

Policy coordination, social indicators and the social-policy agenda in the European Union

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Summary This paper traces the development of the European Social Model from the recognition of the right to equal pay for men and women in the Treaty of Rome to agreement of a Social Policy Agenda in 2000 and the adoption of an open method of coordination (OMC) in employment (1997), social inclusion (2000) and pensions (2002). The associated framework of social indicators is considered in terms of the measurement of poverty and social exclusion on a multi-dimensional basis. Reasons for the shift from directives to the OMC are discussed, as are the proposed extension and streamlining of that process and its synchronization with economic and employment policy in 2006. The Europeanization of significant aspects of economic policy and the pervasive differences across EU welfare states in social-outcome indicators and capacity for redistribution contribute to the considerable constraints on the open method of coordination in social inclusion. Fulfilling its potential is dependent on national policy legacies, political context and the involvement of a wide range of national actors in National Action Plan formulation and monitoring. While the extent of change associated with the EU social-policy agenda and the OMC, in particular, is still an open question it is concluded that the EU dimension needs to be taken into account in analysing change over time in EU countries and in comparative analysis incorporating EU countries.

Key words European Social Model (ESM), governance, open method of coordination (OMC), poverty and social exclusion, social indicators

Résumé Cet article couvre le développement du modèle social européen depuis la reconnaissance du droit à un salaire égal entre hommes et femmes dans le traité de Rome jusqu'à l'accord sur l'agenda de politiques sociales en 2000 et l'adoption d'une méthode ouverte de coordination des politiques de l'emploi (1997), en matière d'inclusion sociale (2000) et de pensions (2002). Le cadre des indicateurs sociaux qui y est associé est approché en termes de mesures de la pauvreté et de l'exclusion sociale sur une base multidimensionnelle. Les raisons d'un changement d'approche d'adoption de directives vers l'utilisation de la méthode ouverte de coordination de politiques sont discutées ainsi que la phase actuelle qui vise à mettre en concordance ces processus et à les synchroniser avec les politiques économiques et d'emploi en 2006. L'eupéanisation d'aspects significatifs de politiques économiques et les différences persistantes parmi les Etats providence européens dans les indicateurs sociaux de résultats et la capacité variable de redistribution contribuent aux contraintes importantes qui pèsent sur la MOC/incl. L'achèvement de son potentiel dépend des héritages politiques nationaux, du contexte politique et de la participation d'un large nombre d'acteurs nationaux dans la formulation des plans d'action nationaux et leur suivi. La portée des changements liés à l'agenda de politique sociale de l'UE et de la MOC en particulier est toujours une question ouverte. Mais nous concluons que la dimension européenne doit être prise en compte dans l'analyse des changements dans les pays européens et dans les analyses comparatives couvrant les pays de l'UE.

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Introduction

In December 2000 the European Council agreed a Social Policy Agenda that emphasized the achievement of quality in employment, social policy and industrial relations and identified social policy as a productive factor. In December 2001 it agreed a set of social indicators covering four dimensions of social exclusion, namely financial poverty, employment, health and education, to be used by all EU countries in biennial reports on social inclusion to the Spring European Council from 2003 onwards. This was to be achieved through an open method of coordination (OMC), which involves establishing policy guidelines, setting benchmarks, concrete targets and a monitoring system to evaluate progress via peer-group review. A similar process had been established for employment in 1997 and was agreed for pensions in 2002. Do these initiatives reflect a new stage in the development of the European Social Model (ESM), a stage that reflects an enhanced role for social policy in the European Union? Is such an enhanced role likely to impact on disparate national levels of poverty and social exclusion in welfare states of varying capacity to redistribute resources? The context within which this question must be addressed is one in which these welfare states are subject to the enforceable demands of the Stability and Growth Pact and to the increasing impact of European Court of Justice rulings in social-policy areas where a market dimension exists and where barriers to competition may arise.

These questions are addressed in five sections. The discussion begins with an outline of the key elements in the evolution of the ESM up to, and including, the recent commitment to the open method of policy coordination relating to poverty and social exclusion. The second section is a discussion of the framework of EU social indicators. In the third section the context within which member states agreed to the OMC is considered as is the impact of market integration. In the fourth section the constraints on this form of governance of

social policy is discussed in the context of the pervasive differences across EU welfare states in key social-outcome indicators and social expenditure patterns. The fifth section summarizes key issues and conclusions.

The European Social Model: from 'a social space' to policy coordination

The ESM is not a reality in the sense in which we think of national welfare states, it is an overarching aspirational model incorporating the broad parameters to which European welfare states conform. It is based on a broad conception of social policy encompassing a wide range of 'interventions for social purposes' (Kleinman and Piachaud, 1993: 3). In the EU context the social dimension relates not to direct provision of services but is designed to prevent, mitigate or alleviate the social consequences of economic development within the European Union. While Structural and Cohesion Funds contribute to its implementation, it is primarily implemented through regulation, in particular directives, which must be implemented in member states either by legislation or collective agreement, and recently an open method of policy coordination. The ESM is constantly a work in progress; it reflects a tension between aspirations and statements of values expressed at the EU level and subsidiarity. Key statements on it are included in EU treaties and in documents of the European Council – for example, the Treaty of the European Union (1992), the Amsterdam Treaty (1997) and the Treaty of Nice (2000); the Lisbon (March 2000), Nice (December 2000) and Laken (December 2001) Councils – but its most consistent articulation emanates from the European Commission (European Commission, 1994; 1997; 1999; 2000; 2003). While this section focuses on the development of the European social-policy framework it is acknowledged that this does not take place in a vacuum. Market integration impacts on social policy, not only in terms of the general context, but particularly in terms of social and health

services that have a market dimension where issues of competition arise. I return to this in the next section.

In the early days of the European Economic Community the dominant focus was on the creation of an economic union through the free movement of goods, capital, services and labour. While Article 119 in the Treaty of Rome referred to the right of women to equal pay with men this inclusion in the Treaty related to the prevention of market distortion rather than being an explicit social-policy commitment. Yet, this and other articles which made it possible for the Commission to prepare directives on equal treatment proved highly significant as the source of five gender-equality directives between 1975 and 1986.¹ A series of social-action programmes directed against poverty was initiated in 1975 and continued until 1994 with a break between 1980 and 1984.² While these programmes had little impact on the extent of poverty due to their very limited range they were important politically in reflecting recognition of poverty and social exclusion (Abrahamson, 1997). In the early 1980s the idea of 'a social space' was put forward by the French presidency but the major focus during the 1980s was on market building and the creation of the single market. This culminated in the Single European Act (1986). The preamble to the Act includes a statement of principle affirming a commitment to promote fundamental rights as expressed in the Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter. While this Act did not provide a framework for the development of social policy it marked some progress and reflected the view expressed by Jacques Delors, who was appointed President of the Commission in 1985, that '[a]ny attempt to give new depth to the Common Market which neglected this social dimension would be doomed to failure' (Delors, 1985: xviii).

In 1989 all members of the European Community, with the exception of the United Kingdom, adopted the Community Charter of the Fundamental Social Rights of Workers.

The preamble to the Charter affirmed that 'the same importance must be attached to the social aspects as to the economic aspects, and [. . .] they must be developed in a balanced manner'. It reflected progress for citizens as workers but was not legally binding on national governments.

A protocol on social policy

Despite the absence of a 'social chapter' in the Treaty of the European Union (Maastricht) 1992, due to the veto of the UK Conservative Government, the Treaty provided possibilities for progress in the social-policy area due to the inclusion of a Protocol on Social Policy agreed by the other 11 member states. This empowered the Council in the area of social policy to adopt 'by means of directives, minimum requirements for gradual implementation, having regard to the conditions and technical rules obtaining in each of the member states' but recognizing the principles of subsidiarity and proportionality. Despite the progress reflected by the Protocol, its status ensured that employment and social-policy initiatives were largely absent from the Single Market completion and the introduction of European Monetary Union (Hemerijck, 2002: 207).

European social policy: a way forward for the Union

While the Community Charter and the Maastricht Treaty indicated a commitment to social policy within the EU, the White Paper on European social policy – *European Social Policy: a Way Forward for the Union* – provided a comprehensive statement. It pointed to the shared core values underlying the ESM as 'democracy and individual rights, free collective bargaining, the market economy, equality of opportunity for all and social welfare and solidarity' (European Commission, 1994: 9). It made a commitment to minimum standards that all should achieve while affirming that further progress would depend on national

circumstances as is required by the commitment to subsidiarity in EU treaties. The White Paper also called for the adaptation of the ESM to underpin the process of change and ensure 'a unique blend of economic well-being, social cohesiveness and high overall quality of life' (European Commission, 1994: 7). This linkage of economic and social policy is even more strongly evident in the subsequent treaties and in Commission and Council documents.

Employment, policy coordination

The 1997 Treaty of Amsterdam incorporated the Agreement on Social Policy into the main body of the Treaty – the UK objections were withdrawn following the election of the Labour Government. The most important features of the Amsterdam Treaty are that it established 'a high level of employment' as one of the Union's specific objectives, the new employment chapter and the call for coordinated action on employment by member states. Mainstreaming equality between men and women was also recognized as a key objective, as were sustainable and non-inflationary growth and convergence of economic performance including competitiveness. Consistent with the significance accorded to employment, the Treaty established a permanent constitutionally based Employment Committee to allow for ongoing and open debate on employment and other structural-policy issues at a European level. This placed employment on an institutional par with economic issues.

In accordance with the Amsterdam Treaty, Employment Guidelines were agreed at the Luxembourg summit in 1998. These proposed the preparation of annual National Employment Action Plans by each member state. The process was based on the adoption of a coordinated policy strategy, 'drawing on the method followed for economic convergence, while making allowances for the differences between the two areas and between the specific situations of individual Member States' (Council of the European Union, 1997: 2). This 'Luxem-

bourg Process' involves setting employment guidelines, based on a common analysis of the situation and of the broad lines of policy to be followed, and agreeing specific targets that are incorporated into national employment action plans. These plans are submitted to the Council and the Commission each year together with a report on implementation. The subsequent joint report, prepared by the Commission, synthesizes the national reports and makes an assessment of progress overall and in individual states. This process, which involves the social partners, is repeated annually but differs significantly from economic-policy coordination in that the only sanction on non-compliance is peer pressure.

Social policy and adjustment to the 'new economy'

The Lisbon Council set a strategic goal for the Union: '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'. The modernization of the ESM was identified as central to the achievement of this goal. The Council concluded that:

Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty'. (Council of the European Union, 2000)³

Consistent with this, it called for the development of national plans to tackle poverty and social exclusion with periodic evaluation and review of the results, thus constituting the foundation of a European strategy to combat social exclusion, similar to that applied to unemployment. It also called for the promotion of inclusion in the member states' employ-

ment, education and training, health and housing policies and the placing of social protection towards the centre of the European agenda – recognizing it to be a productive factor.⁴ While full employment in Europe is the goal, the intermediate goal is to raise the employment rate from an average of 61 to 70 percent and the female employment rate from an average of 51 to 60 percent by 2010. The Council also agreed the formation of a constitutionally based Social Protection Committee. The incorporation of this within the EC Treaty (Article 144) through the Treaty of Nice gives the coordination of policies on social exclusion and social protection constitutional recognition on a par with employment and economic policy.

The Nice European Council in December 2000 agreed that member states should prepare National Action Plans against poverty and social exclusion, taking into account national, regional and local differences and involving local stakeholders, every two years starting in June 2001; these would be used by the Commission to prepare a Joint Report on Social Inclusion; regular monitoring and peer review using common indicators would be undertaken to provide for monitoring progress and comparing best practice. The Nice Council is also significant in social-policy terms because of the agreement on the European Social Policy Agenda.

The Social Policy Agenda formed part of the programme of social action for 2000–2005; central to it was the modernization of the ESM and the translation into action of the political commitments made at the Lisbon Summit. The guiding principle of the Agenda was to strengthen the role of social policy as a productive factor. It pointed to the positive economic effects of health and education expenditure and social transfers covering pensions and social security. It paralleled the Commission's linkage of economic and social policy and the positive role of social protection that was evident in the 1994 White Paper on Social Policy. It was even more strongly articulated in a later Commission document in which social

protection was identified as contributing 'to ensuring social cohesion by protecting people against a range of social risks' and by facilitating adaptability in the labour market and having the potential to 'contribute to improved economic performance' (European Commission, 1999: 6–7).

From 'a social space' to policy coordination

This review of key developments in the ESM from the 1970s to 2003 reveals a more substantial role for social-policy concerns in the deliberations of EU institutions over time. Key themes and threads are evident over this period but the emphasis has changed in several areas and new areas have been added: gender equality in pay was covered in the Treaty of Rome; it was formalized through a directive in 1975 and four other equal-treatment directives were enacted between then and 1986. By 1997 the concept of mainstreaming of equality between men and women into all policy had entered the frame in the Amsterdam Treaty. From a focus on the rights of workers in the Community Charter of the Fundamental Social Rights of Workers (1989), the Charter of Fundamental Rights (2000) combined in a single text the civil, political, economic and social rights previously laid down in a variety of European and international sources, but like its predecessor it is non-enforceable. While the language of citizenship has been broadened, it still has little substance.

One of the themes running through social-policy documents since the 1980s is social protection as a productive factor in the sense of it being a prerequisite for a vibrant economy. This assertion became more frequent during the 1990s and calls for modernizing the ESM, and quality improvements were associated with it from the late 1990s. These included making 'work pay' and making social-protection systems effective and efficient facilitators of labour-market insertion. The funding of pensions also became a major policy issue. By

2001 the EU social-policy framework included National Action Plans on employment and social inclusion; national strategy reports on pensions were added in 2002 (Council of the European Union, 2001). National Action Plans signalled a move away from heavy reliance on directives that were dependent on intergovernmental agreement to an open method of policy coordination and measurement of outcomes with involvement of the social partners at national level. A broader and streamlined OMC in the field of social protection is in train for 2006. This will include the current actions on social inclusion and pensions, and incorporate cooperation in health care and long-term care and action related to 'making work pay', in particular the contribution of social-protection systems to that objective. This single OMC in social protection will parallel and be synchronized with the employment and economic policy coordination processes (Council of the European Union, 2001; European Commission, 2003). As in these areas, the focus of the streamlined process in social protection will be on implementation. The framework of social indicators is an essential element of such a focus.

The framework of social indicators

The EU social indicators emerged in the context of considerable work by the Commission on structural indicators, including a subset on social cohesion (European Commission, 2001a). The structural indicators came in the wake of strong concern with benchmarking economic conditions throughout the 1990s by the EU, the OECD and other international organizations. This was stimulated by concern about competitiveness not only in the marketing of goods but competitiveness for foreign direct investment. The EU social-indicators work involved the Social Protection Committee, and its Indicators Sub-group, and resulted in a study by Atkinson et al. (2002) that included a review of the first National Action Plans on social inclusion.⁵

Atkinson et al. (2002) identified a series of principles to guide the construction of indicators, six relating to individual indicators and three to the portfolio of indicators.

Individual indicators should be normative, statistically validated, responsive to effective policy interventions but not to manipulation, measurable in a comparable way, timely and susceptible to revision, and should not impose too large a burden on member states, enterprises or citizens. The indicators should be broken down by region and gender and by other relevant variables depending on the indicator; for example, it would be necessary to give poverty rates for children and older people (Atkinson et al., 2002: 192). The portfolio should be balanced across dimensions, indicators should be mutually consistent and of proportionate weight, and the portfolio should be transparent and accessible to citizens (2002: 190).

The first set of 18 statistical indicators approved by the Laeken Council (December 2001) cover four dimensions of social inclusion – financial poverty, employment, health and education – which highlight the 'multi-dimensionality' of the phenomenon of social exclusion (Eurostat, 2003a). They include 10 primary indicators to cover the most important elements identified as leading to social exclusion: three at-risk-of-poverty indicators, one inequality-of-income-distribution indicator (the quintile ratio), two relating to unemployment, one relating to early school leaving, one to life expectancy at birth, one to regional cohesion and one to self-defined health status by income level (Table 1).

The eight secondary indicators provide additional information on the risk of poverty, income distribution including the Gini coefficient, unemployment and education. It is envisaged that member states will supplement these two levels of indicators with a third reflecting specific national circumstances and adding insights into the two former levels. This third level will not be harmonized across the EU.

The present phase of social-indicator work in the EU addresses one of the significant bar-

Table 1 Primary social indicators

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1. **At-risk-of-poverty rate after transfers:** the share of persons with an income below 60% national median income. Breakdowns by age and gender, most-frequent-activity status, household type and tenure status.
 2. **Persistent at-risk-of-poverty rate:** the share of persons below the 60% median threshold in at least two of the three preceding years.
 3. **Median at-risk-of-poverty gap:** the difference between the income of persons below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold as a percentage of the at-risk-of-poverty threshold.
 4. **Inequality of income distribution:** S80/S20 income quintile share ratio: the ratio of total income received by the 20% of the country's population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).
 5. **Persons living in jobless households**
 6. **Long-term unemployment rate** (at least 12 months)
 7. **Regional cohesion:** the coefficient of variation of employment rates at NUTS (Nomenclature of Territorial Units for Statistics) Level 2. It is calculated separately for each country and gives a measure of the regional spread of employment rates. Data are not applicable for Denmark, Ireland or Luxembourg as NUTS Level 2 is close to national level.
 8. **Early school-leavers not in education or training:** the proportion of persons aged 18 to 24 who have only lower secondary education (their highest level of education or training attained is ISCED 0, 1 or 2) and have not received education or training in the four weeks preceding the survey.
 9. **Life expectancy at birth**
 10. **Self-defined health status by income level:** compares (a) the percentage of individuals aged 16 and over with an equalized total net household income in the 'richest' income quintile group who classify themselves as having a 'bad' or 'very bad' state of health according to the WHO definition with (b) the percentage of individuals aged 16 and over with an equalized total net household income in the 'poorest' income quintile group who classify themselves as having a 'bad' or 'very bad' state of health according to the WHO definition (gender breakdown + total). Data are not available at present.
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riers to the success of earlier efforts, namely data deficits. The data source for the initial set of monetary indicators is the European Community Household Panel (ECHP).⁶ This survey was replaced by the EU Statistics on Income and Living Conditions (SILC) survey in 2003 and this will be used in updates. Data for seven of the nine non-monetary indicators are drawn from the Labour Force Survey and one is based on census data. Research on the feasibility of a self-defined health status by income level indicator is ongoing and if retained will be based on data from the ECHP/SILC surveys (Eurostat, 2003b).

The individual indicators meet the principles outlined by Atkinson et al. (2002) but the portfolio reflects a first step rather than a comprehensive and balanced policy information base

relating to the outcome of policies on poverty and social exclusion. Work on the inclusion of extra dimensions relevant to social inclusion is in process, as is the expansion of the geographical coverage to include the 2004 accession countries. Despite the limitations of the existing framework, including the absence of regional disaggregation (Stewart, 2003),⁷ the data provide considerable evidence of marked differences across EU countries in several policy outcomes. These include poverty rates before and after taxes (as is demonstrated in the fourth section of this paper), in early school leaving and the various categories of unemployment.⁸

The accurate measurement of poverty and social exclusion on a multidimensional basis is an essential first step in the process of formulating policy to address them. The aim of the

social indicator exercise is to embody the objectives of the European Union in relation to social exclusion and poverty and to measure social *outcomes not the means by which they are achieved*. The focus on poverty and social exclusion is significant not only in itself but because it reflects, at a formal level, a broadening of the social-policy agenda from an almost exclusively employment-focused social policy. The focus on outcomes but not means is a required characteristic in view of the subsidiarity dimension of the EU social-policy framework. The OMC facilitates the maintenance of this principle while opening the possibility for policy learning.

Open method of coordination: a solution to problems?

EU competence in social policy is dependent on intergovernmental agreement and this characteristic is strongly guarded by the member states. Why then did they agree to the OMC in relation to poverty and social exclusion since this appears to limit their claim to exclusive jurisdiction over social policy? A probable reason is the changing context. In particular, the national ability to manoeuvre is constrained by the Stability and Growth Pact and the dynamics of market integration. The Stability Pact agreed in 1996 limits budget deficits to 3 percent of GDP as did the pre-EMU convergence criteria. If the limit is breached when a country is not in recession (GDP falling by 0.75 percent), fines of between 0.2 and 0.5 percent of GDP will be levied by the EU, although recent practice indicates that enforcement is less rigid than the guidelines suggest. Some analysts argue that market integration has eroded the sovereignty of member states and that their autonomy has been constrained within the multi-tiered pattern of governance that has developed in the European Union (Hantrais, 2000: 220; Leibfried and Pierson, 2000). Leibfried and Pierson (2000) argue that member states have lost more autonomy and control than the EU has gained

in transferred authority. They cite in particular the role of the European Court of Justice in pursuing market integration and conclude that: 'The process of European integration has eroded both the sovereignty (by which we mean legal authority) and autonomy (by which we mean *de facto* regulatory capacity) of member states in the realm of social policy' (2000: 268). European Court of Justice rulings impact on those social-policy areas where a market dimension exists and competition issues arise. Health insurance is identified by Leibfried and Pierson (2000) as an area where such an impact is already evident. Privatization of other social and health services and benefits increases the area where such issues may arise and constrain the traditional social-policy-making capacity.

The impact of global economic and financial forces – both in fact and in policy discourse – on member states creates additional constraints that impact on all member states to varying degrees. Commission and Council documents repeatedly assert that member states share values in relation to social policy; they also share concern about key issues, especially unemployment, social exclusion and pension costs. The fear of tax competition and social dumping may also be push forces towards more open coordination.

Scharpf (1998; 2002) argues that European integration has created an asymmetry between economic or 'market-making' and social protection or 'market-correcting' interests and policy purposes at the European Union level. The former has become progressively Europeanized as reflected in action by the Commission against infringements of Treaty regulations and the rulings of the European Court of Justice against barriers to increased competition – negative integration. In contrast, social protection and social policy to shape the conditions under which markets operate – positive integration – has to be agreed through intergovernmental processes, mostly on the basis of unanimous voting. Scharpf concludes that the 'most likely result is a competency gap, in which national problem-solving capacity is severely constrained [through the globalization

of finance and the transnational integration of markets] while European policy is restricted by lack of intergovernmental agreement' (Scharpf, 1998: 157–8).

Taking all these factors into account, the OMC and the associated possibility of policy learning may be acceptable to member states as a form of 'soft' governance. It may be argued that from the Commission's point of view the OMC is an essential mechanism for progress in the context of the requirement for unanimous intergovernmental agreement on social-policy directives and adherence to the principle of subsidiarity. Goetschy (1999) points to three aims of the European Employment Strategy: first, to increase legitimacy of EU-level action by recognizing the diversity of national industrial-relations systems; second, to improve the efficiency of Social Europe, in particular to overcome increasing resistance to the adoption of new directives, particularly by the UK, France and Germany, and the limited progress in negotiating European-level agreements by the social partners;⁹ and third, to serve as a catalyst for national-employment policies (Goetschy 1999: 131–4). Goetschy argues that the European Employment Strategy represents a change of priority in the EU social agenda. Previously, EU social-policy initiatives were linked to concerns about the internal market and EMU whereas unemployment is central to member states' industrial-relations systems. A similar argument can be made about the strategy on poverty and social exclusion, the strategy on pensions and the proposed strategy on health and long-term care. Unemployment and/or the need to increase employment participation, poverty and social exclusion and the funding and sustainability of pensions, health and long-term care are all issues that are central to national socio-economic concerns, in particular, issues of long-term financial sustainability in the context of population ageing. Thus one can identify 'push and pull' factors: the Commission is pushed into this process because of difficulties relating to the adoption of new directives and member states are pulled into the process because it entails a mechanism

that may help to solve pressing national socio-economic issues and enable policy learning without mandating conformity in commitments or mode of implementation.

But the success of the OMC, in particular the policy learning, is dependent on the involvement of all relevant national actors in the processes of European coordination and through this involvement the broadening of national policy debates. If this does not take place then the process is merely an exercise for a minority of officials (Scharpf, 2002: 654). Atkinson makes a related point, in arguing that following the Nice Council, one of the key objectives of open coordination must be 'to mobilise all relevant actors', in particular stakeholders at the national level including social partners, non-governmental and grass-roots organizations and the academic community not only to disseminate knowledge but to modify indicators as appropriate (Atkinson, 2002: 630). De la Porte et al. (2001) also stress the key role of public participation in the process at national level for the realization of the dynamic potential of OMC.

In response to scepticism about the OMC, Frank Vandenbroucke argues that:

It will create a common understanding of our core social values that goes beyond solemn declarations at the level of heads of state and government, and so should enable us to define in a more precise way the substance of the European Social Model . . . [and] it sends a clear signal to prospective Member states that this is an achieved model, that is part and parcel of European civilisation and that it must be endorsed as an ambition by all those applying for membership. (Vandenbroucke, 2002: v, x)

This reflects the position of a member-state politician heavily involved in bringing the OMC and social-indicators process to fruition, and he is obviously strongly committed to it.¹⁰ But is the same level of commitment likely in all member states and is it likely across a range of policy areas? I return to this issue in the section below.

Constraints and contradictions in open policy coordination

In this section I consider the implications of moving from employment-focused social policy to social policy that is still employment-anchored but has broader objectives and redistributive implications in the context of labour markets characterized by increasing levels of poor-quality atypical work that impact on poverty and social exclusion. Associated with this, I consider the implications of pervasive differences across EU welfare states not only in key social-outcome indicators but in social-expenditure patterns. In this context is there sufficient commonality in social-policy frameworks and outcomes to allow realistic policy learning and convergence in key social-outcome indicators through the OMC process?

Employment-anchored social policy in a changing context

The implementation of the OMC relating to employment and social exclusion is taking place in the context of long-term change in gender ideology and family structure, evident to varying degrees in all Western countries, from a preference for the breadwinner/dependent family to accommodation of the dual-earner household in varying forms and the single-earner/carer household. Coinciding with these changes the increased globalization, or at least internationalization, of production, trade, foreign direct investment and financial flows, and the associated economic restructuring, is having an effect on the availability of employment in many countries but on its quality in all. Simultaneously, reliance on the labour market for survival is being increased because of a change in individual preferences and pressure associated with changed benefit access criteria and policy choices, including those associated with National Employment Action Plans and National Action Plans on Social Inclusion. Consequently, the possibilities for achieving an adequate standard of living through reliance on

the labour market are being lessened for a significant minority of labour-market participants.

In discussing the current challenges for the EU, Duncan Gallie (2002) points out that:

. . . some current developments in the nature of employment are accentuating the risks of labour market marginalization, as a result of skill polarization and a marked intensification of work. For work to provide social integration it must offer meaningful work tasks and conditions of work that allow for sustained employability. (Gallie, 2002: 96)

The need to improve the quality of work is recognized by the EU Commission (2000; 2001b) in its *Social Policy Agenda* and specifically in *Employment and Social Policies: a Framework for Investing in Quality*, which includes indicators of intrinsic job quality, skills and lifelong learning and career development among the structural indicators recommended. While now in process, this is a long-term project and is dependent on the commitment of national governments. Furthermore, on its own it is an inadequate response. If unacceptable levels of poverty are to be avoided it must be accompanied by the provision of adequate resources for the protection of the living standards of those without work (Gallie, 2002: 128). But this is a responsibility of national welfare states and brings one back to the issue of distribution and redistribution in individual countries.

Redistribution through social transfers

The data on monetary social indicators for 2001, presented in Table 2, are instructive in relation to redistribution. They reveal considerable differences across EU countries in the at-risk-of-poverty rate after social transfers, based on a 60 percent equivalized median disposable income threshold: Column A provides the at-risk-of-poverty rates for income including retirement pensions; Column B provides the rates after all social transfers. These data are used to calculate the change effected by social transfers in Column C.

Table 2 European Union countries: at-risk-of-poverty rate based on 60% median equivalized disposable income threshold before and after social transfers 2001^a, GDP per capita and social protection expenditure as % of GDP in PPS^b

| Country | A <i>At-risk-of-poverty rate before social transfers (income including retirement pensions)</i> | B <i>At-risk-of-poverty rate after social transfers</i> | C <i>% change A to B</i> | D <i>GDP per capita in purchasing power standards (2000)</i> | E <i>Social protection expenditure per capita in purchasing power standards (2001)</i> |
|---------------------|--|--|-----------------------------|---|---|
| EU15 | 24 | 15 | 37.5 (1.6) | 100.0 | 6,405 |
| Sweden ^c | 27 | 10 | 62.9 (2.3) | 102.8 | 7,085 |
| Finland | 19 | 11 | 42.1 (2.2) | 101.9 | 5,622 |
| Denmark | 29 | 11 | 62.1 (2.1) | 116.8 | 7,805 |
| Netherlands | 21 | 11 | 47.6 (2.2) | 113.4 | 7,392 |
| Germany | 21 | 11 | 47.6 (2.2) | 106.4 | 7,329 |
| Austria | 22 | 12 | 45.5 (2.1) | 110.8 | 7,464 |
| Luxembourg | 23 | 12 | 47.8 (2.1) | 180.0 | 10,559 |
| Belgium | 23 | 13 | 43.5 (1.9) | 111.0 | 6,888 |
| France | 24 | 15 | 37.5 (1.6) | 101.2 | 7,266 |
| UK | 29 | 17 | 41.4 (1.4) | 102.3 | 6,181 |
| Italy | 22 | 19 | 13.6 (0.6) | 98.9 | 6,186 |
| Spain | 23 | 19 | 17.4 (0.8) | 82.1 | 3,867 |
| Greece | 23 | 20 | 13.0 (0.6) | 67.1 | 3,971 |
| Portugal | 24 | 20 | 16.7 (0.7) | 75.7 | 3,644 |
| Ireland | 30 | 21 | 30.0 (1.0) | 114.3 | 3,875 |

Notes:

^a Equivalized disposable income is defined as the household's total disposable income divided by its equivalent size to take account of the size and composition of the household, and is attributed to each household member, using the 'modified OECD' equivalence scale: 1:0.5:0.3.

^b Purchasing power parities (PPP) convert every national monetary unit into a common reference unit, the 'purchasing power standard' (PPS), of which every unit can buy the same amount of goods and services across the countries in a specific year. Converting these amounts, which are received in a national currency, into amounts expressed in PPS allows direct, real-term comparisons between countries.

^c Countries ranked on at-risk-of-poverty rates after social transfers (Column B).

Source: [<http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=welcome&open=&product=YES&depth=2&language=en>]; calculations by author.

The at-risk-of-poverty rate after social transfers – Column B – was 15 percent for the EU15 in 2001 but ranged from 10–21 percent with a median of 13 percent. The pattern is of three clusters of countries: Sweden, Finland and Denmark, the Netherlands and Germany have the lowest at-risk-of-poverty rates at 10–11 percent of the population; Austria, Luxembourg, Belgium and France are in an intermediate position with 12–15 percent of the population at risk of poverty; Ireland, the UK and the

Southern European countries – Italy, Spain, Greece and Portugal – have the highest at-risk-of-poverty rates after social transfers, that is, from 17–21 percent.

The percentage change effected by social transfers varies considerably across the EU15 as is outlined in Column C of Table 2. These figures indicate that the average reduction in the percentage of the population at risk of poverty after all social transfers compared to income including pensions but before social

transfers was 38 percent in the EU15 in 2001. This covers a very wide range from a change of 13 percent in Greece to almost 63 percent in Sweden and 62 percent in Denmark. The median change was 42 percent. Taking those countries above the median and excluding Sweden and Denmark, we find that countries cluster from 44–48 percent in terms of change effected by social transfers. Standardizing for the original at-risk-of-poverty rate the outlier status of Denmark and Sweden in terms of the change effected by social transfers is no longer evident (see figures in brackets in Column C). Those countries above the median – Finland, the Netherlands, Germany, Austria and Luxembourg in addition to Sweden and Denmark – are concentrated in a narrow range from 2.1–2.3 when the change effected by social transfers is standardized for the original at-risk-of-poverty rate. Below the median we find more variation with a range from 0.6 for Greece and Italy to 1.6 for France. While the explanation of these patterns is not the objective of this paper it is worth noting that there is a Southern European cluster of countries – Italy, Spain, Portugal and Greece – as has been noted in the welfare-state literature (Ferrera, 1996). It is of course also noteworthy that these are the countries with the lowest GDP per capita in purchasing-power parties in the EU in 2000. But what of Ireland, which has above average GDP per capita but low social-transfer effort and a high at-risk-of-poverty rate after social transfers? It is noteworthy that despite a marked increase in GDP per capita since the mid-1990s, Ireland has not altered its traditional pattern of welfare expenditure; it still holds true to its liberal welfare-state origins.¹¹ Excluding Ireland, because of its low social-protection expenditure and high at-risk-of-poverty rate relative to its GDP per capita, and Luxembourg, because of its outlier status on GDP per capita, we find a very high correlation between percentage change in at-risk-of-poverty after social transfers and GDP per capita standardized for purchasing power standards (Columns C and D in Table 2; Pearson Correlation of 0.813) and also between socia-

protection expenditure and GDP per capita when both are standardized for purchasing-power standards (Columns D and E in Table 2; Pearson Correlation of 0.931).

In summary, these data illustrate marked differences in at-risk-of-poverty before and after social transfers across EU welfare states, and marked differences in redistributive welfare effort.¹² This prompts a question about the achievability of policy learning and convergence in key social-outcome indicators through the OMC process in the context of these differences. This question is of greater salience in the EU25, which is characterized by even greater variability in member states' resources for redistribution and in historical social-policy patterns than in the EU15. Compounding these dilemmas is the asymmetry identified by Scharpf (2002) of progressively Europeanized economic policy and national social-protection policies subject to the constraints of economic stability rules.

Framework directives, binding minimum expenditure floors and policy learning

The solution to these dilemmas suggested by Scharpf is a combination of closer cooperation achieved through framework directives relating to discrete policy issues involving subsets of member states with relatively similar policy trajectories and the adoption of binding minimum thresholds relative to national conditions across the European Union (1999: 156–86; 2002). Framework directives would be addressed to subsets of member states and formulated at a fairly high level of generality, but would have the status of European law and would 'provide a legal counterweight to the supremacy of internal market and European competition law' (Scharpf, 2002: 662). As Scharpf points out, this closer cooperation would have to be issue-specific if the negative consequences of varying speeds of policy development and the consequences for social cohesion in the EU as a whole are to be avoided. It would result in 'overlapping clusters' of coun-

tries rather than solid blocks of countries at different speeds of integration (2002: 661). Scharpf's other proposal on the adoption of EU-wide binding minimum floors, in particular policy areas, that are relative to national living standards would 'limit the extent to which countries could reduce overall expenditures on social transfers and services, but would leave them free to pursue whatever structural or institutional reforms they consider necessary above that purely quantitative threshold' (1999: 179). It is conceivable that these approaches would be more likely to garner agreement across member states than traditional directives since they acknowledge the reality of substantial differences in social-outcome indicators and redistributive capacity but they are not on the agenda at present.

The Commission's agenda includes a proposal to streamline and broaden the OMC in social protection and synchronize it with similar processes in economic and employment policy in 2006 (European Commission, 2003). In evaluating the proposed streamlining it is necessary to consider whether the same level of commitment is likely in all member states and across all social-policy areas. This is an important policy issue because responsibility for implementation of commitments rests with national governments and also because the streamlining of OMC for social protection will bring together three related but diverse elements of social policy: poverty and social exclusion, pensions and health and long-term care. Poverty and social exclusion have achieved a more visible policy niche in the EU social-policy framework since 2000; are they likely to lose out in policy salience relative to health care and pensions both of which have a broader political support constituency and more deeply institutionalized policy position in most, if not all, EU countries? This is a risk but if the interaction of these three areas is taken seriously, for example in the sense that pension and health and social-care policy have to pick up the fallout from the failure of inadequate social-inclusion measures and vice versa, an opportunity for synergies presents itself.

The synchronization of the streamlined OMC in social protection with its counterparts in economic and employment policy may increase the potential for the mutually reinforcing policy triangle of economic, social and employment policy repeatedly asserted by the European Commission and Council. But such mutual reinforcement is dependent on effective balancing of market-liberalizing and social-protection objectives. A positive aspect of the streamlined social-protection approach is the focus on implementation as is the case at present in economic and employment-policy coordination. Throughout a three-year cycle, progress on strategies established in Year One will be reported in Years Two and Three. This is seen by the Commission as giving 'more weight and visibility to the contribution of social policy to the Lisbon Strategy' (European Commission, 2003: 13). While this will not resolve the asymmetry of Europeanized economic policy and nationally negotiated social policy, it will afford an opportunity to identify and highlight the barriers to the latter associated with internal market pressures and competition policy.

The policy learning assumed in the OMC is unlikely to be realized if the mobilization of 'all relevant bodies' outlined at Nice as one of the objectives in the fight against poverty and social exclusion is not pursued. The realization of this potential is essential if the OMC is to be more than a short-term and not very effective solution to the problems experienced by the Commission and member states in resolving social-policy governance issues in the context of the asymmetry of increased Europeanization of economic policy and the associated constraints on social policy at member-state level. Such mobilization could ensure that the National Action Plans become more than reporting exercises and could release the potential for the policy learning implied in the peer review including the introduction of European recommendations into national policy debates, both of which are envisaged as an integral part of open policy coordination. The potential to broaden the universe of policy possibilities in

member states is of considerable importance in the context of the very strong reliance on the appeal to external economic constraints as a limitation of policy initiatives, particularly in the social-policy area in some member states. The latter points to the importance of situating the policy-learning potential associated with the OMC process in the EU within the broader context of the policy discourse of transnational institutions such as the OECD, the IMF, the WTO and the ILO, which influence the context within which policy choices are made. This points to the increasing multi-scalar nature of the policy universe (Johnson and Mahon, 2004). Of course, all this must be situated within the context of national policy legacies, capacities and political orientation.

Conclusions

The Social Policy Agenda and the extension of the OMC to social exclusion and pensions formalizes a move to an EU social policy encompassing not only employment-related objectives but broader objectives and redistributive implications. The open method of policy coordination, the National Action Plans and the associated social indicators are the key mechanisms through which this more encompassing framework is to be achieved. While these mechanisms reflect an opportunity for information sharing and policy learning, its realization is not assured. In view of the focus on outcomes and not the means for their achievement, and in the absence of sanctions, the success of the OMC in the fight against poverty and social exclusion is dependent on pressure for the application of policy learning by social forces within member states. This is dependent on their involvement in the process of formulating and evaluating National Action Plans. There is little evidence of such involvement at present. This involvement will be even more important in the context of the proposed broadening and streamlining of the OMC in social protection and its synchronization with

similar processes in economic and employment policy in 2006.

The open method of policy coordination tends to elicit strong reactions; it is either dismissed as irrelevant to what happens within individual welfare states or seen as a powerful mechanism to achieve considerable progress in the ESM and convergence in outcomes across EU welfare states. The latter argument has positive and negative versions; the first sees OMC as an instrument on the road to a neo-liberal welfare state; the second sees it as potentially an effective tool to achieve a social model that could resist the neo-liberal trend (Barbier, 2004: 13; Palier, 2004). The reality is somewhere in the balance between these views.

Clearly we have a new type of political and administrative process at the EU level and at member-state level in terms of producing the required National Action Plans and social-outcome indicator data. These provide the potential to identify progress in key areas and locate performance on key social-outcome indicators relative to other member states. Associated with this, policy discourse has changed. What is not clear is whether or not this change goes beyond 'discursive transformation' (Barbier, 2004) and/or has an impact outside the political and administrative elites.¹³ To what extent cross-national contact and peer review are associated with measurable transformation in policy approaches and outcomes is an open question. Research in this area is still extremely limited and does not allow for definitive conclusions. A point on which there is agreement is that the potential of OMC has not been realized even in the European Employment Strategy where it has the longest history (Trubeck and Mosher, 2003).

Identifying the depth of transformation associated with the EU social-policy agenda and the OMC governance process, in particular, is fraught with methodological difficulties (on the latter see Barbier, 2004). Despite these difficulties it is unwarranted to ignore the EU dimension in comparative analysis of welfare states. The significance of this dimension will vary depending on policy and context. There is

abundant evidence of variation across EU welfare states whether this be characterized as welfare regimes, families of nations, or differences in capacity to redistribute. This variation reflects different path-dependent processes of policy development and change. This does not preclude an ideational influence on policy discourse through the spread of information on good practice and the opening of policy possibilities. The extent to which such influence will go beyond the discursive level and conformity with procedural requirements is an issue for empirical research. What cannot be assumed is that good practice can be transferred without modification irrespective of institutional legacies and policy history, and if transferred that it will lead to convergence in outcome (Radaelli, 2003: 42).

Recognition of an EU dimension in social-policy analysis does not lessen the significance of country-level explanatory factors. It adds to the complexity of analysis by recognizing the multi-scalar dimension of policy. What is at issue is not one dimension or another but their interaction. The EU dimension needs to be taken into account, to varying extent depending on policy area, in analysing change over time and cross-national variation within the European Union, and when situating EU countries in a broader comparative policy framework.

Acknowledgements

I would like to thank the anonymous referees and the editor for helpful comments.

Notes

- 1 Directive on Equal Pay (75/117); Directive on Equal Treatment (76/207); Directive on Equal Treatment in Matters of Social Security (79/7); Directive on Equal Treatment in Occupational Security Schemes (86/378); Directive on Equal Treatment Between Men and Women Engaged in an Activity Including Agriculture, in a Self-employed Capacity, and on the Protection of Self-employed Women During Pregnancy and Motherhood (86/613).
- 2 The programme of pilot schemes and studies to combat poverty (1975–80); second poverty programme (1984–89); the medium-term Community action programme concerning the economic and social integration of economically and socially less-privileged groups (1989–94). The Commission's proposal for a programme to combat social exclusion and promote solidarity was rejected by the Council in 1994, having been opposed by Germany on the grounds that the Union had no competence to act in this area (Hantrais, 2000: 173–4).
- 3 The term 'social exclusion' is often loosely used but the key distinction between poverty and social exclusion is that while poverty refers to low income, social exclusion is concerned with multiple aspects of deprivation which prevent people from participating in social life. See Berger-Schmitt (2000: 3–5) and Kleinman (2002: 176–81) for reviews of the differences in the EU context.
- 4 See reports prepared for DG V/Employment and Social Affairs DG by Berghman et al. (1998) and Fouarge (2003).
- 5 This emphasis on social indicators took place within the broader context of work on social indicators over the past decade by international bodies including the OECD, the World Bank and the United Nations Development Programme; and ongoing work in several countries and research organizations within and outside the EU (see Berger-Schmitt, 2000).
- 6 The ECHP was a survey based on a standardized questionnaire and involved annual interviewing of a representative panel of households and individuals. The first wave was conducted in 1994 in the then 12 member states. Since 1996 it has included 14 members and comparable micro-data for Sweden is included from 1997. The last wave was in 2002.
- 7 Stewart (2003) points to the importance of regional disaggregation and demonstrates that the degree of dispersion in social inclusion depends on the indicator chosen. Consequently, a single dispersion measure is likely to be misleading.
- 8 The broader structural indicators include a series of employment indicators including gender pay gap, tax rate on low-wage workers and lifelong learning disaggregated by gender and age as appropriate.
- 9 Since the 1992 Maastricht reforms that granted social partners the authority to negotiate EU-level agreements that could become part of EU law, only three agreements had been achieved by 1999 – parental leave (1995); part-time work (1997) and fixed-term contracts (1999) – and these were achieved only under the threat of directives in the absence of agreement.
- 10 Mr Vandenberg was Minister of Social Affairs

- and Pensions in the Belgian Federal government when Belgium held the Presidency of the EU during the second part of 2001 and sponsored the study by Atkinson et al. (2002). This was presented at a conference on 'Indicators for Social Inclusion: Making Common EU Objectives Work' at Antwerp in September 2001. It also sponsored Esping-Andersen et al. (2002). This was presented at a conference, 'Towards a New Architecture for Social Protection in Europe' at Leuven in October 2001.
- 11 It may be argued that Ireland's GDP per capita has reached and now exceeds the EU15 average only in the past few years and that it is too early to conclude that it does not fit the pattern of a positive relationship between GDP and social spending suggested by Scharpf (1999: 175–180). However, analysis of the trend of social-transfer expenditure in Ireland relative to its EU15 partners over the past decade gives no indication of increase as a percentage of GDP or GNP, although expenditure has increased in real terms (O'Connor, 2003).
 - 12 The redistributive impact of taxes is not available for EU countries at present but studies of several OECD countries have consistently indicated that social transfers are a considerably more important means of redistribution than direct taxes.
 - 13 Jean-Claude Barbier (2004) distinguishes between: (a) discursive transformation; (b) transformation of policy methods and associated organizational features; and (c) substantive policy transformation. Beyond this there may be convergence in outcomes and, further again, convergence towards a unified 'European model'.

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