

The OMC and Social Protection: Constructing an EU Social Model?

Jonathan Zeitlin

University of Wisconsin-Madison

Plan of the course

- 1. What is the Open Method of Coordination?
- **2. OMC and Social Protection:
Why, How, and with What Results?**
- 3. OMC and the Future of Social Europe

Plan of the lecture

- I. Why OMC in Social Protection?
 - Why Europeanization?
 - Why OMC?
 - EU Social Policy Coordination: Antecedents and Emergence
- II. Modalities, Achievements, Limitations
 - Social Inclusion
 - Pensions
 - Health care

I. Why OMC in Social Protection?

- Why Europeanization of social protection?
- Why have sensitive domestic social policy issues like inclusion/poverty, pensions, and health care become important themes for joint discussion, cooperative exchange, and open coordination at EU level?
- A surprising development
- Limited EU Treaty powers and apparent lack of political will for European action in this area by Member States

Pathways of explanation

- A response to advance of European integration in 1990s
 - economic, political, legal
- Functional spillovers
- Political spillovers
- Advocacy coalitions
- Emergence of OMC as a new approach to EU governance and policy making

Functional spillovers: Economic and Monetary Union

- Increased interdependence within Eurozone
- EU constraints on national economic and fiscal policies
 - Maastricht convergence criteria
 - Stability & Growth Pact
 - BEPGs: growing pressure from Ecofin/DG ECFIN for budgetary consolidation and reform of pensions/health care systems to prepare for impact of demographic ageing
- Risks of ‘race to the bottom’ through uncoordinated retrenchment of social welfare programs
- Concern of social policy actors to ensure that EU reform agenda is not driven exclusively by economic/financial considerations: coordination begets coordination

Functional spillovers: the European Employment Strategy

- EES itself largely a social policy response to EMU
 - Procedures inspired by BEPG and national convergence plans
- Activating social protection
 - Promoting employment and labor force participation: from passive income support to activation services
 - Tax/benefit reforms: make work pay, active ageing
 - Reconciling work and family life: childcare, family policy
 - Strengthening social cohesion and inclusion (new objectives)
- Stimulates mobilization of social policy actors (including NGOs) to ensure that broader social goals (e.g. solidarity) are not entirely subordinated to employment promotion

Functional spillovers: the internal market and the ECJ

- Fears that extension of internal market would lead to social dumping: largely unrealized
- Regulatory pressures from Commission and MS
 - Pension funds and financial market integration
 - Mobility and portability of private pension rights
- ECJ decisions and negative integration (Ferrera)
 - Cross-border mobility in health care
 - Supplementary pensions and compulsory membership
 - Residency and access to social assistance
 - So far, health care developments appear most significant: concern to ensure that social and health policy goals of national systems are not undermined by piecemeal impact of Court decisions

Political spillovers

- Movement of social policy issues onto the EU agenda also driven by political spillovers
- As political integration advances, need to enhance EU legitimacy by showing that Union can tackle key issues of direct concern to ordinary citizens (e.g. employment, poverty/social exclusion)
- Problems of ratifying Maastricht Treaty, opinion polls
- Employment as ‘number one priority’ of EU in mid-1990s
 - Luxembourg Process (EES), Treaty of Amsterdam
- Balancing competitiveness with social cohesion
 - Social inclusion on the Lisbon agenda, Treaty of Nice

Advocacy coalitions

- Commission
 - Recommendations, papers, and poverty action programs of 1990s
 - ‘social protection as a productive factor’
 - Example of EES
- Member States
 - Dutch, Finnish, Portuguese, Swedish, Belgian presidencies
 - French, Irish, British strategies against poverty and social exclusion
- NGOs and advocacy networks
 - EAPN, Platform of Social NGOs, Public Social Platform
- Academics
 - New thinking on welfare state
 - Conferences and reports commissioned by European Council presidencies (esp. Portugal and Belgium)

Why OMC?

- Why OMC as key instrument for Europeanization of social protection?
 - Diversity
 - Political sensitivity
 - Complexity
 - Strategic uncertainty
 - The EES as a model

Diversity vs. harmonization

- Diversity of welfare regimes within the EU as a fundamental obstacle to harmonization of social protection
 - Nordic (social democratic/universal), Anglo-Saxon (liberal/residual), Continental (Bismarckian/corporatist), Southern
 - Variations in principles of eligibility, structure of benefits, sources of funding, and governance arrangements
- Pensions: PAYG vs. tax-financed vs. funded; basic vs. earnings-related vs. means-tested
- Health care: national health services vs. insurance
- Social assistance: republican solidarity vs. residual safety net

Political sensitivity

- Social welfare provision as core function of nation-states: key source of legitimacy and citizen identification
- High salience in domestic politics
 - Direct impact on individual living standards and life chances
 - Accounts for a major share of public spending
 - Can trigger large-scale mobilization of beneficiaries and organized interests against proposed retrenchment/reforms
 - Governments held accountable by electorate for performance
- Reluctance of Member States to accept QMV, permit harmonization, or enter into justiciable European commitments (directives, regulations)

Complexity

- Functional interdependencies across formally separate policy domains
 - Pensions: employment, taxation, training, family/childcare
 - Inclusion: social assistance, tax, housing, training, job placement, family policy, substance abuse, mental health, local development
- Vertical interdependencies between levels of governance
 - Delivery of social services/benefits often responsibility of local/regional authorities and voluntary/non-profit organizations
- Multiplicity of public and private actors at all levels
- Inadequacy of detailed top-down regulation and comprehensive, big-bang reforms imposed from the center

Strategic uncertainty

- Need to reconfigure/‘recalibrate’ established welfare regimes in response to major changes in employment patterns, household/family structure, demographic trends
- Fundamental shift of social protection from actuarial risk insurance to systemic risk reduction through provision of ‘capability’-strengthening support services
- Lack of an optimal model: no country has all the answers
- Attraction of experimental approach based on mutual learning through comparisons of national practice in meeting revisable performance objectives

The EES as a model

- Political success of EES/Luxembourg process after 1997 as a source of inspiration for social policy coordination
- Theorization of EES as a new governance instrument within DG V
- Extension of EES approach to social protection advocated by EP and Commission
- Generalization of OMC at Lisbon Summit 2000
 - Maria João Rodrigues, ‘Mother of OMC’, responsible for preparation of Lisbon European Council, had been Portuguese Minister of Labour during early years of Luxembourg Process
 - OMC as defined at Lisbon modeled directly on EES, even if actual practice in other areas soon diverged

EU social policy coordination: antecedents

- 1992 Council recommendations
 - Convergence of social protection objectives and policies, common criteria for social assistance (minimum incomes)
 - Intellectual influence but limited practical impact (outside S. Europe)
 - Commission to prepare progress reports and organize exchange of national experiences
- Commission communications 1995, 1997
 - Identification of common challenges, modernization not retrenchment
- Treaty of Amsterdam
 - Combating social inclusion defined as an EU objective
 - Commission to encourage cooperation and facilitate coordination between Member States in social protection

A concerted strategy for modernizing social protection (1999)

- Commission: deepen EU cooperation to assist Member States in modernizing social protection and developing a common political vision, following EES approach
 - 4 pillars/objectives:
 - Make work pay
 - Safe and sustainable pensions
 - Promote social inclusion
 - Ensure high quality and sustainable health care
- Create a high-level group of national and EU officials modeled on Employment Committee
- Proposals endorsed by Council at end of 1999

Emergence of OMC in social protection: key steps (1)

- Lisbon Summit (March 2000)
 - Lisbon Strategy: competitiveness, full employment, social cohesion
 - Invention of OMC
 - Authorization of new OMC processes in social inclusion, pensions
- Nice European Council (December 2000)
 - Endorsement of social inclusion objectives, procedures
 - Approval of European Social Policy Agenda (2000-2005)
 - ‘Policy triangle’: economic, employment, and social protection policies
 - 4 priorities for social protection based on Concerted Strategy
 - Use ‘all existing means’, including OMC

Emergence of OMC in social protection: key steps (2)

- Treaty of Nice
 - New competences for EU to support Member States in combating social exclusion and modernizing social protection systems
 - Creation of Social Protection Committee (replaces High Level WG)
- Gothenburg European Council (June 2001)
 - Confirms commitment to OMC pensions process
 - Calls for preparation of report on health care and care for the elderly formulated in conformity with OMC
- Laeken Summit (December 2001)
 - Approval of social inclusion indicators
 - Agreement of pensions objectives

II. Modalities, Achievements, Limitations

- Social inclusion
- Pensions
- Health care

Social inclusion

- A biennial cycle (to become triennial in synchronization with other processes)
 - National Action Plans (NAPs/incl)
 - Joint Review by Commission, Council, SPC
- Only one round completed (2001); second round currently underway
- Shadow participation by candidate countries in second round: preparation of Joint Inclusion Memoranda
- First round improvised relatively quickly; second round will provide a fuller opportunity to evaluate the process

Common objectives in the fight against poverty and social exclusion

- Nice objectives
 - Facilitate participation in employment and access by all to resources, rights, goods, and services
 - Prevent the risks of exclusion
 - Help the most vulnerable
 - Mobilize all relevant bodies
- 15 specific sub-objectives developed by SPC for 1st round
- 2 new emphases added for 2nd round
 - Take gender fully into account
 - Highlight the risk of poverty and social exclusion among immigrants

Guidelines and targets

- No guidelines in either round
- European poverty reduction targets proposed by Commission for 1st round, but rejected by Council
- MS requested in 2nd round to set national targets for significantly reducing the number of people at risk of poverty and social exclusion by 2010

Indicators

- No common indicators for 1st round
- 18 common indicators agreed for 2nd round
 - 10 primary indicators
 - 8 secondary indicators
 - To be supplemented by national contextual indicators
 - Focus on financial poverty, health, employment, and education; housing still on agenda
 - Social inclusion/exclusion as a multi-dimensional problem
- Some overlap with structural indicators of social cohesion developed by EPC for BEPG

Rankings and recommendations

- Wide variation in quality of first NAPs/incl
 - tendency for Member States to repackage existing policies
- Commission classifies countries into three groups in Draft Inclusion Report, published in advance of discussion
 - Attempt to emulate EES recommendations
 - Based on quality of NAPs as much as on effectiveness of policies
- Implicit ranking strongly rejected by Member States
 - Inclusion report rewritten to praise good practices rather than criticizing bad ones
 - No power of recommendation for the Commission

Identifying common challenges and innovative policy approaches

- 8 core challenges identified by 1st Joint Report
 - developing an inclusive labor market, employment as a right for all
 - guaranteeing adequate income/resources to live in human dignity
 - tackling educational disadvantage
 - preserving family solidarity and protecting the rights of children;
 - ensuring good accommodation for all
 - guaranteeing equal access to quality services
 - improving delivery of services
 - regenerating areas of multiple deprivation
- Innovative policy approaches: promoting universality, level playing field, solidarity for human dignity

Community Action Programme

- Objectives
 - Improve understanding of social exclusion (indicators, research, analysis, conferences)
 - Organize cooperation and reciprocal training in context of NAPs (peer review, exchange of good practices)
 - Develop capacity of players to address exclusion (support for dialogue and networking)
- 75m Euros, 2002-2006
- Organized and administered by Commission

Participation

- A key objective of the process
- Mobilization of networks of NGOs and local authorities
 - EAPN particularly active at both European and national level in reviewing objectives, indicators, NAPs, Joint Report
 - Emergence of Public Social Platform
 - NGOs critically supportive of 1st NAP process: opportunities for participation welcome, but governments could do better
 - Empirical studies show that process has stimulated local mobilization (Scandinavia, Germany)
 - Spillover to EES: demands for participation beyond social partners
- How far do NGOs represent civil society?

Influence on Member States

- Many MS already active in developing national strategies against poverty and exclusion
 - e.g. France, Ireland, UK, Belgium, Germany
- More impact on countries which lacked such frameworks
 - e.g. Italy, Portugal; candidate countries
- Promotes improved horizontal and vertical coordination of actors and administrative units (e.g. Belgium)
- Increased saliency of fight against poverty and exclusion: can serve as a critical resource for domestic campaigners
 - e.g. question of homelessness in Scotland and Flanders
- But budgetary impact of NAPs/incl remains unclear

Integration into EU policy making

- Limited integration of inclusion process into EU socio-economic policy coordination
- Synthesis reports and structural cohesion indicators for spring summit dominated by priorities and perspectives of economic policy actors (DG ECFIN, EPC, Ecofin)
- May change as a result of streamlining and synchronization of social policy OMCs

Pensions

- A lighter process
 - National Strategy Reports rather than Action Plans
 - No guidelines, targets, or recommendations
- A triennial cycle
 - Annual updates/progress reports to feed into BEPGs
 - Commission to prepare 'special studies'
 - To be synchronized/streamlined with other social OMC processes
- Conducted jointly by the SPC and EPC
- First round just completed (2002-3)
 - No formal participation by candidate countries, but complementary studies in some cases

Broad common objectives (1)

- Adequacy of pensions
 - Preventing social exclusion
 - Enabling people to maintain living standards
 - Promoting solidarity within and between generations
- Financial sustainability of pension systems
 - Raise employment levels
 - Extend working lives
 - Make pension systems sustainable in context of sound public finances
 - Adjust benefits and contributions in balanced way
 - Ensure adequacy and financial soundness of private pensions

Broad common objectives (2)

- Modernization in response to changing needs
 - Adapt to more flexible employment and career patterns
 - Meet aspirations for greater equality of women and men
 - Demonstrate ability of pension systems to meet challenges
- OMC as an iterative process for reconciling potentially conflicting objectives

Indicators

- No common European indicators for first round of NSRs
- Draft indicators
 - 29 key indicators
 - 13 contextual indicators
 - More elaborated on financial than social side
 - Technical and political difficulties of agreeing appropriate indicators for different types of pension systems
- Consensus on need to develop common indicators in time for next round (scheduled for 2006)

Policy framing and cognitive change

- Tension between social and economic/financial objectives and perspectives as a source of cognitive change in framing of policy options
- Shift away from ‘one-size-fits-all’ emphasis on promotion of funded pensions as neither feasible nor effective: more even-handed treatment of public and private systems
- New emphasis on raising the *effective* age of retirement as key to reconciling social equity and financial sustainability of pension systems – promotion of active ageing
- Joint review draws attention to deficiencies in adequacy as well as financial sustainability of national systems

Participation

- Not as high priority an objective as for inclusion or EES
 - ‘broadest possible consensus’ on pension reforms as sub-objective
 - MS urged to consult all relevant actors, esp. social partners, in preparation of NSRs
- Social interests/actors less structured/active at EU level
 - But some consultation of social partners/NGO networks in OMC
 - Commission creates Pension Forum to discuss mobility issues
 - Consultation of social partners on portability of private pensions
- Only 7 of 15 MS report on participation in drafting NSRs
 - Finnish report drawn up by ad hoc mixed working group
- Consensus-building mechanisms highlighted in Jt. Report

Influence on Member States

- Too early to gauge systematically
- France
 - Fillon's European pension reform study tour: lessons: need for social dialogue and gradual/experimental approach
 - Attempt to negotiate reform proposals with social partners: only partially successful (accepted by CFDT, but continuing strikes)
- Austria
 - Pension reform in spring of 2003 not linked to OMC process
 - Widely criticized as socially unbalanced
- Estonia
 - Study of compatibility of national reforms with OMC objectives

Integration into EU Policy Making

- Complaints of socially-oriented actors about integration of OMC pension objectives into BEPGs
- Modification of draft Joint Report on pensions OMC by EPC/ECFIN to place greater stress on urgency of national reforms to ensure financial sustainability
- But political tilt limited by commitment to pension adequacy as a common objective
- As with inclusion, situation will change with proposed streamlining of social OMC processes and synchronization with EES and BEPG

Health care

- One of four priorities for EU action in 1999 Concerted Strategy and 2000 Social Policy Agenda
 - Ensure high quality and sustainable health care
- Gothenburg European Council 2001 calls for report on health care/care for the elderly ‘in conformity with OMC’
 - To be prepared by SPC and EPC
 - To be integrated into BEPG
 - Focus on elderly reflects EPC/Stockholm summit ageing agenda
- Commission Communication (2001)
 - Three long-term objectives
 - Accessibility, quality, financial sustainability (ref. to Charter)

A rose by any other name?

- Initial Report to Council (2002)
 - Endorses three long-term objectives
 - Calls for cooperative exchange of information and experiences
 - Focus on identifying good practice and areas where discussion at EU level could add value in terms of achieving core objectives
 - Calls for wide participation of health policy actors
- Questionnaire/Joint Report (2003)
 - Questionnaire to MS on health care/care for elderly
 - Report: scope for cooperative exchange on quality of service delivery, cross-border mobility, efficiency, cost-effectiveness
 - Proposes joint work on indicators and improving information base
 - But does not call for application of OMC to health care

Public health, internal market, and patient mobility

- High Level Ctee on Health: Internal Market Report (2001)
 - Calls for development of EU health policy framework to handle issues raised by ECJ internal market decisions
 - Calls for integration of health policy into Lisbon Strategy and application of OMC
- High Level process on patient mobility (2002)
 - Put on political agenda by Spanish presidency
 - Council conclusions (June) emphasize common principles of EU health care systems: solidarity, equity, universality
 - Growing interaction between MS health systems due to internal market → need to ensure consistency with health policy objectives
 - Calls for strengthening of EU cooperation and high level reflection process to be organized by the Commission

Public health strategy/ action programme

- Proposed 2000; adopted 2002; 312m Euros 2003-2008
- Three main strands of activity
 - Improve information and knowledge
 - Enhance ability of public authorities/health systems to respond rapidly and in a coordinated manner to threats
 - Promote health/disease prevention through policy mainstreaming
- Commission proposals aimed at stimulating EU action on comparing and assessing national health care systems
 - Rejected by Council 2001
 - Revived by Council 2002 in context of Joint Report

Europeanization and its limits

- Member States have so far resisted creation of a formal OMC process for health care: prefer cooperative exchange
- Reflects continuing reservations about Europeanization of a politically sensitive domestic policy area
 - reluctance to benchmark performance against common objectives and indicators (key defining features of OMC)
- But growing interdependence (internal market, EMU) and strategic uncertainty in meeting common challenges keep pushing health care issues onto the EU agenda
- Application of OMC to be reconsidered in context of streamlining and synchronization of social OMC processes