The chapter examines the common pressures on employment and the welfare state that originated from changes in the international economic environment after the early 1970s, and it relates these to national economic conditions and policy legacies in order to identify differences of vulnerability and varying demands on the institutional capacity for policy adjustment. In the earlier period until the mid-1980s, these challenges were of a macro-economic nature, and the effectiveness of national policy responses depended primarily on institutional capabilities for effective coordination between wage policy and monetary policy. After the mid-1980s, the dominant challenges arose from the global integration of capital markets and the increasing intensity of international competition in product markets. Now the greater or lesser vulnerability of countries was primarily determined by the structure of their welfare states – in particular by the dependence on particular sources of finance and by their effects on service employment in the sheltered sectors. What mattered was the institutional and political capacity to adopt and implement unpopular changes in the policy legacies of the welfare state.