

# Governance in EU Social and Employment Policy: A Survey

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## Abstract

This paper examines social and employment policy governance in the European Union since the European Employment Strategy and the Open Method of Coordination were launched. It focuses on the role of this new mode of governance in obtaining the goals of social cohesion and competitiveness, as set in the Lisbon Agenda. For this purpose, this overview includes, first, a brief introduction to new modes of governance; second, an outline of the key characteristics, actors and processes of the OMC and EES; third, a review of the strong points and weaknesses of these modes of governance; and fourth an overall assessment of the impact of the OMC and EES, which reveals potential reform directions that the enlarged EU may follow in the face of future challenges.

Key words: European governance, social policy, employment policy, Open Method of Coordination,

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## **I. Introduction**

The literature on new governance sprang out of the realisation that at least since the 1980s the way advanced industrial societies were governed has been gradually modified. For example, new public-private partnerships and networks of NGOs, associations and state agencies replaced or complemented central government institutions in policy-making and implementation, while supra-national actors also assumed significant roles in various policy areas. However, the changes brought about by new governance may have been exaggerated. New governance structures may not be understood as a substitute for traditional government. Rather they constitute a mode of steering societies which is complementary to traditional government (Peters and Pierre 2006). Regardless of the extent to which central government in contemporary European states has been hollowed-out and the possibility to speak of governance without government (Rhodes 1996), certain functions are common to both traditional state and new governance structures. Such functions include setting priorities and selecting among them, resolving conflicts both at the programmatic level and at

the level of social interests and implementing policy decisions (Peters and Pierre 2006: 215-216).

The study of the manner in which traditional state structures have handed the execution of the aforementioned functions over to new governance structures has primarily focused on public policies other than the social and employment policies which this paper is about. The same shift from traditional to new modes of governance has started from the level of the central, regional and local government and only later has it moved to the EU level. It should then be interesting to find out what we could learn about new governance through the study of social and employment policies, not only at the national, but also at the supranational (EU) level.

Social and employment policies are but two examples of a larger trend of shifting to new modes of governance in EU policy areas, which characterizes both policy-making and policy-implementation. The new modes of governance reflect a shift away from hierarchical policy-making, which privileged a 'top-down' fashion of decision-making, to more consensual modes of decision-making; a preference for delegating some competences to relevant organizations and collective actors; and an emphasis on including all relevant stakeholders (Risse 2004). In the context of new modes of governance policy-implementation is also meant to be consensual, delegated and inclusive. Behind these shifts there is a realization that old-style policy-making and traditional 'hard law' regulation may not work in a complex environment consisting of 27 EU member-states each of which may additionally be domestically organized in multi-layered governing structures.

Keeping these considerations in mind, in the remaining of this paper we briefly discuss social and employment policy in the EU before and after the Lisbon agenda. We emphasize the period after 2000 and present the key characteristics of the Open Method of Coordination (OMC) and the way it has evolved. We list the main actors involved in this new mode of governance and assess the major strengths and weaknesses of the new process. We touch upon the effects of OMC on EU enlargement and elaborate on how EU social policy is being transformed. In the prior to last section of the paper we assess the key characteristics, processes, key actors, strengths and weaknesses of the European Employment Strategy (EES), also looking at

the challenges the EES faces today and the reform paths it may take in the future. In the last section of the paper, we assess the advantages and disadvantages of the OMC and the EES. We argue three things. First, these two new modes of governance have not altered traditional governance structures, but have somehow become complementary to them. Second, despite their mixed performance, both OMC and EES are part and parcel of today's EU policy repertoire. And, third, there is ample room for improvement for both modes of governance.

## II. EU Social and employment policy before the Lisbon agenda

In the years that followed the Treaty of Rome, European social and employment policies mainly acted as corrective to the market mechanisms (O Connor, 2005). It was not until the 1980s that the idea of a social policy counterbalancing the market building process emerged. Although the Single European Act was not finally complemented by a significant social programme, Delors's White Paper *Growth, Competitiveness and Employment* highlighted the interrelation between these three targets and called for a shift "from harmonization to the definition of pertinent policies" paving the way for a soft-law Community approach (Régent, 2002: 3). Owing to political disagreements, the European Social Dialogue (Maastricht, 1992) took the form of a blunt intergovernmental compromise (Garcia et al, 2004). Although the monetary union project created a spillover of multilateral surveillance methodologies and aspirations to employment policy-making, the Essen European Council (1994) failed to set an employment strategy, given the insufficient political consensus.

By the late 1990s, a new sociopolitical context emerged. The three new member states (Sweden, Austria and Finland) defended a European solution. The centre-left governments in the UK, Italy and France faced increasing public pressure for social protection in the context of intensifying poverty, unemployment and economic stagnation. Facing a growing anti-Brussels backlash, heterogeneous preferences and divergent welfare state traditions, the EU member states reached an agreement to

move to “more flexible and participatory approaches and semi-voluntary forms of coordination” ((Mosher and Trubek, 2003: 63). The Amsterdam Treaty (1997) set the institutional framework for the European Employment Strategy (EES), which adopted soft methods of coordination (OMC) to achieve the following broad employment and social “policy guidelines”(EC 2003: 12-22):

- The creation of more and better jobs
- A new balance between individual security and flexibility
- The fight against poverty and social exclusion
- The linking of economic performance with solidarity
- The promotion of gender equality, and, additionally,
- The strengthening of social policy aspects of East European enlargement

The EES paved the way for the introduction of OMC in social policy (Lisbon summit, 2000), which reinforced the social pillar of European integration in a number of “sensitive” social policy areas in order to deal with challenges linked to globalization and EU enlargement (Nice and Stockholm Summits).

### **III. Social policy and economic competitiveness in the Lisbon agenda**

The Lisbon Agenda recognized social policy as a “productive factor” (O’Connor, 2005) and focused on the interplay between economic, employment and social policies. The move “from employment-focused social policy to social policy that is still employment-anchored but has broader objectives and redistributive implications” (O’Connor, 2005: 354) searched to reconcile the priorities of social cohesion and market flexibility (Rhodes, 2005). OMC was introduced as “the methodological paradigm for European Social Policy” and was expected to boost the ability of the European Social Model to provide significant “added value” to national policies (Garcia et al., 2004).

#### **Why was OMC introduced in Social Policy: key characteristics and process**

In social policy neither pure integration nor pure cooperation are workable solutions at the EU level. Pure integration is challenged by the wide diversity of national welfare

states, the anti-Brussels public sentiments, and the unwillingness of national governments to transfer competences in fields of major electoral significance (Scharpf, 2002; Leibfried, 2005). Still, the development of social policy is not a purely national concern, given the to spillovers between EU market and national social policies.

Pure co-operation is limited among governments whose “traditional policy toolkit” is either ineffective –constrained as it is by EMU and global financial forces (O’Connor, 2005)—or far too costly (Leibfried, 2005). As the influential Lucas critique puts it, the “tool kit” available to governments in the 1990s and 2000s was not as rich and effective as in the 1960s and 1970s. The OMC emerged as an alternative logic, a compromise between integration and cooperation (de la Porte et al., 2001), in policy areas where a uniform European “top-down” hard-law solution was not feasible, and yet “openly” coordinated national policies were desirable. It sought to reinforce the social pillar of European integration and to complement rather than substitute for Community action in areas with limited scope for European legislation. It is a decentralized yet carefully coordinated iterative process based on principles of good governance, such as accountability, inclusiveness and effectiveness (de la Porte et al., 2001). As a policy coordination instrument OMC has the following main characteristics (Bache and George, 2006; de la Porte et al., 2001; Metz, 2005):

1. Policy choices remain at national level. Legal responsibilities at supranational level (European welfare law, European Court of Justice) are explicitly excluded. Still, national policies are acknowledged as matters of common concern.
2. Co-ordination is decentralized and open to a wide range of actors in the private and public sector. It lacks a Treaty basis and it is voluntary and non-binding. There are no formal sanctions or constraints.
3. The European Council and the European Commission have an important role, and there is a minimal role for the European Parliament.
4. There is no Brussels welfare bureaucracy, nor a “European social budget”, in the sense of direct taxes or contributions to back the initiatives taken under the OMC.

By 2002 a growing number of OMCs covered a number of policy areas and differed in their objectives, procedural characteristics and institutional setup (Metz, 2005: 7). As a

process, however, OMC in its general form is “designed to help Member States to progressively develop their own policies” and is based on:

1. fixing guidelines for the Union combined with specific timetables for achieving short, medium and long term goals;
2. establishing quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practices;
3. translating the guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
4. Periodic monitoring, evaluation and peer review organised as mutual learning processes.” (EC, 2000: paragraph 37)

Therefore OMC includes a top-down “politics of strategization”, where the development of ideas takes place, and a bottom-up “politics of reaction”, where the national actors decode the guidelines according to national differences, implement policies in line with the principle of subsidiarity, and provide feedback (Chalmers and Lodge, 2003).

### **The main actors**

The OMC altered the roles of traditional policy-making actors and introduced new ones. The Council has the final say in Guidelines, the Joint Reports and Community Action Programmes. In June 2000 it gave a formal advisory role to the Social Protection Committee. European Commission coordinates actions, identifies relevant issues and actors (Bache and George, 2006). It contributes in assessing the National Action Plans, drafting the new guidelines, and undertakes direct actions in areas such as social inclusion. It organizes the peer review and mutual learning processes, and the load of information to and from participants (de la Porte et al., 2001). The Commission exerts significant influence by endorsing the Council’s decisions (Smismans, 2004). The European Parliament also retains an advisory role (through the Committee on Employment and Social Affairs). The European Court of Justice is explicitly excluded

from the process but its decisions -along with those of the Ecofin Council- often shape benchmarks and guidelines (Leibfried, 2005).

National actors have a critical role “as interpreters between sub-national actors and organizations on the one hand, and the array of good (and bad) practices (..) on the other hand” (de la Porte et al., 2001: 300). In fact, the success of the OMC depends crucially on the efforts of national governments. Stakeholders (social partners, NGOs, grassroots organizations and think tanks) are invited to spread knowledge and modify indicators (O’Connor, 2005).

### **The OMC as a new mode of governance: strong points and weaknesses of the OMC design**

The OMC’s main added value lies in its potential to invite, rather than “dictate”, governments to make commitments in policy areas where they are traditionally unwilling to hand competencies over to the EU (Mosher and Trubek, 2003; Busby, 2005; Ferrera et al., 2002). As a result, OMC may initiate progress where the prospect of further legislation becomes too rigid to deal with national differences thus undermining the legitimacy of the European Union (Bache and George, 2006). Moreover, policy learning through OMC illustrates the positive effects of European integration on domestic policy-making (de la Porte et al., 2001).

OMC presents new potential for bottom-up participatory governance. By “reaching out to citizens through regional and local democracy” it is designed to create a profoundly inclusive policy making process (Régent, 2002). Its flexible and iterative character allows for constant adjustment and learning (Chalmers and Lodge, 2003: 11). Yet OMC is not a “fully open means of intervention” (Régent, 2002: 23). It “is not just a provision but also a process which provides a soft frame to hard law interventions and has its own way of sanctioning” (naming and shaming, peer review) (Régent, 2002: 23). At the same time it focuses on outcomes rather than means, which fits well with the subsidiarity principle. Finally one of the core advantages of OMC is its policy learning dimension (Chalmers and Lodge, 2003). National authorities confront new policy-making paradigms and familiarize themselves with new aspirations and vocabularies (Trubek and Trubek, 2005).

OMC has the potential to destabilize existing understandings, provide room for experimentation and give rise to new solutions to existing problems (Mosher and Trubek, 2003).

Nevertheless, the OMC design comes with a number of weaknesses in what concerns its legitimacy and effectiveness. The weak role of the European Parliament and the bureaucratic/"executive character" of OMC (Metz, 2005) indicate that OMC, by construction, is more top-down rather than bottom-up driven thus risking to be perceived as just another governmental process "within obscure networks" of executive committees at the European level (Collignon et al, 2005: 12). The absence of clearly institutionalized "open access" to stakeholders (Chalmers and Lodge, 2003) and the growing role of the Commission is another clear manifestation of this imbalance. One may speak of a Method of Centralization which is "Open"-ended in its outcomes and not in the sense of the assumed bottom-up participation and public scrutiny (Smismans, 2004).

Benchmarks and targets are bound to be too many and some would argue too naïve given the diverse welfare priorities, the different starting points and institutional arrangements (Chalmers and Lodge, 2003). Even under the assumption of similar objectives, benchmarking risks ignoring crucial differences among member states (de la Porte et al. (2001); therefore, learning through benchmarking may backfire (Lundvall and Tomlinson, 2001, in de la Porte et al., 2001). In the absence of a clearly institutionalized bottom-up participation the benchmarking exercise may also become "a threat for rather than a radicalization of the principle of subsidiarity" (Smismans, 2004 : 14).

The feedback mechanisms (Eurostat, national governments) provide vague and often contradictory statistical data. This "data deficit" (O'Connor, 2005) undermines the OMC potential which depends crucially on statistical data in order to develop accurate indicators, targets and benchmarks. Assuming for a moment the possibility of defining accurate indicators, the OMC process is still unlikely to relate performance to results due to the lack of appropriate knowledge systems that would provide policy makers with an aggregate and coherent pool of information on good practices (Chalmers and Lodge,

2003). Overall, there is “no convincing system of categories as a methodological tool to identify promising fields of application” (Metz, 2005: 5).

The peer review system is also insufficient partly due to the slim incentives provided to countries to name and shame other member states and to refrain from a dully self-assessment of their own NAP goals (Metz, 2005). The emphasis on quantitative evaluation may be counterproductive as it might encourage governments (..) to overestimate their performance or to avoid long term reforms that tend to be politically costly (Collignon et al., 2005: 15). Finally, the OMC process runs the risk of becoming a merely symbolic exercise that is too truncated to create useful feedback (Mosher and Trubek, 2003).

### **Overall Assessment of the OMC impact on social policies**

Two crucial questions need to be answered. Has OMC lived up to the expectations? And, at the end of the day, is OMC suitable for European social policy? In the absence of sufficient proof of indisputable causal relationship between OMC processes / initiatives and social policy modifications, the successes and failures of the OMC are still debatable.

In terms of outcomes, the empirical findings are far from conclusive. On the one hand OMC has generated change by increasing awareness on issues of social inclusion (Bache and George, 2006), and insight on the causes of poverty and social exclusion. Leibfried (2005) reports “several instances” of high levels of competitiveness and employment without discounted social-policy ideals. “The patchy and unsatisfactory 2001 NAPs/incl” have somehow managed to contribute to combating social exclusion by providing bottom up information, prompting monitoring structures, and identifying weak policies (Ferrera et al., 2002). On the other hand, the rate of transposition has varied across countries and policy areas, being especially low in social and employment policies. Very few of the transposed directives were correctly implemented (Collignon et al., 2005). OMC, has been a “tactical response with limited

manoeuvre to the new political economy of the Eurozone” (Chalmers and Lodge, 2003.:2).

In terms of the OMC potential, fierce debates have not yet settled to a consensus. OMC may induce changes in policy outlook, new alliances, and a new equilibrium of national social policy making (Mosher and Trubek, 2003; Rhodes, 2005). It has a value added “when the premium for the Commission is to make a start on building an *acquis communautaire*” especially when authority at national and EU level is diminished (Leibfried, 2005) (Bache and George, 2006). Ultimately, it has the potential to lead to legally binding decisions by creating “a climate of conformity to a legal norm” (Busby, 2005: 34) and an opening for synergies between soft regulation and framework directives (Scharpf, 2002).

From a hard-law proponent’s perspective, however, OMC may actually be crowding out opportunities for necessary hard legislation (Trubek and Trubek, 2004), as in the case of social and employment policy areas characterized by strong negative externalities (Collignon et al., 2005). It may enfeeble the social policy influence of EU on national legal systems (Busby, 2005: 36). On a more polemic tone, OMC has been accused of representing “an incoherent set of welfare targets and strong neo-liberal policy dynamic” which fails to take into consideration the far-reaching alternatives welfare states may suggest (Chalmers and Lodge, 2003). It allows only for supply side structural reforms (Collignon et al., 2005) and tends to reward member states either loyal to this neo-liberal agenda or already meeting the objectives set (Chalmers and Lodge, 2003).

Enlargement however may involve renewed roles for the Lisbon Strategy. The new member states share important social problems and reform challenges in sensitive social policy areas (ageing populations, low employment rates, high unemployment rates and regional gaps). Ferrera et al. (2002: 232) note that the Lisbon Agenda provided the governments of applicant countries with arguments, examples and the policy toolkit to implement EU social policy objectives. Thus, although enlargement increased the heterogeneity of the European Union, it has also stressed the need for and the positive role of policy learning through OMC. However convincing some of the critiques may sound, it is too early to condemn the OMC. Arguments against the OMC

tend to underplay the problems of traditional regulating methods and do not take into account that the OMC has not run its full course.

### **Reforming European social policy making**

How could OMC develop its full potential? One way forward is to make OMC itself more effective. As a first step, criteria of identification of potential fields of application should be agreed upon (Metz, 2005; Scharpf, 2002). Streamlining and modernizing the OMC, especially by simplifying and rationalizing its objectives, is the second important step. Furthermore, the OMC processes should involve both intergenerational and international considerations of dynamic phenomena such as migration or pensions (European Commission, 2005). To deal with the institutional imbalance, exacerbated by enlargement which boosted the status of the Commission (de la Rosa, 2005), public scrutiny and democratic debate should be openly held at least annually with the participation of social NGOs (Social Platform, 2005). To strengthen its democratic legitimacy, overall, and decrease its executive character, OMC needs to be further complemented with a more active parliamentary involvement (Metz, 2005) (1)

A second way forward is to reform European Social policy-making in a broader sense, by combining hard and soft regulation mechanisms. Trubek and Trubek (2005) support the view that OMC becomes a powerful tool when used in conjunction with the EU Charter of Fundamental Rights. OMC should complement judicial action in some cases (political and civil rights) and substitute it in others (economic and social rights). An important part of recent literature calls for a more definite institutionalization of the open co-ordination in the Treaties, which would make it more binding and transparent (Metz, 2005). Still, constitutionalization of OMC in its present form might not be a sufficient solution to what Scharpf (2002) calls “constitutional asymmetry of social and economic policies”. Scharpf (2002) proposes instead a combination of *framework directives* addressed to subsets of member states with similar policy directions and *binding minimum floors* corresponding to national conditions.

### **IV. The European Employment Strategy: basic elements, processes, key actors**

The EES, a multi-tiered, flexible, decentralized and iterative process, was set in motion in the Jobs Summit (Luxembourg 1997) and became the model of non-binding, sanctions-free management by objectives. It has been the forerunner of OMC, but developed in parallel and often overlapped with social policy (Rhodes, 2005). Still, it has two distinct characteristics: a Treaty base and (national and common) recommendations issued by the Commission (Smismans, 2004). The Amsterdam Treaty identified three main objectives: first, to increase the legitimacy of European-level action; second, to enhance the efficiency of Social Europe by dealing with the opposition to the implementation of directives and the sluggish progress in social partners negotiations; and, third, to accelerate national employment reforms (Goetschy, 1999)

During the first phase of its implementation (1997-2003) the EES was closely correlated with the overarching goal of improving economic performance and competitiveness, and was organized around four main objectives (employability, entrepreneurship, adaptability and equal opportunities) and some twenty guidelines (Régent, 2002). Since 2003, EES was modified in three important respects (Rhodes, 2005). First, EES was rationalized towards ten results-oriented priorities under three objectives (full employment; quality and productivity at work; social cohesion and social inclusion). Second, the peer review process focused on the implementation of the employment recommendations (King, 2003, in Rhodes, 2005). Third, the timetable was modified to allow reasonable time for the European Parliament to prepare its opinion to the annual June European Council. In 2005 EES was revised to synchronize employment policies with macroeconomic and microeconomic policies of the EU. It now covers a three year period but retains the same structure: policy formulation, policy implementation and policy evaluation.

Who are the actors involved in EES? The Ministers of Employment and Social Affairs have veto power. The Council of Ministers has the final word on the Employment Guidelines, Recommendations, Evaluation of member states submissions and the Joint Employment Report. The European Commission (coordinator) draws the proposals for all the above and co-decides with the Council the Joint Employment Report. The European Commission acts as a "norm entrepreneur" who sets the agenda and influences the preferences of member states (Schmidt, 2000, in de la Porte and Pochet, 2004). The European Council evaluates the situation of employment at EU level and offers political

guidance to the Commission and the Council. The European Parliament and the representatives of civil society have a mere consultative, and until recently marginalized, role. The list of mandatory consultative participants further includes: the national partners, the Economic and Social Council, the Labour and Social Affairs Council, the Employment Committee, and the Committee of Regions. National governments have the most important role in the proper implementation of the Guidelines. They formulate and adopt the NAPs for Employment and submit their implementation reports to the Commission.

### **The EES impact on member state policy**

The five-year review (2002) of the EES process included “national impact evaluation studies” by the member states and “an aggregate assessment of labour market performance at EU level” by the Commission. The creation of 10 million new jobs and the reduction of 4 million unemployed were attributed to the more active unemployment policies, which focused on training, education and tax incentives provision (Busby, 2005). Moreover, EES is thought to have spurred equal opportunity policies (Rubery, 2002, in de la Porte and Pochet, 2004). However, the review acknowledged that in most cases there was no uniform impact across countries (Mosher and Trubek, 2003; Régent, 2002). Marginal change was reported in the Netherlands (already had an advanced starting point) and in Italy, (reported “some reform stimulation” but insisted on subsidiarity and a more market-liberal approach). France and Greece reported significant changes in policies (e.g. real employment gains), policy making (improved social dialogue, long-term reform focus) and inter-ministerial cooperation (Régent, 2002).

Given that all responsibility for the elaboration and implementation of NAPs lies with national governments (Garcia et al., 2004), the EES impact across member states varies with different responses of national authorities to the EES objectives. Differences in national welfare and industrial relations systems explain the resistance or readiness of governments to take in EES recommendations. Where labour markets were minimally regulated, governments were unlikely to adopt EES objectives such as the increased protection of vulnerable workers (Busby, 2005). Similarly, continental and Nordic

countries were reluctant to cut back their generous welfare systems and adjust the balance between tax incentives and benefits in order to “make work a real option for all” (Sapir, 2005).

The impact of EES across member states also depends on the participation of social partners, local authorities and civil society throughout the process. Social partners have an important role in what the Employment Guidelines term “adaptability”, whereas regional and local authorities have a particular role under the entrepreneurship pillar (Smismans, 2004). However, stakeholders have had a rather symbolic and fragmented role, which could not “maximize the impact of the NAPs” (Régent, 2002: 18). Their participation depended on the “degree of openness and the structure of political opportunity for participation and contestation within the EES” (Garcia et al., 2004). Let apart the Luxemburg case, NAPs were assessed by social partners as being “governmental rather than jointly produced documents” (de la Porte and Pochet, 2004: 74).

The impact of EES on member state policy has also varied across policy areas. Guidelines toward preventative unemployment policy and intensification of active unemployment policies have brought about more change than guidelines on more employment-friendly taxation systems (Mosher and Trubek, 2003). Mosher and Trubek attribute this variation both on the guidelines’ structure and on the politics of policy change. Change is more likely to occur where the guidelines are specific, coupled with quantitative indicators and there is no sharp political opposition.

### **Overall assessment of EES**

The limited and largely differentiated participation of stakeholders has been one of the weakest points of EES (de la Porte and Pochet, 2004; Rhodes, 2005). In only seven countries did trade unions make a direct contribution to NAPs, and only six of them assessed the participatory conditions as satisfactory (de la Porte and Pochet, 2004). In terms of local action, only in Sweden were the Local Action Plans coherent with NAPs and reflected EES policy objectives (ibid.). Such findings show that EES did not alter significantly the existing opportunities for participation. Nonetheless in some cases the

inclusion of stakeholders was promoted, as in the UK (which had been lagging well behind), Sweden (which put a new emphasis at the local level), and Germany (where a corporatist structure was already at place) (Garcia et al, 2004). However, in cases like Spain, EES failed loudly to reinforce the social dialogue that had broken since 1997 (ibid.)

Moreover, there has been little evidence whatsoever of an effective learning process yielding substantial outcomes (de la Porte and Pochet, 2004). Looking at the member states' evaluations, only the Netherlands has reported a modest level of learning (Mosher and Trubek, 2003). In short, no overall change of goals or priorities has taken place as a result of learning promoting mechanisms (ibid). The adoption of EES is thought to be "driven by political bargaining rather than by learning" (de la Porte and Pochet, 2004: 74).

Nevertheless, there is one area where, despite the heterogeneity of priorities, national authorities have reached "an overwhelming agreement": the employment guidelines (Scharpf 2002; de la Porte et al., 2001). The five-year review attributes the substantial advancement in labour market performance across the EU exactly to the enhanced co-ordination in the areas covered by the guidelines (Busby, 2005). European authorities also report clear evidence of partial convergence and diversity accommodation, mainly arising from the consensus on agency and policy domains that should be "cut across" (Mosher and Trubek, 2003).

Overall EES seems to be unable to impinge on the balance of power in any member state, but it may be qualified to bring about change in national laws, policies and budgetary allocations (ibid.). We find arguments about an EES effect as most convincing in cases where modest adjustment of social systems was an already accepted reform. Therefore the added value of EES rests, at best, in providing modest reformers with arguments, and in pinpointing good policies and efficient ways of benefiting from existing resources (ibid.). EES may have a "catalyzing influence" for developments that are already taking or are bound to take place: this is a potential that should neither be neglected nor exaggerated since it is both hard to ascertain and to measure (Büchs, 2003).

## Future Challenges

International trade and labour competition from Asia altered the challenges of globalization for the EU, producing “ever-increasing income divergences between skill sectors, with Asia having a labour cost advantage” (Giddens, 2006; Bosco et al., 2004; Ingham et al., 2005). Within the Union, the latest round of enlargement has increased significantly the diversity in performance, cohesion, and regional variations (Ferrera, 2006; Bosco et al., 2004). EES targets in the EU-25/27 now appear even more ambitious to achieve (Ingham et al., 2005).

The range of production that may be outsourced in the EU, due to Asian competition, is not limited in low-cost goods, but increasingly expands to IT goods and financial, legal and medical services (Giddens, 2006). In strictly market-liberal terms, EES social protection risks making European labour markets less flexible (or more inflexible) and therefore less competitive, yielding substantial costs in terms of jobs and growth (Diamond, 2006). However, it may be the case that globalization and national welfare states are mutually supportive, with the former providing financial resources to the latter, and the latter providing sustainable and positive role to the former through proper redistribution of gains (Vobruba, 2003). In this case, the challenge for Social Europe is to serve the twin priorities of social justice and economic competitiveness (Diamond, 2006). EES has to take into consideration the rising inequalities caused by structural trends of the global economy (ibid.) but it also needs to develop new areas of comparative advantage vis à vis the Asiatic countries.

Given their low cost labour force and flexible labour markets, accession countries may have a key role in re-establishing Europe’s position in the global economy, compared to older member states (ibid). In practice, however, even these countries “are struggling to stay competitive (..) and look for ways to produce more high-tech goods and services” (Barysch, 2005: 2). The so much feared waves of immigrants or capital

flows from the old members eastwards were never realized. In fact, the most pronounced change brought about by enlargement was the increase in regional variation (2) and heterogeneous priorities. EES risks increasing regional disparities by leading to a “territorialization of employment policy” in favour of the already successful regions which are highly unlikely to support redistributive policies in favour of the poorer regions (Busby, 2005).

**Modernising employment policy in the EU: potential reform directions**

The need for a more focused - better targeted - cohesive strategy and streamlined approach refers to the necessity of linking the EES with European economic policy through streamlined timetables, fewer guidelines with broader perspective, enhanced involvement of stakeholders and shift to results-oriented medium-term planning (Table I). However, these amendments, already part of the New Employment Package, do not alter the hierarchy between the EES and Broad Economic Policy Guidelines nor bridge their separate policy agendas (Begg, 2003; Busby, 2005). There is still a need for a more coherent approach between multiple economic and social issues (Ferrera, 2006; Bosco et al., 2004).

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The relaunched Lisbon strategy (Lisbon II) sought to address such weaknesses. The Integrated Guidelines for Growth and Employment (EC 2005) incorporated EES and BEPGs into one document (3). Arguably, the degree of integration is probably not as high as it was meant to be. Though the new IG/ coordination process represents an improvement, contestation between economic and employment actors continues to exist (Zeitlin, 2006).

To boost EU competitiveness *and* job creation EES needs to put extra emphasis on qualitative targets, such as service design, affordability and quality (Ferrera, 2006). As Busby (2005) notes “the danger of combining job creation with a shift away from social protection is that the resulting increases in employment are likely to take place at the expense of many of the policy priorities identified in the employment guidelines” (Busby, 2005 : 35). EES has yet to define new areas of comparative advantage, such as technologies or social and environmental expertise (Bosco et al., 2004).

## **Concluding remarks**

On the basis of our discussion of the OMC and EES, we would like to agree with the opinion that new modes of governance are not alternatives to traditional modes of government, but innovative ways of supplementing the efforts of national governments to attempt reform of social and employment policies. They help national governments to follow parallel if not converging paths towards social and employment policy reform.

In this paper we have argued that new modes of governance are already an integral part of EU social and employment policy. Less than a decade after their inception OMC and EES are considered to be innovative policy tools. There is almost no talk of abandoning these tools, which is a sign that such new modes of governance have gained some legitimacy. Nevertheless, if the OMC and the EES are to develop and perhaps to be transplanted in other policy areas, it would be pertinent to assess their strengths and weaknesses so far. This is what we try to recap in the concluding section of this paper. We first summarize the advantages and disadvantages of the OMC with regard to social policy; we then do the same with regard to employment policy, focusing on the EES.

The OMC has partly lived up to the preliminary expectations it had raised. This new mode of governance made governments more sensitive to social inclusion and has added to a comparative, cross-national understanding of the factors contributing to poverty and social inclusion. Some policy adjustment, policy learning, provision of information about and monitoring of poverty and social exclusion and specification of

policy weaknesses may be attributed to the OMC. On the other hand, the method needs to become more coherent, simple and rational, may be extended and tested in more policy areas and should be more open to public scrutiny. It may be that such a soft law approach will yield more results if implemented in conjunction with the hard law approach.

As far as the EES is concerned, we observed that this new mode of governance has contributed to a growing consensus in the EU on employment guidelines as well as to increased coordination and convergence among EU member-states in the area of employment. While the EES has not upset the domestic balance of power in the field of employment in individual EU member-states, it has been a source of arguments and examples in favour of modest policy reform and has facilitated policy shifts in cases where national governments had already embarked on reforms. It seems that EES also needs streamlining, more cohesion, closer coordination with the EU's economic policies, enhanced involvement of relevant stakeholders, emphasis on results-oriented planning and qualitative target setting.

Both the OMC and the EES have contributed significantly in "bridging the gap between negative and positive integration" (Ferrera et al., 2002), and have had some promising impact on social and employment policies. It is true that EES, the precursor of OMC, has been more penetrative so far compared to the OMC in social policy, partly due to its entrenchment in the Amsterdam Treaty and its explicit connection to the economic policy and the BEPGs since 1997. Still, the impact of OMC on "infant" social policies is not at all negligible, and its added value in building an *acquis communautaire* in new policy areas is vital. Ultimately both OMC and EES have contributed in launching decentralized policy-view exchange by introducing new policy-making paradigms that challenged established ideas.

Nevertheless, there is always ample space for improving their performance and modernizing their objectives and processes. As already noted, streamlining and specificity of targets, greater coherence, coordination and integration with other related policies at the macro- and micro- level are a constant challenge, magnified by the large disparities of an enlarged EU-27. External challenges, such as those created by globalization and enlargement, as well as others that have an important internal

dimension, such as ageing population, income inequality and social exclusion, provide grounds for modifications that may raise OMC and EES out of the realm of “symbolic politics” (term used in Metz, 2005: 10-11). The modernization of targets may affirm the necessity to establish synergies between soft and hard regulation modes of governance. Above all, however, it is a process that will need, somehow down the road, to clarify the overall objective (ibid.) of OMC and EES, i.e. whether they seek to establish a process of policy learning or one of policy coordination. For at the core of the problem lies the inherent tension between decentralized governance and the need to deliver collective European policy effectiveness.

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#### **ENDNOTES**

- (1) Some doubts have been expressed on whether democratization of OMC can be dealt with in terms of an improved role for the EP (Collignon et al., 2005). Proposals have been made for a parliamentary dimension to the OMC, either national (Duina and Raunio, 2006) or combines national and European (Tsakatika, 2006).
- (2) Ferrera (2006) notes that some 92 percent of the population of the new member states lives in regions where GDP per capita is below 76 percent of the EU25 average.
- (3) The eight employment guidelines in the IGs (2005-08) included, apart from the objective of full employment, improved quality and productivity at work, and social/territorial cohesion: the promotion of a new lifecycle approach to work; inclusive labour markets for job-seekers and disadvantaged people; improved matching of labour market needs; flexibility combined with employment security and reduction of labour market segmentation; employment friendly wage and other labour cost developments; expansion and improvement of investment in human capital; adaptation of education and training systems in response to new competence requirements.

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TABLE I

**The evolving structure of the European Employment Strategy**

1998	4 main lines of action 13 guidelines
1999	4 pillars 22 guidelines Annex on the need to develop quantitative targets/indicators
2000	4 pillars 21 guidelines
2001	5 horizontal objectives 4 pillars 18 guidelines
2002	6 horizontal objectives 4 pillars 18 guidelines
2003	Integrated guidelines 3 overarching objectives 10 guidelines + good governance stipulation
2004	As in 2003
2005	3 clear priorities 8 guidelines

Source: Ingham et al. 2005.

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