Southern European welfare states facing globalization

Is there social dumping?

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Abstract

This paper analyses social policy reforms that have been adopted recently in Southern European countries (Portugal, Spain, Italy, and Greece). Such measures are aimed partially at adapting to the restrictions impinged on their national economies by the creation of the European Economic and Monetary Union and by the process of globalization. Social policy innovation is also influenced by the arguments and pressure capacities of the different socio-political actors in each country. The paper includes, in the first place, a conceptual clarification of the term "social dumping". Secondly, the study focuses on a quantitative and qualitative analysis of the actual reform processes that have taken place and their impact on both public revenues and expenditure. Finally, an assessment is offered of the factors shaping recent policy patterns.

Up to the mid seventies, Southern European welfare states almost failed to be taken into account because of their low level of social expenditure: other pioneering or paradigmatic countries monopolised the analytical efforts of social experts. However, attention on Southern Welfare States has been mounting for a few years already, because of the growing importance of their social expenditure, their peculiar political histories (long periods of authoritarian rule), and their cultural traditions, among other reasons. Seemingly, and so far, Southern welfare states have not withstood comparative analysis very successfully for they have enjoyed the privilege of being considered as special and different, but rarely on a positive qualification. Thus, they have been labelled as "rudimentary" (Leibfried, 1993), forming part of a "catholic family" (Castles, 1994), and "clientelistic" (Ferrera, 1996). Another aspect of this growing interest in Southern welfare states is "social dumping". In old-established welfare states there is much concern about national competitiveness in international markets and the threat from the adoption of a social dumping policy in newly emerging competitor nations, especially on the part of countries that also happen to be members of the European common market. Moreover, the more developed welfare states fear that social dumping strategies will be conducive to a "rush to the bottom", a convergence or harmonisation of social policy at the minimum level within the EU.

This paper examines to what extent social policies in Southern European countries were motivated by the notion of social dumping rather than the concept of catching up in recent years, that is, to what extent they followed the American model of the market economy rather than the European model of the welfare state, and to what extent social benefits were reduced or upgraded in these countries. Reference is also made occasionally to Ireland, for it is also one of the economically less developed countries in the EU and also one of the EU members benefiting most from Communitarian economic transfers, a circumstance that may make it also suspicious of being able to reduce social protection thanks to EU subsidies.

The paper is divided into three sections. The first consists of an examination of the concept of social dumping. The second is a quantitative approach to social dumping behaviours. In includes an assessment of the evolution of public social expenditure, financing mechanisms, and unitary labour costs, as well as a consideration of the fluxes coming from the European Cohesion and Structural Funds. The third section evaluates program specific changes qualitatively, that is, it deals with the most important extensions and cutbacks of welfare state schemes. It also includes an analysis of the factors shaping recent policy patterns.

1. What is social dumping?

The social dumping argument is probably as old as the European Economic Community. The idea that competition among the economies of the member states would be distorted unless a harmonisation of social standards and working conditions was achieved within the Community has proved long lasting. The Treaty of Rome reflected in part this worry in article 117, which stated the need to "promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained", that is, the principle of "upward harmonisation".[1]

However, during the 1960s and 1970s, harmonisation of social policies did not take place as a pre-requisite for the liberalisation of trade inside the Community. As Sapir (1995) notes, two elements were crucial in diminishing pressures in favour of harmonisation in that period. First, the six original members of the Community enjoyed pretty similar economic and social conditions. Second, such conditions underwent a rapid amelioration throughout the Community up to the oil shocks in the seventies.

With the coming of the single market, the social dumping debate has gained momentum. Again, the social dumping argument is phrased in terms of competitiveness among the economies of the European partners. In a nutshell, the absence of employment and labour standards in a liberalised labour market would foster the intentional maintenance of low wages and social contributions by those member states initially enjoying these conditions (Teague, 1989). This strategy is supposed to allow economies to keep the prices of their exports low and protect their home markets from penetration and at the same time attract relocation of production from large companies eager to take advantage of the low labour costs. A side effect would consist of exporting unemployment to the European partners with higher labour costs (*European Industrial Relations Review*, 1993). In fact, the demand for unskilled labour in developed countries has steadily declined for more than twenty years. However, low-wage competition from developing countries is likely to account for only a small fraction of this decline so that technological innovation in developed countries could have stood as the primary cause (Steil, 1994).

The fear of social dumping has been expressed within the European Community above all by the most developed states and by labour movements in these and other countries. As Mosley notes (1990), the appearance of such fears is not surprising, provided that European integration has build on the economic aspect rather than on the labour and social protection side. In fact, social policy has remained a national concern at large. This leads to an ever more marked contradiction because of the coexistence of a common European market and very varied national social provisions.[2]

The contradiction between economic integration and social protection diversity –or at least its perception on the part of policy-makers-- has been deepened ever since Southern European countries became members of the Community because of the increase in differences regarding social and wage costs. In such an environment, the social dumping argument defends that fair competition within the European Union requires not only the consistent application of national

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[1] Cited in *European Industrial Relations Review*, 1993: 17.

[2] On the opposite side of the argument, one may also claim that the common market has not been liberalised in practice as much as the theory praises. Governments continue to favour their national companies. Some of the largest economies, as for example, France and Germany, despite showing enthusiasm on the Euro, lag behind in the transposition of many single market directives into national law and in cutting back subsidies (*The Economist*, March 15, 1997: 22).

labour legislation, but also harmonisation. Those member states with lower levels of labour protection offer a competitive advantage to companies producing in those countries (Dearden, 1995). The process of social dumping, with the relocation of firms to exploit these cost advantages, is most likely to take place in the less advanced EU economies, that is, the Southern countries and Ireland.

It can be easily deduced from the above, that social dumping is related primarily with economic competitiveness. The first problem is how to define competitiveness, for this is not self evident. For instance, is competitiveness about flexible labour markets or about flexible production? As Dearden (1995: 12) points out, flexible production requires a high level of investment in specific human capital which, in turn, necessitates a long-term commitment by employees. This vision of labour market relationships differs radically from the flexible, deregulated approach defended by neoliberalism. As flexible production has spread little (an unevenly) within the EU, we will consider here that competitiveness among national economies is based mainly on their ability to let the market work in a flexible way, so that rigid institutional environments would act as hampering competitiveness.

Evidence on the absence of significant differences between Southern economies and the rest of the European countries in labour market flexibility due to industrial relations, wage bargaining systems, costs and procedures of dismissals and the like has already been provided.[3] Rather than enjoying flexible labour conditions, South European labour markets have tended to show an entrenched rigidity in their labour markets that has proved very difficult to overcome in recent periods. This is why we will not refer in more detail to this aspect. Besides, one could argue that economies may also search for an increased competitiveness by means of producing more or less radical labour market segmentations and tolerating different proportions of black activities, even if the formal sector of the economy remains highly protected. As for labour market segmentation, this has occurred not only in Southern Europe but also and very significantly in Central Europe since the crises of the seventies. The size of the black economy is big is Southern European countries, but recent estimations of the European Commission find that other more developed European economies suffer almost similar proportions.[4]

While employment-related matters may play an important role in influencing location decisions of firms, the central issue repeatedly related to social dumping is always labour costs. In a unified market it seems inevitable that employers will be swayed to locate where costs are lowest.[5] Nonetheless, further qualification of this statement is necessary: employers would search for the lowest level of labour costs providing the labour and skills required are available. Thus

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[3] See, for example, Meschi (1995) and Fundaciò Empresa i Ciència (1996).

[4] Report published by the European Commission in April 1998, cited in *El País* (12th April 1998: 13).

[5] Erickson and Kuruvilla (1994) have found out that, even though the labour cost incentive in manufacturing exists within the European Union, direct foreign investment has not been much larger in low labour cost countries than in high cost ones during the eighties.

decisions by employers are not only a matter of labour cost but also of the levels of productivity and skills needed.

Mosley (1990: 160) has produced one of the most commonly used definitions of social dumping. He understands that, within the EU and as the internal market program advances, "standards of social protection might be depressed, or at least kept from rising, by increased competition after 1992 from States with substantially lower standards". Thus, he sees social dumping as a type of unfair competition based on substandard employment practices.

We will take competitiveness as the capacity of an economy (a firm) to offer products at a price and quality level that demand can identify and compare with those of other national or foreign firms. These two factors of competitiveness –price and quality--, depend on a high number of variables that may be classified as factors affecting all the firms in one country (social provisions, industrial relations, training and educational conditions...) and those affecting single firms or group of firms, such as technological capacities, access in favourable conditions to natural resources, or competitive costs of transport and energy. The latter are very difficult to measure for comparative purposes among countries, but they are likely to be higher in less developed economies.

In sum, social dumping is generally understood as those intentional practices enhancing competitiveness on the part of national economies by means of reducing or preventing growth of social and employment protection, because of the impact that such actions have on the reduction of labour costs.[6] From this point of view, competitiveness is tightly related to the level of social protection enjoyed by the citizens of a country. However, effects of the level of social protection may be twofold. In the first place, the financing of social protection is part of the labour costs of firms, and it may reduce firm's competitiveness if they are obliged to rise prices or reduce benefits. However, it should also be pointed out that firms can also charge workers with social contributions by diminishing real salaries. In the second place, expenditure on social policy may be conducive to an increase in competitiveness, for it may ameliorate the quality of workers and of the production process.

Finally, there is other less orthodox ways of considering social dumping. One may argue that social dumping, i.e., a diminished effort in social protection, is also possible in the less developed economies of the EU because of the transfers received in such countries from the EU itself (and having an origin in the better off EU economies). The next section will analyse the

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[6] Although employers tend to stress in the negative consequences of social charges for their competitiveness in external markets, it should not be forgotten, as Herce (1986) highlights, that the most adequate measure of the degree of competitiveness of an economy is the effective rate of exchange, that fluctuates much more rapidly than changes in social contributions. Moreover, as it absorbs variations in the relative levels of prices, it tends to compensate relative changes in unitary labour costs in the long run. We are not taking this aspect into account, for potential fluctuation of exchange rates are very narrow at present in the EU and will become non-existent for those countries adopting the Euro.

evolution of social expenditure, financing mechanisms and labour costs in Southern European countries as compared with those of other EU member states, as well as EU economic transfers.

2. Assessing the welfare effort in comparative perspective

Evolution of expenditure on social protection

Expenditure on social protection grew significantly in all European member states during the fifties, sixties and seventies, and then it stabilised during the following two decades. While in 1979 the European average of expenditure on social protection represented 19% of GDP, in 1983, this proportion reached 26.3%. From 1983 onwards, stagnation or even a slight decrease took place: 25% of GDP in 1989, so that despite the positive cycle of the economy, expenditure on social protection increased to a lesser extent than GDP. In the early nineties, and in the presence of economic crisis, the tendency was inverted so that expenditure reached 28.85% in 1993. As table 1 shows, the level of expenditure on social protection as a percentage of GDP is very different among EU member states, although differences have been reduced gradually. Of all Southern countries, Spain made the strongest effort to reduce the gap for expenditure growth doubled the European average for the period 1980-1993.

If we take into account the wealth of the country and the part of it that is dedicated to social protection, a high correlation can be stated with the exception of the Netherlands and Denmark, who spend more on social protection than other wealthier countries, and Italy, where the opposite occurs. Southern European countries other than Italy are the less well off and also those spending less in absolute terms (see table 2). No correspondence may be ascertained between total social expenditure and the different areas of social protection.

Despite the comparative low levels of social expenditure in Southern countries, they are, together with the United Kingdom, the member states having experienced a larger growth of social protection in purchasing power parities during the period 1980-1993, as table 3 shows.

Evolution of financing structures

If we can talk about a dramatic and unprecedented rate of growth of social expenditure until the late seventies, followed by subsequent stagnation, this trend is even more marked in the case of public social revenues. During the sixties and seventies, high economic growth rates and low unemployment ones allowed high returns of personal taxes on income that were articulated by high taxation rates and tax bases that became increasingly limited by ever higher fiscal benefits. Increases in real salaries, coupled with inflation, made the financing of the welfare state possible in the most developed countries in Europe.

A second period ranging from 1975 to 1985 was marked by mushrooming increases of unemployment and inflation. Most governments did not dare to introduce reforms in their fiscal systems and the dynamic of growth of public revenues went on eased by the simultaneous presence of high inflation rates and an upward trend of nominal wages. From 1985 onwards, fiscal systems began to be restructured. This change was fostered by the upsurge of a theoretical paradigm assigning greater importance to the achievement of economic efficiency –mainly to the contribution of tax policies to the reduction of unemployment—than to the use of taxes as an instrument to gain a more equitable distribution of income. These reforms led to reductions of tax on income that were generally compensated by an increase in indirect imposition, as it can be ascertained in tables 4 and 5.

Following the example of the USA, Great Britain pioneered the reform of the structure of taxes on income within Europe. Germany and the Netherlands followed suit, and then the experience was generalised to other European countries. Southern countries were the last to adopt changes conducive to a stronger reliance on indirect taxation (for example, Spain did not produce such a change until 1997). Re-formulation of fiscal policies in Southern Europe was fostered by the perception that increased freedom in the movement of capitals within Europe, coupled with the existence of stronger international financial markets in countries like Great Britain, Germany and Belgium could result in re-localisation of capital towards these countries.

The reform of tax systems is far from having been completed. Thus, some Northern countries and Austria have recently adopted significant reforms and complementary measures are being considered in Sweden. Moreover, economists that have always shown strong worries about the need to preserve equity (as, for example, Atkinson, 1996) are in favour of the shift towards a stronger reliance on indirect taxation, despite the decrease on redistributive capacity it may entail.

The reliance on indirect taxes was maintained during the early nineties, owed mainly to the influence of the Maastricht Treaty and that of the agreements regarding the EMU. These obliged the member states to reduce their budgetary deficits substantially (Greece was an exception, for it did not comply with any of the requisites of convergence) and to moderate fiscal pressure in order to avoid international re-localisation of capital. On the whole, as tables 4 and 5 show, Southern European countries, which departed from lower levels of fiscal pressure, have experienced a more intense growth during the last decades, which has resulted in a levelling off of differences with the rest of the European members. This is evidence that competitiveness of firms has not been enhanced in Southern Europe by means of reducing the fiscal burden, but rather the opposite has taken place.

In the period 1965-1994, in all Southern European countries (with the exception of Italy) fiscal pressure has grown above the European average, especially in the cases of Spain and Greece. In particular, the period ranging from 1985 to 1994 has been characterised by moderate increases of fiscal pressure (2% of GDP), while Greece, Spain, Portugal and Italy have significantly departed from the general tendency by growing three times as much (see table 4).

Evolution of unit labour costs

Effects of social protection on competitiveness –increase of labour costs and increase of productivity—have opposite consequences. Both influences may be measured by unit labour costs, defined as labour costs per worker divided by labour productivity. By analysing in the first place absolute labour costs (table 6), significant differences may be ascertained among EU members. However, these differences tend to be compensated by differences in productivity, which has the effect of homogenising unit labour costs across the EU. Components of labour costs differ notably among countries, but it is to be noted that in Southern European countries (no data for Greece) the incidence of compulsory social contributions registers figures that are over the European average. However, this is not the case in Ireland.

Turning now to the analysis of unit labour costs, it may be concluded that there is no direct relation between the level of social protection and competitiveness, for those countries enjoying a high level of social protection are also competitive in international markets. Southern European countries show an evolution that is leading them to converge towards the European average (see table 7).

European Union economic transfers

Finally, it could also be considered that transfers from the EU help the less developed member states gain higher levels of competitiveness than those of their richer counterparts. As regards transfers from the Structural and Cohesion European Funds, it should be noted that those countries enjoying a higher flow of subsidies from the EU also show a higher proportion of expenditure on social protection. Net fluxes from the EU amount to very low proportions of GDP when compared to those dedicated to social protection by Southern countries. For example, Spain, which is the country most favoured by EU transfers, spends 24.55% of GDP in social protection while net subsidies from the Community amount roughly to 1.3% of GDP. Besides, it should be taken into account that EU transfers are in a way a compensation for industrial and productive capacity cutbacks in those sectors that are not competitive any longer, a process that entails an increase of expenditure on social protection because of pre-retirement policies and other social measures that have to be financed by each country.

In sum, neither the consideration of the evolution of social expenditure and its financing nor of unit labour costs renders any positive result leading to a suspicion of the existence of social dumping in Southern Europe. Let us turn now to assess qualitative change of social provision in Southern Europe, as well as considering the factors that have shaped the chosen strategies for the reformulation of social policy.

3. Recent policy patterns in Southern Europe: social dumping or catching up?

This section[7] refers to the latest social reforms only as a general overview of those aspects more closely related to the potential existence of social dumping. As Alber (1998) points out, increases in aggregate spending levels may occur at the same time as particular welfare state programs are rendered less generous and/or public provisions are replaced by private ones. We can also add, that such a phenomenon is also possible not only when expenditure grows, but even when fiscal pressure (be it through general taxation or social contributions) is increasing and unit labour costs are becoming similar.

To start with, it should be pointed out that the reference model, the welfare state(s) most admired by Southern European countries has never been the American model of the market economy. Contrarily, Southern countries, although departing from an occupational model of Bismarckian tradition have turned their eyes in the last decades to whom they thought the most developed European welfare states, i.e., those of the Scandinavian countries. In Spain, since the early seventies (that is, even before the dictatorship had come to an end), a general wish was felt among all the social and political actors of trying to emulate the Scandinavian models. In later years, as it also happened in other Southern countries (Portugal, Greece), the presence of social democratic parties in office allowed for the maintenance of such an ideal (Maravall, 1995). In Italy, the only Southern European country enjoying a democracy since the end of the Second World War, such aspirations were also present. In general, an acute conscience of backwardness was shared (and still is) by South European countries in social protection matters, to which the Italian case has hardly been an exception.

In fact, a significant share of the efforts made for the reform of social policy during the last fifteen years have yielded important results in the direction of the adoption of universalist policies. This has been the case above all in what regards the health care and the education systems. In the first case, national health services have been adopted in all Southern European countries, starting with its formal inception in Italy (1978), followed suit by Portugal (1979), and later by Greece (1984) and Spain (1986).

However, differences in the level of implementation of these reforms among the Southern European countries are notorious. Portugal and Greece have encountered a lot of difficulties for implementing their reforms; in Portugal the share of private expenditure has been growing dramatically (Gouveia Pinto, 1997). In Italy and Spain, the reforms have been so far much more successful, although also presenting differentiating characteristics. While Italy put in practice its sweeping reform straightforward and rapidly during the eighties, Spain lagged some years behind, so that universal coverage, for example, was not attained until the late eighties and some 200,000 people (0.3% of the population) belonging to the highest income bracket still remain out of the public system. Italy has also passed a reform in 1998 regarding the financing of health care services out of state and regional revenues. Spain finances health care services out of taxes (100% in 1999) and user co-payments only exist for pharmaceuticals. Cost-sharing for health services were introduced in Italy in 1983 and more decidedly in 1992, and are also of considerable

[7] Information for this section has been drawn mainly from Ferrera (1997), Guibentif (1997), Gouveia Pinto (1997), Gough (1997), Guillén (1996), Petmesidou (1996), and Venieris (1997).

importance in the Portuguese and Greek cases. Still, if compared with the level of other European countries, user co-payments do not seem particularly high in Southern Europe (Guillén and Cabiedes, 1997).

The separation of the financing and provision functions within health care systems, --if this could be considered a social retrenchment measure, which is doubtful—has spread unevenly in Southern Europe. Italy has decidedly introduced them by a reform passed in 1993-94- In Spain, reform proposals made in this direction by a parliamentary commission in 1991 were aborted by direct opposition of the unions and public opinion. At present, some autonomous regions enjoying responsibilities in health care have moderately put in practice managed competition and legal provisions have also been passed in 1998 for those regions remaining under centralised authority (the so-called INSALUD-Direct Management). Portugal and Greece have not only failed to a great extent to implement the introduction of a national health service but also to put in practice "the reform of the reform", so that managed competition measures are still very tentative. In fact, a reform of the Greek system on the lines of the British *Working for Patients* was proposed by an international committee in 1995, but its viability is still being discussed. In Portugal, rationalising measures have been introduced more decidedly than in Greece although their scope has not been broad. On the contrary, Italy has been most successful in curbing down dramatic increases of health care expenditure in recent years (Guillén, 1998).

In general, and in the health care domain, maybe with the partial exception of Portugal, where privatisation of previously public schemes has taken place, it is difficult to see a clear attack on the core of Southern welfare states in recent rearrangements of public provision. This has also been the case with pensions. However, in this latter domain, whereas no decided privatisation trends may be observed, cost control measures have been adopted in all Southern European countries. Increased public incentives for private pension plans have been introduced in all of them in the late eighties or early nineties, but private plans have not come to constitute an opting-out possibility and, so far, small proportions of citizens have engaged on them if compared with other EU countries.

In general, income guarantee policies in Southern Europe have remained occupational and have suffered a good number of both expansionary and retrenchment measures, which have acted as a pendulum in the past two decades. Pensions were indexed to inflation in the eighties, while such indexing was corrected in the nineties to expected rather than to past inflation rates or even discontinued, as it has been the case in Greece. After several unsuccessful attempts undertaken in the 80s at the face of dramatic fiscal deficits, pensions have also been linked much more strictly to individual social contributions in Italy since the Amato reform in 1992, and more intensely since the Dini reform in 1995 (Ferrera, 1997). Something akin, although probably less intense, has happened in Spain since the Toledo Pact was signed in 1995 among parties represented in parliament. The Law on the reform of the pension system was approved in 1997. Both in Italy and Spain, a drastic reduction of the replacement rate of pensions has taken place: around 35% for Spain (adding up the results of the 1985 and 1997 reforms which will be totally in force in year 2002). In Greece several laws were passed at the beginning of the nineties, targeted at reducing the public debt and social security measures (Petmesidou, 1996). In Portugal restrictive reforms of the pension system have only been proposed very recently and are being debated currently (Romao, 1998). However, it should be recalled that replacement rates are the highest of the whole EU in Southern countries (see Ferrera, 1996), so that these reforms bring in line the pension systems of Southern Europe with the rest of the EU members.

Conversely, expansionary measures of different kinds have taken place in order to complete (or try to) the safety net in the domain of income guarantee. The introduction of such measures has been more intense in Spain and Italy and have consisted most of the times in the introduction of means-tested programs aimed at particular social groups, such as long-term unemployed and poor elders. These programs are of a limited scope when compared with the provisions of other European welfare states and they show two distinctive traits: first, broad inequalties between benefits linked to previous participation in the labour market and those covering non-participants; and second, inequalities among the levels of protection of the elders and people within active ages (Ferrera, 1996; Gough, 1997). Nonetheless, such inequalities have been somewhat diminished in recent years by the restrictive reforms of the contributory pension systems on the one side, and the amelioration of non-contributive benefits on the other.

Labour market policies have also underwent some changes, so that passive protection of the unemployed has been reduced. This reduction has been compensated, at least partially, by the intensification of active labour market policies, which have doubled their percentages over GDP between 1985 and 1995 (OECD, 1997: 43). Private employment agencies have been timidly introduced in Spain, Italy and Greece in very recent years, although with negative results in this latter case (see Petmesidou, 1996).

In sum, qualitative assessment of policy reform in Southern European countries does not lead to suspect that a social dumping strategy is taking place. Expansion has been much larger than retrenchment. Moreover, changes in social policy and cutbacks have not been produced by the intentional search of disloyal economic competition, but rather by searching to endow the system with more efficiency. Given that the precedent analysis is accurate, it should be concluded that even though both catching-up and retrenchment moves have been present in Southern welfare states in recent years, the former have been both quantitatively and qualitatively more intense than the latter, as it happens to be the case in all EU welfare states. Now, how to explain this?

4. Interpreting the evolution of policy reform

In this section, we will consider some interpretative arguments and also re-consider some other explanations that have been already advanced in order to assess both expansionary and retrenchment tendencies in Southern Europe. The aim is to explain why expansionary tendencies have outmoded restrictive ones. None of the arguments presented here claims to constitute a definitive explanation but just to contribute to the existing debate on the recent development of Southern welfare states.

In the first place, growth in social policy expenditure and the adoption of expansionary measures were related in Southern European countries to legitimation needs of governments in the processes of transition to democracy that Portugal, Spain and Greece underwent from the mid seventies onwards. It should be recalled that governments not only needed to stabilise the countries politically but also respond to new and pressing social needs that were brought about by the coincidence of political transitions to democracy and economic crises (Castles, 1995; Guillén, 1992). Moreover, the establishment of democratic regimes allowed interest groups to exercise pressure and to participate in the decision-making process.

Secondly, the permanence of left-wing parties in office for long periods of time during the last two decades could also be forwarded as a reason for the expansion of social policies (Maravall, 1995). Moreover, and in general, public preferences and pressure groups were also clearly in favour of the "attainment of European standards" in welfare policies. Unions were able in many occasions to press decidedly for the introduction of expansive reforms and to block restrictive ones or, at least, to postpone or make them hard to approve.

Thirdly, a deep decentralisation process has taken part in Spain and Italy, especially in the domains of welfare services such as health care, education, and personal social services. This devolution process has led to a clear increase in expenditure and also to competitive behaviours on the part of the regions as to which of them was and is able to offer better welfare services to their citizens. Innovation has also been fostered by decentralisation, so that regions have forced the central state in many cases to renew or complete obsolete legislation on social policy. However, some evidence exists that inequalities among citizens are also mounting at the national level because of increasing differences in the provision of services at the regional level.

Another line of argument could take into account the influence of EU recommendations and demonstration effects. In fact, in our view, EU membership and integration processes have had a twofold crucial influence on the evolution of social policy among the Mediterranean countries. On the one side, joining the EU has had the effect of fostering the expansion of social policies in order to close the existing gap with other European welfare states. On the other side, pressures for economic convergence and the reduction of the public deficit have acted in the opposite direction of facilitating shortcuts. Retrenchment policies have been presented by governments very frequently as unavoidable and necessary if the country was to join the EMU, providing in this way a very convenient excuse for governments that could so dilute their responsibility and escape negative electoral consequences, that is, it has facilitated the use of blame avoidance strategies.

Some other arguments have been already built in order to explain Southern evolution. Ferrera (1996), finds that clientelistic practices and patronage systems, in which social measures are used as instruments of political exchange between political parties and certain social groups, are a key characteristic of Southern welfare states. Such practices would have the effect of fostering welfare state expansion. However, as Ferrera himself acknowledges, partisan penetration of welfare administration, "selling" of votes and other clientelistic practices have only been researched systematically in Italy. Particularistic exchanges and clientelistic practices are not equally spread in all Southern European countries. Suspicion of clientelistic behaviour has only been tied to unemployment subsidies for Andalusian peasants in Spain. Indicators of clientelism should be defined and measured (be it quantitatively or qualitatively) in all EU countries before concluding that clientelism is spread significantly enough in the whole South so as to declare it a prominent, defining characteristic of the social protection systems. Besides, the use of some welfare programs for different purposes from those for which they were created, as for example the use of invalidity pensions as unemployment subsidies, is probably more due to the absence of a dense protection network in Southern income maintenance systems than to clientelistic behaviours.

Some other factors have been proposed as hindering welfare expansion in Southern Europe. The lack of a strong administrative tradition, a "deficit of stateness" and a "low degree of state power", would facilitate clientelism and have consequences for the upsurge of problems at the implementation phase of the policy-process (Ferrera, 1996). However, it could also be defended that implementation gaps that have been found to be common in Southern social legislation may be due to other reasons. Southern countries share a tradition of passing very detailed laws and also of producing a lot of legal normative. Legal norms are produced in many occasions in what could be labelled as a "late-comer style", that is, legislators tend to look around to all the norms on a certain field that have been produced in Western countries and to incorporate the most "modern" formulations to new pieces of legislation. In this way, symbolic discourse of governments can profit from declaring that they have passed really advanced ("the most advanced") legislation. But such "advanced" legislation is many times thoroughly inappropriate for the state of development of a certain policy in Southern Europe. Thus, it is hardly a matter of lack of administrative capacities but rather a problem of mismatch between legal provisions and the degree of maturity of social programs, leading to a problem of viability. Furthermore, if a lack of capacities for reform implementation did exist, the effect should be expected to be equal for both expansionary and restrictive legal reforms.

Many experts on social policy in Southern Europe have pointed to the existence of a weak civil society and to the reliance on the family as a social services provider. These are considered factors hindering the expansion of social policy, because of the absence of demands and pressure on public authorities that this circumstance entails. This may be partially true as far as the generation of demands is concerned. However, it is also in contradiction with the ability that pressure groups have shown for blocking restrictive reforms in a good number of cases in the last decades.

Distinctiveness of Southern welfare regimes is sometimes related to the persistence of a Catholic ideology (Van Kersbergen, 1995) that has consequences for the behaviour of families and the gendered division of labour and for the formulation of social policy. One could start by asking whether this could apply also to Orthodox Greece or to Muslim Turkey, a country that is sometimes considered to be part of the Southern European family. So far, and in our view, the issue of cultural and ideological determinants of welfare provision has not as yet been studied enough to reach a clear-cut conclusion. The division of labour as regards household tasks has changed very little in the whole of Europe, not only in the South. Whether the role played by the family in Southern countries is due to the influence of religious ideology, or other ideological traditions, or to the fact that the need still exists for the family to complement public welfare provision is still matter for investigation. Lastly, differences in the incorporation of women to the labour market may be due to the existence of a traditional view on women's roles, or equally possible, as Castles (1994) defends, to the evolution of labour market opportunities and employment structures. In fact, the participation of women in the labour market has increased dramatically over the last decades in Southern Europe, even if strong institutional barriers for new entrances of young workers (both for men and women) have persisted.

Retrenchment and/or rationalization reforms have been due to external pressures stemming from the process of European integration and the Maastricht conditions for economic convergence. A second reason, has been that of re- addressing the unbalances of the traditional welfare systems in order to reach a more equitable situation, that is, reducing the privileges of those most profiting from the welfare system and increasing those of the population left aside, mainly, non core labour market participants. Also, paying attention to neglected issues such as family policy has borne of significant importance.

So far, intentional retrenchment of social provisions in order to gain economic competitiveness has not been detected. Possibilities enhancing retrenchment moves in the future could also be considered. The attempt at completion of income maintenance systems in Southern Europe by introducing targeting programs aimed at selected groups of the population (also called the "failed universalism" of the South) could open the way for restrictions in the coming years. As Alber (1998) notes, commenting on Pierson (1994), this should not be the case. Such programs are usually aimed at the worse off population, who have little opportunities to organise and exert pressure, but are also limited programs that render small fiscal advances if suppressed while they can turn immensely expensive from a political point of view, precisely because of damaging the "weakest".

The public choice perspective defends the salience of fiscal interests of governments in order to introduce cutbacks in particular social programs, especially when the same level of government both finances and legislates. This could make us wonder if, for example, regional governments would find a strong fiscal incentive reduce social protection in Spain or Italy in the future. The consequences of this are hard to foresee, because for the moment being fiscal co-responsibility is limited and central states have trouble to put the brake on regional spending rather than the opposite. Moreover, and in general, government fiscal interests are bound to confront other political and social interest with uncertain results, so that the power of predictability of the public choice perspective is very small.

Conversely, it could be argued that, as Pierson (1994) points out, retrenchment policies follow a different logic than that used for expanding welfare states in the post war period. The new strategies are more bound to be based on divide-and-conquer strategies and practices aimed at obscuring visibility of changes and avoid responsibility. Once governments become increasingly used to the new ways of acting, it is hard to predict whether or not they will use them more profusely, especially if confronted with economic crises or other difficulties. They may well do so.

However, there is no reason to think that Southern welfare states would be more interested on profiting from social dumping behaviours. While probably more likely to be hit stronger by a recession, so that incentives for disloyal competition would grow, social needs would also be likely to grow to a greater extent than in other EU members, thus making social policy retrenchment problematic.

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Table 1
Evolution of expenditure on social protection (%GDP) 1970-1993

Country	1970	1980	1984	1989	1993
B	18.70	26.1	29.6	26.66	26.9
Dk	19.60	29.7	28.9	29.9	33.23
D	21.50	28.6	28.5	27.5	31.0
Gr		13.3	20.0	20.7	15.8
E		15.6	17.4	20.1	24.5
F	19.20	25.9	29.4	27.5	30.9
Irl	13.20	20.6	23.9	19.7	21.5
I	17.40	22.8	27.1	23.1	25.7
L	15.90	26.4	26.1	25.2	24.6
Nl	20.80	30.4	33.9	30.97	33.4
P		14.6	15.5	14.54	18.5
UK	15.90	21.7	24.1	21.7	27.8
Average	19.00	24.30	26.06	25.07	28.85

Source: Eurostat, several years.

Table 2
Comparative expenditure on social protection 1993.

GDP per capita **(1)**		Per capita social expenditure **(1)**		Total social expenditure % GDP		Old age and survivors % GDP		Sickness % GDP		Unemploymnt % GDP	
L	26.67	L	6.63	Nl	33.63	Nl	19.11	D	7.96	**E**	**4.77**
B	17.76	Dk	5.60	Dk	33.16	**I**	**17.61**	F	7.7	Dk	4.08
D	17.30	Nl	5.58	D	31.02	D	15.58	Nl	7.12	**Irl**	**2.96**
F	17.21	D	5.37	F	30.89	F	14.93	Dk	6.06	Nl	2.94
Dk	16.88	F	5.32	UK	27.82	B	14.8	**Ir**	**6.06**	B	2.63
I	**16.62**	B	4.90	B	27.62	L	14.71	B	6.02	D	1.98
Nl	16.58	UK	4.32	**I**	**25.81**	UK	14.29	**E**	**6.01**	F	1.98
UK	15.54	**I**	**4.29**	L	24.86	Dk	14.00	L	5.94	UK	1.64
Irl	**12.54**	**E**	**2.99**	**E**	**24.46**	**E**	**11.79**	**I**	**5.45**	**P**	**0.84**
E	**12.23**	**Irl**	**2.68**	**Irl**	**21.39**	**Gr**	**11.77**	**P**	**5.32**	**Gr**	**0.53**
P	**10.67**	**P**	**1.95**	**P**	**18.25**	**P**	**9.43**	UK	5.15	**It**	**0.53**
Gr	**9.83**	**Gr**	**1.60**	**Gr**	**16.26**	**Irl**	**7.25**	**Gr**	**2.29**	L	0.21

Source: Eurostat, several years.

(1) In thousand units of purchasing power parities

Table 3

Evolution of per capita social expenditure (1980 / 1993)

Country	Purchasing power parities		Percentage over EU average	
	1980	1993	1980	1993
B	2,127	4,904	127	109
Dk	2,072	5,598	124	124
D	2,441	5,366	146	119
Gr	450	1,598	27	35
E	892	2,992	53	66
F	2,057	5,318	123	118
Irl	916	2,681	55	60
It	1,396	4,291	83	95
L	2,414	6,630	144	147
Nl	2,355	5,576	140	124
P	486	1,948	29	43
UK	1,451	4,323	87	96
TOTAL	1,676	4,505	100	100

Soruce: Eurostat, several years.

Table 4

Tax receipts as percentage of GDP.

(1965-1994)

Country	1965	1975	1985	1994
B	31.2	41.8	47.7	46.6
Dk	29.9	41.4	49.0	51.6
D	31.6	36.0	38.1	39.3
Gr	22.0	25.5	35.1	42.5
E	14.7	19.5	28.8	35.8
F	34.5	36.9	44.5	44.1
Irl	25.9	31.3	36.4	37.5
It	25.5	26.2	34.5	41.7
L	30.6	42.8	46.7	45.0
Nl	32.7	42.9	44.1	45.9
P	16.2	21.7	27.8	33.0
UK	30.4	35.5	37.9	34.1
Unweighted Average	28.3	34.8	40.3	42.5

Source: Messere (1997)

Table 5
Particular tax receipts as a percentage of total tax receipts
1985, 1990,1994

Country	Income Tax			Corporate Tax			Social Security			VAT and Sales			Excises		
	1985	1990	1994	1985	1990	1994	1985	1990	1994	1985	1990	1994	1985	1990	1994
B	35	32	31	5	5	6	32	34	34	15	16	16	8	8	9
Dk	50	53	54	5	3	4	4	3	3	20	21	19	13	11	11
D	29	28	26	6	5	3	36	37	39	16	17	18	9	9	9
Gr	14	14	10	3	5	6	36	31	35	17	26	22	21	15	17
E	20	22	23	5	9	5	41	35	39	15	16	15	13	10	10
F	13	12	14	4	5	4	43	44	43	20	19	17	9	8	9
Irl	31	32	31	3	5	9	15	15	14	21	21	20	22	20	17
It	27	26	25	9	10	9	35	33	31	14	15	15	9	11	11
L	26	23	21	18	16	17	26	27	27	12	14	13	11	11	13
Nl	19	25	20	7	7	7	44	37	42	16	16	15	7	7	9
P		16	19		8	7	26	27	26	13	20	23	29	23	21
UK	27	28	28	12	11	8	18	17	18	15	17	20	14	13	14

Source: Messere (1997)

Table 6

Percentual structure of labour costs components in industry, 1992

Countries	Wages and salaries	Compulsory contributions	Voluntary contributions	Vocational training	Taxes	Others	Subsidies	Monthly costs in ecus
B	70.6	23.8	3.8	0.2	0	2	0.7	2492.4
Dk-	96.4	1.9	1.2	2	0	0.4	2	2139.7
D	76.4	16.6	4.8	1.5	0	0.8	0.1	2548.5
F	68.3	18.4	9.5	1.9	0	1.7		2182.8
Irl	**82.6**	**8**	**6.9**	**0.9**	**0**	**1.8**	**0.1**	**1725.4**
It	**70.3**	**30.4**	**1.4**	**1.3**	**0**	**1.6**	**5.4**	**2067**
L	83.2	13.3	2.6	0.5	0	0.6	0.2	1943.3
Nl	73.8	15.5	7.2	0.6	0	2.9	0.1	2231.1
P	**74**	**18.7**	**2.9**	**2.9**	**0**	**1.5**		**492**
UK	85.4	7.2	4.9	1.3	0	1.3	0.1	1745.3
E	**75**	**22.5**	**1.9**	**0.2**	**0**	**1.3**	**1**	**1391**
EU	75.7	17.2	5	1.4	0	1.3	0.7	2086.1

Source: Survey on labour costs (1992)

Table 7
Social protection and competitiveness, 1993

Country	Social expenditure % GDP	Per capita GDP EU=100	Unitary Labour Costs 1991 =100
B	27.62	110.6	99.8
Dk	33.16	109.8	98.2
D	31.02	118.2	100.5
Gr	**16.26**	**63.2**	**95.0**
E	**24.46**	**76.3**	**100.0**
F	30.89	107.0	100.1
Irl	**21.39**	**78.6**	**99.1**
It	**25.81**	**101.4**	**97.1**
L	24.86	160.1	98.4
Nl	33.63	101.6	102.0
P	**18.25**	**67.8**	**94.4**
UK	27.82	97.0	96.8
EU	28.85	100	98.7

Source: Eurostat and Economie Européene (1996)