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Competitive Solidarity: Rethinking the "European Social Model"[1]

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Abstract
An irreversibly more competitive economy forces a rethinking of European concepts of social solidarity, away from redistribution to policies enabling individuals, regions and countries to participate successfully in an international market. Institutionally this is reflected in the continuing national fragmentation of European social policy, and in the absence of centralized social protection at European level. Politically promoted sectoral specialization, potentially accompanied by extensive infrastructural investment, is to offer territorial communities shelter against head-to-head, cut-throat competition while, hopefully, providing for internal equality as well as external competitiveness, and indeed for internally equally distributed external competitiveness. Especially suited for this strategy, which both reacts to and reinforces the absence of centralized political capacity in Europe and beyond, seem to be small and potentially homogeneous political entities.

What the social constitution of integrated Europe will be is far less clear today than it may have appeared a decade or two ago. In the 1990s even "integration theory" has come to realize that at the end of the integration process, whenever this will be, we will not find ourselves in a supranational replication of the postwar national welfare state, with its capacity to insulate social entitlements from economic pressure and take social and labor standards "out of competition". European integration has intensified competition far more than it has suspended it, thereby adding to the responsibilities of national politics at the same time that it has transferred some of them to the supranational level. Today we know that nation-states will for a long time continue to be the principal sites of political organization, identification and action in Europe, and especially so with respect to issues of social security, equality and justice. Moreover, by now we have learnt, or could have learnt, that the new European economy will be distinguished from the old one by intensified competition, in markets not just for goods and services but also for capital and labor, both within Europe as well as across the borders of the integrated European state system.

Whatever the "European social model" will turn out to be, then, it will be embedded in a more competitive and more market-driven economy, and it will only in part be vested in centralized European institutions. Having to allow a broad space for national and, perhaps, subnational decision-making, "social Europe" as an institutional architecture will not nearly be as centralized as some of its centralized member states, like France and Germany. Decentralization and competitiveness hang together since the fragmented institutional base of European solidarity remains exposed to competitive pressures, not just from the outside world, but also from inside Europe itself. That the distinction between inside and outside - the border of the European market and of European solidarity - is itself not fixed but fluid, as illustrated by the impending Eastern enlargement, adds to institutional fragmentation as well as to economic competition.

Competition is a pervasive force. It transforms social solidarity even where an economy successfully adjusts to intensified market pressures, and its effects extend far beyond the firms and sectors directly exposed to it. There is no reason why Europe, in spite of its high labor costs, should not continue to have highly profitable firms and industries even in a global economy. But there is also no doubt that the internationally exposed manufacturing sector of European countries will in future absorb only a declining share of the European workforce. In fact, where restructuring in response to the new competitive conditions is successful, it entails the ruthless elimination of slack, above all of surplus labor. What was jokingly said of the German railway system before privatization - that it was "a social fund with a railway attached to it" (*eine Sozialkasse mit angeschlossener Eisenbahn*) - to some extent also applied to the large oligopolists of Fordist mass production: given the manifold protections from competition they were able to devise for themselves, they could afford to sustain unused resources and allow unions and works councils to divert them to redistributive solidarity. The labor shedding of the 1990s, even in an immensely successful manufacturing country like Germany, shows that this period has come to an end.

Today's large firms perceive the social solidarity functions they were enlisted to perform by unions and governments in the Fordist era as a cost burden that they must externalize to society at large if they are to survive in their new, more competitive environments. Less productive workers, for which unions used to be able to negotiate secure employment in overpaid marginal jobs, have long been retired or placed on unemployment benefit, at public rather than private expense. Inside companies workers now tend to be employed, trained and paid strictly according to their contribution, ending redistribution at the point of production and turning over responsibility for economic equality and social cohesion to public policy. At the same time, the ability of the latter to extract resources for social purposes from the competitive sector is rapidly declining. Facing more demanding markets and capital givers, exposed firms have only little to spare for "outsiders" if they are to remain leading competitors. That in an international economy they can easily shift their taxable activities to more friendly jurisdictions provides them in addition with the capacity to get their will.

Intensified competition in the exposed sector and the subsequent restructuring of the latter radiate into the domestic sector, which has gradually ceased to be a "sheltered" one. Firms operating in the more competitive international markets of today have no choice but to pass on the cost pressures they are experiencing, not only to their domestic suppliers, but also to the public sector. In all European countries, this has resulted in intense rationalization of public administration, as well as the privatization of large segments of national infrastructures. Usually this is, again, accompanied by significant employment losses, although there is often no direct international competition. Underlying the elimination of slack in the formerly sheltered part of the economy is, again, the declining capacity of redistributive politics to appropriate surplus resources from the exposed, private, and manufacturing sectors, to support high wages and high employment in low-productivity domestic, public and service activities and avoid both wage disparities and unemployment for the sake of national solidarity.

Here as elsewhere, what one observes is a declining significance of the national - or, for that matter, sectoral or company - *average* as an egalitarian measure of economic reward or entitlement, like in traditional solidarity wage policy. Pursuing social justice by giving those with low productivity a right to be paid more than they have earned, while allowing those with high productivity to be paid less, presupposes that the resulting surplus profits in strong sectors can be redistributed to the weaker sectors to cover their rising costs and protect them from losses. But in the new competitive conditions, firms that perform above the national average may still need their resources for themselves, or at least have the ability to hold on to them. As slack disappears, or ceases to be taxable for social justice, solidarity based on compulsory subsidization of the weak by the strong becomes ever more difficult to enforce. This applies all the more to Europe as a whole where centralized political capacities hardly exist, and are not likely to emerge in the foreseeable future.

Europeanizing Social Protection?

The irreversibly increased competitiveness of their integrated economy forces European societies to scrutinize the rules and management practices they have in the past devised to govern the social site of competition, the marketplace. Today concepts of solidarity and social justice that presuppose an economy tolerant of slack seem less and less sustainable. Indeed they may become outright counterproductive if the costs of redistribution fall on its intended beneficiaries. This seems to be particularly true with respect to labor markets. Here declining employment opportunities in the exposed sector and dwindling resources for supporting high labor standards in the rest of the economy combine with egalitarian institutions that prevent employment below such standards to produce a lasting disequilibrium between supply and demand. As a result, institutional arrangements originally designed to provide security and equality for all are beginning to cause economic insecurity and social exclusion for growing segments of the population.

To quote Goethe: *Vernunft wird Unsinn, Wohlthat Plage.*[2] In the economic conditions of today, originally benevolent market-modifying institutions that civilized capitalism without detracting from its performance may turn into liabilities, not just for competitive success, and perhaps least for it, but for the social cohesion they were intended to protect. It is this dialectic that, in the face of new technologies, expanded markets and reorganized companies, forces public policy to search for a new balance between protection and risk, security and opportunity, collective solidarity and individual responsibility, public authority and private exchange - for a new structure of incentives that elicits additional effort to substitute for redistributable slack, enabling public policy to concentrate the scarce resources available for solidarity on those that truly cannot help themselves. If the current debate in Europe on a "Third Way" or a "Neue Mitte" is about anything, it is about this search.

International competition affects countries differently, and is differently received by different national institutions. This is one reason why the rethinking of solidarity that is under way in Europe takes its own course in each country, reinforcing the importance of national political arenas inside the European "social model", in spite of the decline of the national average as a point of orientation of redistributive solidarity, and reflecting the fact that European integration remains stuck half way between international relations and the emergence of a supranational state, which rules out substitution of a supranational for the national average. That renewed solidarity is *not* sought in a unified political community at European level in turn reflects as well as perpetuates the *pervasiveness of intensified competition*. Just as European nation-states had to throw open their economies to reap the benefits of technological progress and adjust to the demands of increasing minimum scale of investment and production, so has the European Union as a whole. And while European countries were able to agree on opening their markets to each other and to the outside world, they continue to find it impossible to define common interests in the protection of rents and agree on its joint political appropriation and consensual division for shared purposes of social justice.

The external porousness of Europe as a whole and the high internal competitiveness of its political economy have given rise in the common European polity to a peculiar new relationship between national and supranational institutions. Absent any realistic option of closure, or border maintenance, *vis-`-vis* the world economy, as well as meaningful internal consensus on protective redistribution, the Union remains largely confined to policing the adherence of its member states to the "four freedoms" of the Internal Market, or in any case can do little that would interfere with such freedoms. Centralization and harmonization beyond joint "market-making" are further impeded by the vast variety of national institutions, which is deeply rooted in long and complex, and highly distinct, histories. An important consequence of historical variety is that any step towards harmonization, if at all significant, is bound to cause different effects in different national systems - which is usually enough to elicit sufficient opposition for it to fail.

The politics of social solidarity in Europe, therefore, will for the foreseeable future remain vested primarily in national institutions, of social policy and of industrial relations, which in turn are embedded in a competitive international market and constrained by supranational institutions devoted to safeguarding that market. How European society - or better: European societ*ies* - will respond to the challenge of unprecedented competitiveness will thus be decided in a complex, horizontal as well as vertical interplay between increasingly interdependent national systems and a new and historically unique layer of supranational institutions and commitments. The lasting significance of the national, as distinguished from the supranational, is visible in a number of *historical trends in the evolution of European Union policies and institutions*, four of which I want to mention briefly.

1. In recent years *a new approach to social regulation* has been emerging, rendering misleading the customary complaint that institution-building at European level is not keeping up with the pace of economic integration. Today it is increasingly recognized that the issue is not so much the speed of institution-building as its direction and character. In the 1990s the number of social policy regulations issued at European level has actually *de*creased rather than *in*creased - despite a growing problem load and regardless of the Maastricht co-decision procedure, which was supposed to accelerate the pace of social policy-making. Moreover, and even more importantly, the nature of regulatory acts has also changed. Whereas in the 1970s the Union tried to impose on its member states and their citizens binding regulations stipulating common standards, today's social policy

directives typically allow for wide discretion in their implementation, with the Union increasingly restricting itself to issuing legally non-binding recommendations. This approach - which often involves European Directives being formulated in such a way that no changes are necessary in extant national legislation - has been described as "neo-voluntarism". The term reflects the fact that the new approach puts the will of those affected by a rule, and the "voluntary" agreements negotiated between them, above the will, or potential will, of the European legislature. A neo-voluntarist style of governance fits the principle of "subsidiarity" which, since the Maastricht Treaty came into force, has reversed the former centralizing tendencies inside the Union, especially so in the field of social policy - at a time, of course, when monetary policy was being completely centralized.

2. *National diversity is coordinated rather than harmonized.* Within the multi-layered system of European institutions, supranational intervention in national systems is increasingly confined to measures of coordination. The model for this seems to be the successful European legislation on mobility of labor, which required member states to remove restrictions on cross-border mobility of workers without otherwise intervening in national labor market regimes. A more recent example is the Directive on European Works Councils. The Directive, which is regarded as the most significant achievement of European-level social policy in the 1990s, leaves national systems of workplace representation essentially untouched and merely supplements them with, individually negotiable, company-specific arrangements to provide employees in foreign subsidiaries with a minimum level of representation *vis-`-vis* the central management of the company. Instead of imposing uniformity on national systems, the Directive *de facto* extends each of them company by company into their European environment. Rather than granting all European workers a common floor of rights of industrial citizenship, European works councils serve as a complex device to link different national systems of representation inside large European companies, without intervening in any of them.

3. *Europeanization of national systems increasingly takes the place of the emergence of a unified European system.* While European integration is clearly not occurring vertically and hierarchically, as expected by traditional "integration theory", and although national systems remain pivotal especially for the defense of social solidarity, European societies are undoubtedly becoming "more European". The Europe of the 1990s, however - a Europe of decentralized "subsidiarity" - is being "Europeanized", not through centralization, but through growing awareness of national actors and institutions of their European context, as conditioned by their national interests and circumstances. Here we can speak of a process of *polycentric horizontal Europeanization*, in which the horizons of perception and action of national actors are beginning to transcend national borders in the same way as their social contacts ("networks"). To use the same example as above, European Works Councils amount much more to an institutional infrastructure for a *simultaneous horizontal* expansion of national systems of action into each other than to a unified European institution. Similarly, current attempts at horizontal co-ordination of collective bargaining do not occur "via Brussels" but instead involve specific regional constellations with a "variable geometry" of participants. They seem much more in line with the real character of the European integration process than the traditional, and uniquely unsuccessful, efforts of Brussels authorities or peak organizations at hierarchical

centralization.

4. Meanwhile, as neo-voluntarism, coordination of national diversity and the turn from vertical to horizontal Europeanization have redefined the integration process, national systems of social policy and industrial relations are undergoing far-reaching *cooperative adjustment* under the pressure of international competition. Although the spectacularly successful reforms in the Netherlands and Denmark carefully observed the new economic framework of the Single Market, they remained strictly national processes, drawing on national political and economic resources and avoiding as much as possible interference "from above", including in particular from "Brussels". Dominant in national reform efforts was and is a general determination on all parts to make optimal use of cooperative national institutions and traditions, also at company level, in order to improve the common condition in an increasingly internationalized and competitive economy. In these and similar cases, the issue at stake was typically to choose between cost reductions and productivity increases as methods of adjustment, or to combine both in a way most appropriate to the national economic and political condition. Binding European legislation on social policy or European-level collective agreements would have added further complexity to, and reduced the degrees of freedom available to national actors in, already extremely complex considerations and negotiations. This to me seems the most important explanation for the, at first, astonishing fact that also trade unions throughout Europe, when it comes to the difficult process of restructuring, are insisting that as much room for maneuver as possible should be preserved at national level and within the familiar and predictable national institutions.

Competitive Solidarity

While the political-institutional base of solidarity remains national, its *substance* is rapidly transforming under the pressure of intensified competition. In trying to adapt to the new economic circumstances, national communities seek to defend their solidarity, less through protection and redistribution than through *joint competitive and productive success* - through politics, not *against* markets, but *within* and *with* them, gradually replacing *protective* and *redistributive* with *competitive* and *productive* solidarity. The details of this process, which may involve nothing less than a deep redefinition of the "European social model" and of the ideas and practices of solidarity inherent in it, are still far from clear, and so are its results. Moreover, as indicated above, both process and outcomes are likely to differ from country to country, and indeed reinforcement of national diversity would seem an important element of the sort of *competitive adjustment* into which European social policy has become enmeshed.

In the following I will try to outline the main contours of what I see as an emerging new "European social model". In doing so I am not making a prediction. Rather than a necessary and inevitable future condition, I regard what I will describe as a *really existing tendency* that may or may not, and in some places more than in others, prevail over other tendencies, such as labourist opposition, institutional inertia, or neo-liberal deregulation. Nor is what I will be presenting my view of an ideal or normatively preferable social order; indeed it is not at all clear whether what I see as an important, and perhaps the dominant, *real possibility* in the evolution of social policy in Europe, will always and in all respects measure up to standards of, especially, social equality to which many continental Europeans have grown accustomed. I hasten to add that I also do not presume that the emergence of the "European social model" that I am describing will be without conflict, or that its operation, if it will ever become a *dominant reality*, would necessarily be any less conflictual and internally contradictory than that of alternative models.

1. As redistributive social policies are increasingly perceived by Europe's political classes as excessively expensive, the emphasis of the political discourse is shifting towards *investment* in the ability of individuals and communities to survive in intensified international competition. Not just prosperity, but also equality and justice are increasingly expected, no longer from redistribution of individual means of consumption, but from investment in *collective means of production*, that is, in *infrastructures* of all sorts. Redress of inequality in the absence of redistributable slack particular is sought through broad and equitable investment in *productive capacities*, especially in the "human capital" of individuals which is considered a productive asset for the community as a whole and whose optimal development therefore becomes a public and collective concern. Ideally, equalizing through public investment the starting positions of individuals as they face the demands of the market would make *ex post* political redistribution largely redundant - or so it is hoped, given that the capacities for such intervention are in any case melting down. Social policy would be fortuitously preempted by economic, or structural adjustment, policy, and rough equality of outcomes - or less ambitious: a level of inequality that is still compatible with social cohesion - would be achieved through *rough equality of initial endowments*. An optimistic label for this would be "supply-side egalitarianism", under which political capacities would be deployed to improve and equalize the *marketability* of individuals and their *ability to compete*, instead of protecting them from the market. Note the new political key-word, "employability", which defines the responsibility of public policy, not in terms of *de-commodification* of individuals, but to the contrary of creation of *equal opportunities for commodification*. Social Democracy, of the "Third Way", thus seems to become indistinguishable from an *activist liberalism* which pursues social justice through intervention in the distribution, not of market outcomes, but of the capacities for successful market participation.

2. Note also, however, that the new policy of *equal marketability* operates under the same resource constraints that have made redistributive social policies increasingly untenable and that reflect the declining capacities of governments to tax firms, even successful ones, that produce on their territory. Supply-side egalitarianism therefore tends to be associated with both *rationalization of public services* and an increase in *user fees* of all sorts, neither of which sits easily with traditional Social-Democratic constituencies. For example, political commitment to "employability" typically coincides with heavy pressures on educational institutions to improve their efficiency and adjust their output to market demands, as well as with potentially far-reaching decentralization of responsibility for human capital development to its individual "owners". It also often involves attempts to enlist *market forces* and *market incentives* for the production of infrastructural goods, with a tendency to rely much more than in the past on private resources, efforts and interests for the achievement of collective objectives. The fundamental puzzle facing the new Social Democracy is whether large-scale public reliance on private investment for infrastructural purposes will not in the long run bring about, *if not require*, a level of inequality that is

incompatible with the egalitarian component of supply-side egalitarianism.

3. The emerging new compound of social and economic policy - or better: of *economic as social policy* - involves a strategy of *specialization* as a dominant response to competition. Governments following that strategy try to discharge their social responsibility by moving their communities into *specialized niches* in a market that extends far beyond their borders and against which redistributive politics cannot offer meaningful protection. Classical social policy is increasingly replaced by public cultivation of the productive assets of economic communities, to enable them to become privileged providers of products attractive enough for others to be willing to pay a surcharge for them. Developing a community's comparative advantages and investing in the quality and uniqueness of its products - instead of competing on lower prices of identical products, which would ultimately require a lowering of social standards - may enable it to appropriate rents underwriting a mode of production and distribution that allows its members to participate and benefit according to the community's historical standards of fairness.

4. Countries striving for comparative advantage in sectoral niches of an encompassing international market tend to treat their *social regimes* as part of an economic infrastructure that they may find necessary or expedient to revise in support of their respective productive specialization. Everywhere in Europe the systems of social citizenship and industrial justice inherited from the postwar period are being scrutinized in terms of their implications for the productivity and competitiveness of national economies facing the international marketplace. Elimination of institutional "rigidities" - i.e., of arrangements that impose an efficiency toll on sectors important for a country's economic performance - has moved to the top of the political agenda, not just of those who want to reduce social rights in order to cut costs, but also of governments placing their hopes on productive specialization as a way of defending collective prosperity and solidarity. *Customization of rules*, so as to make social regimes take into account the special needs of individual firms and sectors, in particular those that define a political community's market chances in the larger world economy, is today becoming a major instrument of economic policy.

5. The politics of supply-side egalitarianism and comparative advantage may imply an interesting *new configuration between industrial sectors and political-territorial rule*. Where sectoral specialization is organized through territorially-based political governance, in an effort to defend the economic viability of a spatially defined and functionally diffuse community, economic sectors become *regionally concentrated*, and trading relations between them become intermingled with and regulated by international politics. Territorially based political sovereignty can thus be deployed both to devise optimally efficient sectoral regimes and protect and extend a sector's international market access. Moreover, as specialization proceeds, the sectors on which a particular territorial community has chosen to specialize tend to grow with the size of the market, which *ceteris paribus* will make political communities *more homogeneous* in terms of their productive activities; this, in turn, vastly simplifies the political task of sectoral customization of national regimes. Collective identity and interest, especially in relation to the outside world, as a result become organized around particular sectors or products, whose fortunes in the world economy become largely identical with those of the territorial communities that produce them. On an extended scale, this invokes the image of the "industrial

districts" first described by Alfred Marshall and later rediscovered by students of the "Third Italy" and other successful economic areas of Europe.

6. Both sectoral specialization and efforts at optimization of institutional regimes in relation to sector-specific efficiency requirements increase the *diversity between* jurisdictions and militate against international convergence; at the same they tend to make productive communities more internally homogenous. *Externalization of heterogeneity* enables political communities to found their internal cohesion on, in Durkheim's term, "mechanical solidarity" - which may be further increased by supply-side egalitarian intervention aimed at leveling differences in initial endowments. Relations *between* communities, on the other hand, are potentially based on "organic solidarity", that is, on the attractions of complementarity and the mutual benefits of free exchange between participants that are different if not unequal.

7. Obviously small countries find sectoral specialization and elimination of institutional rigidities through regime customization easier than larger ones which cannot normally expect their entire population to earn their living mainly in a handful of sectors. *Economic homogeneity*, which tends to go together with small size, has the great advantage that it makes it possible to have rules and social standards that are *both nationally unified and sectorally specialized.* This helps protect governments pursuing customization of regimes in order to make them more flexible and productivity-enhancing, from political conflicts on the necessary and desirable degree of equality of rights and obligations for all citizens. Small and sectorally homogenous countries are also less likely than large and heterogeneous ones to have to impose redistributive obligations on their leading sectors, as inequality tends to increase with sectoral diversity. Governments of countries whose sectoral composition is comparatively homogeneous can also pay more attention to the infrastructural needs of "their" sectors, just as they can traditionally draw on an ample supply of solidarity among their populations that is fed by shared perceptions of a need to stand together and defend the community against much larger and more powerful neighbors. In an international economy governed by fragmented sovereignty, more fragmentation seems to be better than less, and it is a striking fact that the small countries of Europe have recently been doing much better economically and politically than the large ones. Moreover, small countries, apparently paradoxically, tend to be the most vigorous defenders of national sovereignty inside the European Union while at the same insisting on the strictest adherence of all to the principles of a free international market.

8. Large and heterogeneous countries, by comparison, face the problem that unified national regimes that satisfy political requirements of national solidarity and identity are likely to be unable to take into account the specific productive requirements of individual sectors and firms. This makes them "rigid" from the perspective of the latter and imposes an efficiency toll on a national economy that can no longer afford not to use its resources to the fullest. Current *pressures for decentralization* of economic and social policy through *regionalization of political governance inside the nation-state* respond to growing *diseconomies of political scale* that derive from the negative productivity effects of general rules insensitive to specific market constraints or technological opportunities. As a consequence, political federalism, widely defined, is becoming attractive as it may enable small subnational jurisdictions to imitate the sectoral specialization strategies characteristic

of small sovereign countries, such as seeking out a niche in a larger market; customizing policies and rules to accommodate the requirements of production for that niche; building social and political cohesion around the productive success of selected sectors; developing solidarity out of structural homogeneity, economic and institutional distinctiveness, and collectively experienced dependence on an international market; and avoiding the efficiency costs of internal redistribution by externalizing heterogeneity and letting less productive sectors, or sectors with different political needs, migrate beyond regional borders. Decentralization within large nation-states may thus be a way of re-territorializing economic governance in a borderless international economy, as an alternative to market and management-driven de-politicized governance of internationally integrated sectors cross-cutting territorial boundaries. While nations remain central to the European integration process, then, they clearly come under pressure to reorganize, with national politics turning into a politics of decentralization in *national colors*.

9. Decentralization of governance within large nation-states is typically accompanied by debates on the *national obligations of federal subunits*, or regions, in particular of rich in relation to poor ones. Just as profitable and competitive firms, regions with a successful economy increasingly seem to feel that they can no longer afford subsidizing on any major scale others that are doing less well. Here, too, the declining significance of the national average as a guidepost of redistributive solidarity is apparent. As a substitute for equalizing transfer payments, decentralization offers weak regions *political autonomy* to rebuild their institutions and develop new policies in support of a sectorally specialized regional economy that can be successful within the larger market. To what extent other regions within the same country should or can be obliged to help the weak to get up on their feet is an open question in a debate dominated by the same rhetoric of self-responsibility and self-sufficiency, including warnings against "dependency traps" being created by too lavish redistributive support, that has come to dominate the discourse on social policy. National debates on central responsibilities for regional development in principle resemble the long discussion between the member states of the European Union on the level of European subsidies required for weak regions to participate successfully in the Internal Market, although the amounts involved in inter-regional transfers within nation-states still vastly exceed those at the disposal of European regional policy.

10. Apart, perhaps, from limited injections of regional aid, inter-regional equity and cohesion in a decentralized economic regime like the European Union depend mainly on the *benefits of free trade* for those invited to participate in it. Solidarity between fragmented jurisdictions is basically reduced to allowing each other free access to one's markets, thereby underwriting local strategies of sectoral specialization conditioned on large market size. It also involves territorial communities optimally developing their productive capacities, not just in their own interest, but also in that of their trading partners. Whether or not the standard of living of sectorally specialized nations or subnational regions will converge or grow apart, will depend mainly on whether the liberal promise can be kept that free trade will, in the long run, equalize the incomes of unequal traders investing in their respective comparative advantage. In the absence of a political center, of course, equitable terms of inter-regional trade can evolve, if at all, only out of the interplay of supply and demand, perhaps marginally modified by international side-payments, as the management of *international or interregional heterogeneity* becomes

mostly a matter of developing to the fullest the productive complementarities of specialized territorial communities. This is different *within* the latter where *domestic homogeneity* may be pursued through *political intervention in the distribution of initial endowments*, with the objective of broadly equalizing the productive capacities of the citizenry and thereby alleviate pressures for efficiency-diminishing *ex post* redistribution.

A New "European Social Model"?

Growing competition in an internationalizing economy is eroding the material base of traditional redistributive solidarity in European welfare states. Among current political responses to the pressures of expanding markets are attempts at a *productivist reconstruction of solidarity* within national or subnational communities, reflecting the absence of any credible prospect for rebuilding centralized redistributionism at international level. In particular, politically promoted sectoral specialization, potentially accompanied by extensive infrastructural investment, is to offer territorial communities shelter against head-to-head, cut-throat competition while, hopefully, providing for internal equality as well as external competitiveness, and indeed for *internally equally distributed external competitiveness*. Especially suited for this strategy, which both reacts to and reinforces the absence of centralized political capacity in Europe and beyond, seem to be small and potentially homogeneous political entities.

Productivist-competitive solidarity, as it offers itself as a solution to the problem of defending social cohesion in a polity of fragmented sovereignty and in an economy without expropriable slack, *accommodates* markets rather than overrules them. Instead of taking social regimes out of competition, it rewrites them to make them more competitive. Equality of citizens is pursued, not through *ex post* political intervention in market outcomes, but through *ex ante* equalization of the resource endowments of market participants, especially their "human capital" and "employability". Competition is accepted, not just as a fact of life, but indeed as a useful tool to elicit additional effort, from the community as a whole in relation to the outside world, as well as from its individual members. Indeed communities are formed and restructured so as to best fit the demands of a market that extends far beyond their borders and that they cannot hope to control. Social cohesion is sought, not through equal outcomes, but through equal opportunity; and traditional concepts of solidarity are infused with a bourgeois spirit of efficiency and self-sufficiency, emphasizing individual effort and collective investment in competitiveness at least as much as social entitlements to minimal levels of reward or consumption.

Underlying the potential transformation of the "European social model", as it has become a *real possibility* with the progress of European integration, is a Durkheimian answer to competition which emphasizes specialization and differentiation and blurs the boundary between social and economic policy. Agents of this response are political communities - small nation-states or subnational regions inside large countries - that may hope to increase their internal homogeneity while externalizing heterogeneity to the outside world, basing their internal cohesion on a variant of mechanical solidarity while entrusting their external relations to organic solidarity among traders with complementary capacities. Social egalitarianism, "communitarian" insistence on individual responsibility, national or regional patriotism, defense of the distinctiveness of domestic institutions combined with resistance to pressures for institutional convergence, and a commitment to international free trade may thus enter into a characteristic, lasting association.

Will this be enough to protect the social integration of European society, within the small *communities of economic fate* that are more or less comfortably nested in a much larger market, and especially between them? Whatever the answer, there is reason to believe that attempts to reconstruct social cohesion around competitive solidarity may become a dominant force in the politics of the transforming European welfare state.

Footnotes

1 Presidential Address, 11th Annual Meeting on Socio-Economics, Society for the Advancement of Socio-Economics (SASE), June 8 to 11, 1999, Madison, Wisconsin.
2 In a poor English translation this would read roughly like: "Reason turns into nonsense, benefaction into a plague."

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http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp99-8/wp99-8.html

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