

# Administrative Traditions – and the Problem of the “Trilemma”

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## Abstract

The purpose of this paper is to show that the administration of a modern welfare state is a complex thing. The state meets the challenge of the “trilemma”. Social policy formation does fundamentally rely on the outcome of the debate about the future of the European welfare state. From the perspective of the political-economic approach, social policy formation is a dependent variable to both European integration policy and national administrative traditions. However, the national state does not act in a sovereign manner neither in relation to the European Union (EU) nor to domestic member actors. All of them confronted with a so-called “trilemma” aspect, a term first introduced by the US social scientist Torben Iversen (2005). In this paper, I follow up his analysis and shows the difficult choices that confronts policy-makers on the different administrative levels because of this trilemma and its trade-offs. New Public Management ideas are dominant and for the time being confront the other ruling administrative social traditions of Western Europe. In this paper, I conclude that a European agreement on a social choice, related to the overcome of trilemma, must be accomplished to save the welfare state model as we know it. The traditional Nordic welfare state model gives an example.

**Keywords:** trilemma, administrative traditions, trade-offs, European integration, interdependence, social network

## 1. ‘Spill-over’ Processes

The study of international policy in traditional political science in the years following World War II had the tendency to use theories that explain integration in relation to the development of institutions and the regulation of the relationships through agreements between sovereign states (Rosamond 2000). The development of Western welfare states in the 1950s and 1960s until the mid-1970s took place under highly favourable circumstances, aided by continuous growth in the economies, and governments were able to manage national budgetary control (Veggeland (ed.) 2016, Tinbergen 1965). Political economic analyses, therefore, characteristically emphasized a national, state-centred perspective bound both to the techno-economic paradigm rooted in Keynesian state intervention and principles of effective-demand and to the socio-institutional paradigm of the Weberian bureaucracy (Olsen 2005, Brunsson 2011).

This is particularly true of the realist school (Cini 2004). Realism claims that international politics is about interaction of self-interested states in an anarchic environment, where no supranational authority is capable of securing order and reducing risks. According to Neil Nuget (1999: 509), the theory ‘is centred on the view that nation states are the key actors in international affairs and the key political relations between states are channelled primarily via national governments’. Thus, realists have focused exclusively on governmental institutions and actors and their taming roles in internationalization and transnational co-operation (Veggeland (ed.) 2017).

The same is true for spokes men of the inter-governmentalist approach. They point out that there is significant evidence of inter-governmental bargaining and consensus-building techniques as dominant modes of policy-making in many areas (Moravcsik 1993, 1998). They understand that, despite an anarchical environment, there is some potential for order on the basis of international co-operation. It is especially true when governments enter negotiations and bargaining processes and reach legally binding agreements, and these establish order and favourable co-operative networks. The EU states are an example of such co-operation (Hoffmann 1966, Moravcsik 1998). This is the traditional community method of integration based on hard regulation; the method depends on bargaining processes and consensus building, with member state governments as actors. The output takes the forms of laws and regulations,

and ever more authority gravitates to the supranational regime of the EU, which also becomes an independent actor of defined political areas in continuing bargaining processes. Inter-governmentalism is not only of relevance to EU politics; it also refers to a type of decision-making and partnership building that occurs within all international network organizations.

These theories of realism and inter-governmentalism, however, ignore central functional national actors, such as financial agencies, regulatory arm's-length administrations and other governmental bodies, private businesses and NGOs, which act in trans-border networks. Also sub-national political administrative actors are ignored, such as municipalities and regions (Anderson 1994). In the global age, these extra-governmental actors take advantage of their beneficiaries' networking abilities and thereby transfer their demand, expectations and their loyalties from central government to new centres (March and Olsen 2005, Veggeland 2013). Cross-border and transnational initiatives are taken, and agreements are settled out of the remit of the central government.

Consequently the neo-functionalism strand, another dominant school of understanding integration and the development of network organizations, has extended the non-governmental perspective and recognized that political goals can only be realized if strategic thinking includes 'beyond-government' actors, that is, socio-economic sectors, interest groups and acting individuals (Haas 1958, Nye 1971). Beyond governments, such actors co-operate in networks and develop themselves through the advancement of agreements and contracts, ones not rooted in trust but in mistrust.(Note 1) This advancement both of functional and benefit-making network extensions and of pressure for further integration of other sectors and interest groups is termed 'functional spill-over' processes.

The occurrence of 'spill-over' processes and the concomitant increase of mutual dependence between an increasingly number of actors become predominant (Strøby Jensen 2004). The option actors have for exiting partnerships, moreover, exacerbates these conditions of vulnerability. These conditions reflect the vulnerability of the decision-making processes of European Community, which is 'spilling-over' in the direction of an ever-closer Union. As elaborated by Ernst Haas and other scholars (Haas 1958, Wallace, Wallace and Polack 2005), the European integration commenced with an initial decision by six governments to place a certain sector, in this case coal and steel, under the authority of a common central authority, the institutions of the Coal and Steel Union. There was enormous pressure to extend the authority of these institutions into neighbouring areas of policy, which ended up with the Treaty of Rome as a part of a first round. Thus, neo-functionalists had predicted the expansion and deepening of European integration with an increasing number of member states and involving many other issues, such as monetary policy and service industries. Despite legal binding treaties and regulations, the neo-functional school understood that organizational dynamics entail vulnerability in the sense that the processes by themselves generate unforeseen consequences, which may well not be acceptable for member states and extra-governmental actors. In a taming perspective, the threat of the exit option may deliberately change the development path though (Neyer 2002, Veggeland 2004).

Neo-functionalists think from the perspective of economic-base theory and typically link politics and social-institutional paradigms as a 'functional spill-over' from economics, that is, techno-economic paradigms. Functional economies tend to adopt functional institutions, and, dysfunctional economies tend to adopt dysfunctional institutions. Using this neo-functional conceptualization, we might identify the regulatory state order of institutions to be a 'functional spill-over' from monetarist and supply-side economics. If the international economic system of this kind becomes disordered, the regulatory institutional system will, accordingly be put under immediate pressure for change (Sandholtz 1996).

Joseph S. Nye (1971) defines functional 'spill-over', therefore, as a way of re-establishing the balance after an imbalance has arisen between political organization and functional power connected with economic market forces. Functional 'spill-over' takes place when inadequate state organization undermines the effectiveness of politics and planning in the different social sectors, just as the Keynesian state did in the 1970s. We may consider what is termed deregulation and re-regulation as consequences of functional 'spill-over' from market-making and market-correcting policies (Scharpf 1999).

Political 'spill-over' occurs when national, sub-national and supranational arm's-length bodies, interest groups and other bodies create additional pressure for the further extension of mutual networks of co-operation; if these demands are not fulfilled, then co-operation dissolves. The latter outcome is an indication on partnership vulnerability, rooted either in rational choices or in mistrust and conflict. Another outcome might realistically be the establishment of new regulatory bodies in order to provide necessary services, to control the rules of the game of co-operation or to correct the market through re-regulation. However, this latter solution should make governments and other stage holders at all levels of decision-making to think critically about necessity taking into consideration the already existing numerous arm's-length bodies (OECD 2002, Veggeland 2004). We have already encountered this phenomenon in the different

forms of institutional modes of the regulatory state (Majone 1996:9-28).

The neo-functionalists have a pluralistic, but somewhat deterministic view, on network development and the attempts that participating actors make to regulate corporations, bargaining processes and agreement settlements. Probably because of the neo-functionalist tendency to regard ‘spill-over’ processes deterministically, what is underemphasized is the vulnerability of those ‘spill-over’ processes. What is missing here is the inter-governmentalist view that recognizes that governments undertake certain activities that may cause friction or totally undermine further network developments and expansions (Pollack 2005). Further, neo-functionalists are also guilty of neglecting the ‘spill-over’ of regional and local political structures. In contrast, the liberal strand of inter-governmentalism, which includes a liberal theory of national bottom-up preference formation, recognizes this phenomenon (Moravcsik 1998).

In our analysis above, we have tried to show how the state apparatus together with numerous other actors participate at national and transnational network arenas, creating agreement-based structures of governance as part of the regulatory state order (Veggeland (ed.) 2017). Public-public and public-private partnerships operate also in these arenas: they progress but at the cost of generating vulnerability. This susceptibility partly reflects the increasing ‘hollowing-out’ of traditional sovereignty of the European national state. At a high political level, the pooling of national sovereignty in the EU is essential. However, equally important is the parallel movement at the national level, namely the pooling of state authority in partnerships and arm’s-length governmental bodies and agencies.

The neo-functionalists have noted – and this is the essential point in a pluralistic perspective that new industrial forms of organization and arenas for regulation have been created as a consequence of functional and political ‘spill-over’ effects in the building of new economies. The new forms in the industrial sector reflect in some sense the function of fragmentations in the public sector. There has been a change in the market forms of production; the character of production has changed from Fordism to post-Fordism (Amin (ed.) 1994). Fordism was intimately bound to Keynesian economy and the need for balance between an interventionist state and the business sector. Compacted, hierarchical organized businesses of mass-production confronted a monopoly-based hierarchical state, in a policy framework of scale. At the time the form represented a stable mode of macroeconomic growth.

The transformation of this market form of production to Schumpeter-inspired post-Fordism occurred in the 1970s; the compact hierarchy structured was split into small, flexible, consumer-adapted business units. It is commonly accepted that three theoretical approaches together, each offering a somewhat different perspective, capture the essential characteristics of this post-Fordist political economy (Amin 1994, Sable 1994). These are:

- 1) The regulation approach understands the transformation to post-Fordism as a somewhat parallels process of industrial fragmentation to the establishment of arm’s-length bodies and agencies in the public sector. The reconstruction of the mother company into smaller branch firms inherited a belief in the principle of ‘steering without rowing’ in the economic interest of more effective indirect management by means of the distant regulation of subsidiaries.
- 2) The flexible specialization and customer-adapted approach understands this transformation as a fix for the demand for fast changes in production, technology and internal organization in order to satisfy customers. All of these aimed at making the business more productive and competitive.
- 3) The neo-Schumpeterian approach understands the transformation as an adjustment of the ‘socio-institutional paradigm’ in the business sector to the new ‘techno-economic paradigm’ of the regulatory state. Aside from competition in the market, a diversity of smaller units delivering items and services to the mother company could encourage ‘creative destruction’ and industrial innovation.
- 4) Creative destruction and innovation in the business sector indicates risky but beneficial undertakings and dynamics in growing economies. The vulnerability attached to economic recessions appears in the sense of threatening overall destruction.
- 5) Smaller units delivering items and services to the mother company have their basis in the principle of ‘just-in-time’ delivery in order to be effective organizations. Such a principle is by definition vulnerable. For example, a strike at one firm or an infrastructure failure at another will, for a period-of-time disrupt the whole production cycle of the company. A strike at one unit will negatively affect other workers’ conditions elsewhere in the production chain, which raises ethical considerations.
- 6) Vulnerability of this kind creates a need for wide-reaching regulations and measurements of goal achievement. Post-Fordism biases, therefore, the building of the regulatory state.

## 2. Dependence, Vulnerability and Sensitivity

We may take those neo-functionalism network theories that do not allocate to the state a central position, as is the case with realists, as a starting point. Several scholars have elaborated the social-institutional paradigm of the weakened national state with regard to both dependence and interdependence effects, caused by network mechanisms. As early as in 1971, Joseph S. Nye published the article ‘Comparing Common Markets: A Revised Neo-Functional Model’. Later, Nye together with Robert O. Keohane published *Power and Interdependence: World Politics in Transition* (1977). Their theories are well-suited for throwing new and better light upon the development of forms of interaction in networks, which have occupied a dominant position in the 1980s and 1990s. They assert that the state does not act in a sovereign manner neither in relation to international and domestic actors in the market nor in relation to political and administrative actors that have clearly acquired a position of relative autonomy within the state system. Two important concepts in this respect are ‘interdependence’ and ‘network integration’ in regard to partnership formations like the EU (Veggeland 2004).

*Dependence* means that one actor unilaterally becomes influenced by the actions of other actors. *Interdependence* refers to a situation of mutual dependence, as is the case in national and international arenas of network governance. Interdependence does not presume likeness between the parties; instead, partnership formations based on bargaining will mean that power connected to political and knowledge-based resources favours one of the parties. The concept of interdependence normally only becomes defined descriptively, without an evaluation of its desirability. But, interdependence may result in economic and social inequality, what in EU-language calls a ‘lack of economic and social cohesion’ – belonging – between states, regions and social groups (Keating and Loughlin (eds) 1997). This also applies to the issue of social-institutional standards.

With reference to interdependence, Keohane and Nye (1977) proposed *sensitivity* and *vulnerability* as two dimensions of interaction, both of which need to be tamed. Nye has later elaborated this notion further and has suggested a ‘three-dimensional chess model’ as a basic term of reference to high politics (2004). In the first dimension, strategic military concepts of power are developed, and in the middle, second dimension, techno-economic concepts define the competitive strength of the state. Lastly, in the third dimension, supranational networks of world-wide-web transactions expand the transmission of things like money transfers, information and messages; there are also computer hackers and terrorist groups as well as the presence of corruption, unethical investments and pandemic and environmental threats. States play more or less successfully on all the three arenas of this chess model, but nevertheless a high degree of vulnerability and sensitivity dominates the game.

As a case in point, Nye critically puts the contemporary US into this game and makes an evaluation according to the framework of the three-dimensional chess model. The US dominates the military play dimension as a superpower of the world. Concerning the second area of play, other economic players like Europe or the EU, China, Japan and Russia, compete well and put pressure on the US economy. Furthermore, the contemporary US loan-driven economy makes this play-dimension vulnerable for reasons embedded in its own monetary system (a statement supported by F. Lordon 2008). However, as a player in the bottom arena, the US is really in trouble and has turned out to become especially vulnerable, and we need only to mention the presence of international terrorist networks in this arena.

According to Nye, the US has not been playing this game well. The US has basically first and foremost played internationally and has tried to tame the top arena, that is, the dimension of military strength and forces. This had to turn out as a strategy of failure; military power serves the chess player little in winning games related to the two other dimensions of the model, and especially not at the lowest dimension. Dependence, interdependence and ‘spill-over’ effects in the unbalanced chess games the contemporary US has been playing for years increase its vulnerability.

According to Nye, environmental problems belong to the dimension of the world-wide arena and respect no order. These problems pay no attention to national and administrative boundaries. They are human-made but the disorder they create is connected to vulnerable natural ecosystems of interdependent elements, and ecosystems are complex and have their own boundaries – ranging from the local to the global scales. This is the physical side of environmental problems, but there is also a regulatory side. The problems have arisen partly as a result of many national and local political decisions and interventions without any overall planning and coordination and partly as a consequence of the many decisions taken by actors competing in the market, the middle dimension of the chess model. The environmental problems, which are created by both private and the public activity, therefore, appear as a mixed-dimensional problem.

Dependence on natural goods and resources in relation to human existence and economy leads to regulatory interdependence between states, regions, organizations and businesses. The effects of the ecosystem create vulnerability where regulatory authorities, whose efforts are indispensable for a multi-dimensional winning game, are lacking. Without a rational overview of networks and mechanisms, environmental problems will expand and

decreasing efficiency in the economic dimension will follow, thus further disturbing the international balance (if there happens to be any) in the defence and security dimension.

Damage caused by slippages of environmental waste management often crosses boundaries but can often be treated one-dimensionally. But regulation and planning for sustainable development is not an issue that only affects the relationship between states; a pluralistic multi-dimensional perspective is necessary here, and it involves not just integrated co-operation between governments and economic actors; political actions and ethical behaviour are required at all levels – from the global to the local. The EU principle of subsidiarity, that is, devolution of decision-making competence to the lowest possible level but high enough to be effective, formulated in the Maastricht Treaty of 1992, offers guidance to the multi-dimensional perspective. Consciousness of global environmental problems, along with processes of internationalization in general, increases awareness of the complex, interdependent bonds and structures that exist between an indefinite number of global, national and local actors, and thereby a keener awareness of the sensitivity and vulnerability inherent in these connective formations.

As is commonly known, the complex economic enterprises of post-Fordism barely heed national and administrative boundaries in their market transactions (Amin (ed.) 1994). A municipality, a region and a state are *sensitive* to the types of interdependence created in the system of enterprises established on the basis of flexible specialization and new technology. But, because of the high level of dependence, the post-Fordist system of production turns out to be *vulnerable*. And vulnerability concerns not only the economic dimension and its relationships but also the operations between states, regions and private actors in the growing global market, acknowledged by that European co-operative network, the EU.

Interdependence and vulnerability create a need for wide-reaching agreements and regulations. Regulatory measurement assumes coordinated political arenas of decision-making and implementation at all levels. The general framework of national and international laws, special laws, the use of management by objectives, benchmarking and the evaluation and comparison of output are all important. This applies to the sustainable development of modern communication and transport, the exploitation of both sea and land resources, industrial spillage and technological development in general. It narrows the ‘free room’ in which each state, region, municipality and enterprise have when exercising their sovereignty.

Usually, pluralists do not operate with any clear distinction between domestic and foreign policy (Dahl-Eriksen 1997). On the contrary, the assertion is made that the division between inner and outer sovereignty is increasingly difficult to maintain in the light of processes of internationalization. For planning and targeting sustainable development, this means that domestic planning must be integrated with international planning actions (Williams 1996, Veggeland 1996). Correspondingly, while authorities with the legitimate power can sanction those who break agreements, these sanctions must be enforced on the different levels as an administrative consequence of political ‘spill-over’ effects.

A fundamental characteristic of the theories of interdependence is that they do not in principle regard the international system as a set of different national and regional economic and social systems. This view means giving up the belief in an anarchistic international system, where co-operation and institutional development only involve questions of security. The latter understanding of the processes of internationalization represents a natural development of the position advocated by realists and rationalists in political science, which asserts both that it is not possible to break with the principle of state sovereignty and that no global authority is capable of taming conflicts of interest and securing order (Cini 2004). Intervening in the domestic interests of the national state is forbidden by international law. Globalization and interdependence in the sense of the networked society (Castells 1996) provides a foundation for changing these laws. New forms of regulation, based on the EU, can support this change without abandoning pluralistic and democratic forms of state. Further, new modes of interacting, cross-border planning and governance must be developed to match the new situation and the liabilities of sensitivity and vulnerability (Krasner 1983).

### **3. The Search for Security and Safety**

Through the history and different phases of European integration, at least three general models have been the foundations for matching social-institutional paradigms together with new structures in order to counteract repercussions of socio-institutional sensitivity, vulnerability and risks: the Continental, Anglo-Saxon and Nordic models, with their different administrative traditions (Knill 2001, Veggeland 2007).

From the launching of the European integration process and the adoption of the Treaty of Rome in the 1950s, and with the inner six Continental states, Germany, France, Italy and the three Benelux countries, as founder states, the Continental model naturally was dominant. This administrative tradition created path-dependence of state-focused

con-federalism and interventionism as a reflection of the Keynesian state (Millward 2000). From the Continental tradition came the policy inspiration to embrace European social partners, the European umbrella trade union (ETUC) and the private and public employers' interest organizations, respectively Unice (now Businesseurope) and CEEP, to the negotiation table (de Buck 2004). The goal was taming and correcting the integration process by putting social concerns on the agenda. A sort of a Continental corporatist style was the result. The Maastricht Treaty from 1992 introduced the 'Social dimension' of the Community, with the expressed goal to create arenas for deliberative talks, and thereby to reach consensus instead of conflict on social and labour-market issues. The Anglo-Saxon state, the UK, was exempted from the EU social dimension, and in 2008 the UK still remains outside this facet of EU policy.

The dominance of the Continental tradition lasted until the end of the 1980s (Urwin 1996). The adoption of the Single European Act in 1987 and the introduction of the Single European Market process one year later marked a fundamental contextual change (Austvik 2002, Wallace, Wallace and Pollack 2004). The strategies of minimizing the state and marketizing the public sector, of Anglo-Saxon origin, became dominant policies (Pollitt and Bouchaert 2004). Further, the member states decided to deregulate – and re-regulate – to create a territorially wider, borderless, single European market. The new regulatory state order of the EU took over. We might say that this caused the transformation of the social-institutional paradigm, much in accordance with the Anglo-Saxon social model and market-orientated administrative tradition.

How did such a transformation occur? When the United Kingdom had joined the European Community (EC) in 1972 as a major member state, the global recessions, inflation, unemployment and stagflation had reached all the member states' shores. The crises biased and pressed forward change, or at least modification, of the techno-economic and socio-institutional paradigms. The Anglo-Saxon model and the tradition of organizing governance became dominant and changed the Community's method away from state-focused con-federalism and interventionism and moved in the direction of the regulatory-state paradigm based on market-centred policies, modes of New Public Management and supply-side economics. The concept of the Social dimension and the involvement of social partners in negotiations, along with sensitive issues like work conditions and social and labour-market reforms, were temporarily taken off the record (Koukiadis 2006).

During the 1990s, both the ability failure of the EU to compete in the global economy and the democratic and legitimacy deficit became central issues, threatening the core identity of the Union (Hayward and Menon (eds) 2003). And when the Soviet Union collapsed, the political situation in Europe changed radically. The poor Eastern Europe states wanted membership status in the 'rich men's club', and the Amsterdam Treaty of 1997 made the opened the door to them (Glenn 2004). Ten new states joined the Union in 2004, and two more in 2007, bringing with them heavy social and economic burdens that were expected and immediately felt. Reforms were necessary, and they were formulated, agreed on and implemented as socio-institutional changes. In our context of studying the social model, the Lisbon Process, launched in 2000, was to be a crossroad (Janssen 2005). The Lisbon Process was targeting the ambitious goal of making the EU the most competitive region globally.

Hence, there were at least at two important events during the spring of 2006. European political and administrative leaders discussed modes of competitiveness and robust governance in relation to such models. Their explicit focus was on the Nordic welfare-state model and its regulatory approach to social security and on whether such a successful model that offered low socio-economic risk and vulnerability could be applied to other member states, especially those in distress (EU program 2006). This idea motivated scholars to revisit the Nordic state-focused social model and participatory administrative tradition in a comparative perspective, to find out the essential characteristics of the paths of development coming from this model and to determine why the model is considered successful 'in the global age' (Veggeland 2011, EPC 2005, Timonen 2004).

As mentioned, the EU search for an innovative social model commenced when the European Council held its meeting 23-24 March 2000 in Lisbon and agreed to set out a new ten-year strategic goal for the European Union. The goal was to make the Union,

*the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*(Note 2).

The Lisbon Process was launched. But right from the start critical voices made themselves heard, like 'Lisbon's single size does not fit all' (Mayhew 2005), meaning that the Lisbon process from the beginning was far too fixated on economic conditions for competitiveness and taming externalities at the expense of considerations of social security and welfare.

In short, the Nordic model seems to offer more than a 'single-size' method in the pursuit of competitiveness

(O'Sullivan 2005). The model seems to offer everything that European decision-makers are looking for: highly competitive economies in conjunction with less social inequalities and the institutionalized taming of risks and regulations for job protection (EPC 2005, Kuhnle 2000). In the 2000s, this rather expensive welfare-state model appears to represent a multi-dimensional method with the potential to generate a successful road for the development of the future EU and for (some of) its member states.

Of course, all these things are extremely complicated. We need European-wide multi-disciplinary comparative research to enhance the knowledge of what happens when social models travel across borders.

#### **4. Welfare-State Security and Risks**

As elaborated above, we may view innovation in the public sector not as accidental changes but as contextual changes. In the European context, it means that path-dependence, owing to different territorial social models, strongly influences such changes (Veggeland 2007). In close connection, another issue arises regarding innovation. New ways of making such changes, and transcending them, also occur when European social models interact across borders and trigger interpretations of new ideas that bias policy and institutional change. Interpretation theory make explicit that there are at least two basic perspectives involved (Røvik 2007: 22-23): the interpretation may be either contextual or out of context. In the former case, innovation is linked to already existing social models and traditions; path-dependence thus determines the norms, principles and values (Knill 2001). In the latter case, there is the simple copying and imitating of first- or second-order changes without taking account of domestic values, management ethics and steering traditions.

In general, regulatory innovation(Note 3) includes strategies for improving the management of risk and the pursuit of state legitimacy in the 'risk society' (Beck 1992). Innovations in the way risk is moderated include threats to welfare, social security, labour market, social and human capital, gender discrimination or otherwise, environment, economy, national security, and so on (see Taylor-Gooby (ed.) (2004)). Re-regulation, a term for new regulation aiming for the reduction of risk and taming purposes is a term often used to express regulatory innovation, for example, providing social capital through market correction or the partnership approach (Scharpf 1999).

Some researchers have pointed out that the welfare state does not have its basis on 'politics against the markets', as is commonly assumed in the neo-liberal Anglo-Saxon tradition, but rather on the social-democratic mixed-economy approach, that is, 'politics *with* markets' (Iversen 2005:73). We may add to this the postulation of 'politics *by* the market' if we take into consideration how the principles of New Public Management (NPM) and Market-Type Mechanisms (MTMs) have penetrated the traditional Scandinavian welfare-state model and administrative tradition (Pollitt and Bouchaert 2004, Veggeland 2004) and constituted the current Nordic social model (Veggeland 2007). This change has innovatively formed and adapted social capital to a new stage of welfare-state performance. The three postulations seem reasonable, but we should qualify them with an answer to this question: which changes to the welfare state provides greater social capital to its citizens more than others?

Although, it is popular to point out that the market, including global markets, interferes with the welfare state and vice versa, it is obvious that this interference occurs along different paths, depending on the actual social model of the states (Beetham et al. 2002). As mentioned in previous chapters, we have at least three general welfare state models in Europe, which link correspondingly to the three administrative and political traditions. Let us elaborate these somewhat further.

- **The Continental welfare-state model**, which is dominated by strong trade unions, is said to be of a *corporatist type* with a heavy regulated labour market. As discussed earlier, high job security and protection through industrial relations plays a key role (Koukiadis 2006). For this and other reasons, the corporatist welfare states are, in many ways, based on *politics against markets* more than other European states. Administrative rigidity and slow process of renewing social capital hamper the corporatist Continental welfare-state model. These features are not accidental but due to traditions and developments of institutional path-dependence (Knill 1999).
- **The Anglo-Saxon welfare-state model**, dominated by the adoption of market-centred policies, is said to be of a *liberal type*. The liberal welfare states use MTMs and independent agencies to provide welfare services. The labour market is sparsely regulated and has low job security and protection (EPC 2005). This welfare-state model more than others qualifies for the notion of *politics by markets*. With regard to innovation of social capital, the model is restricted by ideological resistance to changes from the first and second levels to the transcending third level, which concern the basic values and principles of neo-liberalism.

Again, this occurs not accidentally but is a result of biases historically rooted in the liberal model, and we may best view it as a as institutional path-dependent development.

- **The Scandinavian/Nordic universal welfare-state model**, dominated by state-centred policies and high welfare expenses, is of the *universal type* (Veggeland (ed.) 2016). The universal welfare states offer universal social security and job-protection arrangements. Further, it is a governmental responsibility to prioritize such labour-market tasks as life-long learning and the development of skills from another point of view, the Nordic post-war labour market has become rather liberalized and the Market-Type Mechanism (MTM) of outsourcing is often put to use for the provision of welfare services (OECD 2005, Veggeland 2007). This makes the universal welfare-state model qualified for the notion of *politics with markets*(Note 4). The public sector has selectively learned lessons especially from the Anglo-Saxon model, and in some parts of society the third-level of changes is reached, that is, innovative changes. This achievement concerns the concept of social capital, which has been renewed in the contemporary Nordic model. One example is how welfare politics has become connected to labour-market politics in an innovative way. The outcome has been the great social capital of ‘flexicurity’, i.e., interactive co-play between social security and active labour-market policies, which brings flexibility to the labour market and therewith competitive advantages in the global age (EPC 2005). As with the other models, the contemporary universal Nordic model of the welfare state has also taken its form owing to its historical welfare-state roots and institutional path-dependence (Olsen 2004).

One main reason why the Nordic model has been receiving renewed EU attention under the auspices of EU in crisis strategies is the belief in the social capital of flexicurity and other universal welfare state arrangements of the model (Europe’s World 2005). In a time when states and regions are more than ever competing globally and are intensively engaged in political and economical measures to maintain a high employment rate while trying to keep inflation and public expenses low, it is understandable that they are looking for innovative solutions (Iversen 2005, EPC 2005). Records of public budgets confirm over the years, however, that the Nordic welfare and social-security costs consequently represent a high burden on the public budget. Why, then, is this model so attractive? The answer may be very simple:

Social capital in the Nordic welfare-state model creates a high level of labour productivity. The labour productivity generated through high degree of national employment means more than just ‘full employment’ in the Keynesian sense. It means work, training or education for everybody irrespective of social groups, gender, ages and individual differences. The pay-off of this is ability to afford expensive social security, which in turn results in the taming of social inequality that facilitates the renewal of the social capital of flexicurity in an ascending innovative circle.

The empirically based thesis is that universal job protection and social security shape the incentives workers have both for investing in particular market-attractive skills and life-long learning and for changing work and work-places without personal risk. Labour market flexibility is the innovative outcome of the Nordic active labour-market policies: education, lifelong learning, kindergartens that help women’s access to the labour market, and so on. Firms benefit from such flexibility and access to skills because they are critical for competitive advantage in knowledge-intensive economies. ‘Firms do not develop competitive advantages *in spite of* systems of social protection but *because of* it’ (Iversen 2005: 74).

## 5. The European Social-Capital Trade-Offs

The welfare goals of a state need, of course, to be paid for if they are to be realized; social capital is an instrument to accomplish that realization. Analytically, a neo-liberal perspective may view the building of social capital in modern states directed basically, by three goals: low inequality, low unemployment and low public expenses. These socio-economic goals are linked to three distinct policy choices that are characterized by a ‘trilemma’. This trilemma occurs because it is difficult to pursue successfully all three goals simultaneously as long as there are trade-offs between them (Wren 2000). At this point, and before elaborating this statement further, there is a need to define and distinguish the notions of trilemma and trade-offs. For these purposes, I shall follow the work of Pollitt and Bouckaert (2004: 162):

*Trade-offs*: where there is more than one desideratum or more than one problem to be alleviated, there will inevitably be the failure to attain other desiderata or the worsening of different problems. This is a situation, therefore, where decision-makers are obliged to balance between different things that they very much wish to achieve but cannot

possibly have them all at the same time – indeed, having more of one desirable thing entails having less of another. In the political world, appropriate choices often are those that essentially make the best out these unavoidable, constrained conditions with the guidance good governance grounded on a pragmatic approach. Yet, norms, values and traditions will affect these choices by making one set of options more preferable than the other. Governments thus tend to compromise the goal that is least ideologically important to them (Weaver 1986) in order to maximize the others in their struggle to retain their position of political superiority. We may take the following as an example. According to the perspective of historical institutionalism (Cini (ed.) 2004), if decision-makers were to engineer the use of social capital as short-term instrumental capital, then the long-term perspectives aiming for sustainability and the supremacy of good governance values will often be insufficiently communicated.

Torben Iversen (2005: 146-147) has highlighted this ideological aspect of the trilemma arising from the challenges of the global age of keeping unemployment, inequalities and public expenses in check, in short, the ideological aspect involved in social-capital tradeoffs. One strategy was to deregulate labour markets to reduce the power of employee unions and to increase wage flexibility. The governments of the Anglo-Saxon tradition, the US, the UK, New Zealand and Australia during the 1980s exemplified these neo-liberal policies. Another strategy was both to accept the consequences for employment resulting from a compressed wage structure and to seek to limit the disruptive effects by discouraging the entry of women into and by facilitating the exiting from the labour market, the latter being primarily affecting the elderly through early retirement. This is the typical pattern of choices we do find to some extent in some Continental European countries.

The final option was to accept the slow growth of employment in private-service sectors but simultaneously to pursue an expansive employment strategy through expansion of public-sector services in order to balance the effective demand in the framework of Keynes. This strategy also strove to improve the educational resources for younger people as a policy approach towards building social capital. The social-democratic governments in the Nordic countries, where the ideological tenor favoured the financing of higher public expenses by full employment and by high tax rates, often chose this option.

As we observe in this process of compromising goals and policies, social models, administrative traditions and path-dependency play essential roles for what decision-makers consider being appropriate choices and how they implement their strategic thinking on social capital (Sverdrup 2007). We may argue that the trade-offs involved in European social-capital policy have this following inconsistency:

On the one hand, creating jobs and employment in the private-service sector is a positive strategy in that it does not disturb the budgetary balance; however, this strategy has certain trade-offs: lower wages, higher non-wage costs and the inducing of negative inequality in the sense of lowering the degree of employment in the population and thereby reducing work productivity. On the other hand, the strategy of generating service jobs in the public sector also has trade-offs; the strategy indeed pushes the limits of already constrained and overloaded budgets (OECD 2005).

Politicians in charge do have the obligation to make decisions. Concerning social capital, they look for a European model to minimize the trade-offs, that is, to find a model for flexible job creation, for social equality and for welfare, but all within a sustainable economy (Janssen 2005, Rasmussen Nyrup 2005). The overall goal was and is to make Europe the most competitive region in the world, as was announced at the Lisbon summit meeting in 2000,(Note 5) but the trade-offs in social capital certainly challenge this goal.

## 6. European Traditions of Governance and Trade-Offs

In our context, we may briefly describe the trade-offs of equality-employment and public expenses of the European welfare-state models and paths in the framework of innovative social capital as the following (Veggeland 2007):

- **The trade-offs in the liberal welfare-state model:** As pointed out before, the Anglo-Saxon administrative tradition weighs market solutions and regulatory measures and has the lessening of state intervention as an explicitly expressed objective for the service sector. Universal welfare and health coverage are not guaranteed. The employer provides the workers' health and social insurance, while the government covers the health expenses for the poor and the elderly who fall outside this insurance system.
  - In this tradition, the response to the equality-employment tradeoffs was to give job creation and labour-market flexibility priority while it reduced job protection and social security. The use of contracting workers reduced the power of unions and increased wage inequality during the 1980s. The politicians and economists believed in a flexible labour market that would make full the use of economic capacity and promote job creation, innovation and growth through a flexible labour

market without fixed tariffs and expensive welfare services; the engineering of short-term social capital was part of this belief. For neo-liberal economists, market flexibility is the ultimate precondition and solution for increasing productivity and revitalizing the European economy in a globally competitive world.

- **The trade-offs in the Corporatist welfare state:** The Continental administrative tradition depends on corporative solutions and state-interventionist measures. Health and social insurance are guaranteed, although the latter is a mixture of public and private institutional arrangements. Traditional welfare services are kept in the public domain as ‘services of general interest’. Trade unions are strong, but the problem is that there are too few jobs created. Reaching Hall’s third-level institutional change did not, then, come through fast enough.
  - In this tradition, the response to the equality-employment trade-offs was to accept the employment consequences of a formal wage structure and hierarchical and rigid system of professionals, the latter of which also dominated the bargaining area. The labour market remained inflexible and the unemployment rate relatively high. Policies for social-capital building did not stand up to solutions that obstinately remained ‘policies against the market’.
- **The trade-offs in the Universal welfare state:** The Nordic administrative tradition relies on public institutional solutions with regard to social equality, interventionist measures, universal welfare services and public health and social insurance arrangements as goals and means for the building of social capital (Veggeland (ed.) 2016). Institutional changes at Hall’s three levels have created public innovations. Owing to the use of MTM in the public sector, like outsourcing and contracting out arrangements and the selective reorganization of public administration to Public-Law Agencies (PLAs) and Private-Law Bodies (PLBs), indirect governance by regulation has become common, and trade-union power has diminished since the 1980s (OECD 2002, Veggeland 2007, 2004).
  - In this tradition, the response to the equality-employment trade-offs was to accept sluggish employment growth in private services while expanding the public-service sector and public expenses, resulting in high taxes. The influence of professionals in the main bargaining arena was limited because Nordic unions, unlike unions in countries such as Germany and France, were sharply divided between blue- and white-collar workers. In addition, the governments took anticipatory measures for building human capital, such as life-long learning, adult education and continuous training in order to adjust skills to the changing needs in both the private and public sectors. Close to 20 per cent of all adults (those between the ages of 25 and 65) participate in some kind of adult education every year, compared with an average of around 8 per cent for the EU as a whole. A rather flexible labour market has developed as a result of the implementation of this concept of social capital. The pay-off from the universal welfare state facilitates the general acceptance of the relatively high tax level.

## 7. Conclusions

The Nordic countries have a long shared history, and through years have experienced similar and common social and economic developments. The most common feature of their systems is a well-developed welfare state characterized by its universalism, which means both that all citizens are entitled to basic social benefits and job protection and that there is high social spending, high taxes and a large public sector. They have succeeded in achieving a high degree of labour-market flexibility and are close to fulfilling one of the goals of the Lisbon Process of an overall employment rate of 70 per cent.

Employment policies lie at the heart of the Nordic countries labour-market policy, just as social-security policies lie at the heart of their welfare-state policy. The framework of the two policies is innovation and long-term social-capital building, such as flexicurity. Obviously, these policies pay off only when they are associated with low inequality and high public-welfare expenses and employment.

Even if they did not initiate the Lisbon Strategy, the Nordic EU member countries are very much comfortable with it – particularly its initial triple focus on the labour market, employment and social inclusion in a knowledge-based economy and under regulatory governance (Europe’s world 2005). Actually, the similarity between the priorities of the Lisbon Process, and the past and current actions of social-capital building in the Nordic countries, has led some to ask whether or not the Lisbon reform agenda was simply an ambitious attempt by these countries to put their welfare state policy in line *‘with the market’*. The flexicurity model firmly has influenced European economic and social models

(Janssen 2005).

This interpretation is unlikely the case. The launching of the process of comprehensive renewal by the participants in Lisbon in 2000 represented a collective recognition of the challenges the EU faces and the need for a common response that would be able to draw on the best elements and paths of each member state's social and economic models and administrative traditions. This means a consensus across different models, rather than the imposition of one single approach on all the others. Indeed, some feared that the Lisbon Reforms would represent the introduction of a divisive Anglo-Saxon model, far from a Scandinavian one, and would then be only partially successful. This fear led to unjustified concerns that the actual agenda for growth and jobs would disastrously lead to high inequality, that is, less social protection and the undermining of the role of the State. There was also the fear that the same standards were not always been applied to the large countries in the same way as the smaller ones.

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### Notes

Note 1. Mistrust, in this context, means in the sense of a calculated risk option for withdrawal from the interest-based partnership co-operation.

Note 2. The launch of the Lisbon Process might be seen as an economic preparation for the coming enlargements.

Note 3. Regulatory innovation is a dynamic part of the ‘regulatory state’, see G. Majone’s (1996, 1997) elaboration about the latter term.

Note 4. Torben Iversen (2005:73) discusses the notion of politics with markets, but explicitly does not link it to the Scandinavian welfare state. He probably also includes the Anglo-Saxon model or perhaps makes it a general notion. If so, I disagree.

Note 5. The Lisbon summit meeting announcement; also the conditions for participate in the European Monetary Union is requiring economic sustainability of the member states.