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Political Integration and the History of the Social Democratic Ideology

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Abstract

This paper traces the policy history of the social democratic ideology. While Western Europe's center-left parties of social democracy have historically demonstrated flexibility in their social and economic policy regimes, the primary objective of the social democratic ideology, "rough social equality," has, until recently, remained firmly intact. Drawing upon recent research which finds growing levels of income inequality in most of Western Europe's social democracies, and additional research which links this trend to certain forces of globalization and, most significantly, European regional integration, it is argued here that, due primarily to ongoing processes of European regional political integration, the parties of social democracy are effectively losing their ability to secure egalitarian outcomes within capitalism—that rough social equality is an objective that they can no longer effectively achieve. The potential political ramifications of this problematic are discussed in the concluding section.

Key Words: Social Democracy, European Union, income inequality, political integration

1. Introduction

While it can be persuasively argued that the social democratic ideology associated with Western Europe's Social Democratic, Labor, and Socialist parties, and which has influenced the social and economic policy regimes of many business-oriented parties in postwar Europe, has proven to be quite flexible in terms of its ability to adapt to changing social, political, and economic conditions, it would be equally persuasive to suggest that the social democratic commitment to its primary, overarching objective of creating and sustaining "rough social equality" within capitalism has until recently been much more permanent and steadfast. Defined here as a condition whereby the capitalist market system consistently generates egalitarian socioeconomic outcomes through economic growth and universalistic and solidarity policies of redistribution, rough social equality seemed for more than a century to be the one consistent, uncompromising principle of the otherwise ever-changing social democratic ideology.[2]

Unfortunately, for those concerned with the recently documented rising rates of income inequality in some of Western Europe's long-established social democracies, the social democratic commitment to the seemingly well-entrenched goal of rough social equality seems to have become jeopardized. While a number of analysts have suggested linkages between Europe's recent increased rates of income inequality, and the likelihood for future, more pronounced inequality, and often-discussed processes of globalization and regional economic integration, this paper contends that, while plausible theoretical linkages between globalization and, more significantly, regional economic integration and European income inequality can be made, the most compelling explanation for the inequality phenomenon and its likely escalation in the future can be attributed to factors associated with European *political* integration.

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[2] Thomas E. Weiskopf, "Toward Socialism for the Future, in the Wake of the Demise of the Socialism of the Past," *Review of Radical Political Economics,* no. 3-4 (1992), p. 10.

In short, this paper argues that the social democratic acceptance of and support for full membership in the European Union (most notably European Monetary Union) and willingness to comply with EU directives and legislative mandates, has rendered the parties of social democracy incapable of addressing—through historically employed domestic policy instruments—current and likely future increased levels of income inequality. This problematic is important politically in that it will render the Western European mainstream political party spectrums devoid of any significant, powerful institutional actors substantively committed to the objective of generating and perpetuating conditions for egalitarian outcomes within capitalism. While it may be too early to speculate about the consequences of this development, it might be plausible to assume that, encouraged by such developments as the recent "Brexit" vote in Great Britain, populist movements driven by nationalist sentiments and desirous of restructuring nation-state relations with the European Union may become more pronounced and influential in other Western Europe countries in the future.

2. From Programmatic to Revisionist Social Democracy: A Brief Policy History

In the years immediately following World War Two, most of Western Europe's social democratic parties espoused through their respective manifestoes and party programs what can constructively be referred to as programmatic social democracy. As Padgett and Paterson have observed, programmatic social democracy was characterized most distinctly by its emphasis on the development of extensive programs for socioeconomic transformation. Advanced by these programs were dramatic proposals for substantial socialization of the means of production (typically this meant the socialization of big industries), extensive economic planning, and welfare statism.[3] For the social democrats, socialization simply meant state ownership of the means of production. In their sweeping programs for social and economic reform for postwar Europe, the parties of social democracy seldom articulated utopian visions or ideals. Nor did they advance any coherent, theoretical views of "socialist society." Instead, the new economic order would best be described as "socialism along capitalist lines."

For the average factory worker, then, daily work life would change very little following the implementation of the social democrats' planned programmatic reforms. The social democrats viewed socialism in strategic terms. Socialization would be the means through which economic power would be confiscated from the capitalist class, and with its newfound economic management authority the state would be in a position to facilitate in part the substantial realization of rough social equality. As a mode of production capitalism was problematic in that it seemed prone to falling into regular, poverty-escalating downward cycles (e.g., the Great Depression). This seemingly inherent problem was augmented by capitalism's natural tendency toward generating ever-increasing societal income differentials. Capitalism, absent significant state ownership of key industries, simply could not be seen as a viable mode of production given the social democrats' primary objective of achieving rough social equality. Of course, with any degree of socialization comes some form of systematic state economic planning. For the social democratic parties of Western Europe during the immediate post-war period, economic planning would entail state direction of key industrial sectors. Starting in the 1930s economic planning schemes became popular among social democrats that saw planning as a logical alternative to free market capitalism, which seemed increasingly crisis-prone. In a 1944 policy document, the British Labour Party articulated the view that "full employment and a high standard of living…can only be secured within a planned economy…and above all by the transfer to the state of power to direct the policy of our main industries, services, and financial institutions.""[4]

For the Socialist Party of Austria (SPO), the careful coordination of centrally determined production priorities for individual branches of industry would produce a "crisis-free economy" characterized by consistent expansion and innovation.[5] As with the strategy of socialization, then, planning was viewed by Western Europe's social democrats primarily as a means to achieve material goals in an economy free of crisis and instability. Central to programmatic social democracy was the articulation of the concept of the welfare state. It was the prevailing view among social democrats that the elimination of poverty and the achievement of greater social equality could most readily be achieved through the implementation of numerous income maintenance and social insurance policies and programs, funded in large part through accompanying progressive taxation schemes.

[3] Stephen Padgett and William E. Patterson, *A History of Social Democracy in Postwar Europe* (New York: Longman, 1991), p. 12.
[4] Ibid. p. 16.
[5] Kurt L. Shell, *The Transformation of Austrian Socialism* (New York: State University of New York Press, 1962), p. 211.

Even though the exact content of the social policy systems advocated and eventually implemented by the social democrats would differ from country to country, a number of common elements would emerge. Enhanced pension programs, designed to provide insured workers with a modest amount of financial security in retirement, were advanced, as were expansions to numerous other insurance-based programs for sickness, industrial accidents, and unemployment. These social insurance program reforms were accompanied by proposals for the creation and/or improvement of universal health care systems, child allowance schemes, and income maintenance programs designed to promote enhanced living standards for families and to prevent individual economic impoverishment. Combined with widespread socialization of the means of production, these welfare state programs would act to promote greater social and economic stability and considerably more egalitarian social structures.

Of course, much of the rhetoric of programmatic social democracy was never transformed into actual public policy initiatives following the ascension of the parties of social democracy to power in Western Europe. Instead, a more pragmatic "welfare capitalist" model of governance would emerge as the preferred approach to economic management. Of critical significance here was the effective abandonment of the proposal for comprehensive socialization of the means of production in favor of the widespread adoption of Keynesian techniques of economic policymaking. The central thrust of John Maynard Keynes' theory of economic governance was that through active, permanent state management of the economy, capitalism's periodic recessionary tendencies (which generated unnecessary individual economic hardship and instability) could be largely avoided, and that governments could effectively act to preserve a stable economic growth regime while leaving largely intact the central values of entrepreneurial capitalism, including, most significantly, its reliance on private ownership of the means of production. For Keynes, the primary economic objective of government was to sustain high levels of aggregate effective demand. This would be done through the systematic utilization of a variety of fiscal and monetary policy instruments.[6] Particularly critical here was the argument that the state could counter the initial stages of downward cycles by using public resources on meritorious social projects. Spending such as this would help to stimulate economic activity such that high levels of aggregate effective demand and hence full employment could be reconstituted.[7]

Supplementing Keynesianism in "revisionist social democracy" was the promotion of extensive welfare statism, a remnant of the programmatic version of the social democratic ideology. With the ever-expanding revenues generated from the consistent economic prosperity brought on by the successful implementation of Keynesian policies, the governmental commitment to comprehensive, cradle-to-grave, and universalistic social welfare policies and programs would help to ensure adherence to the guiding social democratic principle of rough social equality. Added to the revisionist policy mix in many Western European countries was the limited commitment to state industrial ownership. This "mixed economy" strategy was grounded in the belief that, while the (now state managed) capitalist mode of production should remain largely intact, certain vital industries (coal, railway systems, steel) would best be owned—fully or partially—by the state to ensure the consistent availability of large amounts of relatively inexpensive goods and/or services.

Revisionist social democracy, when implemented (first in Britain and later on the continent), is credited by many for creating the prosperous economic environment enjoyed throughout Western Europe during the 1950s, 1960s, and early 1970s. The massive growth characteristic of this period allowed for the establishment of substantial social welfare systems. The economic security created by the welfare state was augmented by an unprecedented level of middle and working class employment security in many countries. For capitalists, the revisionist model meant consistent economic growth and unprecedented rates of capital accumulation. For the economist Andrew Sheffield, the Keynesian-led age of prosperity was demonstrative of the value of state economic management within capitalism. Through Keynesianism, the market could be controlled to act in a more predictable and humane fashion, thus rendering capitalism consistently beneficial, not only for business interests but for the working class as well.[8]

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[6] Mark Gobeyn, "Economic Policy Formulation," *The Encyclopedia of Political Science*, George Thomas Kurian, ed. (Washington, D.C.: Congressional Quarterly Press, 2011), p. 465.
[7] Ibid.
[8] Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (New York: Oxford University Press, 1965).

So successful and widely popular were the policies of Keynesianism and revisionist social democracy that many analysts became convinced that a process of policy convergence throughout advanced capitalism was rapidly underway—that something closely resembling the policy regime of revisionist social democracy would emerge in nearly all of the world's industrialized democracies.[9]

3. Revising Revisionism: Institutional and Policy Change

Beginning in the mid-1950s, the social democratic parties in a number of Western European democracies facilitated efforts to modify existing systems of interest intermediation and policymaking in order to enhance and solidify the economic growth regime associated with revisionist social democracy. In countries such as Austria, Sweden, Norway, and Denmark, corporatist, or "neo-corporatist," policymaking institutions were created with the idea that institutionalized concentrative relations involving representatives of organized labor, employers' associations, and state bureaucratic agencies would likely generate more efficient and effective processes of economic policy formulation.[10] In effect, by bringing society's central economic actors directly into the policymaking apparatus of the state, and granting them formal policymaking authority, the social democrats could generate still higher levels of economic growth, stability, and predictability.[11] Initially, corporatist forms were given policymaking status in the areas of wage and price controls. In retrospect, this seems logical. If reasonable wage and price guidelines could be established and adhered to by those directly affected by said guidelines, then Keynesian-led growth would be allowed to continue free of significant inflationary threats.

The early successes of corporatist concentration encouraged governments to enhance the policymaking functionalities of corporatist forms. This was especially evident in the area of fiscal policy management. Later, during the economic slowdown brought on by the OPEC oil embargo and the deindustrialization phenomenon, corporatist institutions were granted the authority to create policies for industrial development and transformation and labor market reform.[12] Finally, corporatist-based decision-making would be extended to the realm of social policy in many countries, thus assuring labor union participation in that policy sphere most directly related to the overarching social democratic goal of creating and maintaining rough social equality.[13] In addition to the significant institutional shift to corporatist policymaking, social democrats orchestrated, beginning in the 1960s but notably during the 1970s, a turn toward augmenting Keynesian demand management strategies with numerous discernible industrial policy initiatives. In contrast to the distinct macro-economic emphasis of Keynesianism, industrial policy is driven by the notion that specific objectives and specific policy instruments need to be developed for individual firms or industries based on assessments of their unique needs or circumstances.

For many social democrats and others concerned with maintaining industrial competitiveness in the emerging globalized economy, such policy instruments had seemingly become necessary in light of the significant. Challenges brought on by the mobilization of capital and the emergence of parts of the developing world as sites for manufacturing investment. Industrial policy instruments employed included tax credits, low-interest loans, direct grants, subsidies, indicative planning, active labor market policies, and administrative assistance. The objectives associated with these policy efforts were varied but included assisting firms with the development of new technologies, the reorganization of production methods, the creation of new product lines, and the establishment of worker retraining programs.

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[9] See, for instance, Harold Wilensky, *The Welfare State and Equality* (Berkeley: University of California Press, 1975).

[10] For a discussion on the distinction between the neo-corporatist patterns of policymaking associated with the liberal democracies of postwar Western Europe and the traditional corporatist institutions of previous dictatorial regimes, see Philippe C,. Schmitter, "Still the Century of Corporatism?" *Review of Politics,* vol. 36, no.1 (1974).

[11] Mark J. Gobeyn, "Explaining the Decline of Macro-corporatist Political Bargaining Structures in Advanced Capitalist Societies," *Governance: International Journal of Policy and Administration,* vol. 6, no. 1 (1993), p. 12.

[12] M. Donald Hancock, *West Germany: The Politics of Democratic Corporatism* (Chatham, NJ: Chatham House, 1989), p. 141.

[13] The successful establishment of corporatist forms was of course not possible everywhere. For an analysis of neo-corporatism's structural prerequisites, see Gary Marks, "State-Economy Linkages in Advanced Industrialized Societies," in Norman J. Vig and Steven Schier, eds. *Political Economy in Western Democracies* (New York: Holmes and Meier, 1985), pp. 51-55.

For many observers, the inclusion of substantive industrial policy initiatives (especially when developed within the structural framework of neo-corporatism) into their economic policy regimes, allowed for the maintenance of reasonable levels of economic stability, and hence the continued commitment by the social democrats to the welfare state and the principle of rough social equality, during the difficult and challenging years of the 1970s and 1980s.[14]

4. European Integration and Income Inequality

Unfortunately, recently documented (and historically unprecedented) patterns of growing income inequality in many of the wealthy social democracies of Western Europe seem to suggest that social democracy, despite its proven track record of effectively manipulating economic and social policy regimes to secure egalitarian outcomes within capitalism, has perhaps lost its ability to sustain its foundational principle of rough social equality. As a recent OECD study documents, income inequality first started to increase in the late 1970s and early 1980s in some English-speaking countries, most significantly the United States and the United Kingdom. The most recent trends in the 2000s show a widening gap between rich and poor, not only in already high inequality countries such as the United States, "but also—for the first time—in traditionally low-inequality countries such as Germany, Denmark, and Sweden (and the other Nordic countries), where inequality grew more than anywhere else in the 2000s."[15] Referencing the Gini coefficient and other recognized measures of income inequality which take into account taxes and government transfer payments in addition to market incomes, research findings from a number of organizations, including the OECD, the World Bank and Eurostat, reveal steady, consistent growth in income inequality in nearly all of Western Europe's wealthier democracies since late 1990s.[16]

Table 1: Gini Coefficients, After Taxes and Transfers, in Selected Western European Democracies, Mid-90sand Late-2000s. (The Gini Coefficient is a number between 0 and 1.0 represents perfect equality while 1 represents perfect inequality.)

	Mid-90s	Late-2000s
Austria	0.238	0.261
Belgium	0.277	0.259
Denmark	0.215	0.248
Finland	0.218	0.259
France	0.277	0.293
Germany	0.266	0.295
Luxembourg	0.259	0.288
Netherlands	0.298	0.294
Norway	0.243	0.250
Sweden	0.211	0.251
Switzerland	0.274	0.303
UK	0.336	0.345

Source: OECD: Income Distribution Database. Accessed 20 July 2016.

While a number of scholarly articles and other studies seem to confirm the contention that increasing rates of inequality have become a discernible feature of the Western European political- economic landscape,[17] debate continues concerning the causes of this inequality.

[14] See Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

[15] OECD, *Divided We Stand: Why Inequality Keeps Rising* (Paris: OECD Publishing, 2011), p. 22.

[16] Ibid. For a detailed discussion of the Gini coefficient and an additional assessment of income inequality in Europe, please see Raul Ramos and Vincente Royuela, "Income Inequality in Europe: Analysis of Recent Trends at the Regional Level" (Barcelona: Research Institute of Applied Economics, 2012), Working Paper 2014/25 2/53.

[17] For example, see Timothy M. Smeeding, "Public Policy, Economic Inequality, and Poverty," *Social Science Quarterly* (Issue Supplement s1, 2005), pp. 955-983; Jason Beckfield, "European Integration and Income Inequality," *American Sociological Review,"* vol. 71, no. 6 (2006), pp. 964-985. Also see the recent European Parliament, EMPL Committee report, "Wage and Income Inequality in the European Union." (Strasbourg: European Parliament, EMPL, online edition, 2015). http:wwweuroparl.europa.eu/studies.

Many scholars have focused their attention on the issue of economic globalization for their explanations, but thus far little convincing empirical evidence linking globalization to inequality has been provided. Theoretically, most promising, it would seem, would be those arguments which have linked inequality *within* the developed countries to the issues of foreign direct investment (FDI) and the increased mobilization of capital.[18] Beginning in the 1970s, rates of FDI by multinational corporations based in the industrialized democracies started growing dramatically. While much of this investment was initially associated with firms from the United States, Britain, France, and Japan, multinationals from other developed countries would soon join in. Encouraged by such factors as comparatively low labor costs, host country financial inducements, access to new markets, and minimal host country environmental and other regulatory restrictions, multinational firms took advantage of the increased mobilization of capital brought on by advancements in transportation and communication technology to move production facilities from "expensive" domestic locations to the welcoming countries of the "third world." In short, satellite-linked, computer-based communications systems, combined with wide-bodied cargo jets capable of transporting commodities from one location to another in limited amounts of time, had, by the 1970s, rendered capital "hyper-mobile," and with this new mobility, capital acquired the tangible ability to disinvest in and to relocate industrial plants.[19]

Aiding this process, it is claimed, are changes that have transpired in the area of international trade. Since the late 1940s, shifts to liberalization in trade policies among the advanced industrial countries emerged to displace previous protectionist tendencies. This trend was encouraged in large part by various multilateral agreements reached within the General Agreement on Tariffs and Trade (GATT) system. The GATT system has been credited with encouraging significant reductions in tariff barriers and hence increased levels of international trade. Even during the economic downturn period between the mid-1970s and early 1980s, when a slight shift back to protectionist orientations was evident in some countries, the free trade objectives of the GATT system continued, for the most part, to drive the trade policies of most of the world's industrialized democracies.[20] Such policies, which include most notably those policies in place in developing countries that limit the incidence of tariffs solely to the value added (in contrast to the usual practice of applying tariffs to the value of the produce), are viewed by many analysts as contributing greatly to the levels of FDI by western multinational corporations.[21]

The combination of the increased mobility of capital, worldwide trade policy liberalization, and subsequent expansions in FDI is seen as a primary contributor to the problem of increased income inequality in the western democracies. Beginning in the 1970s and 1980s in the United States, Britain, and Japan, but eventually emerging in Western Europe starting in the late 1990s, increased levels of income inequality are seen as being traceable to the substantial decline in lower-skilled and semi-skilled (and unionized) manufacturing jobs brought on by multinational disinvestment strategies. For those manufacturing workers whose relatively high-paying jobs were (perhaps permanently) lost, few decent-paying employment opportunities awaited them in the expanding service sector, where notably bifurcated occupational structures offered little hope for advancement out of that sector's lower tier. The primary results of these patterns of structural economic change are said to have been reductions in trade union bargaining strength and growing income inequality, even in countries where welfare state policies provided substantial economic recompense. Globalization, in effect, has allowed the rich to get richer and the poor to get poorer.[22] While certain logics of standard international trade theory and a number of theoretically-based analyses seem to suggest some relationship between the above-mentioned globalization patterns and rising rates of income inequality,[23]

[18] Recent notable examples include Kenneth F Schieve and Matthew J. Slaughter, "A New Deal for Globalization," *Foreign Affairs,* vol. 86, no. 4 (2007), pp. 34-47, and Paul Krugman, "Trade and Inequality Revisited," (2007), http://voxeu.org/index.php?q=node/261.

[19] Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic Books, 1982), p. 18.

[20] Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), p. 192.

[21] OECD, *International Investment and Multinational Enterprises* (Paris: OECD, 1987), p. 39. See also, Gobeyn, "Explaining the Decline of Macro-corporatist Political Bargaining Structures," p. 19.

[22] See Michael Kremer and Eric Masking, "Globalization and Inequality," Working Paper 2008-0087 (Cambridge, MA: Weatherhead Center for International Affairs, Harvard University).

[23]For a synopsis see OECD, *Divided We Stand,* pp. 23-24.

There are some notable skeptics who believe that this relationship has not been proven or is overstated. This seems particularly the case with the issue of trade and tariff liberalization.[24] This scholarly uncertainty has encouraged some analysts to begin focusing their attention on additional potential causal factors for recently documented patterns of increasing income inequality. For those interested in explaining more fully the rising rates of income inequality in Western Europe, attention has shifted to the issue of regional integration.[25] Here, the combined processes of economic and political integration within the ongoing European integration drive are seen as contributing strongly to recent rising rates of inequality. While often linked together in the literature on globalization, the issues of regional integration and globalization are notably distinct.

According to Jason Beckfield, there are several significant distinctions that need to be identified. First, unlike globalization, regional integration is geographically bound. While globalization "is often defined as the intensification of cross-border flows, and the borders crossed are any national borders…but regional integration involves the intensification of international interaction within bounded regions."[26] An additional difference between regional integration and globalization, for Beckfield, is political: "regional polities are much more strongly institutionalized than the world polity."[27] This is particularly the case for the European Union, where the EU has the institutional authority to mandate compliance with its directives and agreements, such as the Stability and Growth Pact which requires adherence to budgetary and other requirements as a prerequisite for EMU membership. A final difference between regional integration and globalization is related to the extent to which both processes have progressed. It seems clear that regionalization has progressed more than globalization.[28] As Beckfield observes, "much of what is denoted in the literature as globalization may be characterized more accurately as regionalization—or even 'Europeanization,' with nearly half of all world trade occurring *within* the borders of the EU."[29]

As suggested above, for some analysts, the arguments concerning globalization's impact on inequality can be more forcefully articulated for the issue of European economic integration. For Busemeyer and Tober, the mechanisms by which global economic integration may have contributed to higher levels of inequality can be extended to European economic integration because there is evidence which suggests that their impact on inequality may be even stronger in the context of regionalism. Essentially, "economic integration within the EU can be regarded as a more intensive version of economic integration as it plays out in the global economy."[30] As is the case with globalization, regional integration facilitates increased market competition. The EU's Single Market initiative ensures the free movement of goods, services, capital, and workers. In effect, citizens of the EU member countries ostensibly possess the freedom to work, live, and pursue educational opportunities anywhere within the borders of the EU member states.

But more importantly, business interests now have the ability to move capital with the same amount of freedom. Effectively, for industry, the Single Market has created a significantly expanded pool of labor. Capitalists in the more advanced social democracies of Northwestern Europe now have new, cost-effective opportunities for investment in other parts of Europe.[31] Reductions in unionized, higher-wage employment opportunities, combined with the effects of declines in overall real wage levels brought on by the need to stay competitive in the Single Market, likely contributed to the rising rates of income inequality recently experienced in most of Europe's wealthy social democracies. On a related point, the trend toward more income inequality has probably been encouraged by domestic policy change.

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[24] This subject is substantially analyzed in the various essays contained in Ann Harris, ed., *Globalization and Poverty* (Chicago: University of Chicago Press, 2007).

[25] Of particular importance, see Jason Beckfield, "Remapping Inequality in Europe: The Net Effect of Regional Integration on Total Income Inequality in the European Union, *International Journal of Comparative Sociology,* vol. 50, nos. 5-6 (2009), pp. 486-509, and Beckfield, "European Integration and Income Inequality, pp. 964-985.

[26] Beckfield, "European Integration and Inequality," p. 966.

[27] Ibid.

[28] Ibid. p. 967.

[29] Ibid.

[30] Marius R. Busemeyer and Tobias Tober, "European Integration and the Political Economy of Inequality," *European Union Politics,* vol. 16, no. 4 (2015), p. 538.

[31] Ibid. p. 539.

With increased competition for investment, governments have implemented tax cuts and provided other financial inducements to capital, leading to reductions in tax revenues which otherwise could have been used for transfer payments aimed at reducing income inequalities.[32] Embedded in these arguments is the assumption that European economic integration has had and will continue to have a particularly negative impact on the bargaining capabilities of organized labor. As competition for investment grows with increased regional economic integration, labor unions' market power will continue to erode in the face of increasing capitalist investment opportunities and capital mobility. Labor, in effect, is forced by the economic realities of the Single Market to accept lower wages and less accommodative work environments in order to prevent disinvestment and subsequent job losses.[33] Furthermore, as union bargaining strength recedes so too will the perception among workers that union membership is of substantial value. Continued declines in union membership are thus likely, and with this trend will probably come even more income inequality.[34] Revealed here is the fact that, within the borders of the now unobstructed European Single Market free of customs duties and qualitative trade restrictions, capital has proven to be much more mobile than labor. As such, logic has it that trade union bargaining strength has declined and will continue to diminish as economic integration becomes more intensified.

The decline of trade union market power is seen as being crucial to the ongoing pattern of increased income inequality in Europe. A substantial body of literature shows quite demonstratively those unions have been distinctly influential in promoting advancements in the market and social wage levels of their memberships and for the working class as a whole.[35] Where trade union strength has been strongest income inequalities have been lower—the result of both high levels of collective bargaining strength and institutional influence in social policy formulation.[36] Often working hand in hand with their social democratic political party allies, trade unions in Europe have historically proven to be decisive agents in the drive toward the realization and the maintenance of rough social equality throughout Western Europe. But the forces of regional economic integration seem to have encouraged weakness and vulnerability in the trade union movements at the level of the nation state where the power of organized labor had been most decisive. Making matters worse for labor has been the distinct lack of development of any organizational strength and bargaining power at the regional level. This was predicted by numerous analysts, including Streeck and Schmitter, who maintained more than a decade ago that a number of important obstacles prevent labor strength at the EU level. Of particular importance here would be the inability of the EU's major trade union organization, the European Trade Union Confederation (ETUC) to overcome ideological diversity. The ETUC attempts to represent the interests of social democratic, communist, and Christian democratic nation-state trade union confederations.

This diversity, it is argued, often prevents the ETUC from performing its vital aggregation function on many key issues.[37] Additionally, the ETUC has long-struggled with aggregating the interests of national trade unions on matters of labor policy due to disparate economic conditions. Disagreements, which emanate primarily from differing nation-state income levels, in achieving common positions on labor standards, have, for example, plagued the ETUC's ability to emerge as a strong, unified force for organized labor at the EU level.[38] The regional-level weakness of organized labor in Europe has most certainly contributed to organized capital's entrenched opinion that institutional mechanisms for concentrative processes of decision making need not be pursued or encouraged within the policymaking apparatus of the EU. Most notable would be capital's continued opposition to the establishment of corporatist forms of interest intermediation and policymaking.

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[32] On this matter, see Arthur, S. Alderson, "Explaining the Upswing in Direct Investment: A Test of Mainstream and Heterodox Theories of Globalization," *Social Forces,* vol. 83 (2004), pp. 81-122.

[33] Fritz W. Scharpf, "The European Social Model: Coping with the Challenges of Diversity," *Journal of Common Market Studies,* vol. 40, no. 4, (2002), p. 649.

[34] Busemeyer and Tober, "European Integration and the Political Economy of Inequality," p. 539.

[35] See Alexander Hicks, *Social Democracy and Welfare Capitalism* (Ithaca, NY: Cornell University Press, 1999), pp. 111-126.

[36] See Arthur S. Alderson and Francois Nielsen, "Globalization and the Great U-Turn: Income Inequality Trends in 16 OECD Countries," *American Journal of Sociology,* vol. 107, no. 5 (2002), pp. 1244-1299.

[37] Wolfgang Streeck and Philippe C. Schmitter, "From National Corporatism to Transnational Pluralism: Organized Interests in the Single European Market," *Politics and Society,* vol. 19, no. 2 (1991), p. 135.

[38] Ibid. p. 140.

With labor weakened at both the national and regional levels, there exists little incentive for business interests to support corporatist concentration in Brussels. For the most part, employer associations, encouraged by the decline in trade union bargaining strength in those countries where the corporatist tradition had become reasonably institutionalized beginning in the 1950s, became increasingly hostile and opposed to nation-state corporatism during the late 1980s and early 1990s, and thus moved to disassociate themselves from corporatist bargaining arrangements. In effect, the belief was that labor no longer needed to be given direct access to the policymaking apparatus of the state in exchange for wage demand moderation and labor discipline.

Market forces had come to assume industry's primary functional goals of corporatist forms. By dismantling corporatism—primarily through their non-participation on corporatist bodies—organized capital could effectively eliminate a critical institutional means through which trade unions could work to secure social wage extractions for their memberships and the working class as a whole, hence allowing for the welfare state retrenchments that had become "necessary" as a result of declining growth and the demands of institutional membership in the EU, particularly European Monetary Union.[39] Such circumstances hardly bode well for any significant reconstitutions of corporatist governance at the regional level in Europe. As such, one must include the loss by trade unions of institutional policymaking influence with the aforementioned decline in labor's market power caused by regional economic integration as a contributory factor for Europe's recently documented rise in income inequality.

Besides regional economic integration, the ongoing process of political integration in the EU is said to be related to Europe's increasing levels of income inequality. The two most important dimensions of political integration that seem most substantially linked to this growing inequality are EU member-state participation in European Monetary Union and, more broadly, the EU's general neoliberal policy regime.[40] As Beckfield points out, EMU membership can be linked directly to welfare state spending, which governments have historically used to combat inequality. Specifically, the "convergence criteria" associated with the 1992 Maastricht Treaty that established the groundwork for EMU require that government budget deficits not exceed 3 percent of the gross domestic product (GDP) and debt not surpass 60 percent of GDP[41] Compliance with this criteria has forced states to engage in welfare state retrenchment efforts. For Beckfield, "this can be understood as a policy feedback effect, whereby accession to the EMU pressures states to reform social welfare policy."[42] Effectively, for EU member states, the convergence criteria associated with the Maastricht Treaty has necessitated an austerity-based liberalization regime *vis-à-vis* social welfare policy spending. To ensure compliance with the Maastricht criteria, the EU passed the Stability and Growth Pact (SGP), which came into force in July of 1998. Agreed to by the 28 EU member states, the SGP requires each member state to implement fiscal policies that are in accordance with Maastricht's established deficit spending limitations. The SGP requires that compliance reports be submitted annually by member states to the European Commission and Council of Ministers.

The Pact further allows for the imposition by the EU of penalties for non-compliance.[43] In 2011, the SGP was considerably strengthened with many rules and regulations tightened to ensure more strict compliance. Of note here was the adoption of a new automatic mechanism for the imposition of fines related to violations of the deficit and debt guidelines of the original SGP. The new "Euro plus Pact" is seen by its proponents as positioning the EU member states to better realize such broad SGP objectives as increasing market competitiveness, generating greater financial stability, and encouraging greater sustainability of government finances.[44] Besides EMU institutional membership, the trend toward liberalization, and hence increased income inequality, can be linked to changes in regulatory policies. Increased political integration in the EU has been revealed in part by the expansion in the competences of two critical institutions, the European Commission and the European Court of Justice (ECJ).

[39] This argument is elaborated upon in Mark J. Gobeyn, *Corporatist Decline in Advanced Capitalism* (Westport, CT: Greenwood Press, 1993), pp. 18-22.
[40] See Besemeyer and Tobin, "European Integration and the Political Economy of Inequality," pp. 539-541.
[41] Beckfield, "European Integration and Income Inequality," p. 968.
[42] Ibid.
[43] See Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State* (Chicago: University of Chicago Press, 2001), p. 234.
[44] See Hubert Gabrisch and KarstenStaehr, "The Euro Plus Pact: Cost Competitiveness and External Capital Flows in the EU Countries," *ECB Working Paper Series,* n0. 1650, March 2015.

For Fritz Scharpf, the Commission and the ECJ have been the primary institutional agents of market liberalization in the EU, a process that has become increasingly noticeable since the advent of EMU.[45] Their pursuance of what can ostensibly be referred to as a "neoliberal policy regime" characterized by the steady deregulation of labor markets and the encouragement of market competition through the removal of trade and regulatory barriers, has not been countered by any substantial EU-level efforts to establish the kinds of social policies or regulations that are characteristic of the social democratic ideology's commitment to correcting the negative social effects of free market capitalism at the nation state level. As Busemeyer and Tober observe, integration of social policy is dependent upon high levels of agreement and coordination among nation state governments, but "due to ideological, economic, and institutional differences, agreement is extremely difficult to achieve and that is why social policy continues to be nationally determined."[46] The promotion of political integration has thus enabled EU level institutional actors to pursue—free of any real social policy barriers—their "integration along market lines" agenda and its inevitable consequence of promoting increased income inequality.

5. The Political Economy of Post-Revisionism

In many respects, the decision in the late 1980s on the part of the EU member states to resurrect the economic integration process which began with the Treaty of Rome in 1957, but which was substantially halted during the "Eurosclerosis" period of the 1970s, represents the most recent attempt by the nation-state governments in Western Europe to find a suitable and long-lasting alternative to the Keynesian system of economic governance. For many, the downturn of the European economies during the 1970s signaled a need to reconsider the efficacy of Keynesianism and its ability to generate consistent, sustained levels of economic growth within capitalism. For the parties of social democracy whose revisionist ideology was grounded on Keynesian logic, and seemingly dependent on Keynesian-led growth for its sustainability, the initial reaction to the downturn of the 1970s was to expand the use of industrial policy instruments to achieve, among other objectives, structural economic transformation and workforce skill composition change. In his seminal work of the 1980s, Peter Katzenstein spoke of a system of "political compensation" whereby producer group representatives, working within corporatist policymaking institutions, agreed to accept as legitimate industrial policy initiatives aimed at restructuring industries impacted negatively by globalization and the general economic downturn. While such initiatives often meant workforce downsizing, labor unions were willing to support them in exchange for increased worker retraining efforts through new and existing active labor market policy programs.[47] The effects of these strategies of augmenting Keynesianism with enhanced industrial policy efforts were generally positive from both economic and political points of view, with the kinds of severe individual and corporate economic hardships like those experienced in the United States and Britain being largely avoided, as were any significant bouts of political instability and social unrest.

Moreover, by limiting the severity of the effects of globalization and domestic economic decline, the parties of social democracy were able to avoid--for a while, at least--the need for welfare state retrenchment, which theoretically could have compromised their ability to sustain conditions of rough social equality. As with these strategic policy initiatives, the underlying rationale for the more recent supporting of the reconstitution of the European integration movement was without question growth related. As alluded to above, it seems more than reasonable to view the resurrected European integration drive as a post-Keynesian policy solution for economic expansion. Quite simply, nation-state efforts to secure consistent economic growth through domestic policy regimes, like those which emanated from the revisionist social democratic ideology, became increasingly problematic. Hence, the widespread political support throughout Western Europe that emerged for the enactment of the Single Europe Act of 1987, which effectively jump-started the European regional integration drive discussed in this paper's previous section. Unfortunately, for Europe's social democrats, the growth to be realized through this process of regional integration would be effected through a market-based neoliberal policy agenda driven by mechanisms which logically facilitate increases in income inequality. Essentially, the parties of social democracy, as a means to re-secure the kind of consistent economic growth upon which the revisionist social democratic ideology has long-been based, have affixed themselves to a policy regime that will likely undermine their ability to achieve revisionism's fundamental objective of rough social equality.

[45] Fritz W. Scharpf, *Governing in Europe: Effective and Democratic?* (Oxford: Oxford University Press, 1999), pp. 50-58.
[46] Busemeyer and Tober, "European Integration and the Political Economy of Inequality," p. 541.
[47] Katzenstein, *Small States in World Markets: Industrial Policy in Europe.*

As a construct of Western Europe's business-oriented parties, the Treaty of Rome and the regional integration objectives outlined therein, is clearly driven by free market principles. Subsequent documents like the Single Europe Act, the Treaty on European Union, and the Lisbon Treaty have reinforced the "integration along market lines" principle. That the ongoing process of regional integration in Europe is being characterized by policies of labor market deregulation, trade policy liberalization (including the elimination of tariff restrictions), and monetarist-informed austerity measures and domestic spending limitations, should therefore be of little surprise to anyone familiar with matters of economic and trade policy. As argued above, European regional economic integration has been accompanied by a process of political integration that has served to reinforce this neoliberal policy agenda, which will most assuredly contribute to increased income inequality in the EU member states. What will be compromised, of course, is the long-standing social democratic commitment to achieving egalitarian outcomes within capitalism. The entrenchment (in practice, at least) of a new "post-revisionist" social democratic ideology, one characterized by an acceptance of this reality, is thus a likely outcome.

In effect, it is European regionalism's imposition of domestic policy constraints on the governments of the EU member states (and the broader process of political integration) that stands as perhaps the most obvious obstacle to the maintenance of the social democratic commitment to egalitarianism. While one can envision the claimed inequalities caused by globalization and European *economic* integration being addressed by past social democratic governments with the same "policy innovation logic" that was utilized successfully in the latter half of the twentieth century to preserve conditions of rough social equality, today's social democrats are confronted by the realities of a "domestic policy constraints regime" that has been imposed upon them by the political integration process that they themselves have come to support. What, if anything, might transpire politically or socially from the emergence of post revisionist social democracy? While more pronounced debates concerning the merits of continuing to support the current pattern of regional integration may emerge within the parties of social democracy, and while the preponderance of proportional representation systems of legislative selection may encourage increased anti-EU splinter party formations, the most visibly consequential development may be a notable rise in populist movements, both right and left, committed to the restructuring or dismantling of existing policies and practices of European regionalism. The recent success of the Brexit movement in Britain may encourage similar social movement formations in other Western European democracies where patterns of growing income inequality have developed.