Employment and Social Policy since Maastricht: Standing up to the European Monetary Union

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Paper prepared for *The Year of the Euro*, Nanovic Institute for European Studies, University of Notre-Dame, December 2002

to be published in: Robert Fishman and Anthony Messina (eds). forthcoming. *The Year of the Euro*.

Research paper nº. 06/02

institut d'études européennes
UNIVERSITÉ DE MONTRÉAL • McGILL
institute for european studies

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To understand the complex connections between the Euro and employment and social policy, it is necessary to revisit the story of monetary union and the expectations that social partners and other key actors had for it. Indeed, it is not sufficient to concentrate on the last stage, but rather it is necessary to return to the initial process, consecrated in the Treaty on the European Union at Maastricht, signed in December 1991.

As many have documented, monetary union was greeted with scepticism by those actors traditionally concerned about employment and social policy. While they themselves did not agree on what the precise consequences would be, the most frequent outcome predicted was a move towards to the conventional positions promoted by bankers, the political Right and mainstream economists, for whom achieving an optimal European currency area would require a more flexible labour market, decentralised collective bargaining, and reduced social protection.

Therefore, it is somewhat surprising to note that, in the intervening years, there have actually been a number of significant innovations in the employment and social fields, and these do not follow the trajectory predicted by either enthusiasts for or sceptics of monetary union. Certainly strategies are not what they were before EMU, but neither are they simply based on "flexibility" in labour markets and retrenchment in social protection. Nor can it be said that the open method of co-ordination initiated in 2000 has simply wiped out the European Social Model. Thirdly, instead of greater decentralisation of collective bargaining, there have actually been moves toward a European co-ordination of wage bargaining. In other words, employment and social policy have thus far stood up to the monetary union.

In order to understand the reasons for these somewhat unexpected results in the years since monetary union and during the build-up to the Euro, this paper does two things. It describes the challenges to employment and social policy that appeared with the creation of the European Monetary Union, as it was first envisaged and as Member States prepared for the selection process. Then the paper traces the dynamics at the European level that gave rise to these somewhat unexpected responses (unexpected by mainstream economics, that is). We consider the European employment strategy, two sectors of social protection, and steps toward coordinated wage setting. We describe these responses, as they took shape through time.

Doing so, the paper identifies some of the factors within the institutions of the European Union and outside that account for the divergence from economists' orthodoxy and from the positions that seemed about to prevail during the immediate post-Maastricht years. It also demonstrates that the willingness to experiment with new policy techniques allowed these responses to take

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form and to be institutionalised in ways that gradually have established their status as "European". In other words, the changes are ones of both content and practice. Finally, we document that the extent to which there can be a "European" response varies significantly across policy domains.

Our claim is that, as so many other innovations at the European level, the changes resulted from the mobilisation of political ideas and discourse by a range of actors who deployed these resources persistently over time and particularly within European institutions, to promote an alternative to mainstream economics and neo-liberalism. Actors intervened in the interstices of European politics to hold open discursive and policy space when the balance of forces was negative and to widen those spaces when opportunities appeared. There were, as we will document, a grouping of policy entrepreneurs, experts, politicians, non-governmental organisations (NGOs) and unions, all of which sought to "correct" the pro-business bias and neo-liberalism of the EMU project. They could not stop it; nor did they seek to do so. Rather, for many, their goal was to render it more sensitive to the advantages of treating employment and social protection as productive factors in supply-side management, rather than a simple drain on competitiveness. If the European employment strategy has provided the most co-ordinated response to the seeming imperatives of monetary union, the other two have done so less. These differences are due to the circumstances, including timing, under which these efforts to promote alternative visions of EMU took place. This can be thought of as occurring in different political opportunity structures (Ross, 1995: Introduction), structures that vary significantly from one issue domain to another, and help to account for the varied outcomes we observe.

Monetary Union: Fears and Suspicions

Monetary union has been on the European agenda since the 1960s; the Hague Summit in 1969 commissioned the Prime Minister of Luxembourg to investigate the possibility, thereby generating the *Werner Report* of 1970. That call for a three-stage process went nowhere, however, when the currency Snake got entangled in the crisis set off by the end to the Bretton Woods system and first oil-shock of 1973.

Enthusiasm for monetary union re-emerged in the 1980s. Indeed, the move towards monetary union initiated at Maastricht, in the Treaty on European Union (TEU), is the result of a process that began years earlier, even well before the *Delors Report* to the Madrid Summit (1989) (McNamara, 2002: 170). The decision of governments in the Netherlands, Austria, Denmark, Belgium, and France to adopt a new monetary regime encompassing the goal of low inflation, a stable currency and budgetary restraint was taken (formally or *de facto*) by the early to mid-1980s, particularly after the neo-Keynesian of the French Socialists so dramatically failed in 1983. New space for advancing the integration process opened up then, and was quickly occupied by the Commission's political entrepreneurs (Martin and Ross, 1999: 317-18).

Given that Maastricht also ushered in the convergence criteria that tie the hands of those unwilling to incur the costs of exclusion from the Eurozone, it is not surprising that EMU was widely viewed as yet another challenge to Social Europe. Wolfgang Streeck was quickly into the fray, arguing that European business had experienced a certain "conversion experience" and saw in the preferences of the Commission and other pro-Europeans of the mid to late-1980s an advantage for employers (Streeck, 1995). Nor was this bias seen as particularly new. Mark

Pollack concludes that (1999: 268): “from Rome to Maastricht, the fundamental thrust of the treaties has been neo-liberal, in the sense that each of the Community’s constitutive treaties facilitated the creation of a unified European market, while setting considerable institutional barriers to the regulation of that same market.”

Of course, these observers did not have to dig too deeply to find evidence of a preference for monetary union in the business community and among mainstream economists. As Amy Verdun puts it (1996: 80): “Experts argued that they favoured EMU exactly because it would lead to a process of harmonization through market forces. EMU would offer legitimacy for restructuring the expensive welfare states.”

EMU, and particularly the conditions imposed on participation in the Eurozone, are generally considered to threaten earlier gains made by unions as well as social spending, because they render demand-side responses impossible. As Fritz Sharpf recently put it (2002: 4): “In short, compared to the repertoire of policy choices that was available two or three decades ago, European legal constraints have greatly reduced the capacity of national governments to influence growth and employment in the economies for whose performance they are politically accountable. In principle, the only options which remain freely available are supply-side strategies involving lower tax burdens, further deregulation, flexibilisation, wage differentiation and welfare cutbacks to reduce the reservation wage.” For some observers, this shift represents a major factor in the “hollowing out” of the European states (Della Sala: 1997).

For years, economists and others stuck to the mantra that labour market flexibility was the main instrument of adjustment in the face of economic shocks. Because increases in salaries or the social wage were assumed likely to trigger a loss of competitiveness or an inflationary spiral, the focus turned to controlling wage formation (Pochet, 1999). Moreover, a monetary union, and certainly a single currency, made wage-setting much more transparent. Therefore, many feared that, in order to avoid a rise in unemployment, Member States would respond to (asymmetric) economic shocks or to competitive pressure *by lowering wages*. Taxes and cutbacks in social protection and job creation as well as regulation would become national instruments of competetiveness and macro-economic stabilisation, in the direction of a “race to the bottom” and social dumping.

This has not been the result. Instead, the EU, as national governments in many places, has moved towards new social and employment policy goals and new governance practices that involve redesign more than retrenchment, as well as the “steering” rather than “rowing” so popular in public management circles. Employment in particular is an area in which experimentation with a variant of the EU policy process has occurred, by building on that is sometimes termed “the OECD method.” Eventually, this resort to policy co-ordination and benchmarking became the Open Method of Co-ordination (OMC) in 2000. While it lacks the force of the regulatory or even multilevel governance variants, it is becoming an interesting form of governance in current circumstances and certainly merits attention (Wallace and Wallace, 2000: 28ff).[1] As do Liebfried and Pierson (2000: 271; 275), we will argue that the mid-1990s brought new openings for action in the employment and social policy realms by the EU, but that in order to observe these shifts it is necessary to delve into the details of governance rather than the “high politics” of the Social Charter and Social Protocol that sought to impose social policy from the centre.

From Essen to Lisbon: The European Employment Strategy

While it is obviously the case that the move toward the final stages of EMU have altered the rules of the game, and have rendered any return to Keynesian or other forms of demand management and traditional social policy thinking very unlikely, it is still possible to ask whether the results predicted by Eurosceptics have been forthcoming in precisely the way they feared.

Our argument is certainly *not* that nothing has been changed by the Euro. *Nor* is it that unions and their allies have managed to protect all their gains. Rather, it is that the move to EMU provoked a reaction among those concerned with social and employment policy and that has resulted in something *other than* the retrenchment and wage cuts predicted earlier. The corner-stone is the EU's definition of its employment strategy as an active labour market policy (ALMP). Secondly, we argue that this "correction" of the EMU has been achieved by actors outside as well as inside the institutions of the Union, actors that have pressed for treatment of employment and social policy as key components of the mix needed to move Europe forward into the knowledge-based and globalised future. In other words, these actors have accepted, indeed participated in, the transformation of social and labour policy analysis from demand to "supply" focused, from "passive" to active. In doing so, they have helped to reconnect monetary and social policy, albeit with a very different logic than a Keynesian one.

An unpromising beginning

As early as 1993, with the Delors Commission's *White Paper on Growth, Competitiveness and Employment* there was the beginning of "social side" response to monetary union. The White Paper and the Essen European Council (December1994) where a European Employment Strategy (ESS) began to take form, reflected a recognition that the economic downturn of the early 1990s coupled with scepticism about the effects of the completion of the market promised for 1992 were undermining support for the European project (Martin and Ross, 1999: 319; Arnold and Cameron, 2001).[2]

While the White Paper did serve to put employment on the agenda, it did not immediately produce anything resembling a common European strategy. Official discourse spoke with verve of the search for a balance between "solidarity and competitiveness" (Goetschy, 1999), but the negotiations and results retained all the hallmarks of the internal battles and lack of consensus. Nothing much was happening, in other words, but the testing of some terms in a new discourse, coming from the Commission whose President was focused on his own reading of the needs of the new economy.[3]

The Essen Council identified the struggle against unemployment as the paramount and long-term aim for the European Community and identified a number of specific objectives.[4] The Commission and some Member States exerted pressure to make these objectives a common project, but there was also significant opposition to delegating further powers to the European level (Trubek and Mosher, 2001). The result was that the employment dimension remained a matter of *co-operation*. It lacked any legal base, systematised methodology, permanent structure, control process or even long-term vision. Not surprisingly, little co-operation on unemployment resulted.

The next steps toward an EES came with the European Councils of Madrid (December 1995)[5] and especially Dublin (December 1996). Again, there was parallelism in the movement forward on employment and EMU. The Dublin summit adopted a draft *Stability Pact* to underpin EMU. This meeting also generated the *Dublin Declaration on Employment*, which underlined the need to pursue a macro-economic policy favourable to growth and employment. This European Council also anticipated the Amsterdam meeting, when it called on Member States to develop "additional instruments for the effective monitoring and evaluation of employment and labour market policy, including the identification of 'good practice' and the development of common indicators that might allow benchmarking and explicit comparisons of policy and performance among Member States" (Arnold and Cameron, 2001: 7-8).

Towards the "Luxembourg Process"

One might interpret this coincidence as simply evidence of double-talk, with the real action being EMU and neo-liberalism. However, several things were going on at the time that made further movement on an EES likely, or at least kept it on the radar screen.

First, while deeply critical of the EMU, the unions represented in the European Trade Union Confederation (ETUC) adopted a complex strategic response to monetary union, focusing not simply on criticism but also proposals for correction. Second, the balance of forces was being altered by the fact that the composition of Europe was changing. Both Sweden and Finland entered the community in 1995 and their priority was to protect and maintain their own national social models. Third, the situation shifted in a significant way with the defeat of one of the leading proponents of neo-liberalism, the British Conservatives, and the arrival of the New Labour Party of Tony Blair as well as the victory of the Socialists in France in 1997.

The ETUC's position helped to keep open discursive space for talking about and pushing for employment. The unions helped keep it on the agenda through the difficult early and middle years of monetary union. While the Confederation considered EMU to be fundamentally flawed, it did not come out in opposition. Instead, the union central "continued to back EMU" (Martin and Ross, 1999: 349), describing it as a necessary step toward further integration and a way to keep the Germans - so key to the European project - committed. Therefore, rather than slamming monetary union, the ETUC systematically called for more attention to employment, less to mechanical application of the convergence criteria, and recognition of the real economic difficulties that the European economies faced in the mid to late 1990s. Before and after the 1996-1997 Intergovernmental Conference, the ETUC pushed for employment and growth to be explicit objectives of economic union, for institutions to be created to achieve those goals, and to ensure a role for the social partners. While "the ETUC's criticisms and proposals had no discernible effect on EMU's design and the process of transition to it" (Martin and Ross, 1999: 350), they were part of the on-going effort to keep political space open so as to legitimate employment goals.

Then, the balance of forces began to shift. Sweden and Finland entered in 1995, as part of the "fourth enlargement". In the preparation for the Intergovernmental Conference, Allan Larsson (former Swedish Finance Minister and future Head of DG 5 Employment and Social Affairs), and the Swedish representative to the IGC, Gunnar Lund, played an important role from 1995 to 1997. Despite being newcomers, the Swedes did not hesitate in trying shape employment policy to reflect Swedish policy priorities, and especially Swedish notions of active labour market policy.

Larsson's principal argument was that Europe's project of monetary and economic convergence must include the type of active labour market policies Swedes had been pursuing for years. The title of his paper written in 1995 at the request of the Swedish Prime Minister (in preparation for the 1996 IGC) summarises this position: *A European Employment Union – to make EMU possible*. There Larsson argued that a strong employment policy would contribute positively to the EMU because it would make the labour market perform better.[6] At Larsson's initiative, Sweden tried to convince the other Member States of the need for concrete actions to develop an employment strategy for Europe (van Riel and van der Meer, 2002).[7] The Socialist group in the European Parliament pushed the "Larsson Plan", and eventually co-operated with the Christian Democrats to pass a similar initiative, re-titled the "Coates Plan" (Martin and Ross, 1999: 351).

At the time, however, France, the United Kingdom, Germany and (after the general elections) Spain, were all governed by right-wing governments. They were either not willing to believe that the experience of a small open economy in promoting both a good competitive position and employment could be transferred, or they simply did not want to hear about employment. Therefore, a further shift in the balance of forces was needed.

The third factor, again involving a shift in political forces, arrived with the election of New Labour in 1997 as well as the Socialist government headed by Lionel Jospin at the eleventh hour of the preparations for the Treaty of Amsterdam. The German Social Democrats followed them in 1998.

The most immediate impact of the leftward electoral swing was the insertion of employment clauses into the Treaty as of 1997.[8] Lionel Jospin, flexing his electoral muscles, threatened to reject the stability pact unless an Employment Title were added to the Treaty of Amsterdam and a special meeting of the Council called specifically to address employment and job creation. However, the formulation of the title reflects the influence of New Labour, and its concern for "employability". Article 109n of the Employment Title of that Treaty reads that the principal aim of the EES is: "promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change."

The 1997 Amsterdam Summit also brought agreement on the form the employment strategy would take. The decision was that the multilateral process would imitate the co-ordination process already underway in macro-economic policy. The level of constraint had just been ratcheted up, from talk to participation, albeit without the obligation to use precisely the same policy forms or levers.

There was, moreover, a significant degree of institutionalisation that followed from the constellation of left-wing electoral successes in 1997. Jospin's demand for a special Council produced a meeting in Luxembourg in November 1997, one that was prepared by the dynamic and polyvalent Prime Minister (who was also his own Finance and Labour Minister) of the Grand Duché, Jean-Claude Juncker. This left-leaning Christian Democrat participated in over 200 preparatory meetings before consensus was reached on how to operationalise the employment chapter. Because he was both Finance Minister and Employment Minister in his

government, he could move back and forth between the "two solitudes" of monetary and employment policy housed in Ecofin and the Employment and Social Policy Council respect-tively (Juncker, 2001).
At the time, the official view of the Luxembourg Jobs Summit was that something had happened. It was labeled a "new beginning in the process of European construction" by *Agence Europe* (#7106, 24-25 November 1997). What was done concretely? Here we see the emergence of a new architecture as well as novel forms of governance, that is policy co-ordination and benchmarking. These involve the use of guidelines, regular meetings, oversight by the Commission, and so on. Indeed, the Luxembourg process provided a practical experience and even model for the move in 2000 to the open method of co-ordination (OMC).[9] It has since been applied to several policy areas traditionally within the jurisdiction of national and sub-national authorities (Telò, 2002: 253).[10]

In 1997, a first set of European Employment Guidelines was adopted in the core sector that is employability.[11] Most remarked, of course, in this process has been the importation of a basic principle of Third Wayism, and the creation of the notion of "employability" as a new term in Eurospeak. It was another signal that there would be a supply-side approach to employment, one that buried demand-focused policy stances for the long-term.

But this was more than a discursive lurch to the right. It also brought the institutionalisation of a new politico-social space, one where employment rates and policies receive systematic attention. Once in place, this space could then be broadened to promote a full EES, by extending the guidelines, producing yearly joint reports, as well as the use of the "recommendation" as a tool and a peer review process.[12]

Further Institutionalisation : Lisbon and the EES

One key new space is governance machinery associated with annual meetings, and all the apparatus involved in making them happen: staffing, reports, statistical reviews, and so on. During the Portuguese Presidency in spring 2000 the decision was taken to consider employment at every spring European Council. Thus, what was imposed as an extraordinary Council Meeting in 1997 had been regularised by 2000.

This important decision then called forth an apparatus to "prepare" the meeting. Member States prepare annual reports, and these are then considered throughout the system including by the newly created Employment Committee, composed of representatives of Member States and the Commission. Finally, the EES has also generated its own institutional innovations. For example, it instituted a peer review programme, designed to facilitate the exchange of experiences among experts dealing with countries facing similar challenges or a particular policy issue (http:// peerreview .almp.org). Together they constitute, in other words, another ratchet up towards to a common employment strategy.

A second step came with acceptance of targets for employment rates. Employability was the focus at Luxembourg, the key pillar or even the centre-pole around which the rest turned. The activation paradigm, explicitly modeled on the target setting, or benchmarking, favoured in the EMU system, generated quantifiable targets for employment rates. Thus, in 2000 the Member States committed themselves to increasing the average EU employment rate to 70% by 2010, and to 60% for women, with intermediate goals set for 2005 (67% and 57% respectively) and including a commitment to get the rate back up to 50% for those aged 55 to 64 by 2010. While several Member States already meet or surpass these targets, others will have to make significant efforts.[13]

Thirdly, there is not simply an intensification focused on quantitative targets; there is also a broadening of the policy reach. By Lisbon, and then Stockholm, the strategy gained specificity and meaning. "Employability" is not only about jobs. Raising employment rates in the face of ageing societies, declining birth rates, and costly pensions, has become the way to "save" social protection. Thus, working with the EES has become a policy process in its own right with broad social implications. The goal is to achieve horizontal policy treatment, an objective made more achievable by the decision to deal with the matter systematically once a year.

The result is an elaboration of the EES. Since Lisbon (spring 2000) and Stockholm (fall 2000), the European Employment Guidelines (EEG) now identify six objectives, each of which is horizontally linked to broader problem definitions and policy goals of the Union. The first is to increase the employment rate. A second is to improve the quality of employment, which was one of the principal policy threads of the Belgian and Swedish Presidencies. It is now on an equal footing with sheer quantity, as the expression "more and better jobs" exemplifies. Recognising both the employability pillar and rapid technological change, the third overall objective is to define a coherent and global strategy for life-long learning. Fourth is a democratic goal, to involve the social partners in all stages of the process, a philosophical principle in place since the Florence meeting of the European Council (spring 1996). The penultimate objective, recognising the current dominance of the employability pillar, is to have a balanced approach to the four pillars. Finally, there is political commitment to develop appropriate social indicators. These six horizontal objectives are the strategic underpinnings for addressing labour markets changes in the European Union in a more complicated way than initial thinking about EMU might have predicted.

At the five-year point, the EES was subjected to a technical and political evaluation. Ten areas were subject to a three-stage evaluation process.[14] The first stage is of a technical nature, and has sought to analyse the successes and failures of the EES. To this end, groups of researchers, consultants, and administrations have been mobilised at national level and in varying degrees, depending on the country, have provided answers to the common questionnaire adopted at European level (de la Porte and Pochet, 2003 forthcoming). Even this seemingly technical process has prompted some mobilisation, drawing in a range of actors**,** from trade unionist to academics, to analyse the content of the strategy and its use as a governance tool.[15] This technical stage also involves the Commission, which prepares country-by-country analyses of each policy domain.[16]

The political evaluation involves European level actors. It too calls on the services of the Commission and also includes the Presidency and the Council of Ministers.[17] The outcome of the political evaluation is a policy statement. Despite the criticisms emerging out of numerous national evaluations, the centrality of the employability pillar has been re-confirmed and strengthened as a result of this EES +5 assessment. Agreement on over-arching policy objectives for the European Union is a cornerstone of this political process undertaken by successive European

Councils. It is here that the agreement on quantitative objectives for the over-arching aim of active labour market policies takes on all its importance.

A final important shift that will influence the future of the EES is that the Employment Guidelines will in the future be co-ordinated with the Broad Economic Policy Guidelines (BEPG) that are the output of Ecofin, the Economic Policy Committee, the Economic and Financial Committee as well as the DG Economic and Financial Affairs.[18] And, these will all be considered at the European Council, not in isolated and specialised committees. The European Council at Copenhagen is scheduled to confirm the new orientations, and adopt the proposal, for which a political consensus already exists, to synchronise the timetables of the EES with the BEPGs. The intent is to avoid overlaps and contradictions, to install a three-year cycle, to identify more stable and strategic guidelines, and to give more focus to implementation.

As this section has demonstrated, in the run-up to Lisbon (and afterwards), the EES became an institutionalised process that calls on expertise within the Commission as well as in the Member States and policy communities more generally. It gives institutional resources to put pressure on national governments for policy co-ordination and to serve as assets for actors in employment policy, both outside and inside the Union, to allow them to stand up to the steamroller of monetary union.

In terms of policy content, there is a significant shift in the way employment is understood. Simple notions of "flexibility" have given way to policy efforts to combine flexibility *and* job security. In addition, the notion is not that of "work first," or "any job is a good job," in the North American sense. It is rather, that quantity and quality must go together.

What did it take to get this far?

In assessing the move towards a European employment strategy that is not precisely what was predicted after 1991, and yet has been significantly influenced by the EMU process, we can identify a number of key factors. One involves the role of actors and their ideas in the early years. The second is the contribution of institutionalisation to forward motion. Institutionalisation transformed a fluid political opportunity structure into one in which ideas and actors had a legitimate right to participate. Ideas floated less as "trial balloons" or discursive essays, and actors could claim a right to participate. Therefore, the patterns of institutionalisation, we will show, are key to making an opportunity into a resource.

In the analysis above we have already indicated the importance of the unions, especially the ETUC, in maintaining the spotlight on the *potential* of EMU to be *improved*. While they could not, in the early years, shape the implementation of EMU, they could hold open a discursive space in which the idea of improvement and employment existed simultaneously. In addition, and also in the realm of ideas, was the waning hegemony of the German model. As Dyson puts it (2002a: 295):

> The key factor here has not been the birth of the Eurozone but the loss of persuasive power of the German Rhineland model in the 1990s over growth, employment, and job creation. EMU transferred German monetary orthodoxy but not a German-style cooperative capitalism. In this new context, subject to ideological receptivity, other states

> can use superior economic performance in output growth and job creation to assume a cognitive leadership role. The result is new opportunities for small states like Denmark and the Netherlands, to influence larger states, like Germany.

Of course, the actors were also changing. The fourth enlargement at a key moment in European history brought in two Nordic countries that had every interest in maintaining space for an active employment policy. In addition, the leftward shift of 1997 and 1998 meant that both the most neo-liberal European government was gone, and the two key policy actors in EMU - the French and the Germans - were now in the hands of their national Lefts. And finally, a political entrepreneur of some considerable skill who bridged both the traditional European political divide - that is, a progressive Christian Democrat - and the policy divide of employment and finance, was to hand when the Jobs Summit was called.

It is important not to rule out chance events that affected this shift in actors.[19] Two of these were the electoral decisions taken in two member states, and the rotation of the Presidency that put the smallest Member State in charge of the extraordinary summit, thereby deploying its polyvalent PM. One might ask about the consequences if these two chance events had not occurred. Would the employment strategy, still embryonic at Amsterdam, taken longer, or not have developed at all?

A third factor is the process of institutionalisation that has resulted in greater resources available inside the European institutions. We can identify four types of resources available to actors in the employment policy realm since the Luxembourg summit and the constitution of what is still sometimes termed the “Luxembourg process.” Several of these resources have been augmented with the EU’s turn to the open method of co-ordination (OMC) at Lisbon, and a more regularised institutional structure for the European Employment Strategy.

A first important institutional resource is the decision taken in 2000 to devote *every* subsequent spring session of the European Council to economic and social affairs. This is a resource for two reasons. First, it raises the status of employment to a matter of “high politics”, for example by setting medium-term objectives. Thus, Lisbon set down employment objectives for 2010, as we have noted. Even more importantly, it means that European Council has taken back its prerogative for providing strategic direction in economic and social policy.[20] If Ecofin had taken upon itself in the 1990s to oversee the decisions of Heads of States and Governments, it no longer can do so in the same way.[21]

The second institutional resource is the *recommendation*. The Treaty of Amsterdam made it possible for the Commission to issue a recommendation to Member States based on an assessment of their performance in respecting the Guidelines in their national action plans. The Commission initiates the process, and the recommendations are approved by the Employment and Social Policy Council. While many were skeptical that this tool would ever amount to much, the Commission made 53 recommendations to Member States in 1999 and upped the number to 57 in 2001.[22] Of course, not all governments were pleased to receive their bad report cards, but despite their protests, the recommendations were adopted by the Employment and Social Policy Council, with only minor changes.

The recommendation is a power resource for the Commission. It is now capable of publicly singling out - that is, naming - Member States that are not in compliance with the Employment Guidelines - and saying why. In this sense, despite the lack of enforcement capacity, the Guidelines are more than expressions of pious hopes. They can become real benchmarks, with an institution empowered to identify those meeting them and those not. This strengthens the Commission's hand in negotiations of political priorities and directions. We will see below that the absence of this capacity weakens the application of the open method of co-ordination in social protection and wage setting.

Technical expertise has become a third resource. The Employment Committee is explicitly modeled on the Economic Policy Committee (EPC) that advises the Ecofin. It is charged with monitoring the employment situation as a whole across the Union and in individual Member States, and preparing the Council's work for each springtime meeting. It also can issue opinions, either at its own initiative or at the request of the Council. It must consult employers and unions.

Both the Economic Policy Committee and the Employment Committee provide the technical support and work to prepare the Council, based on proposals from the Commission. In particular, they are located at a crucial stage of any benchmarking and co-ordination exercise that is to identify and define the indicators. They undertake this work, as well as performing certain representative functions; they must consult with unions and employers. Therefore, the Employment Committee serves as a buckle linking organised interests to the Commission and then the Council.

A fourth kind of resource is provided from civil society, and from beyond the social partners. Certain progressive policy intellectuals have converted to the employability and activation agenda. It is no longer either the preserve of neo-liberals seeking to dismantle the European social model (by retrenchment and de-regulation) nor is it even simply the "solution" proposed by New Labour centrists. Thus, activation is not described as the punitive "workfare" version, forced on people for their own good. Indeed, the emerging rationale is one that identifies the needs of the welfare regime and society more broadly as the beneficiary of successful activation efforts (Ferrera et al, 2000; Rhodes and Ferrera, 2000; Scharpf and Schmidt, 2000a; 2000b; Hemerijck 2002).

A broader church has taken shape, with many taking care to distinguish themselves from what they castigate as the mistaken Blairist Third Way. For example, in their analysis prepared for the Belgian Presidency (and now published as Esping-Andersen *et al*., 2002), Gøsta Esping-Andersen, Anton Hermerijck and their colleagues explicitly treat Blair's Third Way as too limited and even too "naïve," while then going on to propose a welfare architecture based on activation as the basis for the European social model (Esping-Andersen *et al.*, 2002: chapter 1, especially 4-5). In a similar way, Frank Vandenboucke, an emerging impresario of "modernising" the European social model, makes a number of arguments for a participation society grounded in Rawlsian philosophy (Vandenbroucke, 2002; 2001).

These factors constitute important resources. The support from progressive intellectuals helps policy communities, including unions and non-governmental organisations, to work out nuanced reactions to the EMU and EES. They can identify their preferred positions and versions. Then, institutionalisation of the Employment Committee as well as the political visibility of the annual springtime review gives them access points to the policy process that did not exist previously.

Within the Union, institutionalisation means that employment will be on the agenda, no matter the governments in power or the economic situation. It has assigned to the European Council the responsibility for taking the strategic lead, and given the Commission political space for exercising its powers and bargaining. For its part, the creation of the Employment Committee means that an alternative vision to that put forward by Ecofin (and its own committee) can be legitimately promoted.

When "something is missing": Social protection and wage formation

In the previous sections we have indicated the ways in which actors deploying ideas and strategies contributed to the transformation of opportunities into political resources, via a process of institutionalisation. The outcome was a situation about which it is now possible to say that there is a relatively advanced European employment strategy, in which co-ordination and benchmarking is beginning to function as its supporters thought it should - and could. Working in this way, the institutions of the EES provide employment policy-makers and other actors with resources they can use to stand up and be counted within a policy process dominated by EMU.

We will now turn to other key policy realms, to determine whether the same movement has occurred and the same institutionalisation exists. We will observe that there has been less change in these areas, and fewer resources accumulated. In general, to anticipate the description, we can say that the situation remains more one of floating discourses than institutionalised access and resources. The reasons for these limits lie in factors of timing, as well as strategies followed by key actors.

Social protection - A slower movement or a different movement?

Throughout the 1990s few expert Europeanists would have predicted that issues such as poverty and social exclusion, pensions, and health care systems would be high on the European Union's agenda for action by 2000. After all, none fall within the treaty responsibilities of the EU. The principle of subsidiarity consecrated at Maastricht, seemed to push them even more to the margins. Even if the annex to the Treaty allowed for Directives on social policy, qualified majority was *not* applied. The requirement of unanimity, plus the decision of the British to opt-out of the Social Charter, made any Directive highly unlikely. Then, the Treaty of Amsterdam incorporated the Social Charter, but without changing the voting rules.

The general conclusion of experts in the mid-1990s was that European institutions influenced national social protection systems directly through the decisions of the European Court of Justice or indirectly via the single market decisions (Liebfried and Pierson, 1995, for example). But beyond that, experts concluded, the Commission could resort only to "soft politics," thereby trying "to 'incite,' 'inform,' and 'animate' policy debate in the social policy realm" (Ross, 2001: 178).

Then the political opportunity structure began to change, with the conjunction of a Finnish Presidency and new energy in the Commission. In July 1999 the Commission issued its Communication on *A Concerted Strategy for Modernising Social Protection* (COM[1999] 347 final). The Communication was structured around four pillars (European Commission, 1999: 13-14):

1. to make work pay and provide secure income;
2. to make pensions safe and pension systems sustainable;
3. to promote social inclusion; and
4. to ensure high quality and sustainable health care.[23]

The Communication referenced the European Parliament's call for the Commission "to set in motion a process of voluntary alignment of objectives and policies in the area of social protect-tion, modeled on the European employment strategy." The Commission also reported its own assessment that: "it is now time to deepen the existing co-operation on the European level to assist Member States in successfully addressing the modernisation of social protection and to formulate a *common political vision* of Social Protection in the European Union" (European Commission, 1999: 12 emphasis in the original).

The new context of EMU in its final stages as well as the Broad Economic Policy Guidelines for 1999 were explicitly cited as the context in which convergent action was required (European Commission, 1999: 7 ff). Indeed, the Communication expressed a clear awareness that EMU would threaten social protection systems, particularly if a retrenchment response were to be loosed during an economic downturn. Even while the EES represented a model to follow, moreover, the Commission described potential negative consequences. These would follow if social protection were assessed only with respect to its employment results, ignoring the solidarity and social cohesion dimensions of social spending.

This Communication was surprising to observers.[24] However, the Commission had begun to test the waters for such a perspective on social protection earlier and other actors had also begun to try out a new discourse, one that represented their ideas about an alternative to leaving social protection to national governments to deal with as best they could in the context of EMU. In other words, an alternative focused on redesign rather than retrenchment was beginning to take shape, and at its centre was an expectation that there would be a role for the EU in the process.
Two Communications on social protection had preceded 1999 one.[25] The Commission had begun publishing *Social Protection in Europe*, thereby providing synthetic overviews of the situation in all Member States; having such information was a basic tool for co-ordination. The Dutch Presidency in 1997 had organised an important conference on social policy and economic performance.[26] Indeed, by 1997 the important notion that economic progress depends on effective social protection had become part of Eurospeak, as had the language of "modernising social policy."

Overall, however, it would be difficult to say that before 1999 there were more than an emerging set of ambient ideas, none of which enjoyed solid anchors to key actors. In the discussions there were three key themes about how to deal with social protection at the European level in the 1990s. The first was - subsidiarity *oblige* - that any movement would bring *convergence* rather than "harmonisation." Convergence was called for both to avoid social dumping and because the challenges were similar in many Member States. A second was that convergence would occur around *objectives*, but not around methods. Diversity could be accommodated and information on best practices exchanged, without requiring each country to provide social protection in exactly the same way. Thirdly, in a precursor to the OMC, and in what was a failed experiment, the European Council issued Recommendations in 1992 that promoted convergence around *common criteria*. These had no enforcement weight behind them, however, and little progress was discernible until 1999 (de la Porte and Pochet, 2002: 40-42). Nonetheless, they did align ideas about alternatives to social protection with the model of benchmarking and co-ordination that eventually became the OMC.

We find again in this policy area that schedules played a role in allowing opportunities to be institutionalised into resources. The first Finnish Presidency occurred in the second half of 1999. As the Swedes (see above), the Finns' major goal was to move European-level thinking about social protection in a direction that would not threaten their own social model. Therefore, flexibility and diversity was by far a desirable alternative, if the other option (that is, harmonisation) would only bring a move to the lowest common denominator. To advance the social protection agenda, the Finnish Presidency organised a major international conference titled *Financing Social Protection in Europe*.[27] The conference was intended to discuss links among the economy, employment and social protection.[28]

These months in late 1999 and early 2000 also brought a flurry of academic studies that began to identify a role for the European Union in the transformation of social protection systems in the Member States. For example, the Portuguese Presidency undertook what has been described - by a key participant - as "a new kind of alliance between the intellectual community and the political community" (Rodriques, 2002: xi). While one of the resulting books was only published in 2002, the papers were widely available during the Presidency. Among them was Esping-Andersen's which sketched out in a positive fashion both a new way of thinking about social protection and a role for the Union. In his postscript, written after the French Presidency, he describes the two "as a first step towards an ambitious project of building a new welfare state edifice" and points to the need for indicators and accountability (in Rodriques, 2002: 85-86). Similarly, the book for the Portuguese Presidency by Maurizio Ferrera and his colleagues (Ferrera *et al*., 2000: Chapter 4) asks, among other things, "what role for EU social policy?"[29]

In these publications by Europe's leading social policy analysts, commissioned by the Portuguese Presidency and then followed by the major conferences and papers organised during the Belgian Presidency, it is possible to see an intellectual community emerging to propose an alternative to retrenchment - variously described as "recasting welfare states" or seeking a "new welfare state design" - as well as a role for the Union. However, this group remains small, compared to that involved in the employment field, which includes not only university-based researchers but those linked to the major union federations and confederations and independent think tanks.

Finally, we can assess the timing. The 1999 Communication came out only a few months before the crucial Lisbon summit, and two years after Amsterdam. In other words, from the beginning, social protection would have to run to catch up with the EES. While the Finnish Presidency pushed it further, there was still no major political force behind it, beyond the social protection branches of the Commission.

The Lisbon European Council extended, in the social protection field, complete co-ordination only to poverty and social inclusion, to cover the four stages of OMC, although "these objectives are a much looser version of the first step of OMC" (de la Porte and Pochet, 2002: 42). The Nice

Council in December specified it further in December 2000, identifying four general objectives, but no comprehensive guidelines or agreed indicators.[30] Not surprisingly, when the first National Action Plans for social inclusion (NAPsincl) were submitted in June 2001, only one-third of the Member States appeared to have taken the exercise seriously (de la Porte and Pochet, 2002: 42). They then were examined by the Commission and went to peer-review in July 2001. The Commission's report identified four groups for classifying the countries and their actions, a report which was hotly contested by several Member States. They managed to obtain significant changes before the Employment and Social Policy Council approved the report in December 2001. Then, forward movement started again under the Belgian Presidency. A major conference was organised by it to discuss an expert paper commissioned from Tony Atkinson, on *Indicators for Social Inclusion: Making Common European Union Objectives Work* in September 2001.[31] By the end of the Presidency, consensus had been created on 18 indicators and these were then accepted.

While the process is moving forward - the next NACsincl are due in June 2003 - it is also the case that the Commission has less room for manoeuvre on this issue, both discursively and politically, than in the case of the EES. Some of the difficulty is due to the formulation of the problem, and in particular the link between "poverty" - which is the chosen formulation of the issue - and "social protection," which is a much broader concept in European discourse.

Of course, some actors make the link between poverty and social protection clearly. For example, Frank Vandenbroucke, who was a leading force behind the treatment of social issues during the Belgian presidency, has argued that fighting poverty implies a commitment to *expanding* the "social state." It was he who commissioned British expert Tony Atkinson to produce a paper on poverty, inclusion and indicators during his country's Presidency. Moreover, the European Anti-Poverty Network, a significant lobby group at the EU level, builds on notions of social exclusion and inclusion to broaden both the definition of poverty and the notions of how to combat it. It stands behind the Nice objectives and acts as a watch-dog to ensure they are respected. Nonetheless, it still has trouble ensuring that they are operative. For example, in a recent conference on *Making the Employment Strategy work for Social Inclusion* (June 2002: 5), the report states: "*As to the NAP [National Action Plans] Employment, the finding is that the Nice objectives are still not being brought fully into the equation*. National situations may well be varied and complex, but the overwhelming impression is that these elements worked out as part of the inclusion strategy are mostly included in the NAP Employment just as references, with no great impact on how they are framed." [32] And indeed, unions have only taken up the issue of European-level actions in the realm of social protection recently, while employers thus far demonstrate no interest at all.[33]

Part of the difficulty is, of course, the on-going and common difficulty of ensuring what the British call "joined up governing" or what some others term cross-silo or cross-stovepipe policy making. But beyond that, there a flaw in the OMC for social inclusion that merits its own attention. Because no cost estimates have been generated, little linkage with the larger process of monetary union was ever achieved. In the absence of discussions of the budgetary implications and financial costs of fighting poverty, and therefore where the money will be found within the framework set by EMU, the use of the OMC in this context is difficult to push seriously.

The second area of social protection that has been clearly affected by the EMU is pensions. It was obvious that completion of the single market and then EMU would affect pension schemes in a major way. In particular, the completion of the internal market was taken by mainstream economists and others as a clear signal that privatisation was a must. How else would mobile workers and companies cope? For several years, then discussion of pensions turned only on the issue of privatisation, a debate which was encouraged by the initial location of any responsibility for considering reform in the DG responsible for the internal market rather than that in charge of social affairs.

There was, however, little discussion anywhere at the European level. If free movement and the impact of EMU have shaped pension debates, this has happened until recently without the intervention of national ministers in charge of pensions within European institutions. Part of the reason is that there is no clear legal responsibility in the Treaty, and there are a wide diversity of national systems as well as of reforms already implemented or under way. But the other part of the story is the reluctance of ministries responsible for pensions to address reform, until forced to confront the risk they would lose control of the issue. As Chassard (2001: 317) notes "It is important that the 'social experts' should make their voices heard in this concert, so as not to leave the field open to those who view social protection from an exclusively financial angle."

Even when the Social Protection Committee (SPC) was created and immediately assigned the task of producing a report addressing the social dimensions of pensions, the European dimension got short shrift. The main message of the draft report prepared in 2000 is: "it will be important to bear in mind that financial sustainability cannot be achieved at the expense of the ability of pension systems to meet their social goals." Only one paragraph, however, is devoted to the reasons for dealing with the issue at European level and there are still no definitions of common social objectives. This silence constitutes a weakness, if a purely economic and financial definition of the pension problem is to be avoided.

Nonetheless, we can see in recent months the emergence of a new network around the SPC that is pushing for a more social and European analysis, even if the dynamic and result is still uncertain. This group is significantly more heterogeneous than its homologue around the Employment Policy Committee. The network still needs to establish its legitimacy as well, a result that will be achieved as much via the analyses it can produce as in its political and ideological dealings with the Economic Policy Committee (EPC - advisor to Ecofin).

In this context, the Belgian Minister of Social Affairs and Pensions, Frank Vandenbroucke, played a key role during the Belgian Presidency. He tried to convince his colleagues to adopt common objectives, and then to develop indicators to enable the OMC to be applied. He sought to mobilise intellectual communities, by commissioning a report during the Belgian Presidency, intended to provide an analysis of the reasons for a common social approach to pensions.[34] The European Council of Laeken approved a set of overall objectives[35] and the deployment of the OMC in this area.

To give substance to the general principles, the EPC and the SPC were tasked with producing a joint paper, thereby signaling the tight connection between monetary and social policy when pensions are on the table. In carrying out their assignment, the Committees wrote a document that now frames thinking about pensions, describing it simultaneously as "about" economic and social policy, and to be understood in light of the Broad Economic Policy Guidelines (BEPGs). In the report, 11 objectives were endorsed. Even if the formulation of some is still vague and ambiguous, the hierarchy of objectives does place social considerations high. Macro-economic issues about system sustainability have, however, a very significant place also – five of the 11 objectives mention them. We observe, in other words, that the social dimension has become more important over time.

With this framing statement, further actions were undertaken. In September 2002 Member States provided the first national strategy reports for pensions. These reports are quite explicit about the need to negotiate changes to pension systems, particularly with the trade unions. Several were drafted jointly by several national ministers, which will strengthen their legitimacy. The Commission will analyse the national strategy reports, with the goal of identifying good practices and innovative approaches of common interest. By spring 2003, the Council and the Commission should provide a joint report to assess national pension strategies and identify good practice. For 2004, they will assess the objectives and working methods established and will decide upon the objectives, methods and timetable for the future of the pension strategy. In the meantime, the SPC and EPC have again been assigned a joint project, this time to develop indicators that can underpin the OMC (SPC and EPC, 2002).

Why have there been fewer opportunities for developing a co-ordinated and European alternative for redesigning social protection and why does the current portfolio of actors' assets remain so limited? The answer to the question is found in part in the *late start* that social protection had, in comparison to the employment strategy.

Moreover, when the EU did begin to move in this area with the Social Protocol and so on, there were two self-imposed *institutional limits* that made the political opportunity structure less than hospitable: social policy was an area for opting-out, as the British did for many years, and qualified majority voting has still not been applied in this area. Given the wide diversity in national social protection regimes, it is difficult to imagine that unanimity could ever be reached. Even the application of OMC, as we have seen, has been somewhat slower to reach maturity than was the case for the Luxembourg process.

Then there is the matter of ideas. Before action could be taken, *ideas about alternatives* had to be constructed. Intellectual communities are only now turning their hand to the matter, but with broad-sweep analyses, while "economic" actors - both unions and employers - do not see it as a strategic priority. The unions, as we noted, only reluctantly addressed the issue starting in 1999.

We have observed many *fewer actors* visible on the terrain to take advantage of any opportunities for moving social protection to the European level. If the Dutch, Finnish and Portuguese Presidencies took up the challenge of addressing social protection in the context of monetary union, there were no dramatic interventions by national governments, as there was in the case of employment. Some governments were willing to take a more active role in particular areas (for example, the French around poverty and inclusion) but not others (for example, the French were reluctant to address Europeanisation of the pension discussion). And finally, fewer policy entrepreneurs can be identified as playing a key role, as our constant reference to only one indicate.

The result is that where there are ideas about an alternative social model, they are still only *loosely anchored to European institutions*. The institutionalisation that shaped the EES between 1997 and the present has only just started in the field of social protection. The next round of NATsincl will, therefore, be crucial in this regard, if opportunities are to become resources.

Wage formation: The non-starter

In this policy realm, probably the one that was expected to suffer most from EMU, we have seen little movement toward a pan-European pattern of wage setting. This key element of macro-economic policy falls within the purview of the most institutionalised sector of the EMU, and yet there has as yet been little change to bring it to the European level. This is also the area in which the new ideas about and practices of governance at the European level have made the least headway. Wage formation remains in the hands of the social partners, and it is nationally focused.

At the beginning of the process of monetary union, it was interesting to note that one response was a flurry of social pacts among social partners, no doubt as a way to limit the negative effects. In the first stage of monetary union and as countries were positioning themselves early in preparation to enter (or not) the Eurozone, more than half the governments in Member States concluded macro-agreements with unions and employers. The goal was clearly to promote adaptation "by consent" rather than to risk disruption and unrest in reaction to the convergence criteria imposed by the process of monetary union.

New pacts were negotiated in Belgium, Italy, Spain and Ireland in 1992-1993. By 1995 and 1996 they were also in place in Portugal, Finland, and Germany, and renegotiated in the first set of four. Beyond their national diversities, what the pacts had in common was wage restraint, whether to put a lid on inflation (Italy, Spain or Portugal), increase competitiveness (Belgium) or smooth out asymmetrical shocks (Ireland, Finland) (for more details see Fajertag and Pochet, 2001; Pochet, 2002). In the mid-1990s, certain analysts could conclude that these examples provided evidence that what "reforming labour market regulation and recasting welfare states may require in most European countries is a search for a new type of 'corporatism' rather than its abandonment and, rather than an Anglo-Saxon deregulation of labour markets, a readjustment of the 'continental' model to accommodate market pressures with the preservation of social protection and social consensus" (Rhodes, 1997: 1).

It would, of course, be naïve to ignore the fact that monetary union did propagate a liberal vision and acted "as a rhetorical device to discipline the expectations of others about what is politically, economically, and socially feasible" (Dyson, 2002: 24). Nonetheless, it would also be difficult to conclude that there was simply and immediately a rapid decentralisation of bargaining or immediate installation of the other elements of the strictly neo-liberal agenda. Therefore, what did happen, especially when the pacts again came to grief later in the 1990s?

The first and probably most important factor, to note in looking at wage formation in Europe is that the set of actors is not the same as in the other two cases dealt with here. More specifically, there is much less place for Member States and political institutions, including those of the EU. Wage bargaining remains the domain of management and unions, of the social partners as Eurospeak says.

It also remains overwhelmingly an occurrence in "national space"; successes at co-ordinating collective bargaining across borders, even within companies, are limited.[36]

Nonetheless, there have been some efforts to advance a European alternative, and particularly under the leadership of the Germans during their Presidency in spring 1999. Oscar Lafontaine, then economics minister in the new Schröder social democratic-green government, began institutional innovations. The resulting "Cologne process" was intended to establish a meaningful dialogue among representatives of the key economic players: the European Central Bank (ECB), Ecofin, the Employment and Social Policy Council, the Commission and the social partners, represented by the UNICE, the CEEP and the ETUC.[37] The Cologne European Council expressed the hope that these institutionalised meetings would become "an effective way to approach implementing the […] macro-economic policy forming part of the broad economic policy guidelines as pursued by Member States."

Beginning in November 1999, the intent was to have regular meetings twice a year to provide an opportunity for direct dialogue on macro-economic questions among all concerned, and particularly between the ECB and the social actors, who have few opportunities to interact. The intent was never to turn the sessions into a location for decision-making, but simply to allow for a better joint understanding and exchange. The first meeting stressed the principles of informality as well as confidentiality, but the dialogue nonetheless remains stodgy. As the Belgian Central Council of the Economy (2001: 4) puts it, the dialogue still lacks "a common desire to create a real climate of confidence among the representatives of the institutions represented."

The vision announced at Cologne has not been realised, in large part because of an excessive of institutionalisation. But before turning to that it is worth pointing out that the key policy entrepreneur of the experiment, Lafontaine, resigned from the German government within a year, leaving no one to pick up his mission. Institutionalisation of ideas is solid in this domain. Ecofin has long been confident that wage setting should follow the BEPG, in which there is a clear position in favour of decentralised collective bargaining. Within the Commission, the DG, economics and finance (Ecfin) considers itself master of the process, the DG employment and social affairs to be lacking macro-economic analytic capacity. Indeed, the latter is not in a position to offer an alternative on macro-economic questions. For their part, the unions have appeared poorly prepared, and UNICE considers it too early to talk about wages (Julien, 2002).

The other factor hindering any European-level co-ordination of collective bargaining, is the difficulty of co-ordination among unions. They have tried to agree on a simple formula calculated on the basis of inflation and productivity rates, that might serve as a bench-mark in wage negotiations.[38] There is also an exchange of pre-negotiation documents and such. However, the process remains in its infancy, and therefore still subject to the pressures for decentralisation coming from the macro-economic institutions of the EU and EMU. It is too soon then to know the direction of movement. There are evidently tendencies towards decentralisation, but unions in some countries (for example, Italy, Spain and Ireland) have also recently concluded or renewed tripartite pacts (Visser, 2002).

Concluding Remarks

We began by questioning the conventional wisdom that existed in the early years of EMU, to wit that to function properly EMU would call forth more "flexible" labour markets, on the anglo-american model, there would be complete decentralisation of collective bargaining, and significant cutbacks in social spending. What have we found?

Not quite that which was predicted

These three issues have been taken up in separate sections of the paper, and we have shown that there are a range of outcomes. Wage formation and collective bargaining conforms most clearly to the prediction. Our conclusion is guarded, nonetheless, for two reasons. First, we can observe long-term tendencies towards decentralisation, at the same time as there are moves toward Europe-wide co-ordination. Over all, however, decentralisation has increased. The second reason for a guarded conclusion is much clearer. Decentralisation can not be attributed wholly to the effects of EMU. Well before entering the Union in 1995, Sweden had already begun to shift towards decentralised collective bargaining (as well as flexibility), for example (Mahon, 1999: 136ff). Therefore, in this area, as in many others, it necessary to sort through different effects, distinguishing secular trends widely experienced from direct consequences of EMU.

With respect to social protection, there is no clear evidence of retrenchment at the national levels, although there has been a good deal of redesign going on. Indeed, there is something of a small (if not medium) enterprise among intellectuals working on demonstrating that change does not equal retrenchment.

Lastly, if the prediction about employment were simply that there would be greater flexibility imposed, that is that employers were be empowered to exercise complete control over the employment contract, hiring and firing at will, seeking cheap forms of labour in part-time and temporary employees, and so on, this forecast was off the mark. Here there is clearest evidence that an alternative to both neo-liberal preferences and the post-1945 employment patterns have emerged. Programmes for "employability" arise out a different analysis than that of flexibility. An heir of (and often termed) active labour market policies (ALMP), the European Employment Strategy depends on training, on recognition of workers' rights as individuals and collectively, and so on. The EU's active labour market policies are not those of the Swedes in the Golden Age to be sure, but neither are they workfare, built onto a low-wage economy. The six objectives identified in the European Employment Guidelines both talk about and move towards implementation of "quality" as well as quantity, of democracy and of training.

Therefore, our conclusion is that the predictions made in the early 1990s both by opponents *and* supporters of EMU have not come to pass. Here the comments by Kenneth Dyson are quite pertinent. He says (2002a: 101):

> The ECB-centric eurozone policy community had to absorb and accommodate the so-called Luxembourg "process" - with its annual employment guidelines and national action plans - and the Cologne "process" - the Employment Pact and the macroeconomic dialogue. These developments opened up the dialogue about EMU by transforming the definition of who was in the policy domain.

As he also points out (2002b: 22): "Since Maastricht in 1991, EMU has expanded in scope and its boundary with other policy sectors have become more permeable. Hence we are dealing with a variable - EMU - that has changed".

The conclusion is that the very composition of the EMU process and institutions have been shifted over time, under pressure from those who from the beginning sought to win back more space for a social discourse in the face of neo-liberalism, macro-economic determinism, and even functionalism. A permeable boundary means opportunities have been made. How did these actors do it?

Constructing an alternative

The paper does not only find that these predictions were not met. Its more significant finding is that several quite unexpected new doors have been pushed open. In particular, alternatives to neo-liberalism have not been conceptualised solely in national terms. Rather, actors have imagined, and invented, new tools for a Europe-wide initiative, especially in the EES and OMC. The imagination of an alternative to neo-liberalism - that is, the deployment of ideas - has been carried out by actors who simultaneously sought to increase the influence of the social and employment sectors across the whole internal market and to resist neo-liberalism. In doing so, they have had varied success in institutionalising their processes, and accumulating resources for the future.

The institutionalisation of the process can be described in diagram 1. [about here]

Again, the process of institutionalisation is least advanced in the area of collective bargaining. We would argue that this is in large part because this is the area that was most quickly colonised by EMU ideas and actors. Ecofin, the Economic Policy Committee, the Economic and Financial Committee and DG Ecfin were able to shape the Broad Economic Policy Guidelines to reflect their appreciation of the role of the EU as a "bankers' association. It has been hard, despite the Cologne process, for the social partners and especially the unions, to break into that network.

However, the decision taken by some of the same actors and their allies to reinforce another pole, that of the EES, actually is beginning to show effects. As we have described, since 1997 there has been significant institutionalisation of European-level employment policy, including new tools and locations for action. One of the most important is the Employment chapter in the Treaty, which gives actors a launching pad for claims-making. In addition, the European Council, in support of the Luxembourg process (among other things), has also begun to take back some of the initiative lost to the macro-economic centres of power. Because of the requirements of dialogue across sectors and joint action by Committees, the BEPG and Employment Guidelines are inching toward co-ordination. More importantly, the employment sector has tools to stand up to the other.

We also saw, however, that the social protection field has fewer resources. Its standing in the Treaty remains weak; the continued reliance on unanimity in effect means that change is difficult, while the only new Treaty recognition (art. 144 in Nice) is for the Social Protection Committee itself. The institutionalisation of other resources in the social protection sector has been recent. Indeed, the brand new Social Protection Committee was forced to act in concert with the Economic Policy Committee as soon as it was created, a situation that made for a quite unequal relationship. Nonetheless, the collaboration did, in the case of pensions, make a signify-cant change in the very way of conceptualising the issue. From one solely phrased in terms of privatisation to ensure portability in the internal market, the discussion was widened to incur-porate traditional welfare themes, such as ensuring income security in old age.

The geometry is, in other words, not totally rigid. It is variable, as the employment and macro-economic groupings begin to negotiate seriously. It also tilts in some unpredictable ways, given how many people thought about EMU initially. This is not a figure in which experts in social affairs and employment are consistently aligned in opposition to the macro-economists. Rather, the situation is much more fluid and, therefore, unpredictable even more now than before.

Diagram 1
The Institutions Involved in Employment and Social Protection at the European Level

Macro-Economic Policy

Key Policy Document - *Broad Economic Policy Guidelines*

Institutional Actors - Ecofin, DG Ecfin, Economic Policy Committee, Economic and Financial Committee

Others - UNICE

Social Protection Policy

Key Policy Document - *Report on Social Protection in Europe*

Institutional Actors - Employment and Social Policy Council, Social Protection Committee, DG Employment and Social Affairs

Others - ETUC, NGOs

Employment Policy

Key Policy Document - *Employment Guidelines*

Institutional Actors - Employment and Social Policy Council, Employment Committee, DG Employment and Social Affairs

Others - ETUC, UNICE

Notes:

[1] Wallace and Wallace (2000) describe five variants of EU policy making, and attribute their dominance, in what they recognise is a loose correlation, to eras in Community and Union history. These are the Community Method (1960s), regulatory (1970s on), multilevel governance (beginning in 1980s), co-ordination and benchmarking (the 1990s) and intensive intergovernmentalism. The fourth has given rise to the Open Method of Co-ordination, instituted formally at Lisbon in spring 2000. As described by one of its enthusiasts: "Open co-ordination is a process where explicit, clear and mutually agreed objectives are defined, after which peer review enables European Union Member States to examine and learn from good practices. The method respects and is in fact built on local diversity; it is flexible, and aims to promote progress in the social sphere" (Vandenbroucke, 2002).

[2] At the same time, the *Social Protocol* process, included in the TEU, was begun, with a number of efforts to make law via agreement among the social partners. Its mixed and limited results are described in Martin and Ross (1999: 320-21).

[3] As Dyson **(**1994: 16) puts it:

> On the one hand, the Social Affairs Directorate DG5 embodied an essentially social democratic vision of the importance of labour market regulation and consensus and identified work-sharing as a source of jobs; on the other, DG2 was wedded to the idea of much greater labour market flexibility and "pricing people into work" as a solution to unemployment, along with rigorous price stability and control of public finances. Delors had his own priorities, rooted in his view that the EC must enthusiastically embrace and master technological change, investing in a new infrastructure of European energy, transport and telecommunication networks and promoting research and development and training.

[4] These were investments in vocational training, increasing employment intensive growth, reducing non-wage labour costs, increasing active labour market policies and fighting long-term and youth unemployment.

[5] Madrid identified job creation as a central objective of the EU and Member States.

[6] Larsson suggested that the core of a European strategy in the area of employment should be to define an employment goal - a benchmark - "consistent with or even more ambitious than the 3% public deficit criteria, agreed in the EMU project" (Larsson, 1995).

[7] In making his arguments, Larsson explicitly addressed the fears of the EMU sceptics. In an interview before the Treaty of Amsterdam was passed he said: "In my opinion, employment policy at the European Level ought to go from a zero-sum game to a positive-sum game. Zero-sum is the outcome when member states take action in favor of employment in one country at the expense of jobs in other countries. Take for example fiscal dumping, when one uses tax money to keep jobs in one country at the expense of others. Or social dumping, when one undermines wages and social conditions. … The European Union is first and foremost about *avoiding* this type of negative measures" (quoted in Hooghe, 2001: 121).

[8] While the Treaty of Amsterdam was only ratified in 1999, the decision to implement the employment chapter was taken as of 1997 (de la Porte and Pochet, 2000:35).

[9] The four stages of the OMC are the following. A first stage sets down a timetable for short, medium and long-term objectives, that is common European Guidelines. Second, quantitative and qualitative indicators are identified and best practices identified, in a reciprocal learning process. Third, the Guidelines agreed at the European-level are translated into national plans which themselves establish country-specific objectives. There must be, fourth, a mechanism for evaluation and peer review, reported to the Council (Telò: 2002: 250).

[10] On this list are education, structural reform and internal market, technological innovation and knowledge-based society, research and social protection (Telò, 2002: 253).

[11] The other three sectors are entrepreneurship, adaptability and equal opportunities (de la Porte and Pochet, 2002: 35-36). There was consensus on most of the set, although matters such as reduction of taxes on low-wage labour - promoted by Ecofin - did not gain widespread support from the social actors. Moreover, social policy entrepreneurs of the Commission was too far ahead of the Member States at this time. That body had proposed more detailed guidelines, including quantitative benchmarks, but these were rejected in subsequent Council meetings, that lowered the benchmarks for reducing the unemployment rate and for increasing rates of labour force participation (Trubek

and Mosher, 2001). Moreover, in recognition of the tie to monetary union, the role of economic growth in creating jobs was stressed, with the argument being that annual growth rates of 3% were needed to create the desired 10 to 12 million jobs (Agence Europe, #7106, 24-25 November 1997).

[12] The story of development towards the ESS has been told in greater detail by Goetschy (1999), Jacobson (2001b), de la Porte and Pochet (2002).

[13] While the goal is for the EU overall, it obviously makes most sense if all states are moving upward. In 2000, four countries already surpassed the male target and six the female target. Others, often the Southern European countries, were well off target. Italy, for example, was more than 16% off the male target and 20% that for women (de la Porte and Pochet, 2002: 40).

[14] The 10 areas are: prevention and policies of activation to employment; tax reforms and benefits; lifelong learning; social inclusion; administrative simplification for the self-employed; job creation in services, at local level and in the social economy; taxation; modernising work organisation; equal opportunities; and changes in policy-making.

[15] See for example the European funded GOVECOR project (EU Governance by Self-Coordination), whose aim is to shed light on how the European co-ordination of fiscal and employment policies are integrated into national policy processes. http://www.govecor.org

[16] The quality of the evaluations varies from country to country. The different methods used across the Member States, combined with the influence of domestic politics, help to explain why the results of the national evaluations are mixed and unclear. http://www.europa.eu.int/comm/employment_social/news/2002/may/eval_en.html

[17] The political evaluation is partially disconnected from the day-to-day EES, with the result that there is only a weak link between the policy document of the Commission on the future of the strategy and the national assessments and more technical transversal analyses by the Commission.

[18] The BEPG are less constraining than regulations stemming from the Stability and Growth Pact (de la Porte and Pochet, 2002: 52; 22). Since the Stockholm summit (March 2001), the BEPGs have gained political significance because they contain an overall policy framework for the Union, well beyond economic policy.

[19] For an analysis of the importance of "timing" as a contingency in accounting for outcomes in Europe see Ross, 1995: 234ff.)

[20] As Mario Telò puts it (2002: 259): "For some time now the European Council has been working for a reinforcement not only of its role as supreme body of the Council, but also of its strategic leadership. The Helsinki European Council had already established that the BEPG should be under the coordination of the ECOFIN Council, but also 'under the political guidance of the European Council' (Helsinki Conclusions, December 1999). This implies restructuring the hierarchical relationship between the European Council, on the one hand, and the specialised formations of the Council, on the other, in particular the two which traditionally came first" - that is Ecofin and the General Affairs Council.

[21] After the Essen summit, the ministers of finance in the Economic and Financial Affairs Council (ECOFIN) had united in their opposition to the White Paper's suggestions of Europe-led infrastructure investments, thereby beginning the movement that eventually limited Europe's budget to 1.27% of the European GDP.

[22] There was great variation in the number going to each Member State. If the Netherlands and Denmark only received two each in 1999, Greece received six, and continued to receive that number through 2001 (de la Porte and Pochet, 2002: 37, Table 1).

[23] According to the Social Agenda timetable approved at Nice, each is scheduled to come on line in its own time. Social inclusion's turn was in 2000, pensions in 2001, while health and making work pay are scheduled for 2003.

[24] Part of the reason it was surprising was because observers had become accustomed to the unit responsible for social protection within DG-V being relatively inactive. For over two years, it had lacked a permanent director ready and able to take it in hand. In late 1998, someone was finally named to the post. She was Gabrielle Clotuche, a Belgian with significant experience in the policy area and good links into research communities.

[25] These were *The Future of Social Protection: A Framework for a European Debate* (COM[1995] 466 final) and *Modernising and Improving Social Protection in the European Union* (COM[1997] 102).

[26] The three subsequent presidencies had also organised conferences around the social theme (European Commission, 1999: 6).

[27] A book of the same title was published. Information about it, as well as the conference, can be found at http://www.vn.fi/stm/english/presidency/socialpr/socialpr.htm

[28] It addressed pressures for harmonisation of the financing of social protection, taxation and social security contributions as well as the challenges to social protection systems coming from policies of free movement, competitiveness and so on.

[29] This book was also an initiative of the Portuguese Presidency, in collaboration with the European University Institute in Florence.

[30] The four objectives are to promote participation by everyone in employment and access to resources, rights, goods and services, to prevent risk, to protect the most vulnerable, to mobilise actors.

[31] The report of the conference is available http://www.vangool.fgov.be

[32] Available on http://www.eapn.org. Emphasis in the original.

[33] At the ETUC 9th Congress in Helsinki in 1999 the decision was taken, but only by the slimmest majority, to intervene more around European-level activities on social protection.

[34] The history of this report (now revised and published as Esping-Andersen 2002) is interesting. It is a good example of the difficulties of aligning policy communities with different concerns. While the European agenda, both at the EU level and in Member States, was focussed on pension agenda, the expert report was much more broad-brush, seeking instead to convince of the importance of a social investment agenda focused on children. It thereby came up against one of the inevitable contractions of such an agenda, to wit, why spend on pensions?

[35] These are: to maintain social cohesion and social solidarity; to safeguard the financial sustainability of pension systems, in particular by improving employment performance, by adapting the structure and the parameters of pensions systems, and by increasing the budgetary room for manoeuvre; and to adapt pension systems to a changing society and labour markets.

[36] One experiment is the Doorn Group, which brings together representatives of the 50 major unions, federations and confederations in Belgium, Germany, Luxembourg and the Netherlands. In 1999 the ETUC also set up a committee that would oversee efforts to co-ordinate bargaining in the EU (Dufresne, 2002: 88ff).

[37] UNICE is the main employers' federation while the CEEP (European Centre of Entreprises with Public Participation and of Enterprises of General Interest) represents public and non-profit employers. The ETUC is the European Trade Union Confederation.

[38] For a detailed discussion of the actors and their efforts see Dufresne (2002).

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