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**Mountain or Molehill ?:
A Critical Appraisal of the Commission White Paper on Governance**

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NEW GOVERNANCE, EU EMPLOYMENT POLICY, AND THE EUROPEAN SOCIAL MODEL

David M. Trubek and James S. Mosher

Introduction

Recent actions by the European Union in the field of social policy and industrial relations reveal an increased use of alternative approaches to governance that are more accepting of diversity and encourage semi-voluntary forms of coordination. This can be seen in areas where traditional tools like directives are employed, as many recent directives tend to be relatively open and flexible. But the move from top-down, uniform rules to more flexible and participatory approaches can best be seen in areas like the European Employment Strategy (EES) which departs radically from traditional regulatory approaches.

The EU has endorsed the EES and similar new governance arrangements and dubbed them 'the open method of co-ordination'. They combine broad participation in policy making, coordination of multiple levels of government, use of information and benchmarking, recognition of the need for diversity, and structured but unsanctioned guidance from the Commission and Council (Mosher, 2000; de la Porte, 2000a, 2000b; de la Porte, Pochet and Room, 2001; Hodson and Maher, 2001). Because this new type of governance does not rely primarily on top-down command and control-type regulation backed by sanctions, its use has been described as a move from 'hard law' to 'soft law' (Snyder, 1994; Abbott and Snidal, 2000).

The use of the open method of coordination to deal with social policy in general and employment in particular is controversial. Where some see a creative breakthrough that will solve problems heretofore thought to be intractable, others see just one more development that threatens the "European Social Model". For the optimists, the EES is not only a methodological breakthrough for the Union, but also an innovation with superior capacity to solve the many problems Europe faces in the social field (Gerstenberg and Sabel 2000). Others, however, fear that by moving away from efforts to mandate uniform social and employment standards, the Union will contribute to the gradual erosion of the programs and policies that make up the European Social Model (Degryse and Pochet, 2000). For the pessimists, the move to soft law is at best a waste of time, and at worst a smokescreen behind which the welfare state might be dismantled.

This paper examines the EES as an alternative form of governance in the EU. We ask why the EU adopted this novel approach, describe its operation, and make a preliminary assessment of its impact on national policy making, its capacity to promote learning and innovation, and its potential impact on the future of the European Social Model.¹

¹ It is important to stress the preliminary nature of our study. Research for this paper was completed in September 2001. We had to rely heavily on official documentation then available and the surprisingly sparse secondary literature documenting the impact of EES. A full evaluation will require substantial empirical study at many levels of European government and

1. Origins: The Crisis in European Social Policy

The EES emerged from a crisis in social policy that came to a head in the mid- 1990s. Welfare states were under acute strain, and joblessness had risen dramatically. The need for action seemed especially urgent in the area of employment, as unemployment levels in most EU countries reached heights not seen since the 1930s. The European Social Model in its various national versions was under threat. Defenders of the Model knew that action was needed to preserve Europe's commitment to an expansive system of social benefits, relative wage and income equality, and high-level bargaining by organised interest groups.²

While there was a recognition that something needed to be done, reformers faced two challenges. The first came from the number and magnitude of the tasks they faced: it was clear that existing unemployment strategies were inadequate, and significant changes in the Social Model would be needed. The second came from the scope of the problem and the limits of existing governance methods: while it was becoming clear that unemployment was a common problem demanding a Europe-wide response, there was no mechanism available at the Union level to deal with issues of this nature and substantial resistance to 'Europeanising' employment policy.

The magnitude of the tasks to be undertaken.

By the mid-1990s, Europe had to deal with intolerable levels of unemployment while at the same time find ways to restructure employment relations and welfare systems to take account of internal changes and external shocks (Esping-Andersen, 1996). Unemployment reached intolerable levels: the EU average exceeded 10% and several countries had levels far above that. It was becoming clear that prior strategies to deal with unemployment were exhausted and innovation was required. Measures to attack joblessness that had seemed to work in the past, such as encouraging early retirement, were proving to be unsustainable and new measures to cut the unemployment rolls were urgently needed. Moreover, reformers saw that it was necessary to go beyond short-term job-creation schemes. If they were to preserve the core values of the Social Model, they would also have to adapt industrial relations policies to a changing workplace and workforce, recalibrate welfare state policies, and adjust to external shocks.

The European Social Model had been constructed in a different time. Traditional European industrial relations systems were organized to protect a largely male workforce, usually employed on a full time basis and often at a single firm for life. But now women were entering the workplace in

society.

² The European Social Model is a concept that both reveals and hides. Politicians and policymakers often discuss the European Social Model in debates over policy. In fact, when comparing national welfare and employment systems in Western Europe to the US, there are broad differences, at least between the "average" national welfare and employment system in Western Europe and the US. Social security coverage, broadly conceived, is broader and more generous; wage and income distributions are generally more equal; and labour, generally although not without exceptions, tends to be more organized, more powerful, and more incorporated into policymaking. However, the term "European Social Model" conceals the wide differences existing between national welfare and employment systems in Western Europe. Work by Esping-Anderson has helped to highlight some of the large variation in Western Europe and how some of this variation can be classified into general groups. We use the term "European Social Model" to talk about the general pattern of arrangements in national welfare and employment systems in EU Member States, while recognizing that considering any individual Member State would require greater detail to fully specify the situation and how it might interact with the EES.

increasing numbers, skill demands were increasing, and workers faced the need to renew their skills more frequently. Also, in an increasingly volatile economy, workers needed to be able to move from firm to firm more easily without losing social benefits. There was increased demand for, and supply of, part time work. And it was becoming clear that income maintenance and pension policies had to be modified to deal with an aging population and the negative impact that welfare state financing was having on employment.

In addition, Europe had to find ways to deal with potential external shocks brought about by the creation of the single market and globalization. Many feared that these twin shocks would erode the European Social Model. They saw that the single market in Europe and overall integration of the world economy could set off a race to the bottom in labour standards and sap the fiscal capacity of individual nations. Finally, these challenges had to be faced in a period of slow economic growth when most countries faced severe budget constraints in the run-up to EMU and in a political environment in which opponents of the Social Model were proposing to dismantle many protections and substantially reduce benefits. The resurgence of neo-liberal rhetoric, with calls to roll back the welfare state and create more "flexible" labour markets, reflected a power struggle that played itself out on both the national and EU level.

The limits of European Union competence and capacity

Faced with tasks of this magnitude, and recognizing the Europe-wide nature of the problem, many looked towards the European level as the best place from which to mount an attack on unemployment and a defense of the Social Model. For some, the solution lay in a strong centralized regime that would reproduce the main elements of national social models at the European level, thus simultaneously equipping the Union with regulatory and spending capacities similar to those of the nation-states.³

However, those who thought that European-level action might be part of the solution confronted a second set of challenges. The first of these was a long-standing reluctance to give the Union competence in this field. The Member States had always been reluctant to cede even limited competence to the Union for social policy and industrial relations (Streeck, 1995). The welfare state is a major source of legitimacy for national governments and the complex systems for union and other worker representation in firms and participation in national policy-making form an important part of the political culture of most European nations. It is not surprising that the nations would resist "Europeanization" of this area. Moreover, the push for enhanced Europeanization in social policy came just when the legitimacy of the EU was in real doubt; at this time there was a growing anti-Brussels backlash in many countries and substantial resistance to expanding the EU's competence in all areas. This backlash, which threatened the Maastricht Treaty itself and led to the development of

³ This strong version of "Social Europe" was a widely held dream that goes back well into the 1970s. But this vision had never materialized. Despite efforts by the Delors administration to put social policy and the preservation of the European Social Model into the center of EU policy-making, the actual results were modest; while progress had been made in a few areas of social policy, the Union's role in the social field remained limited (Rhodes, 1995). The Social Protocol of the Maastricht Treaty did expand authority for some regulatory forays into industrial relations and social policy, but European competence was carefully circumscribed and even within these areas a relatively small number of directives were actually passed.

the subsidiarity doctrine, meant that it was difficult for the Union to expand its competence anywhere, let alone in a field so sensitive to national concerns as social policy.

The second obstacle to Europeanization was the inherent difficulty of framing common policies for social policy given the great diversity of policies and practices within Europe and the deep embeddedness of social policy in unique national institutions (Teague, 2001). While one can see common features of the European Social Model across most of the 15 Member States, the model is implemented in many different ways through legal and institutional structures that vary tremendously yet are deeply embedded in national life and costly to change. As a result, possibilities for cost-effective uniform regulation at the EU level are limited. At the same time, the chances for major funding by the Union were non-existent: the EU's self-imposed budget stringency made it impossible for the Union to take over welfare state functions other than those that can be done by regulation (Majone, 1993). With uniform regulation hard to do, and financing out of the question, the potential role for the Union in the best of circumstances was limited.

A third obstacle in the path of Europeanizing the field of social policy comes from the nature of the problems that need to be solved if Europe is to adapt its industrial relations systems and social benefit programs to new conditions. Many of these problems cross the traditional boundaries by which national political systems are organized and involve new configurations between ministries, among government levels, and between government and civil society. It is hard for national governments to cope with such "wicked problems" (Sabel, 2000).⁴ It would be harder still for the Union, with its limited resources, distance from local government, and circumscribed competence, to tackle such issues on its own.

2. The EES: The Emergence of an Alternative Governance Paradigm for EU-level Social Policy

The European Employment Strategy evolved in the late 1990s as a way for the Union to deal with these daunting tasks in the face of the obvious limits of traditional methods for action at the Union level. The result, sometimes referred to as the Luxembourg process, is a new governance mechanism that uses soft law methods to link the EU-level to the national and local levels. This new governance approach, now called the "open method of coordination", has been adopted as a general model to be used in other policy domains. In this section, we trace the emergence of the EES and the new governance mechanism that it inaugurated (See Goetschy, 1999; Cameron, 2001; Kenner, 1999).

For most of the European Union's history, the EU has concentrated on creating a single market. It was assumed that this would lead to more and better jobs. But all direct employment-related policies were left to the Member States. It was understood that the States alone were responsible for creating a jobs-friendly macro-economic environment, ensuring that labour markets worked well, providing for needed skills development, and taking care of the unemployed when other measures failed. However, by the early 1990s, this clear separation of responsibility began to change under pressure from various forces. As a result of continuing poor employment performance in most Member States; deft lobbying and maneuvering by the Commission; a growing need to show that the Union was relevant to ordinary citizens; the addition of new Member States and new governments in

⁴One factor contributing to the recent appearance of social pacts in some EU member states is the necessity of carrying out linked changes in welfare and employment systems during the current period of reform (Rhodes, 1998; Ebbinghaus and Hassel, 2000).

some existing States all more favorable to having the Union tackle unemployment; and the evolution of new governance mechanisms that help overcome practical and ideological barriers to European-level action, the Union's role has been substantially expanded.

By the mid-1990s, Europeans began to fear that the high levels of unemployment found in most countries could become permanent and might grow even higher during each cyclical downturn in the economy. It was in this gloomy environment that the European Commission under Jacques Delors released the White Paper on Growth, Competitiveness and Employment. The White Paper was intended to re-energize efforts to modernize Europe's economic institutions in order to deal with unemployment. It set off a debate about European economic and employment strategy and brought the issue of employment to the top of the European agenda for the first time.⁵

However, just as the Commission and others were pushing for more action by the EU on employment, large portions of the public in several Member States were becoming increasingly skeptical and resentful of EU action in general. There had always been a reservoir of anti-EU feeling and concern for maintaining nation-state sovereignty. But in the early 1990s, anti-EU feeling intensified as the Union increasingly intruded into nation-state policymaking. Some attacked the EU's intrusion on national sovereignty while others claimed that the integration process only helped business and did nothing for the average citizen. Some even suggested that layoffs were increasing because of pressures to complete the single market so that the EU was actually the cause of growing unemployment.

Ironically, the Commission and other supporters of Europeanization in employment policy were able to put the anti-EU backlash to good use. This was a time when the leaders of Europe needed public support for the creation of the European Monetary Union (EMU) and the launch of the Euro. Public support would be needed both to ensure ratification of the Maastricht Treaty and secure acceptance of the fiscal retrenchment that EMU would entail. Proponents of the Europeanization of employment policy were able to suggest that if the EU were to play an enhanced role in the fight against unemployment, it would seem to be more relevant to the average citizen in Europe, thus increasing their willingness to accept EMU and other policies thought to be essential for economic integration.⁶

It was in the context of these crosscutting forces that the European Council met in Essen in December 1994. There were pressures from Delors, some parts of the public, and some Member States to do something at EU level about the employment crisis. But, at the same time, there was counter-pressure to limit any further delegation of power to the EU. The minimalist solution at the Essen summit was that the Council merely recommended that Member States invest in vocational training, increase employment intensive growth, reduce non-wage labour costs, increase active labour market policies, and fight youth and long-term unemployment. Member States were instructed to incorporate these recommendations into multi-year programs that would be monitored by the Commission and the relevant Councils of Ministers. The Commission and the Council of Ministers would report back annually to the European Council. This solution, dubbed the "Essen Process", did

⁵From that time on the conclusions of each European Council Presidency have regularly included a prominent discussion of employment and recommendations for action by the Member States.

⁶Of course, this strategy would not affect hard-core Eurosceptics opposed to any transfer of power that threatened nation-state sovereignty.

not delegate much power to the EU, but it did contribute to the increase in discussions of the employment crisis at the EU-level.

After the Essen Summit, pressure on EU leaders to act on employment increased while political changes brought to power leaders more favorable to European-level action. The employment crisis worsened and more lay-offs were announced.⁷ Critics began to argue more forcefully that there was a link between European economic integration and layoffs. At the same time, the Member States were under pressure from Germany to sign the Stability and Growth Pact. Leaders saw that this move could further alienate the public unless counterbalanced by some action on the jobs front. Finally, three new Member States favorable to action on employment (Sweden, Austria and Finland) joined the Union and center-left governments came to power in several of the major Member States (Italy, the UK, and France).⁸ Yet while all these forces were moving the Union towards some action, many Member States remained reluctant to transfer real policy making competence to the EU-level.

The 1997 Intergovernmental Conference (IGC) took place in Amsterdam amidst these continuing political crosscurrents. Some Member States were pushing the Conference to declare a 'full employment objective.' There was talk by some of establishing a specific EU unemployment criterion, like the EMU convergence criteria or the criteria in the Stability and Growth Pact. This was rejected. Other traditional approaches like direct EU regulation and job-creating spending failed to get much attention. Many Member States were opposed to any EU-level spending. And it was becoming clear that regulation, as traditionally understood, could not solve the employment problem. While the Social Protocol of the Treaty of Maastricht, had created limited regulatory competence at the EU-level, experience pointed to the limitations of the regulatory approach. Thus, in the Protocol, the Member States had resisted transferring regulatory power in many key areas of employment relations. In those areas where competence had been ceded, it had proven hard to get directives approved. And political pressures limited what could be done even when directives could be passed: it was clear that directives that went beyond setting relatively low minimum standards would be hard to pass.

Facing a political impasse in Amsterdam, the Member States forged a careful compromise. The compromise was based on a governance innovation that had been part of the process for adopting the Euro and represented an evolution of the Essen process.

The solution was to adapt the multilateral surveillance process developed for Economic and Monetary Union (EMU) to employment policymaking.

This EMU surveillance process was originally set up to monitor Member State economic policies and ensure economic convergence in the run-up to monetary union.⁹ States were required to

⁷The announcement of the closure of the Vilvoorde, Belgium Renault auto plant in February 1997 triggered vocal public expressions of discontent with the increasing number of prominent layoffs in the EU. Vilvoorde focused attention on the lack of effective EU-level action to protect workers or promote work.

⁸ The new French Socialist Primer Minister, Lionel Jospin, was particularly vocal in demanding that the EU focus on employment creation to counterbalance the effects of EMU.

⁹ The Maastricht treaty set convergence criteria that needed to be met before the Euro could be adopted and before Member States could join. The three main convergence criteria were: a) a government deficit to GDP ratio of no more than 3 %, b) a general government debt to GDP ratio of no more than 60% (or sustained improvement towards this level), and c) inflation no greater than 1.5% above the average of the three best performing countries. On the one hand, the convergence criteria were relatively straightforward once the relevant statistics were properly computed. A minimum number of states needed to satisfy the criteria before EMU could go forward, and whether a Member State could join

submit their national plans for convergence. The Commission and the other Member States vetted these plans. Peer review and recommendations for corrective action provided an additional push to Member States to pursue the difficult and politically controversial policies that would be necessary. By the time of the Amsterdam IGC, this system was a proven success. By adapting a similar approach for employment policy, it seemed possible to accommodate pressures for increased action at the EU level with contradictory pressure against expanding EU competence. The result was the Employment Chapter of the Amsterdam Treaty which formally created the EES.

EU leaders did not wait for the ratification of the Amsterdam Treaty to implement the Employment Chapter. At the Amsterdam Summit, the French had insisted that an extraordinary summit on the employment crisis be scheduled for the fall of 1997. In November, the Council, meeting in Luxemburg and acting by consensus, launched the process envisioned by the Employment Chapter. After much debate, the first set of guidelines for what was to be called the "Luxembourg Process" were issued.

There was a heated debate on the scope of the guidelines. The Commission proposed a set of guidelines that was more comprehensive and detailed than most Member States were willing to accept. The Council made many changes in the guidelines proposed by the Commission. Three are particularly notable. Following the precedent of EMU, the Commission wanted to include quantitative targets for reduction of the unemployment rate and for an increase in overall labour market participation but the Council would not accept specific targets. The Council did agree to a quantitative target for the percentage of unemployed who would receive "active" assistance but watered down the definition of active measures and lowered the percentage requested by the Commission. Finally, a guideline promoting wage moderation was removed entirely: this meant that wage policy was excluded from the employment strategy.

In the end, the European Council approved nineteen guidelines. They were formally organized into four pillars: Employability-policies to make unemployment systems more active and increase the skills of workers; Entrepreneurship and Job Creation-policies to encourage new, smaller and more innovative businesses and make tax systems more employment friendly; Adaptability-policies to increase the flexibility of workers and work organization arrangements; and Equal Opportunity-policies to promote gender equality. Each pillar contained 3-7 guidelines.

3. The EES: Process and Strategy

In this section, we describe the overall process and outline key features of the actual strategy the EU has adopted to reduce unemployment. We stress the iterative and multi-level nature of the process. We explain that the EES is basically a supply side strategy designed to supplement other macro-economic policies that impact employment.

depended on whether that Member State met the criteria. However, to meet the criteria, states would need to pursue economic policies at the national level that would gradually lead their economies to satisfy the criteria. It would have been possible to leave to the Member States the entire responsibility for satisfying the convergence criteria. Who met the criteria and who did not, accounting tricks notwithstanding, would have been clear. States could have been left on their own to carry out whichever policies they chose and to decide when to implement them to meet the criteria, without any further EU supervision. Instead of this hands-off approach, the more intrusive multilateral surveillance process was established.

An iterative multi-level, multi-actor process

The implementation of the European Employment Strategy is outlined in Figure 1 and involves several steps¹⁰ (Biagi, 2000; Bercusson, 2000). It begins with the Commission developing general ideas about the best employment strategy for EU Member States to pursue. The Commission develops these ideas in discussions with the Council of Ministers, Member States, the relevant social actors, such as unions and employer's organisations, and academics. These general ideas are made concrete in the form of annual guidelines proposed by the Commission and modified and approved by the Council of Ministers. Each year Member States draw up National Action Plans outlining how they plan to respond to the guidelines and what progress has been made. At the end of the process, the Commission and Council review Member State actions and plan for a new set of guidelines.

---Figure 1 (see end of text)---

There are some noteworthy aspects of this process. Because it is iterative and the guidelines are revised annually, progress can be closely monitored, new ideas introduced, and goals gradually ratcheted up. The Commission has used these features to make the strategy more comprehensive and ambitious. In its role as the primary administrator of the EES, the Commission has gradually expanded the scope of the guidelines and convinced the Council to set new targets. For example, while the Council initially rejected the idea of setting a target for the overall employment rate, the Commission continued to press for such a figure. In 2000 the Council went along, setting a target of having 70% of the eligible population employed by 2010. A host of other, smaller changes have been made over time that have significantly expanded the strategy.

Another key feature of the process is that it engages many levels of government and involves social actors as well as public officials. Many levels and units of government must cooperate to produce the National Action Plans. This must be done in consultation with regions and social partners. The annual review process involves discussion between Member State and Commission officials, and creates contacts among officials and social partners from different Member States.

A partial strategy and a political compromise¹¹

The EES does not embrace all policies that affect employment. Important areas such as monetary, fiscal, and wage policy that critically affect growth and job-creation in the EU are outside the scope of the process.¹² The EES has developed largely as a supply-side strategy focusing on altering structural impediments to employment. Nonetheless, the strategy does touch on a much larger number

¹⁰ Some of the steps we describe are explicitly specified in EU documents. To complement these explicit features we describe other steps that are implicit in the process.

¹¹ Although there is no Commission or EU document that comprehensively outlines the broad strategy that the EES is pursuing, the characteristics of the strategy can be deduced from EU sources such as the guidelines, speeches and papers by EU civil servants, and EU documents on employment policy (European Commission, 1997; Larsson, 1998; Lönnroth, 2000).

¹² Monetary policy, fiscal policy, and wage policy when considered at the EU-level are considered outside the EES process and are addressed at the EU-level in the Broad Economic Policy Guidelines, the Cologne Process' Macroeconomic Dialogue, and/or by the European Central Bank (ECB). When the Broad Economic Policy Guidelines are drafted, macroeconomic dialogue occurs, or interest rate policy is made, their impact on employment is, of course, of some concern but other issues such as monetary stability or fiscal balance are often of equal or if not more concern.

of areas than ever has been addressed at the EU level through traditional social policy regulation. While treaty provisions on gender equality and freedom of movement have direct effect, and the EU has enacted a significant body of social legislation, it has focused on a selected number of areas and often passed rules whose real impact was limited.¹³ The EES guidelines concern a wider range of important policy issues. It could be said that the EES trades off the legal force of traditional regulations so that the EU can deal with some core areas of social policy that were hitherto solely reserved to the Member States.

The overall goal of the strategy is to maintain the European Social Model by reforming it. The Commission wrote in the preparatory documents for the extraordinary Luxembourg Employment Summit that 'meeting the challenge of insufficient growth and intolerable unemployment requires a profound modernization of Europe's economy and its social system for the 21st century without giving away the basic principles of solidarity which should remain the trademark of Europe' (European Commission, 1997--emphasis supplied). To do that, the guidelines seek to accomplish the following:

Higher Employment Participation -- Because of the aging of its population and the threat to pension systems, Europe needs to have a higher proportion of its working-age population working. This means early retirement should be discouraged. More women will and must work. More part-time employment must be encouraged.

More Active Unemployment Systems -- Passive unemployment systems allow skills to deteriorate, fail to encourage workers to actively seek work, and don't supply the skills the workers need to find work.

More Skills -- The increase in technological change means that workers need more skills at the outset and need to be able to develop new skills throughout life.

More Employment Intensive Growth -- Europe lags behind in the provision of services, which provide employment intensive growth. This is especially true in the "social economy" including services provided by non-profit groups and private companies. Europe must encourage the social economy and decrease direct taxes on labour-intensive services.

Fewer Obstacles to Low Skill Work -- Europe must move towards more high skill jobs but low skill workers can't be left behind. Tax systems, especially high, flat-rate social charges discourage low skill workers from working and impede more hiring of low-skill workers. Tax systems need to be adjusted to make work pay. Energy taxes provide one option for replacing lost revenue.

Flexibility with Security -- Technological change and changes in the nature of markets requires more flexibility in the way work is organized and workers organize their lives. The model of a male worker working full-time on a normal work week for one company his entire life must be replaced by a model that allows companies more flexibility in terms of working time, envisions greater heterogeneity in the types of workers (men, women, full-time, part-time), and supports workers who will shift companies and careers much more often. This new flexibility must be fostered while providing new mechanisms for providing security to workers.

¹³ The EU social policy with the most widespread impact concerns gender wage equality. Other EU social policy a) concerns a specific area (health and safety); b) contains minimum standards that affect only a few Member States (Working Time Directive) or only a limited number of companies (European Works Council Directive); and/or c) deals with limited issues (Parental Leave Directive, Part-Time Workers Directive).

Smaller Companies and Entrepreneurship -- The most dynamic areas of the economy are small and medium-sized enterprises. To get more innovation, Europe needs more entrepreneurial companies. The European Social Model needs to be adjusted to encourage such firms which are often smaller and more dynamic than the traditional firms for which the Model was originally designed.. One partial solution is for tax systems to be reformed to make self-employment and the setting up of small businesses more desirable.

Gender Equality -- Women face particular disadvantages in the labour market. These include such things as pay discrimination, higher levels of unemployment, and obstacles to combining work and family life. In order to increase employment participation by women and provide equal opportunity, these disadvantages must be addressed.

While the EES rejects radical deregulatory approaches promoted by some neo-liberals, it bears traces of a compromise between more traditional Social Democratic views and "Blairite" ideas of a "Third Way". The stress on working, flexibility, and the role of entrepreneurship in creating jobs embody the Third Way emphasis on overcoming dependency and shows acceptance of the need to promote risk taking and adapt social protection to the need by business for flexibility (Kenner, 1999). Nonetheless, the guidelines foresee an important role for the state and for the social partners: they presume that the core of the welfare state will remain in force and do not envision major changes in the organization of industrial relations. The strategy is one of reform and recalibration, not major restructuring.

4. The Impact of the EES on Member State Policy

The EES accomplishes its goals by coordinating and changing Member State employment policies. Therefore, to evaluate its impact we must ask how and to what degree it has been successful in altering national policy choices.¹⁴

The first place to look for answers is in the comments made by the Commission and the Council concerning progress under the guidelines. Based on what has happened so far, both are generally encouraged, albeit with some reservations. The Joint Employment Report 2000 cautions that the reforms advocated by the EES have an impact over a long time horizon, require sustained efforts, and yield visible effects only over time. Thus, it says, "an overall impact of the European Employment Strategy" is still difficult to identify..." Nonetheless, "a beneficial impact can be detected for specific groups or sectors in case of certain new policies." Thus, Member States are reforming their labour markets and it is possible to see a virtuous cycle being created between "growth- and stability-oriented macroeconomic policies" and "ongoing structural reforms." In the Commission and Council's mid-term review of the process, they conclude:

[The EES has] created a new environment for a coordinated response to employment problems in Europe. This in turn has led to a significant change in policy-making both at European and Member State levels, which has accelerated and focused structural reforms of the labour markets, and improved the quality of the employment policies.

¹⁴Needless to say, our ability to address this issue is limited. There is little information available on actual change at the national level and while the Commission has launched a comprehensive review of the EES that will shed more light, as of the date of writing material for a real assessment do not exist.

They balance this positive assessment with a warning about potential 'political risk factors'. They note that implementation has been uneven across the four pillars, more involvement by ministries other than labour ministries is necessary, action is lagging in the adaptability pillar, the process has not been well integrated with the budgetary process of the Structural Funds, and public awareness is limited.

To go beyond these general observations, we looked at two areas in which the EES guidelines called for policy shifts at the national level. The first is the effort to move unemployment policies from passive income support measures to active efforts to return the unemployed to the workforce. The second is the move to make taxation systems more employment friendly. We find the EES seems to have led to significant changes in the first area but appears to have had less impact in the second.

Preventative and Active Unemployment Policies

A major goal of the EES' first pillar is to bring about a shift from a passive to an "active" unemployment policy.¹⁵ Passive unemployment policy provides a substitute source of income to support unemployed workers until they find new work, active unemployment policy takes positive actions to assist unemployed workers find new jobs. Active policies include training, subsidies for the hiring of the unemployed, public works programs, and job search assistance. They include "preventative" measures that attack the issue of long-term or permanent unemployment by ensuring that workers who lose their jobs maintain their skills and willingness to reenter the job market.

The first two guidelines seek to make policies more preventative. They require that every unemployed person receive a new start in the form of a job, training, retraining, work practice or other employability measure. For the young, this must be done within 6 months of losing their job; for others within 12 months. The third guideline directs Member States to increase the number of persons benefiting from training or other active measures. It requires each Member State to set a target for an increase in such measures. Targets are based on a country's starting position but the minimum allowed is 20%.¹⁶

Our review suggests that there has been real progress under these guidelines. Despite the fact that the guidelines set high standards in this area, many countries have significantly improved their performance.¹⁷ Not every country has complied with the guidelines and met the targets and some have sought to define "active" measures in a minimal way in order to show compliance without making major new investments. But even the laggards have made some progress and overall there is real movement towards "active" measures.

¹⁵ While a distinction between passive and active policies can be useful, one should recognize the links between the two types of policies. For example, while workers are taking active steps to obtain jobs, they still require passive support to maintain them until they obtain work. Moreover, maintaining unemployed workers with passive support is particularly important to ensure that workers are not forced to take work that utilizes less than their full capabilities.

¹⁶ These first three guidelines are noteworthy because they contain explicit and quantified targets. The Commission is eager to increase the use of "measurable objectives and targets" because they are more visible and objective assessment is possible (European Commission, 2000, p. 6).

¹⁷ Targets in these three guidelines were set with a serious intent to change policies in all Member States. While some States had begun to move to active measures before the EES, none had reached all the targets set forth in the first guidelines.

There are many possible explanations for the progress seen in this area. There was a substantial policy consensus in Europe about the need for such shifts even before the EES highlighted the issue. Quantitative goals made the review process easier. And the cost of change may be relatively low: States may be able to meet the goals without increased budgetary cost if they reallocate expenditures from passive to active measures.

More employment-friendly taxation systems

The second area we examine is the mandate to make taxation systems more employment-friendly. In every version of the guidelines, there has been one section that calls for the member states if "necessary" to set a target to reduce overall taxes and "where appropriate" to set a target to reduce taxes on labour especially relatively unskilled and low-wage labour. It also mandates examining the possibility of introducing a tax on energy or pollution as a revenue substitute and suggests reducing the VAT on labour-intensive services.¹⁸

The Commission had wanted a more ambitious guideline than the final compromise accepted by the Member States. The original proposal focused only on reducing the tax burden on labour and would have required each member state to set a target for such reductions. The European Council weakened this proposal by broadening the focus to include the overall tax burden and by requiring the setting of targets for the overall tax burden only if "necessary" and for taxes on labour only "where appropriate".

Table 1

Country	Response to Guideline on Making Tax Systems More Employment Friendly
UK	The UK's response to the guidelines was to indicate that it had already lowered income tax rates on low income workers to a limited degree and to emphasise that it had the second lowest rate of non-wage labour costs in the EU. During the first three years, no new reductions in taxes on labour were carried out.
Spain	Spain reported on a programme begun in 1997--before the EES began--that under certain conditions social security contributions were temporarily reduced on new permanent contracts. In 2000, a .25% reduction in unemployment insurance contributions for all permanent contracts was introduced.

¹⁸ Proposals to reduce taxes on labour had existed well before the first guidelines came out at Luxembourg Jobs Summit. In fact, one of the five recommendations at the Essen Summit was to reduce taxes on labour. Thus, the inclusion of such proposals in the guidelines is not surprising.

France	The new socialist government in France took a range of measures to make the tax system more employment friendly. It began a corporate income tax rebate for each new job introduced, transferred health insurance funding to the CSG (general social security contribution) widening the base and lowering the rate, and removed salaries from the computation of the local business tax. A graduated rebate scheme for social security contributions was introduced and then adapted to work in conjunction with the reduction of the workweek to 35 hours. To pay for this later scheme, taxes on profits were increased and an eco-tax introduced.
Greece	Greece expressed skepticism towards reducing taxes on labour because of its threat to budgetary balance and also towards increasing taxes on energy and/or pollution because its impact on business competitiveness. Nonetheless, Greece eventually agreed to introduce an experimental scheme offering a tax rebate equal to 50% of the social security contributions for new workers.
Germany	In Germany, the new Social Democratic-Green coalition entered office with proposals to lower taxes more generally and to decrease taxes on labour more specifically. In a major tax overhaul, taxes on low-income workers were scheduled to be reduced in four steps by lowering the lowest income tax rate and increasing the basic allowance. Social security contributions were also decreased with lost revenue being replaced by energy taxes and consumption taxes.
Ireland	Ireland as part of its social pacts has reduced income tax rates in exchange for wage moderation. In addition, social security contribution have been reduced for low-income workers and suspended for workers hired off unemployment or under 23 and in their first job.
Netherlands	In the Netherlands, there have been major reductions in taxes on labour, especially on low-skill labour, but these were initiated before the EES began.
Finland	Prior to 1998, the Finnish government had reduced taxation on labour by FIM 8 billion. In November 1997, the Finnish government decided to implement a further FIM 5.5 billion in cuts. Part of these reductions were compensated for by a FIM 700 million increase in energy taxes, increasing to FIM 3.5 billion after 1998. Beginning in 2000, the government proposed an additional FIM 10-11 billion in cuts some of which will be compensated for by increases in taxes on capital.

Table 1 outlines some of the tax changes that have occurred in selected Member States during the first three years of the EES process. This survey demonstrates that in many Member States taxes on labour have declined. However, the extent of change varies greatly, and some countries have done little. France and Germany show the largest changes, but there is little evidence these changes were caused by the EES. The EES did lead to some experimentation in Greece, but Greece, along with the UK, show the smallest overall change. In Finland, there have been large reductions in taxes on labour and some shifting of the tax burden to energy and capital. These steps continue a trend in Finland of reducing taxes on labour that started before EES. In the area of reducing the VAT on labour-intensive services, eight Member States have applied to reduce the VAT, but implementation is too early to evaluate the impact.

The limited impact the EES appears to be having on tax policy is not entirely surprising. Member States are particularly sensitive to EU interference in national tax policy and have resisted other EU attempts to interfere in this area. Proposals to reduce taxes create political issues if new revenue sources must be found. And the loose wording of the guidelines makes it easier for Member States to resist real change. The guidelines are so broad that they really do not push countries along a clear reform path: they deal with both the tax on labour and the overall tax burden; lack any quantitative targets; and define possible reforms so broadly that countries can easily take credit for changes they are making in their tax code for reasons unrelated to employment creation.

Assessing Impact

No one should be surprised that we found evidence that the impact of EES varies between these two policy areas. Indeed, we chose these two examples because we thought it likely that such differences would exist. And we fully expect that when a comprehensive study of the impact of the EES is done, we will find many such differences. The EES covers a vast range of policy areas. In some cases it asks very little as targets and guidelines set goals that are not too far beyond current practices. In other areas, at least for some countries, the guidelines require very substantial change. Moreover, the nature of the EES' mandate varies from area to area. The guidelines vary in precision and specificity; some set clear targets while others do not.¹⁹ Finally, The EES is only one of many forces impinging on domestic policy-makers and the other factors affecting policy in each of the areas will vary from country to country and time to time.

What is needed are more fine-grained and more comprehensive studies. Such work will be immensely aided by the evaluation of the EES' operation to date which the Commission and the Member States are now conducting. To measure the influence of the EES on national policy choice and the employment situation, the Commission has asked the Member States to list all policy changes that have occurred in the areas covered by the guidelines since 1998, assess how well these policies are working, show their impact on the problems they were designed to deal with, and assess the role EES played in any change. Even though evaluation is apparently to be based largely on a self-study

¹⁹ It is important to recognize that the relationship between quantification of targets and robustness of impact may be complex. While it could be that once a target is quantified, the EES will have more impact. But it also might be that quantification is most likely when consensus actually preexists EES intervention.

by Member States, not an outside appraisal, it will take us a long way towards getting answers to many questions about the impact of the EES.

5. Does the EES Promote Policy Learning?

Any assessment of the European Employment Strategy must deal with its potential to promote policy learning. Some commentators find this aspect of the EES to be one of its greatest strengths (Ferrara, Hemerijk and Rhodes, 2001). There is a substantial literature promoting the view that governance systems that promote learning can be preferable to traditional regulatory approaches (Sabel, 2000; Dorf and Sabel, 1998; Teague, 2001). There is scant evidence that the EU was primarily interested in learning promotion when it adopted the EES.²⁰ Nonetheless, if EES' adoption of a "soft law" approach facilitates some learning that might not otherwise occur, it would constitute a strong argument both for continuing this system and for employing its methods in other policy domains (Scharpf, 2001).

The question whether EES fosters policy learning and innovation is vital to the overall assessment of the strategy. As important as that question is, we cannot provide anything approaching conclusive answers. The issues are complex and the materials available to answer them sparse to non-existent. But because the question is so important, and the need for further attention to this aspect of its operation so urgent, we offer a preliminary evaluation with the caveat that this issue -- like that of impact on policy choice-- goes well beyond the scope of our study.²¹

There are two methods that might be used to assess the nature and degree of learning fostered by the EES. The first is to look at the process itself to see if it contains learning-promoting elements. If we can show the presence of such elements, we can say that there is at least a presumption that the EES has learning capabilities. This would require us to look at the entire multi-level process to see to what extent learning-promoting elements are present and at least try to see if they have, in fact, been used. The second -- and more conclusive -- approach would be to measure actual policy change and show causal relationships between those changes and the learning-promoting aspects of the EES. To fulfill this program, we would have to look at policy changes all levels.

Assessment of the process

A good case can be made that the EES process contains many features that could promote policy learning. If we look at the literature, we can see a number of governance mechanisms thought to promote learning and innovation (Sabel, 1994; Easterby-Smith et.al., 2000). These include mechanisms that destabilize existing understandings, bring together people with diverse viewpoints in

²⁰ To be sure, the architects of the EES have never placed great stress on the learning dimension. Both Commission and the European Council have put more emphasis on the EES as a tool for policy convergence and the proposed guidelines for the five year assessment of the EES do not highlight learning. But both Council and Commission have from time to time expressed hopes that the system will produce learning. And in a recent statement, Juhani Lönnroth, Deputy Director-General of Employment and Social Affairs in charge of the EES, emphasized convergence of outcomes over policy convergence and put more stress on learning mechanisms such as benchmarking (Lönnroth, 2000).

²¹ It should be noted that in addition to the questions highlighted in this section, there are additional complex conceptual and methodological issues involved in any effort to isolate "learning" in a policy process as complex and multi-faceted as the EES. Whose learning counts? Is there learning even if it does not lead to policy change? How does not distinguish between "learning" in the sense of a change in views about policy and other motives states may have for making changes?

settings that require sustained deliberation about problem-solving; facilitate erosion of boundaries between both policy domains and stakeholders; reconfigure policy networks; encourage decentralized experimentation; produce information on innovation; require sharing of best practice and experimental results; encourage actors to compare their results with those of the best performers in any area; and oblige actors collectively to redefine objectives and policies.

The EES contains all these elements to one degree or another. The guidelines and the underlying strategy they reflect do, to varying degrees, challenge national policies in many countries and thus should destabilize prior understandings. The process is designed to create ongoing policy dialogues that engage diverse groups and cross many traditional boundaries within government, between government and social partners, among actors from different countries, and between localities, national governments, and Union level actors and institutions. These dialogues are repeated on an annual basis and so should encourage continued deliberation. Member States are required to provide detailed information on their unemployment-reduction efforts, share best practices, and comment on each others' annual plans. There are several benchmarking mechanisms that encourage Member States to measure their performance against that of the best performers in the Union. Through peer review and exchange of best practices, each Member State directly confronts the plans and experiences of others, thus acquiring benchmarks by which they can to measure their own performance. The Commission and the Council regularly review the national plans and provide comments and recommendations: these are often based on comparisons with the best performers and create additional benchmarks for each Member State.

Moreover, the EES process is iterative and iteration fosters deliberation. The guidelines can be and are changed from time to time so that new information and ideas can be incorporated. Since changes in the guidelines involve discussions with Member States and Social Partners, it sets in motion deliberations that may themselves bring new ideas and information to light. The process brings together actors from different parts of many national government and social partners from various levels who interact with the Commission; in this way it could create a new, on-going trans-European employment strategy network or epistemic community. Such a trans-European network could be both an incubator of new ideas and a force to help build internal support for innovation by the several states.

The existence of such learning-forcing mechanisms suggests that the EES has real potential. But the learning will not occur unless these mechanisms are used, and used effectively. To determine that, we need to look more closely at how they operate. A preliminary glance suggests that the EES has yet to realize the full potential of the learning mechanisms it has embraced. Look, for example, at the obligation placed on Member States to share best practices. Beginning with the second annual cycle of National Action Plans, Member States have been required to present examples of best practice. But this dimension of the strategy is not particularly robust. While a few practices are highlighted in the Joint Employment Report, the primary method for practice exchange is in review of the National Action Plans of other nations: these are circulated to all the Member States. Yet the section on best practices appears only in an appendix at the end of the reports, usually is only 2-3 pages in length, and normally provides only a few examples. To be sure, the Commission has begun to supplement the process with ad hoc conferences on specific best practices but it is too soon to tell if this effort will lead Member States to do a more in-depth assessment of the accomplishments of others and compare them to their own efforts.

Similar concerns can be raised about the peer review process, another learning method that on its face seems very promising. Each year, Member States present their National Action Plans to all the others and are required to comment on each other's plans. This does foster some peer review. But less than an hour is allocated for the entire session on each National Plan, including a presentation by the Member State, comment by two other States, and discussion. It is hard to imagine that so truncated a session could produce an in-depth assessment or offer very much useful feed-back.

Evidence of change

A second way to measure learning is to observe changes in policy over time and see if these changes can be attributed to new understandings brought about by one or more of the learning-forcing mechanisms we have identified. Needless to say, for such an assessment, the crucial policies that should be looked at are those at the Member-State or sub-national level. The best case for EES as a learning system would be one that both showed that changes occurred at this level and also demonstrated that the changes came about through the action of one or more of the EES' learning-forcing mechanisms. Unfortunately, such comprehensive information about changes at the national and sub-national level is not yet available.

We can however, say something about change and learning in the overall EES process by looking at changes in the EES guidelines themselves. There we see significant change taking place and find reason to believe that some of these changes have come about because of the learning-forcing mechanisms. While the Commission has been reluctant to make radical changes in the guidelines for fear of creating confusion, there were important shifts between the 1998 and the 2001 guidelines. Some of these changes can be seen as an effort to refine the original guidelines in light of experience while others really introduce new objectives and set new targets. In both cases there is reason to believe that some of the changes came about because exchange of information and deliberation within the EES process brought new ideas to the fore.

Among the clearest examples of refinement in the light of experience is the addition of a mandate to modernize Member State public employment services. As time went by, it became clear to the Commission and others that the effort to shift from "passive" to "active" unemployment-reduction policies would not succeed unless changes were made in the operation of public employment services in many Member-States so this mandate was added. Other refinements of the original strategy which seem to be the result of learning are the new mandates to eliminate poverty traps by changing tax and benefit policies; to improve procedures for skills certification, and to provide training for would-be entrepreneurs.

In addition to these refinements, there have been a number of more substantial changes that have introduced genuinely new elements into the Strategy. One example of this kind of change is the requirement that Member-States introduce policies to keep older workers in the workforce. In the 1970s and 1980s some countries sought to deal with unemployment by increasing early retirement and making disability pensions easier to obtain, especially for older workers. As the EES process evolved, it became clear that this policy needed to be reversed if Europe was to reduce unemployment while maintaining its commitment to the European Social Model. Early retirement policies reduce the ratio of people in the workforce to those on state-financed pensions. This ratio is already low in many countries, and will decline further as populations age. Early retirement and eased disability policies reduce the number of people paying taxes and increase the number of people such taxes must support.

Thus they increase the fiscal burden on the state and often lead to an increase in the tax cost of new job-creation. It became clear that unless policies favoring early retirement were reversed, tax policies would continue to be a brake on job growth and pension systems might collapse. Hence the additional of new guidelines to deal with this issue.

Other examples of new policy initiatives added as the EES evolved are requirements that Member States remove barriers to employment in the knowledge economy and take action to end occupational segregation by gender. Finally, in 2001 the guidelines for the first time set numerical targets for increasing participation of working age adults in the workforce. While these targets quantify goals previously set forth, the addition of numerical targets suggest that the participants in the EES have learned that action is more likely to occur when specific targets of this nature are established.

From this analysis it seems clear that the EES includes significant learning-forcing mechanisms, these mechanisms are working to some degree, and the learning that results is affecting policy development at least at the Union level. Much more work needs to be done, but these preliminary results are encouraging.

6. Overall Assessment: Creating New Governance Mechanisms and Preserving the European Social Model

In this final section, we ask two basic questions: how successful has the EES been in constructing a new form of governance, and to what degree is it likely to contribute to efforts to preserve the European Social Model?

Assessing a new governance mechanism

If we are going to assess the success of the EES as a new governance method, we must create standards against which it should be measured. The standards we use are our own: there is no single, authoritative statement on this issue from the Council or the Commission and some evidence of continuing debate about the role in the EU of methods for "open coordination" like EES. Moreover, there are features to the EES process that have not been highlighted at all by the EU's official organs but which may be of great importance for governance of the Union (see Sharpf, 2001).

From our viewpoint, the EES process embraces five major governance objectives: promote learning; enhance coordination among levels of government; integrate separate policy domains; enhance participation; and promote convergence while allowing diversity. We have already analyzed the first goal in Section 5, supra. Here we comment on the others:

a) ***Co-ordinate actions of multiple levels of government.*** Effective labour market reform, and other aspects of a successful employment strategy, must be implemented at local and national levels, which in turn must be aligned with European level programmes and policies. Thus an effective strategy should include ways to engage multiple levels of government in a common enterprise.

The very existence of the EES, with its national plans and Europe-wide guidelines, is evidence that efforts are being made to integrate the several levels. Seen as one of many approaches to multi-level integration, EES has several cardinal features. First, most of the policies must be carried out at national or local level: there is relatively little direct action by the EU organs themselves that is aimed

at reducing unemployment. The exception is the modest use of structural funds to support the EES. Second, the EU's primary role in the System is to construct the broad strategy, develop specific guidelines, monitor performance, and call for periodic adjustments. To the extent that institutional or legal reform is needed, and money must be spent, these are to be done largely at the national or even local level.

It is clear that the EES has created a formal mechanism to coordinate local, national, and Union levels. The issue is how effective this co-ordination is in practice. We know it is far from perfect: some Member States have failed to respond to Union-led efforts to change national policies and there is concern that regional governments have not been adequately integrated into the process. But we have also seen that some change is occurring at all levels, thus suggesting that the new machinery offers promise for the future.

b) *Cut across policy domains*. A major feature of the employment problem, like many other social issues, is that it involves several policy domains and cuts across institutional boundaries. For example, to create more jobs, it is necessary both to foster entrepreneurship and upgrade workers' skills. And these efforts should be coordinated. But traditionally enterprise promotion and worker training have been handled by different agencies and operated independently. And as the guidelines themselves demonstrate, there are many other areas where boundary crossing efforts are needed.

Even a casual look at the guidelines and the NAPs shows that the EES has successfully identified a number of important areas where agency and policy domain boundaries must be crossed, and set forth policies that require cooperation of several agencies at national level. These include such key areas as:

- ? *jobs and taxes*: an obstacle to creating jobs in many countries are the high social costs employers must pay; but changing this situation requires action both by Labour and Finance ministries;
- ? *equal opportunity for men and women*: this goal requires an increase in child care services (Social Affairs); changes in tax systems that penalize womens' participation in the labour force (Finance); and introduction of more flexible forms of work organization (Labour; social partners).

What is less clear is whether the agencies are actually co-operating in all areas to the degree necessary. Thus, in 2000, the Commission felt it necessary to point out that in some countries ministries other than the labour ministry were not doing all that was needed. In the Commission's view, 'there is, however, a risk, that the Luxembourg process is considered to be an agenda driven solely by the ministries of labour, whereas the strategy is an integrated one, committing the whole government.' (European Commission, 2000, p. 89).

c) *Enhance participation and ensure functional representation*. Since the development and effective implementation of successful policies will require the cooperation of, and action by, employers and worker representatives, and since policies will require public support at the national level, any successful employment strategy-making process needs to ensure broad public participation of the public and effective representation of the social partners.

Initially, this was a problem in the operation of the EES. There is evidence that in the early years, there was little participation by the social partners in the shaping of the guidelines and the NAPs. Recently, however, some efforts have been made to ensure broader and more effective participation at the European Level. At the national level, some unions report favorably on their

participation in the process of writing the NAPs, but many still complain of having only very minimal input (ETUC, 2001). Several national union confederations report having less than two weeks to provide input into complicated plans or report that no real effort has been made at obtaining their input. At present, the EES still remains heavily driven by a bureaucratic core in the Commission and the national labour ministries.

d) ***Encourage partial convergence while accommodating diversity.*** Although all EU Member States share some common problems, the extent of the problems varies from state to state. Because the legal rules and institutional structures in industrial relations and social policy of the fifteen Member States are extremely varied yet deeply embedded any effort to demand uniformity would be unrealistic. Nonetheless, the Commission and the European Council have made clear that the EES is designed to produce convergence at least in some areas. But what is sought at least so far is partial convergence on a partial strategy. As we have noted, the EES only covers some aspects of employment policy and many areas remain exclusively within the province of the States. Further, even in areas that are covered by EES, the Strategy does not always demand convergence: many of the guidelines leave the States with substantial discretion in how to deal with issues. Moreover, to the extent that the EES does seek convergence, it is often a convergence of outcomes, not of policies. Many of the guidelines set targets for results and let the States choose the best means to reach those results.²² Finally, the Strategy is designed more to encourage States to change than to force them to do so and there are no hard sanctions for failure to follow the guidelines.

The EES, the politics of the welfare state, and the future of the European Social Model

The final question to look at is the potential effect of the EES on the debate now raging in Europe over the future of the European Social Model. Views on this issue range from calls to deregulate labour markets and roll-back benefit systems to demands that existing systems be maintained largely intact. In between lie those who support the Social Model but recognize the need for some change. Modest reformers of this type accept the need to reallocate funds to serve previously excluded groups, rethink strategies to increase employment, find ways to accommodate new types of work and workers, combine security with flexibility, and recalibrate benefits to avoid fiscal crises. The agenda of those individuals and groups in this category overlaps with the strategy of the EES. (Levy, 1999). The issue is: to what degree will the presence of the EES help the efforts of the modest reformers in political struggles over the future of the welfare state?

This question will largely be decided at the national level in each Member State. Despite major moves toward a limited form of Europeanization in social policy, most of the final decisions on the future of the welfare state will be taken by national governments. The EES and other EU-level social policy initiatives are designed to influence decisions that must ultimately be taken by national governments. So the question really is: what are the prospects that this mechanism will have a significant impact on the outcome of national debates?

²² There is evidence of a relationship between the quantification of guidelines and the degree to which convergence is occurring; thus, the more the guidelines have been reduced to numerical targets, the more movement towards a common strategy can be seen. Since the Council must approve these guidelines, and has frequently resisted quantification, quantification is being used in those areas where the policy consensus is broad and political support for the strategies that lie behind the guidelines is strong.

The EES cannot significantly affect the balance of power in a given Member State. True, States make some tentative commitments to a modest reform agenda by accepting the guidelines but that would not stop a powerful right-wing government intent on rolling back the welfare state. In other political configurations, however, ideas and strategies developed at the European level through the EES process can help bring about significant change in national laws, policies, and budgetary allocations. In the easiest case, the EES may point to strategies that improve conditions for everyone and thus can gain very widespread support. But the EES could also have an effect in cases where there are some divisions on welfare state issues. Thus, in a country where political support for the welfare state is strong, but supporters are split between those who accept the need for recalibration and those who oppose any change whatsoever, the EES can strengthen the hand of the moderate reformers. Similarly, in situations where the dominant political actors accept the need for some reform, the EES can help shape the strategies that are selected.

Where the EES is more likely to have most impact is in cases where there is support for the welfare state and the political choices are between the status quo and modest "recalibration". The EES encourages states to redirect existing resources to women, the unemployed, and other groups previously not well served. It promotes efforts to preserve the fiscal base needed for a generous welfare system by policies that will increase the percentage of working age adults who are in the workforce and paying into the system, rather than out of it and drawing heavily on state resources. It encourages efforts to get more people in the workforce by upgrading skills across the board but with special emphasis on new entrants, the unemployed and those in low skill jobs. While all of these measures have substantial support, they will also meet resistance from those who are afraid that any change is likely to lead to more radical cuts, as well as those who may lose from a redirection of welfare state services and resources. In such situations, the EES can provide domestic leaders and other domestic political actors in favor of moderate reform with arguments for the necessity of change as well as showing that other countries have successfully made these changes without having the whole system unravel.²³

The EES can be especially effective if it were to lead to more efficient ways to use existing resources or provide guidance to people who accept reform but are unsure of how to proceed. Policy learning might produce win-win situations in which some can benefit at no cost to others, or where gains are so large than modest cost increases or losses to some can be accepted. And ideas contained in the EES can channel reform efforts when there is genuine doubt as to how best to accomplish reform goals and reformers are uncertain how to proceed. In a situation of policy uncertainty, mandates from the EU can shape change by supplying already articulated solutions.²⁴

²³ For an example of the EES dovetailing with domestic moderate reform efforts, note how the EES' emphasis on increasing the employment rate of older workers reinforces the controversial arguments in favor of reducing early retirement in the "Plein emploi" report to the French government on French employment policy by Jean Pisani-Ferry (2000).

²⁴ For example, the guidelines' emphasis on active and preventative unemployment policies shaped change not by creating support for better unemployment systems where it did not exist but by channeling how the desire to improve unemployment systems would be carried out.

Final Thoughts

The establishment of the European Employment Strategy with its novel governance arrangements may represent the beginning of a substantial shift in both European social policymaking and in European Union governance. It has been touted as a "third way" in EU governance to be used when harmonization is unworkable but mutual recognition and the resulting regulatory competition may be too risky (Mosher, 2000; Larsson, 2000; Ferrara, Hemerijk, and Rhodes, 2001). At the Lisbon Summit, the European Council recognized the EES as an important governance innovation and indicated that in the future similar 'open methods of co-ordination' would be used in several domains of social policy and other area as well (Portugal Presidency, 2000). The EU's new White Paper on Governance recognises the importance of the open method, albeit with some reservations.

In this paper, we have sought to explain how the EES came about, show how it is operating today, assess its major elements, and suggest ways in which it could contribute to progressive reform in the European Social Model. We suggest that the process can, under certain circumstances, make a difference in fundamental policy changes at the national level. But we have also made clear that in the end these changes must emerge from complex political processes involving real conflict among social groups and interests. The future of the European Social Model will be determined by the play of these complex forces. In this context, the EES may make a modest contribution by marking out progressive pathways, facilitating creative learning, encouraging reformers, and providing a modest amount of protection against efforts to roll-back the gains of the past.

Figure 1: The European Employment Strategy Process

