, but a specifically European path of development has emerged, a path which has three main characteristics:

- an increasingly integrated European economy;
- a transnational, financially driven accumulation regime; and
- increasingly close co-ordination between the national reform processes (mainly in the fields of labour markets and social welfare systems, especially pensions, but possibly health-care systems as well)

The features and dimensions of intensified economic integration in the fields of trade, services, production structures, etc. have just been sketched. As the extent to which they have produced a transnational, financially driven accumulation regime has probably not become clear, the following indicators may serve to illustrate this development:

- During the second half of the1990s, the *market capitalisation* of companies listed on the stock exchange rose enormously as a percentage of GDP. In the euro zone it almost quadrupled, rising from 25% in 1990 to 89% in the year 2000. It is even greater in the other EU countries (Britain, Denmark and Sweden), in which it rose from 65% in 1990 to 161% in 2000. This is higher than the proportion of market capitalisation in the USA, which was 54% in 1990 and 152% in 2000 (cf. ECB 2001: 10). This development was partly stimulated by the soaring stock markets and associated expectations, partly by the initial public offerings of companies in the high-tech, media and telecommunications sectors, and partly by the privatisation of state-owned enterprises. Within the OECD the proceeds from privatisation rose continuously from 1990 (US$ 24 billion) to 1999 (US$ 104 billion), with the EU accounting for US$ 15 billion in 1990 and US$ 61 billion in 1999. In the first half of the 1990s privatisation was concentrated on the manufacturing, banking and transport sectors, followed by a shift in focus to public utilities and telecommunications. In countries like Italy, Spain and Portugal the privatisation of state-owned enterprises is responsible for more than half of the entire market capitalisation (cf. OECD 2001a).

- An even more dynamic development – both globally and in the EU – was apparent in *equity trading*. Shares are no longer held, as they were in the early 1980s, for an average of 10 years, but for seven months. Globally this means that the turnover volume of the traded shares has increased by a factor of ten from US$ 5.8 trillion in 1990 to US$ 58.3 trillion in 2000, and in the EU, where they rose from US$ 1.4 trillion in 1990 to US$ 19.1 trillion in 2000, by a factor of more than thirteen. The European share of the market thus rose from 24.1% in 1990 to 32.8% in 2000 (cf. Huffschmid 2002: 6f). Some of the equity trading is caused by the *merger-and-acquisition strategies* of the transnational corporations. In Europe the total volume of mergers and acquisitions (M&A) with European participation rose from €177 billion in 1995 to €1,607 billion. in 2000. Above all the share of inner-European cross-border M&A has recently risen significantly from €92 billion in 1998 to €499 billion in 2000 (cf. ECB 2001: 19). This implies growing activity by the major investment banks which usually handle the M&A (cf. Huffschmid 1999: 74 et seq.).
- The changed status of financial markets is also reflected in the *investment strategies* of companies in the non-financial sector. Whereas fixed capital (as a percentage of GDP) rose only insignificantly from 16.8% in 1993 to 18.5% in 2000, financial assets in the same period rose from 13.0% to 21.1%. Thus the *mode of financing* investments has changed substantially. Up until 1995 the volume of external financing came to 7.4% of GDP, before it jumped to 21.1% in 2000. This means that "the rapid build-up of financial assets was mainly financed not from retained profits and household savings [...] but from external resources, be it bank loans, the issuance of bonds or equity." (Huffschmid 2002: 5)
- The increasing tendency of companies to be guided by shareholder value, i.e. gearing management strategies to the development of share prices, also points to the greater

influence exerted by shareholders. This group includes not only other companies, large banks and small investors, but also *institutional investors*, i.e. investment companies, unit trusts and pension funds. Between 1990 and 1999 the financial assets administered by institutional investors grew by an average of 11%. Thus in most EU countries their volume as a proportion of GDP more or less doubled and has now reached 76.8% in Germany, 125.4% in France and 226.7% in Britain (cf. OECD 2001b: 46). It is also striking that in the euro zone the proportion of company shares in the total portfolio of institutional investors rose from 15% in 1995 to 40% in 2000, whereas in the other EU countries it has been over 70% for some time (cf. ECB 2001: 29).

- Finally the dynamic development of securities markets was also boosted by another change in the operational infrastructure, namely that *the stock exchanges were more geared to international competition*. Even into the 1990s the stock exchanges were relatively cosy clubs that operated within a protected economic environment. In the second half of the decade, however, this situation changed radically with the growing significance of cross-border trading in securities and demutualisation, i.e. the profit-orientation of the stock exchanges (cf. Huffschmid 2002: 22f). Now there is considerable competition between stock exchanges. In the member states of the EU specific reform coalitions composed of stock exchanges, market operators, regulatory and supervisory authorities, political parties and governments have emerged with the aim of modernising the rival financial centres (cf. Moran 2002: 267 et seq.). Although the intensified competition is creating more interest in an all-European system of regulation (level playing field), what we tend to see is a battle for market share among the regulatory special interests.

Some of these trends were halted or reversed when the share bubble burst without seriously calling into question the transition to a finance-driven European economy. On the contrary, as far as the processes of institutional and regulatory alignment are concerned, the actors involved – the European Commission, the various committees, the financial associations – often use the crisis as an opportunity to increase their efforts to press on with the integration of the financial sector. This is also echoed by the voices raised in favour of publicly legitimising the integration of financial markets. If we look at the commentaries and stated aims of influential networks of actors, we will find that they continue to stress that the integration of financial markets is closely linked to the EC single market and the EEMU. In this sense it represents an inevitable next step as a result of which the previous projects – the

EC single market and the EEMU – will be completed and strengthened, thus creating additional investment and employment (cf. Bolkestein 2001).

Both aspects – additional investment/employment and the strengthening of the euro – are clearly linked to the increasing calls for improved European competitiveness. In many discussion forums the close connection "between changes in capital markets and competitiveness" (CAG 1998: 1) is explicitly emphasised. Ultimately, however, this connection remains ambivalent:

- On the one hand the accelerated integration of financial markets would appear to be a "win-win" strategy, from which everyone should profit in the end. It is indispensable for the revitalisation of the European economy, at least according to the ERT (2002: 7): "An integrated pan-European capital market would drive down the cost of capital, increase financing options, lower the cost of doing business (dramatically in the case of securities), increase the yields on investment and pension funds for all citizens, and release more venture capital." The integration of financial markets is not only needed to mobilise additional resources for technological innovations, however – it is also represented quite generally as an instrument for stimulating investment, creating new jobs and opening up opportunities for defusing the "demographic time bomb".
- On the other hand it is equally clear that the competition between financial markets will be accompanied by a realignment of employment and welfare. The EU commissioner responsible for the single market, Frits Bolkestein (2001), has made precisely this point: "No one is forcing the European Union to become more competitive than the United States in nine years time. But if that is what we really want, we must leave the comfortable surroundings of the Rhineland and move closer to the tougher conditions and colder climate of the Anglo-Saxon form of capitalism, where the rewards are greater but the risks also. If we spurn the means we must lower our sights lest we lose credibility and become ridiculous. So we must force ourselves to carry out those microeconomic supply side structural adjustments we decided upon in Lisbon."

2. Reform of the social security systems

The Lisbon strategy of the year 2000 is mainly associated with the very ambitious aim of turning the EU into the world's most dynamic and competitive economic zone by 2010. But even more important than this proclamation is that the Lisbon strategy makes very clear how the functioning of the new European economy – i.e. of the EEMU and the financial markets – will affect, via the "Open Method of Co-ordination" (OMC), the reform processes in different fields of policy. This includes care for the elderly, health, and social inclusion – i.e. fields in which the European Union has but few supranational powers.

- On the one hand the Lisbon strategy is based on further deepening the single market, the EEMU and the integration of financial markets. The latter constitutes, so to speak, the backbone of the Lisbon strategy. To quote Bolkestein (2002) again: "Financial integration is a building-block of our single market. It is at the heart of the EU's strategy to give the Union the most dynamic, competitive and inclusive knowledge-based economy in the world by 2010."
- On the other hand the Lisbon strategy is also based on the "open method of co-ordination". The OMC may be seen as an attempt to generalise the co-ordination of employment policy and apply it to other areas of policy, such as infrastructure, research, education and certain social issues. At the summits in Nice, Stockholm and Gothenburg the heads of governments agreed to successive extensions of the co-ordination approach. Although co-ordination is regulated differently in each field, it is based on the same principles. Within a framework of common guidelines and benchmarks for national reform policy, a kind of peer group pressure is generated which finally steers the reform dynamic in a direction that will stabilise the new European economy.

Put differently, the European economy is very much defined by EEMU and monetary policy and market integration, with other areas of policy tailored to suit (cf. Bieling/Deppe 2003). Finally the integration of financial markets – caused by the growing influence of institutional investors, i.e. investment companies, unit trusts and pension funds – promotes the market capitalisation of publicly traded companies, cross-border mergers and acquisitions, the emergence of a European market for company control, and a reorganisation both of corporate governance structures (gearing them to shareholder interests) and of social security systems (mainly in the fields of old age and health). In some fields European law applies directly (in the shape of directives, decisions or guidelines), while in others it tends to operate indirectly, in that growing market integration increases pressure for structural adaptation and modernisation, or that national governments co-ordinate their reform processes. In this sense we may distinguish the following basic dimensions:

Table 2: Economic and monetary integration and mechanisms of modernisation

	European regulation	**Regime competition**	**Co-ordination**
Single market	• Single European Act • White Paper (1985) (279 measures)	• Collective bargaining, social policy, education and training, etc. • Public sector reform (prohibition of government aid, liberalisation of public infrastructure)	• Monetary policy (EMS) • Fiscal policy (Ruding Committee)
EMU	• EU treaties (Maastricht, Amsterdam)	• Collective bargaining	• Broad economic policy guidelines, new policy mix • Financial policy (stability pact) • Employment policy (Amsterdam), social policy, public infrastructure, education and training, etc. (Lisbon strategy)
Financial market integra-tion	• New procedure of accelerated decision-making; • FSAP (42 measures)	• Corporate governance (in the broadest sense)	• Action plans on eEurope and venture capital • ESOPs, occupational pensions (consultation)

- The first dimension refers to the – relatively direct – alignment of regulations that takes place in the course of core projects, i.e. the contractual and other legal frameworks (directives and guidelines) required to set up an integrated economic zone. This mainly involves measures of "negative integration", i.e. forms of legal co-ordination aimed at expanding market competition. The integrated European economic zone is thus primarily based on common commodity relations, and only secondly – due to the integration of financial markets – on compatible capital and credit arrangements. The recent adoption of a common currency – i.e. the uniform monetary framework of the EEMU – has further strengthened this development.
- The second dimension of regime competition concerns all those aspects which have not

yet been subjected to common regulations. This refers mainly to the redistributive components of macroeconomic reproduction such as infrastructure, labour markets, social welfare and tariffs, which are still largely the province of national systems. This second dimension is determined by the limits of "positive integration", i.e. the difficulties of integrating the very specific national systems of employment and welfare. On the other hand the competition between the regimes also reflects the dynamic with which the national structures are drawn into the battle for market share and direct investment.

- The third and final dimension consists of those fields (areas of policy or partial aspects), which are politically co-ordinated in keeping with the functional requirements of the integrated European economy. In the context of the EC single market this mainly affected monetary policy. With the introduction of the EEMU, efforts at co-ordination grew considerably. After employment policy, which was even included in the Amsterdam Treaty, the national governments agreed in Lisbon to extend the co-ordination approach to other areas of policy in accordance with the "open method of co-ordination". This involves co-ordinating the modernisation of the European economy on the basis of a best-practice comparison while at the same time stabilising the EEMU by aiming financial policy at cutting costs. As regards the integration of financial markets co-ordination is still very informal, affecting such fields as the promotion of information technologies (eEurope) and venture capital and giving employees a material stake in productive capital (ESOPs and various other company pension schemes).

If we look at the areas of policy in which political modernisation is based on the second and third dimensions, i.e. regime competition and the various forms of "soft" co-ordination, the following picture emerges:

Table 3: The European context of socio-economic governance

	EU regulation	**"Regime competition"**	**Co-ordination**
Collective bargaining	No regulation	Strong	Independently organised by some trade unions
Corporate governance	Some regulations (more recently: European Action Plan)	Strong	Independently organised by financial investors
Fiscal policy (taxes)	Few regulations	Strong	Weak and partial

Financial policy (public expenditures)	Strong regulation (stability and growth pact)	Modest competition (so far)	between the Commission and national ministries of finance
Employment/labour market policy	Few regulations	Strong	between the Commission and national ministries of labour
Reform of social security systems	No regulation	Strong	"Open method of co-ordination"

Once again the co-ordination efforts seem to be ultimately focused on reforming the social security systems, primarily pension and health-care systems (cf. Beckmann 2002; Urban 2003). The causes of this development are undoubtedly complex:

- First, the EEMU and the stability and growth pact are increasing the pressure on national governments to consolidate their social welfare budgets, i.e. to minimise costs and outlays.
- Secondly, there is also "objective pressure for reform" as continuing weak economic growth and demographic trends that cannot be influenced in the short term are undermining the existing social welfare systems from the revenue side.
- Thirdly, institutional investors (investment companies, pension funds) are pressing to forestall the financial overloading of the social-welfare systems by privatising them. This last measure would have the welcome side effect of releasing additional financial assets to boost capital markets.

3. Political options

The above remarks may be summarised by saying that, as a result of the economic core projects of European integration – the EMS, the EC single market, the EEMU and most recently the integration of financial markets – a new European economy is emerging that implies a competition-based transformation of the European development and modernisation regime. The effects of this transformation are finally extending to the organisation – financing, level and extent – of the social security systems. This reform dynamic is being transmitted and driven by:

- an often diffuse element of competition between the various regimes and the consequent urge to improve competitiveness with all available means;

- individual guidelines and an approach to co-ordination that helps ensure that guidelines, benchmarks, best practices, national action plans and a certain peer group pressure are used to channel the pressure for reform in the direction of more market forces and competition.

These tendencies are undoubtedly the defining elements of the reform and transformation process. At the same time these dimensions also show that the reform of the social systems, whether at the national or European level, is always a political undertaking. This naturally raises the question of political alternatives to the European reform and modernisation process.

- The first option would be to set up a European welfare state through very comprehensive harmonisation of employment and social policy. Admittedly this option– given all the resistance to it – is unrealistic and not necessarily desirable. Problems would arise from the far-reaching centralisation of political powers and the difficulties of democratic control. Also, for all its apparent ambition, such an option would ultimately be very limited. This would certainly be the case if efforts were focused solely on corrective social measures that did not question the functioning of the new European economy.
- This limitation also applies in principle to the second option aimed at enshrining social criteria in the constantly expanding co-ordination of employment and welfare reform processes against the dominance of competition imperatives. It would soon turn out that social aspects were often nothing more than cosmetic phrases devoid of any effective power, whose primary purpose would be to enhance social acceptance for the reform projects.
- The third option – unlike the two mentioned above – goes much farther. It is not limited to narrow social policy goals, but also takes account of the functioning of the new European economy. For if it is true that the pressure for reform and modernisation on the basis of competition is being continuously raised by the new European economy and withdrawn from social control, it is only consistent to make the functioning – or, to put it more precisely, the social embedding and democratic control – of the new European economy itself the subject of alternative concepts for reforming employment and social policy.

In view of the existing balance of power and the dominance of liberal market ideology, it is far from easy to introduce this last option into the public debate. As an allegedly "unrealistic" undertaking it plays no role at all in day-to-day policy. Critical and socially minded forces should nevertheless consider the prospect of putting it back on the agenda in the form of concrete initiatives. There are many good reasons for this: first there is the limited nature and technocratic or market-driven selectivity of the other two options; secondly the danger that – regardless of the official rhetoric about inclusiveness – the processes of social exclusion might further aggravate the European Union's crisis of legitimacy; and thirdly the problems this might cause for the functioning of the national systems of representative democracy. The list could easily by extended. After all, it is not just a question of citing good reasons for stronger democratic control of economic processes, but also of developing concrete steps towards this. A first step might be to define how the core elements of a new "mixed economy" – public infrastructure, the general provision of basic services, the subjection of fiscal policy to rules and principles, guaranteeing a reasonable minimum standard of living, etc. – would have to be designed in the European Union in order to counteract the pressure for privatisation, to extend social criteria to the private economy, and once more expand the scope of employment and welfare policy. To avoid overburdening countries with less developed economies, one might consider defining standards in the sense of various GDP- and productivity-related bands of employment and social security.

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