# Introduction: EU social (exclusion) policy revisited?

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Article

# Introduction: EU social (exclusion) policy revisited?

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**Summary** Since the mid-1990s, several steps have been taken towards an integration of social policy in the EU. Yet there is reluctance in many quarters to go further. This article introduces the special issue on integration of EU social policy and explores the case for more comprehensive 'Europeanization'. We argue that the norms that underlie the European model provide the rationale for integration, and that the usual focus on the undoubted differences between countries in the approaches to, and delivery mechanisms of, the welfare state are not as great an obstacle as is often assumed. With the advent of EMU and with many common problems to confront, the EU countries have good reasons to adopt a common approach to social policy, even if implementation remains at the national level. The open method of coordination provides the means of reconciling these aims and the article concludes with a discussion of how it might evolve to achieve a more integrated EU policy.

**Key words** open method of coordination, social exclusion, social protection, welfare reforms

**Résumé** Depuis le milieu des années 90, différentes avancées ont été réalisées pour intégrer la politique sociale dans l'Union européenne. Toutefois les résistances sont toujours nombreuses et variées pour poursuivre dans cette voie. Cette introduction au numéro spécial du JESP explore la possibilité d'une plus grande "européanisation" de ce domaine. Nous soutenons que les normes sous-jacentes du modèle européen fournissent un soubassement rationnel pour l'intégration. Les différences entre les différents Etats providences nationaux et dans leur mécanisme de redistribution, ne sont néanmoins pas à notre avis un obstacle insurmontable. Avec la mise en œuvre de l'UEM et les nombreux problèmes auxquels il faut faire face, les Etats membres ont de bonnes raisons pour adopter une approche commune, même si la mise en œuvre doit toujours se situer au plan national. La méthode ouverte de coordination fournit les moyens de réconcilier ces objectifs. L'article se conclut par une discussion sur la manière dont il faudrait évoluer afin d'aboutir à une politique européenne plus intégrée.

## Introduction

There is a fundamental dilemma about social policy in the European Union (EU) context. On the one hand there is a widely held belief that a European social policy, and especially concerted action to counter social exclusion, should be promoted and may even be a necessary extension of European integration. Consolidation of economic and monetary union (EMU) will reinforce the arguments for complementary European social policies. Equally all EU member states share common social values that are captured in the notion of the European social model. In particular, we note the common societal relevance of social

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protection in Europe and the widespread concern for how this commonality might be safeguarded in the future.

On the other hand, the case for 'Europeanization' is unconvincing because, quite apart from the legal, political and constitutional obstacles, there are solid grounds for believing that social policies and, almost a fortiori, social exclusion policies should remain a national competence to which the subsidiarity principle rightly applies. Policies to counter social exclusion are typically agreed and implemented at the local and national level, and are very diverse in character and design, albeit often embedded in the frameworks of broader social protection and labour market policies.

Compared with the period from the early 1970s to the latter half of the 1980s, European economic integration has proceeded rapidly in recent years, first with the completion of the single market and now with EMU. The consequent economic shifts have been substantial, with EMU in particular having recast the economic policy framework. The implications for social policy have, however, received much less attention. Yet, as the article in this issue by Mayes shows, there are many new linkages that have to be taken into account and fresh thinking is needed. EU social policy has, however, evolved only haltingly, and has had to face up to determined resistance on the part of many member states to any transfer 'upwards' of formal competence for the policy area. The briefing paper in this issue by Ferrera, Matsaganis and Sacchi looks at the rationale for EU involvement in social policy and offers explanations for its slow advance. By tracing its evolution they show how the decision taken by the EU's leaders at the European Council held in December 2000 in Nice to initiate new 'National Action Plans' for social inclusion (rather inelegantly known as Naps/incl) arose, and provide a first assessment of these.

Although the formal assignment of monetary policy to the European level and the introduction of the single currency are the changes that have grabbed the headlines, the period since 1997 has seen a renewed interest in advancing the social dimension of European integration. The Amsterdam Treaty resulted in two sea changes: with the UK finally agreeing, it incorporated the Social Chapter that had been staunchly resisted by previous UK administrations; and under the influence of the newly elected French socialist government an Employment Title was added. Since then, there have been significant advances in EU social policy. These developments have been facilitated by an important reorientation in the approach to governance that has since come to be known as the open method of coordination (OMC).

The move to economic and monetary union in Europe has already had, and will continue to have, a profound impact on the EU's economic prospects and on the nature of economic policy making in the Union. It will also bring to the fore the many questions that have arisen about the future of social protection in Europe and give a renewed impetus to efforts to reform welfare states (for a recent overview, see Esping-Andersen et al., 2001). With globalization and the supposed ascendancy of neoliberal economics also having a significant impact, it would be easy to leap to the conclusion that the European social model is facing an unprecedented challenge and is at risk of having to be dismembered. Yet, although social protection accounts for an average of 28 percent of GDP in the EU member states, we argue that, borrowing from Mark Twain, tales of its death have been greatly exaggerated. Above all, it must be recognized that the European social model resides in its value basis more than in the systems by which it is applied or its cost to the public purse.

This special issue has three aims. The first is to contribute to the debate on the merits of the European social model and the implications of recent and prospective changes for its evolution. The second is to look behind the broad assertions to assess how effective current systems are in dealing with key social issues, especially social exclusion. Third, we explore the future of the social model and how effective the emerging policy framework is likely to be in dealing with the acknowledged problems confronting the EU, notably in dealing with social exclusion. These three themes inform the case for a more extensive role for the EU level in social policy and form the basis for an overall assessment of the case.

The articles in this special issue explore different facets of the evolution of European social problems and policy with an overall focus on whether a more extensive role for the EU level of governance is warranted and how it might be implemented.[1] In other policy domains, the logic of integration has been incremental, with, for example, the customs union leading to the single market and monetary union being portrayed as a necessary complement. We argue, however, that this 'neo-functionalist' logic does not provide a sufficient rationale for the integration of social policy, not least because national accommodations on social protection are so politically sensitive and because they represent national agreements that have been carefully constructed over generations. To put it another way, the so-called 'negative' integration of markets in the interests of economic efficiency (cf. Tinbergen, 1954) can be more readily rationalized than the 'positive' integration implicit in ceding autonomy over the much more overtly political decisions associated with redistribution and societal choices.

A Europeanization of social policy would involve a considerable deepening of integration along 'positive integration' lines. In this introductory article, we suggest that the arguments revolve around three sets of issues. The first has to do with values and concepts, and in particular the shared attributes of that elusive notion, the European Social Model. The second is empirical: are there common problems – especially in the extent and nature of social exclusion – that justify a common response, particularly if economic integration itself can be shown to be a pivotal influence? The third area is the transformation of EU policy making: there have been repeated calls for a 'Social Europe' to complement 'Economic Europe' (for an overview see Pakaslahti, 2000), and these calls have acquired a renewed salience now that the single currency is a reality.

Yet in all three areas there are doubts and contradictions. Yes, we can discern much that unites the social models of the different EU member states, but they manifestly differ significantly in philosophy and the mechanics of welfare provision. Yes, social exclusion and long-term unemployment are evident throughout the EU and may well have common causes, but the incidence can vary markedly from country to country. Moreover, there are systematic differences between countries in the degree to which their welfare systems succeed in forestalling social exclusion. Yes, it is undeniable that economic integration in Europe has had social consequences, that more will arise as EMU is consolidated and that there is considerable scope for a concerted European response, but it does not necessarily follow that EU competence is the best answer.

In what follows we attempt to pull together the different strands of the debate, drawing on the work in the other three articles and, more widely, on the EXSPRO project. The article by Mayes analyses the influences on social policy from a macro-economic perspective, looking both at the direct consequences of EMU and at longer-term shifts in the macro-economy. Tsakloglou and Papadopoulos then present findings on the incidence of social exclusion across the EU, highlighting the differences in detail, but also drawing attention to some of the common features. Ferrera, Matsaganis and Sacchi document the evolution of social policy at the EU level and show how resort to the OMC has opened up new opportunities for an integrated approach at the EU level. To set the scene, we start in the first section by looking at what is meant by 'the European Social Model'. Is there anything common in European welfare states that adds up to a social model that has shared traits in all western European countries? Although a common core can be found, there are, nevertheless, substantial differences among the countries of the EU, and these are dealt with in the second section. In the third section, we look at changes in the policy context. This brings us to the question of whether there is an obvious role for the European level of governance. The fourth section looks at the approach adopted at EU level up to now, then the main features of the newly emerging methods are discussed. We conclude with an assessment of the viability of OMC as a means of reconciling the conflicting pressures. It is plain not only that EU welfare states have to adapt to a new macroeconomic setting that will simultaneously impose new constraints, but also that the likelihood of their doing so will vary. If OMC functions as its proponents hope, the EU level will have a vital role to play in steering adaptation. But the deficiencies in the EMU policy framework also have to be confronted. The main message from the research reported in this special issue is that OMC, imaginatively used, does offer a means of achieving the aims of a more integrated European social policy without compromising national interests.

## The European social model: illusion or firm foundation for 'Social Europe'?

Although the EU is often portrayed as a predominantly economic construction, there are shared values and priorities that set the region apart from other parts of the world and which are often encapsulated as the 'European Social Model'. Much is said and written about this model and how it is in urgent need of reform (see, for example, some of the contributions to Buti et al., 1999), yet it is often difficult to relate these debates to the immediate and difficult demands on policy that emanate from the upsurge in social exclusion. It is consequently useful in appraising the prospects for European social policy to revisit its normative foundations and to ask what are, or could be, the foundations for a more extensive role for the supranational tier of governance.

It should be stressed at the outset that the European Social Model is more than welfare state provision, and that the various national social protection systems differ quite markedly. Yet it is neither the systems nor the programmes that characterize our European social approach. It is rather the collective decisions on the labour–income nexus (or 'rapport salarial' – see Boyer, 1990; 1995; Aglietta, 1997) which underpin the welfare systems that are of importance. Some simple indicators help to make the point, beginning with a comparison between the European Union and the United States.

First, the gross domestic product per capita is 30 percentage points higher in the US than in the EU (Cichon, 1997). Per employed person this difference is much smaller, however. The difference in numbers of hours worked per capita is the explanation, in part because individual workers work more hours, but also because more Americans are enabled to work, yielding a higher aggregate number of hours worked. GDP per hour worked, by contrast, is higher in the EU than in the US, suggesting that the lower skilled US workers are decreasing average hourly productivity. While average remuneration per hour is at a similar level, productivity per unit of remuneration is lower in the US than in the EU (Berghman, 1997). Implicitly, therefore, the EU has 'chosen' a higher productivity strategy by giving only the most productive workers access to the labour market.

Yet, while implicitly and collectively deciding to be very productive, the member states of the EU also decided to guarantee minimum living conditions to those not capable of being productively inserted into the labour market because they do not yet, or no longer, have the capacity to work. According to Adema (2001), EU countries typically spend between 20 percent and 26 percent of their GDP on gross social expenditures, whereas Japan and the US only spend about 15 percent in this way. In net terms these figures are somewhat lower to the extent that part of these expenditures return through direct and indirect taxes and social contributions. These have

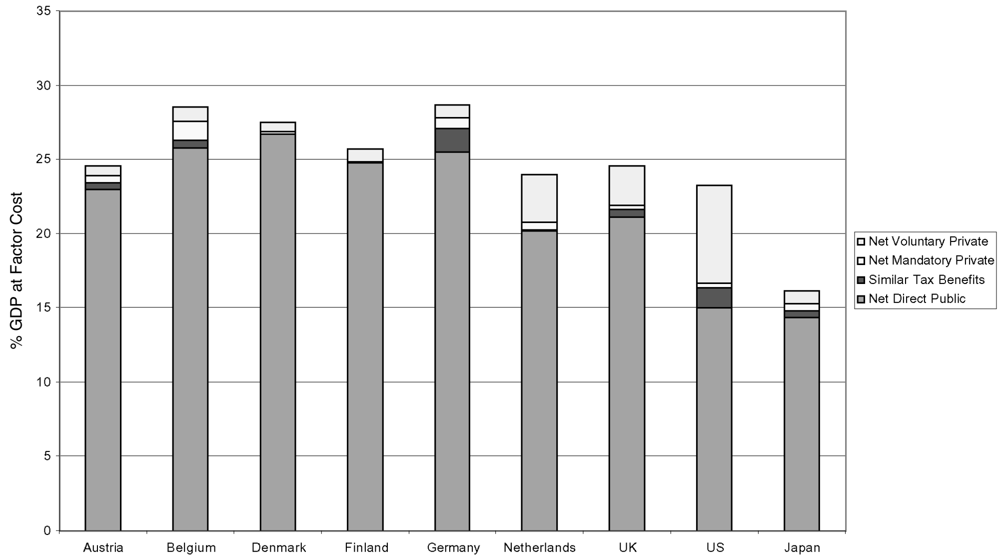


**Figure 1** Extended net social expenditure indicators, 1997
*Source*: Derived from Table 7 in Adema (2001).

a considerable impact on social expenditure levels in the Netherlands and in the Nordic countries (see Figure 1).

However, when tax expenditure and private expenditure on the same 'social' contingencies are added, the picture changes. It then appears that all countries, except Japan, spend at least a quarter of GDP on social expenditures. Hence, the member states of the EU, and the US, spend more or less the same share of GDP to provide various social services and benefits, the difference being that in the EU this is done more through obligatory and statutory schemes. By doing so the EU countries find it easier to counter adverse selection mechanisms and thus to be more effective in reducing poverty. This is shown in Figure 2. Using their social security schemes the European countries manage to lower the percentage of persons that have to live on an income that is below their respective relative poverty line to a large extent.

A further distinction between the EU member states and the US is in how they deal with minimum wage and minimum benefit levels. By defining minimum levels for decent wages and benefits the EU member states implicitly confront their society with minimum productivity requirements. Employers cannot afford to hire workers to whom at least a minimum 'living' wage has to be paid if these workers cannot provide the productivity level that corresponds to that minimum wage. The effect of this is that only workers with an above minimal productivity level get access to paid work.

Hence, the European model combines a strong incentive for high productivity with an obligatory system of income protection for those unable to fulfil the high productivity requirements. In other words the core of the European social model is the way European societies operationalize the labour–income nexus (see Berghman, 1997). All this should be situated in a contextual framework of coordinated economies that have a strong tradition of collective bargaining and an increasingly common economic policy regime, at least within the Euro-zone (Iversen, 2000). As a result of common problems and constraints

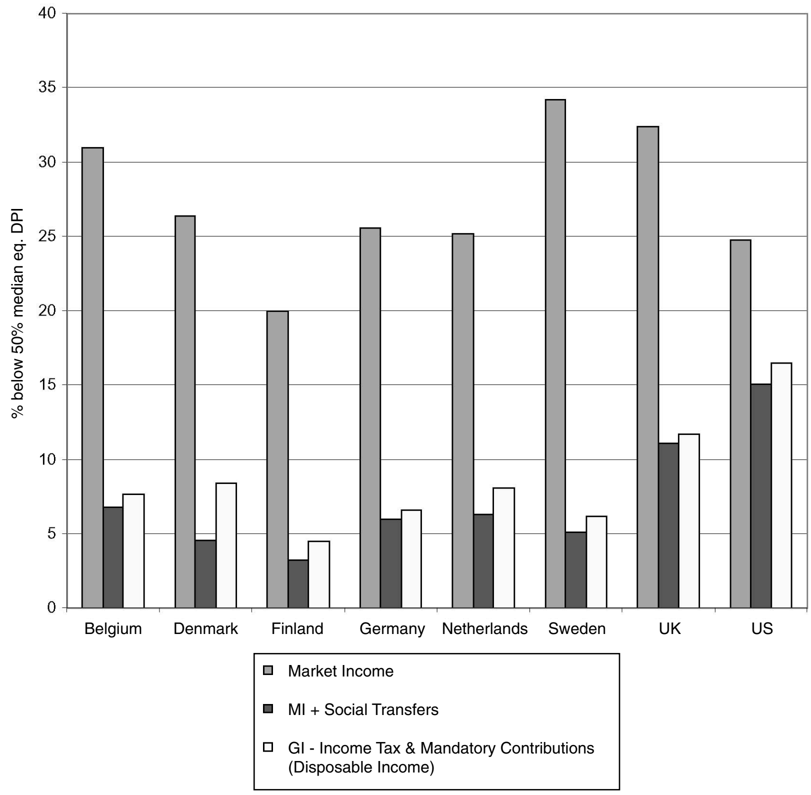


**Figure 2** Impact of various income components on poverty head-count
*Source*: Calculations by Koen Vleminckx on Luxembourg Income Study Database (1994–7 wave).

such as the ageing population and the service sector 'trilemma' (Pierson, 1998; Esping-Andersen, 1999), we see an increasingly common approach to social policy in many EU member states. There is a renewed emphasis on (re)integrating the benefit population into the labour market in an attempt to contain, if not reduce, social expenditure levels. Activation policies were advocated by the 'Third Way' and the 'Active Welfare State' paradigms, which became prominent in European social policy debates in recent years (Giddens, 1998; Vandenbroucke, 1999). As a result of efforts to optimize the employability of the active population, the organization of lifelong learning moves more to the centre of the European model (Room, 2000). Education and training are seen as investments in human capacities and considered to be an integral part of our social policy framework. In the US, the view that the education system is at the core of the welfare state is much older and some have even considered the education system as a substitute for social protection in the US (e.g. Flora and Heidenheimer, 1984).

The renewed emphasis on social exclusion and notably the implementation of the open method of coordination for social exclusion could lead to a deepening of this dynamic approach to social policy, which has the life course as a perspective and focuses on improving individual capabilities. From a life-course perspective, welfare states should aim to intervene at the most efficient and effective time in people's lives. An example is the prevention of child poverty, which could be a very efficient and effective way of preventing the poverty and social exclusion of adults. Making sure that children receive a good education and grow up as healthy productive individuals will contain social expenditures at a later stage (Vleminckx and Smeeding, 2001). The focus on capabilities means that the state, as well as the market, must promote the development of each person's capabilities to work in the context of what a person values.

## Differences between countries: evidence and explanations

Against this background one can nevertheless distinguish marked differences and approaches among the EU countries in the nature of the labour–income nexus. The four distinct traditions that can be identified are the Nordic, the Atlantic, the Continental and the Southern (see: inter alia Esping-Andersen, 1990; Rhodes, 1996; Goodin et al., 1999; and Ferrera et al., 2000). The difference between them stems, in our view, from long-standing cultural differences that have conditioned both the policy-making structure and the content of the welfare state systems. These cultural differences account for the different way in which these countries conceive social policy and the social contract that constitutes its basic framework.

Yet before explaining these differences it is useful to point to what we like to call the 'basic societal process' onto which social policy is grafted. This 'basic societal process' holds that we educate and train people to ensure that they are able to enter the labour market and thereby have the opportunity to gain a primary income. This income in turn enables them to have command over resources to guarantee their social integration. Seen in this way, the raison d'être of social protection is not so much to guarantee income as to safeguard social participation and social integration. Social protection does this by acting as a mechanism to allow the individual to remain 'included' where insertion into the labour market is no longer possible or desirable. One may even argue that replacement income schemes all cover the same basic social risk, i.e. incapacity to work, or to be more correct: the absence of fit between capacity and work. In the case of unemployment this risk materializes because there is no work; in the case of sickness and invalidity because there is either temporarily or permanently no work capacity.

Using these criteria, the traditional Nordic model emphasizes (re)insertion into the labour market, whereas the Continental/ Bismarckian model stresses a good bypass mechanism with earnings-related benefits that are capable of replacing the lost wage to a higher degree than just a minimum level. The Atlantic/ Beveridgean model provides flat-rate income protection in order to safeguard minimum social participation. Hence earnings-related protection was originally left to occupational and private initiative. Southern Europe, finally, can be conceived of as a less developed Continental model in which a much larger role is played by mechanisms of family solidarity (Ferrera et al., 2000).

As the article by Tsakloglou and Papadopoulos in this issue shows (also Whelan et al., 2002), the character of social exclusion differs from country to country. Aware of the huge variety of definitions that have been attributed to the concept of social exclusion, they operationalize it in a way that permits a comparative analysis of the EU member states using the first four waves of the European Community Household Panel (ECHP). To that end they constuct an indicator of 'chronic cumulative disadvantage', an aggregate variable embracing deprivation in the domains of income, living conditions, necessities of life and social relations and referring to lasting disadvantage over several years. Social exclusion, then, appears to be much more widespread in the Southern countries and in the countries with an Atlantic tradition than in the Continental and Nordic ones. In Southern Europe the elderly also face a higher risk of social exclusion than in Northern countries. Full-time employment of the main breadwinner remains the important barrier against social exclusion. Together with household composition and some personal characteristics such as educational qualifications, it is the variable which best explains the probability of social exclusion. What is striking, however, is that these variables are of varying importance from county to country: country differences and welfare regime effects seem to be significant.

The evidence indicates that even after controlling for employment status, educational qualifications, household type, citizenship and health status, social exclusion can partly be attributed to national or regime-specific factors. The socio-economic context of social policies and the way in which the welfare systems counteract social exclusion apparently makes a difference. One should, therefore, be cautious in advocating a more extensive role for the EU level, precisely because these differences show that countries have made choices that arguably reflect national political preferences.

These distinct European submodels also show different policy-making traditions. It is important to be aware that a particular policy-making tradition has to do with the particular interrelationships between the citizen, the state and organized society, especially through representation by the social partners. In the Atlantic tradition, the key relationship is between the state and the individual citizen, with social protection under the control of the state authorities. In the Continental countries, by contrast, the social contract stems from agreements by the social partners, subsequently endorsed by the state institutions, while in the Nordic countries the basic agreements stem from talks between the social partners and the political representatives (Begg et al., forthcoming).

What is important about these differences in policy-making structures is that they affect the willingness of member states to shift towards the more preventive and re-integrative approach of an activating welfare state, and condition how they will react in trying to accommodate present-day challenges. Atlantic countries (with little involvement of the social partners) and Nordic countries (with their active welfare state tradition) will find change easier than the Continental and Southern European countries (with their powerful social partners) because the former have less need to achieve a broad consensus and are, thus, better able to impose changes. As a result, member states are confronted with difficulties of different orders of magnitude in trying to adapt, recalibrate, or reinvent their social protection system (Ferrera et al., 2000).

The activating policies that have been devised in recent years in several countries represent a first and crucial step towards redirecting attention from employment to employability and from job security to lifelong learning. On the basis of an analysis of the employment National Action Plan of 1999 and 2000, Madsen et al. (forthcoming) distinguished employment policy regimes. They found a close connection between national employment policy regimes and the problem of social exclusion. EU member states in regimes designated as ‘active’ (Denmark, the Netherlands, Sweden and Finland), characterized by a high level of expenditure on active and passive labour market policies alike, along with well-defined and wide-ranging employment policies, clearly have less social exclusion. Moreover, countries shifting towards this system seem to experience an improvement in social conditions.

The EXSPRO research suggests that employment regimes differ substantially in how they combine employment regulation and welfare benefits to deliver social protection. Social-Democratic and Nordic regimes perform best in attaining a high level of labour market flexibility while providing income and employment security. Although generalizations are risky, the Southern European, traditionalist regime seems to deliver the worst combination as regards flexicurity. The Anglo-Saxon regime is weak on the social security part while the Continental European one does not perform particularly well as regards flexibility (Begg et al., 2001).

## The changing policy context

The move to the single currency constitutes a significant change in the macro-economic policy environment. It will have a variety of repercussions on how policy is conducted and will have an impact on the prospects for dealing with social exclusion. With a common monetary policy and restrictions on fiscal policy, other macro-economic policy instruments will be needed to assure economic adjustment and, in particular, to resolve economic 'shocks' that have a more pronounced effect on some regions, sectors or social groups than on others. Equally, the promise of EMU is that it will mean a more stable macro-economic context that is expected to allow more rapid aggregate economic growth.

In parallel, the EU is confronted by a number of longer run trends that will bear on the incidence of, and capacity to respond to, social problems. Thus, enlargement of the EU will bring in new member states with significantly lower labour costs, and even if the enlargement is ultimately of mutual benefit, it can be expected to have local and sectoral impacts that will constitute new causes of unemployment with the attendant risk of intensified social exclusion. Ageing of the population is a well-documented trend that will simultaneously increase the proportion of the traditionally vulnerable elderly in the population and decrease the tax-paying base of working individuals. In addition, and notwithstanding the recent bursting of the 'dotcom' bubble in the US, the phenomenon of the new economy will continue to reshape productive processes.

At issue is whether the outlook for social exclusion will be affected by these changes in a predictable and manageable way (Pierson, 1998; 2001). These questions are taken up in detail in the article in this issue by Mayes. He shows that through a variety of different mechanisms it is likely that EMU and the Stability and Growth Pact (SGP) will aggravate social exclusion for any given overall EU growth rate. In part this is a straightforward arithmetical inference: when the instruments of macro-economic policy are set for a broader economic area, the probability that particular segments will find the overall stance of policy less helpful is increased. Thus, if a particular region is adversely affected by decreasing competitiveness of a prominent economic sector, it is unlikely that monetary policy set for the Euro-zone as a whole will respond. The region thus has to adjust by other means, some of which are likely to lead to income and employment losses that could engender social exclusion.

The EU is progressively putting in place a range of mechanisms and processes to enrich its policy armoury in order to complement the assignment of monetary policy to the EU level. Thus there is now a European Employment Strategy, and commitments have been entered into to accelerate structural reforms, including those of social protection systems. These reforms are, on the whole, targeted at improving the conduct of macro-economic policy by ensuring that the different instruments of policy can be, and are, reconciled. We argue, however, that although such changes may assist macro-economic stabilization, they do not provide for the resolution of social problems that arise from, or are aggravated by, EMU.

More pointedly, the evidence suggests that even if the average (whether of income, employment or unemployment) across the monetary union is unchanged, there will tend to be an asymmetric effect on those that are adversely affected by shocks. Put another way, there will be both winners and losers from the single currency for a wide range of reasons, with many of those who lose unaccustomed to such impacts. What tends to happen in these circumstances is that there will be an increase in social exclusion among those affected that exceeds the reduction elsewhere. Much the same is true of the risks engendered by enlargement. In macro-economic terms, it may well be true that bringing in new member states to the EU will benefit current and new members alike. But there will be specific sectoral and local or regional impacts that are likely to lead to new social problems.

The glib answer would be to increase expenditure on policies to counter social exclusion, but here too Mayes identifies a dilemma: beyond a certain threshold, a high share of public expenditure (generally) has a dampening effect on an economy's potential for growth and employment creation, either because it favours low-productivity activities or creates disincentive effects. Therefore, action to combat social exclusion needs ideally either to be taken without increasing the share of the public sector in the economy or to be targeted towards productive potential.

There are two promising avenues for a possible resolution of this dilemma. The first is to focus on the 'capabilities' approach espoused by Raveaud and Salais (2001) to broaden the notion of activation beyond the labour market. Transcending both the old monetary approach to poverty and inspired by Sen, they put the emphasis on the capabilities of the citizens, on the effective freedoms a person enjoys to share fully in the social life of the society he or she is living in.

This puts the emphasis on empowering individuals through human capabilities such as skills, knowledge and health. Policies should aim at removing various kinds of active and passive boundaries that obstruct the participation of individuals and social groups in the economic, social and political life of a society (Begg et al., forthcoming). Social policy consequently has to support not only the 'freedom from want' but also the 'freedom to act', for instance the freedom to combine career and child rearing or to combine a job with lifelong learning.

Thus the capabilities approach presumes a different relationship between the individual and the state: the welfare state is rephrased as 'the active welfare state' or 'the enabling society'. Giddens refers to the 'social investment' society emphasizing the 'active' role of the government in preventing risks by enlarging people's prospects, by combatting mechanisms of exclusion and by providing means for participation (Giddens, 1995; 2000). Offering a wider range of opportunities (like in-work benefits to combine work and other activities, tax allowances for bridging the 'poverty-gap' and 'credits' or 'voucher' systems providing 'drawing-rights' on work, education or care support) is then a possible means of preventing and curbing social exclusion.

The second avenue is to enhance the coordination of policy at EU level. Mayes reports simulation exercises which show that the extent of economic problems that might aggravate social exclusion is attenuated in scenarios in which policy is more effectively coordinated at European level. As understood by economists, coordination in this sense concerns the manner in which fiscal and monetary policy are combined. However, one of the main macro-economic implications of EMU is that the mix of policy instruments will change, notably with more pressures for reform of supply-side policies and especially of the labour market and regulatory matters.

## A role for the European level?

One of the main arguments of this special issue is that the economic coordination agenda cannot ignore the social dimension. Much progress has already been made in integrating employment policy with the broader economic policy-making process at European level. This works principally through the European Employment Strategy, with the Broad Economic Policy Guidelines serving as a complementary framework. But we believe that other facets of the social dimension need to be more fully articulated.

This raises the question of the European level of governance and, in particular, whether it has a role to play in making the European

Social Model work. Leibfried and Pierson (1999: 34) suggest that 'what is emerging in Europe is a unique multi-tiered system of social policy, with three distinctive characteristics: a propensity towards "joint-decision traps" (Scharpf, 1988) and policy immobilism; a prominent role for courts in policy development and an usually tight coupling to market-making processes'. From an analytical point of view it is useful to check whether these three characteristics are relevant and how they can help us in understanding EU social policy.

*Policy immobilism* In the social policy scenarios that were sketched in the early 1990s when the single market measures were being completed, the fear that policy development with respect to harmonization/convergence would be dominated by immobilism seems to have been correct up to 2000. At that time possible scenarios that were debated about the future of social protection included unification of social protection in a single European system, through the introduction of an additional shared thirteenth (and what would now be a sixteenth) state system (see, for example the proposals of Pieters and Vansteenkiste, 1993). Yet actual measures were very limited: the two 1992 texts on minimum protection and social protection respectively were given merely the status of Council Recommendations, and, as such, are at the 'softest' end of the legal spectrum (Council, 1992a; 1992b). The Social Protocol in the Maastricht Treaty was only formally agreed by all member states six years later in the Amsterdam Treaty, and has only latterly led to any tangible policy initiatives. Although the fight against social exclusion has moved up the policy agenda and been promoted as an aim of the Union, there has been no breakthrough with respect to social protection.

In contrast, the pace of change in employment policies has been striking. The Essen–Amsterdam–Luxembourg initiatives, now brought together in the European Employment Strategy (EES), commit the member states to an annual process in which they formulate plans in the light of common guidelines, have them scrutinized, and exchange policy ideas. Such an approach might be the way forward for policies on social exclusion and, possibly, reform of social protection.

*Court-driven policy development* Several authors have argued that the reluctance of the member states to take social policy measures at the EU level has resulted in the paradox whereby the member states, by asserting their sovereignty, are unwittingly losing their independence (Leibfried, 1994). This is most clearly visible where social policy practice clashes with economic, single market objectives. The Kohll and Decker, and more recently the Smits-Peerbooms and Vanbraekel rulings were an example of how EU economic legislation on free competition might overrule national social legislation (Mossialos et al., 2002). It also showed how the core objectives of the EU, that is economic objectives, constitute a threat to social policy and its market corrections if these corrections are not backed by legislation at that same EU level. The ruling by the European Court of Justice (ECJ) on the Brentjens case indicates, however, that social progress is becoming recognized as one of the basic objectives of the European Union. This recognition might open the way for a more socially inspired case law and, indirectly, for more pressure on the policy actors in the Commission at large and in the Council to take further initiatives.

*Market-linked policy* The first, very early and very strong EC involvement in social protection was related to the so-called coordination of social protection for migrant workers, through 'hard law' in the shape of regulations. A fundamental revision of regulation 1408/71 – the piece of legislation dating from 1971 (although amended a number of times since) which underpins the rights of migrant workers to social protection – appears to be extremely difficult. The EU member states have been increasingly reluctant to agree to formal legislation in this area and there are few signs that this is likely to change in the near future. And it remains to be seen whether the actual proposals on second-tier pensions can help to unblock the situation.

Tight budget constraints (partly stemming from the requirements for joining the EMU) have blocked social protection development in some countries and at least for some schemes. The gap thus created might be filled by private – occupational and individual – insurance schemes. The insurance market has been open since 1994. The odds are, however, that private insurance would function in a socially very unequal way. So, those out of stable employment might be excluded from any complementary protection altogether. The occupational and individual schemes may, moreover, induce tax expenditures or allowances, with the result that those who can afford complementary protection are subsidized by the general taxpayer in an inequitable manner. Overall, then, this amounts to a negative verdict on the social policy capacities of the EU, regarding these characteristics of EU social policy making.

## *The future of EU social policy*

In theory it would make sense to have a European social protection and social exclusion policy. Basically these policies are meant to correct for market failures. It is logical (and well established in the fiscal federalism literature – see, for example, Oates, 1991) for these corrections to be effected at the level at which the (single) market is organized. The reasoning is straightforward: only the highest level of government can take account of, and – if necessary – act to offset, the impacts of different policies at lower levels. Thus if one region or locality within an economic space provides lower taxes and benefits, it will attract richer taxpayers and give welfare recipients an incentive to move to more generous jurisdictions. Such an outcome would put an undue strain on the generous jurisdiction and could lead to competitive attempts to lower welfare standards. Similar outcomes might arise if global competitive pressures lead to what Alber and Standing (2000: 101) describe as welfare states 'being transformed into *competition states*'.

Under a fiscal federalism approach, public expenditures would be funded, even if the services in question were not necessarily delivered, by the level of government that encompasses the policy area in question. To the extent that welfare problems transcend national borders, this would imply the EU level having the lead role (as has been the case for the Federal level in the US). In this way, the temptation for individual member states to break ranks by offering inducements to companies through lowering welfare standards would be lessened, thereby allowing standards of social protection to be maintained. The problem with fiscal federalism, however, is that the neat economic models do not fit well with the rather messy reality of EU politics.

In the EU case, regulatory measures rather than social protection outlays have been the preferred route, and any further Europeanization will almost certainly follow the same approach. This need not mean that any European social protection and social exclusion policies would be so prescriptive as to overshadow existing national policies in these fields; indeed, many competencies could remain at lower levels. Yet, it would be logical to have the basic policy options discussed and the major policy decisions taken at the European level, leaving implementation with lower levels. This would confirm the double commitment of productivity orientation and mandatory social protection that underpins the European social model at the EU level.

In practice, however, there are two prerequisites for a genuine European policy, as welfare state development at the national level has taught us. It would suppose some form of societal necessity and the necessary competence legitimacy. Yet, on both counts, the European level remains hesitant. A pressing necessity is not felt, and under the subsidiarity principle the member states enjoy almost exclusive policy competence. So the odds are that European social policies will continue to be elaborated somewhat indirectly, by the back door: by mainstreaming with more central EU competencies; by transfer of information; and, of course, by leaving some crucial decisions to the ECJ.

On closer inspection, as the contribution of Ferrera et al. in this issue convincingly shows, it can be argued that the 2000 Lisbon European Council transformed the position by taking far-reaching procedural decisions for which the Portuguese presidency deserves great praise. First, there was an agreement that the spring European Council each year would discuss the interrelationships between economic, employment and social policy. Although this offers no guarantees, it places social issues explicitly on the agenda at least once a year. The second significant change was the establishment of a high-level working party – since renamed the Social Policy Committee – to make proposals for indicators on social exclusion and to give advice on the future role of social protection systems. A first priority of this new group was to set up a special working group on social inclusion indicators. The set of indicators it proposed has since been accepted by the Council.

Third, and most important, these indicators could pave the way for benchmarks for social exclusion and social protection policies. Under the Luxembourg initiative a mechanism could be introduced with respect to employment policies by which information would be made available, and National Action Plans devised and evaluated with a view to elaborating common benchmarks and policy priorities. The OMC is now also to be applied to other fields of social policy. A first National Action Plan on social inclusion has since been written by each of the 15 member states and the first summary by the Commission has been published. In the meantime, a decision in principle was taken in Göteborg to apply the OMC also in the pension field. These further applications of the OMC have effectively broken the deadlock that had existed since the Maastricht Treaty, but they contain both a paradox and a limit.

The paradox is that what was impossible under the subsidiarity principle for the EU institutions using the conventional methods of EU decision-making procedures and legal instruments has become possible now. The difference is that the member states are acting intergovernmentally, rather than applying the 'Community' method, using the soft law of 'gentlemen's agreements' instead of directives. This offers both flexibility and limitations (Esping-Andersen et al., 2001). The procedure and its results will work as long as member states are willing to cooperate and as long as the socio-economic context allows for a constructive attitude. When difficulties arise, however, the risk is that the absence of hard law will mean that common aims are abandoned or watered down.

It may be, however, that the Open Method of Coordination constitutes the postmodern, flexible policy-making 'laboratory' that we need in a period of far-reaching societal transition in which not only needs and aspirations are under revision but in which also the spokesmen and spokeswomen of these new needs, aspirations and interests have to find their place. Each of these aspects needs some elaboration. With respect to needs and aspirations, the Lisbon Summit of March 2000 was organized 'to agree on a new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy' (Lisbon European Council, 2000: 1). As the Union's new strategic goal for the next decade it put forward 'to become 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' (Lisbon European Council, 2000). According to the Summit, achieving this goal required an overall strategy aimed at:

(1) Preparing the transition to a knowledge-based economy …
(2) Modernising the European social model,

investing in people and combating social exclusion and
(3) Sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix. (Lisbon European Council, 2000, para. 5)

If the labour–income nexus is at the core of the European Social Model, it is hardly surprising that many EU member states have sought to recast the link between work and welfare. Moreover, as employment, together with family formation events are crucial factors affecting social inclusion, retuning employment relationhips and social protection has become a major point of interest. Yet there is considerable variation both in the measures taken and in the outcomes achieved (see Tsakloglou and Papadopoulos in this issue). The success of different welfare and employment regimes depends on how they manage to attain a high level of labour market flexibility while guaranteeing adequate levels of social protection and work and income security. The idea is to implement a mutually reinforcing relationship between flexibilization of employment relationships and the protection afforded by safeguarding social security (Ferrera et al., 2000).

So, investing more in 'social capabilities' should not only be conceptualized in terms of the individual citizen. It should also be seen in terms of building up networks and empowering citizens, allowing them to take new initiatives and stimulating the establishment of new services This links to a second aspect of societal revision: that of the adaptation of policy-making practices. Not only policies but also the policy-making procedures and the policy actors that should be allowed to play a role in them are under revision. The open method of coordination can consequently be seen as an experiment at the EU level in fleshing out a more flexible kind of policy making, bringing together not only the EU level and national governments, but also the lower levels of governance in regions and even local authorities. It might be seen as both a cognitive tool for policy learning and 'policy mimicking' and as a normative tool to define a new social paradigm, a new interpretation of the European Social Model in terms of capabilities (Vandenbroucke, 2001).

Yet the battle through the OMC is far from won. First of all much is to be monitored in the years to come: the capability approach in social policy and social exclusion policy; the decision-making practices that allow for having the new needs voiced properly; and the way in which both aspects may revitalize the value mixes that underpin the European Social Model. Moreover and notwithstanding their limited formal competences, the EU institutions, including the Council and the member states, would do well to recognize that the OMC is an important device for monitoring, benchmarking and managing societal development. As such, it provides new openings, a way of revitalizing rather than closing off an EU role. But the challenge is to make it work.

Early critics of the OMC as applied to the European Employment Strategy – even predating the invention of the term (see, for example, Goetschy, 1999) – expressed concerns that the looseness of the method, the absence of enforcement mechanisms and the lack of formal EU-level competence would add up to ineffective policy. In practice, the Employment Strategy seems to have worked better than might have been envisaged, with member states taking their obligations seriously and real signs that policy learning has been encouraged. We argue that what will be crucial in determining the success of this approach is not so much the mechanics as the political will. An 'open' method is precisely that: one that allows for experimentation, learning and the development of new procedures, not a precisely defined approach. If the various actors want it to work, it will allow the EU to have a meaningful role in a manner much less threatening to member states, yet break the log-jam that has bedevilled EU social policy for decades. We therefore share the sentiment expressed by Social Affairs Minister Frank Vandenbroucke (a notable convert to OMC) at a conference on EU social policy held under the auspices of the Belgian Presidency in October 2001. He said: 'Without considering it as a magic formula, I am convinced that the open method of co-ordination can be extremely useful in this field, as well as in others. But we have to make sure that we deal with this method in a well-considered way.'

## Conclusions

Although the EU member states differ significantly in their welfare state systems, the common inspiration on which they are based brings them under a shared umbrella of the European Social Model. It is clear that these welfare states have to adapt to a new macro-economic setting in which the EMU will become of crucial importance. As Mayes shows in this issue, the odds are that in the EMU setting and confronted with an enlargement towards the east, external shocks will not easily be dealt with at the EU level with limited competences in the employment and social area.

A new policy armoury will therefore be a desirable complement to fiscal and monetary instruments. Going from the evidence in the contribution by Tsakloglou and Papadopoulos that shows substantial variety among countries with respect to the incidence of social exclusion and the impact of their welfare systems, a one-size-fits-all answer will be highly inappropriate. This is even more the case, with the national level remaining the obvious level of governance, as socio-economic developments point towards more flexicurity, an activating policy and a capabilities approach. Later in this issue Ferrera, et al. explain how in such a setting the OMC may prove to be the flexible policy-making device we need. Imaginatively used it may be the instrument that reconciles the aims of a more integrated social policy in Europe without threatening national interests, variety and adherence to the principle of subsidiarity. This might help the European Social Model to survive. The commonality of it will remain in its value basis and policy objectives, and not in its provisions and welfare state systems.

### *Notes*

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