

The Europeanisation of Welfare Reforms

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When studying recent welfare state reforms, do we need to look at the European level? What is at stake with the multiplication of European strategies in the social policy domains? Does a reference to Europe provide us with a new understanding of national welfare state reforms? What kind of influence may these European processes have on welfare state changes? The recent literature on welfare state transformation neglects the European level for explaining recent national reforms. Scholars searched for the causes of welfare reforms in globalization or domestic factors, not in Europe; and analyses of the actual reforms have focused on institutional constraints in order to understand the remarkable continuity and remaining diversity of the European welfare states. Meanwhile, macro-economic policies have been more and more integrated at the European level, and since 1997, several European strategies have been developed order to co-ordinate national social policy reforms in different fields (employment, social exclusion, pensions). Does the fact that European welfare states remain different imply that these common European processes are meaningless for welfare reforms?

The numerous recent books on welfare state changes give very limited space to Europe.¹ They show that, after some fifteen years of reforms, welfare states remain very different. The main explanandum for this result is national political and welfare institutions. However, welfare reforms have more in common than is usually argued, if one refers to their dynamics (their timing and their general orientation), rather than to their current outcomes (the surviving welfare states are still very different). These similarities suggest that we take a closer look at European policies. The 1990s reveal an increasing contradiction between European economic policies and national social policies. This illuminates an often forgotten facet of the European Welfare states crisis, which is due to a double discrepancy : most economic policies are now decided at the European level when social policies are still - formally - decided at the national one; economic policies are now based on a neo-classical, supply-side approach when national social policies are still merely linked with Keynesian, demand-side approaches.

This contradiction has been the engine of the progressive europeanisation of welfare reforms. During the 1990s, the new European macro-economic norms have progressively imposed some of the timing and the content of national welfare reforms. In reaction, to avoid economic actors to impose all their views on welfare states fate, members states accepted that Europe starts to deal with welfare issues, but in a soft and intergovernmental way. European strategies in the social spheres (employment, pensions,

¹ Esping-Andersen, (ed.) 1996 ; Ferrera, Rhodes, (eds.), 2000 ; Scharpf, Schmidt, (eds.), 2000 ; Taylor-Gooby (ed.) 2001 ; Leibfried, (ed.), 2001 ; Pierson, (ed.), 2001 ; Huber, Stevens, 2002 ; Swank, 2002.

social exclusion) are not able (nor meant) to determine completely the national welfare reforms. In elaborating common welfare reform orientations, they help/incite national social policies to become more compatible with the economic policies (single market and currency) that are now decided at the European level.

The paper starts with a review of the current arguments for neglecting Europe in the understanding of welfare state change. In a second part, it argues that national welfare reforms have been partly framed by European economic integration. In the third part, the emergence of European policies aimed at co-ordinating national employment and social policy reforms is analysed. The fourth part tries to sketch out the new welfare policy mix which emerges from the europeanisation of welfare reforms.

The paper does not argue that Europe is the cause of welfare reforms. It however argues that a complete understanding of national welfare reforms should take Europe into account, as an intervening, cathartic and framing variable. Integrating European policies in the understanding of welfare reforms helps us to highlight the central issue of all current welfare reforms, which is to elaborate a new social policy paradigm, based on a supply-side approach.²

1. Europe is neglected in the study of welfare reforms

When studying welfare state reforms of the recent years, do we need to look at the European level? A cursory reading of the current literature on welfare state changes, suggests that the answer to this question is 'no'. Two sets of arguments appear relevant here. First, Europe seems not to be part of the problem facing European welfare states. Second, until recently, the European Union (EU) has not dealt directly with social policy. The fact that no convergence of the various welfare systems can be seen is sometimes perceived as an evidence that Europe is not important for studying welfare reforms.

Europe is not part of the problem

The search for the causes of welfare reforms animates recent debate on welfare state crisis and change, ranging from arguments that processes of globalization necessitate welfare state change, to positions that suggest globalization has no significant effect upon welfare states (Palier and Sykes, 2001). If one wants to understand the new problems facing the welfare states, the dominant literature argues that one has to refer to the new international economic context which reveals specific vulnerabilities (Scharpf and Schmidt, 2000). Others argue that the real causes for changes are domestic factors such as changes in the labour market (from industrial to service economy, mass entry of women within the labour market), demographic ageing and maturation of the welfare states (Pierson, 1998, 2001). In any case, very little attention has been paid to Europe per se, as if European integration could not be part of the cause of welfare changes.

Those who argued that European economic integration would have an indirect impact on social policies seem to be wrong. Theories of convergence predicted that fiscal competition, social dumping and social tourism created by European economic integration would imply a 'race to the bottom' in social policy, with social protection systems being

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obliged to adapt through retrenchment and structural adjustment policies (Beck, van der Maesen, Walker, eds., 1997). Decisions of the European Court of Justice, which are supposed to remove any obstacle to a free market such as monopoly or national rules which obstruct free circulation of goods or services, might also have this detrimental effect. In this perspective, the impact of European integration on national welfare programmes is analysed in terms of 'negative integration' (Leibfried, Pierson, 1995). Yet, from the mid 1990s, several works have shown no welfare state 'race to the bottom', instead discovering increasing social expenditures, which appeared extremely difficult to control (Majone, 1993 ; Montanari, 1995). No decision of the European Court of Justice has dismantled nor seriously endangered the grounds of national welfare states.³ It seems then possible to conclude that Europe was not the problem, or the cause of changes taking place. Moreover, Europe seems unable to influence the national social policies.

Europe does not care

The EEC and afterwards the EU has never had proper competence for social policy issues.⁴ Despite an initial will to harmonise the level of social contributions and benefits among the first six welfare states that created Europe in the 1950s (Moravcsik, 1998, pp.108-150), the European Commission never received legislative competence in this field, except for organising the co-ordination of Social Security schemes for migrant workers. Under the principle of subsidiarity, the member states have preferred to keep their social policy 'sovereignty'. Some countries (like UK) believing that giving Europe competence on social affairs would damage their competitiveness, others (like France or the Scandinavian countries) believing that European intervention in social policies would reduce its level and quality.

In this context, welfare state reforms are based on national policies, where the European level seems to play a minor role, if any. Recent welfare state responses to the new challenges, the dominant argument runs, depend on national institutional specificities more than on European policies. Scharpf and Schmidt (2000) convincingly show that the three welfare state regimes do not have the same vulnerabilities when they face the new global and European environment, due to different institutional arrangements (in financing their social spending for instance). Looking at the reforms implemented, P. Pierson shows that in each of the three worlds a specific type of reform predominates: re-commodification in the liberal welfare states, rationalizing recalibration in the Nordic welfare states and updating recalibration in the Continental welfare systems (Pierson, 2001, p.455).

No convergence, no Europeanisation?

These analyses demonstrate that there are (mainly three) different ways to reform welfare states, with differences between the welfare regimes explaining differences in trajectories of the reform. The reforms are said to be reinforcing the logic of each welfare system. As a result, liberal welfare states, through the marketisation of their social policies, have become even more residual and liberal (Taylor-Gooby, 2001). Social democratic

³ Neither the Poucet Pistre case in 1993, nor the Khll and Decker one in 1998.

⁴ I refer here to the core dimension of social protection, i.e. health care system, old age pension, unemployment protection and employment policies as well as family policies, with no reference to more marginal policies which may be perceived as social, under less traditional understanding, as did Leibfried and Pierson in their collective volume (1995).

welfare states have come back to their traditional road to welfare, thanks to an egalitarian distribution of cuts (around 10% to every benefits) and a rediscovery of the 'workline' (Kuhnle, 2000; Palme et al., 2002). Most of continental welfare states remain the same, not only because reforms reinforced their existing characteristics but also because they seem almost unable to implement any important reform (Esping-Andersen (1996) spoke of "frozen fordism"). It seems that the fundamental structures of welfare states remain to a large extent unaltered by the reform. Neo-institutionalist approaches, based on path dependence, lead to the conclusion that continuity prevails.

After about fifteen years of welfare state reforms implemented in an increasingly integrated Europe, no welfare state convergence can be seen. The European level, it seems, has no influence on the recent development of European welfare states and reference to European integration (or European policies) seems redundant for an understanding of welfare state changes. The reasoning here assumes that if there were any influence of the European integration or European policies on national welfare reforms, there should be some convergence of the welfare systems. However, the general literature on europeanisation tells us two things against this reasoning: first, 'there is a difference between a process and its consequences' (Radaelli, 2003, p.33), which means that it is not because welfare systems are still different that the process of welfare reforms is not influenced by similar elements such as European policies; second, a process of europeanisation does not always and automatically imply convergence of national policies, since any 'adaptational pressure' from the European level is filtered by domestic structures (Cowles, Caporaso, and Risse (eds), 2001). Actually, the many coincidences in timing and general orientation of various recent welfare reforms, especially in continental European countries, may call for a second look at the interaction between European policies and national welfare reforms.

2. European economic policies and National social policies

The interaction between the European economic integration and the development of national welfare regimes seems to have been somewhat contradictory during the 1990s. This contradiction created a pressure on (national) welfare reforms to adapt to (European) economic requirements.

European economic policies channel and bind welfare reforms

In several continental welfare states, the timing of reforms is intriguing. A first wave of retrenchment reforms in insurance for old age, health care and unemployment was concentrated in the first half of the 1990s, during the preparation of the single currency: Amato (1992) and Dini (1995) pension reforms in Italy, various pension reforms (during the 1990s), and 1992 Seehoffer reform of health care in Germany, 1992 Unemployment insurance reform, 1993 Balladur pension reforms, and 1995 Juppé plan (implemented as far as health insurance is concerned) in France. The timing may be purely coincidental but governments justified these reforms as necessary means to meet the Maastricht criteria. Moreover, in the early 1990s, certain European countries (Netherlands, Ireland, Denmark, Spain, Italy) concluded social pacts including some important welfare state reforms. These social pacts explicitly referred to the preparation of the single currency as a justification for the reforms (Rhodes, 2001).

One could argue that these reforms would have been necessary without Maastricht since the major problems are not linked with Europe, but with domestic developments, and that governments scapegoated Maastricht to avoid blame.⁵ Nonetheless, Maastricht helped governments, at least rhetorically, to impose otherwise almost impossible reforms, especially in the 'conservative corporatist' welfare systems of continental Europe. Even if it is tempting to disregard them as merely symbolic, the justificatory reference to Maastricht in the political discourse was a reason why any (rather than no) reform occurred (Schmidt, 2002). To paraphrase Claudio Radaelli, EU economic dynamics became a part of domestic political discourse and public policies in the welfare state field, showing that welfare state reforms were partially europeanised⁶.

Moreover, the content of these measures differed from previous ones. All the reforms mentioned above involved social benefit retrenchment. Preparation for the single currency started in the recession years of the early 1990s. The traditional (Keynesian) use of social policies in times of recession would be to sustain or even boost demand by increasing benefits. Here, the reaction was the opposite, imposing cuts in social benefits in a period of economic recession. This reversal has to be linked with the new economic context created by the implementation of the single market and by the preparation of the single currency under the Maastricht criteria. As Fritz Scharpf has demonstrated, European integration had a strong impact on policy instruments available to governments. 'The Maastricht criteria for joining the Monetary Union have practically eliminated deficit spending as a policy tool; and the realization of the Monetary Union has completely removed monetary policy and exchange rate policy from the control of its member states' (Scharpf, 2000).

As a consequence, increasing social benefits and contributions (which means labour cost increase) as a solution to deficits created by temporary reflation policies was much less affordable than before, since it could not be compensated through an adjustment of the exchange rate in order to maintain the competitiveness of national products. The effect seems particularly important on continental welfare states. These 'frozen welfare states' did not implement important retrenchment programmes during the 1980s. In order to maintain (or even to increase) the level of social benefits, they increased the level of social contribution (Palier 2000, Manow, Seils, 2000). This solution, politically easier than retrenchment in a context where insured salaried people prefer to pay more in order to guarantee the same level of social protection, appeared to be maladapted in the new economic context. It is only under the constraints imposed by Maastricht that, in Continental Europe, a change occurred in the policies implemented: instead of increasing social contribution, they started to reduce the level of social benefits.

Discrepancies between European economic policies and national welfare regimes

During the 1990s, European policies aimed at deepening European economic integration changed the general economic context in which social policies are implemented. The single market altered the economic environment of welfare states. In

⁵ 'The available evidence casts doubt on the claim that in the absence of growing economic integration welfare states would be under dramatically less pressure, and national policy-makers markedly more capable of addressing new public demands.' (Pierson, 1998, p.541)

⁶ C Radaelli argues that 'the concept of Europeanization refers to a set of processes through which the EU political, social and economic dynamics become part of the logic of domestic discourse, identities, political structures and public policies.' (2000, p.4)

this context, critiques of the welfare state blossomed. Welfare transfers and services are more often seen as comprising an element of rigidity, as a burden for companies (labour cost) and states (budget deficits) who try to compete in new, integrated single market. Passive and costly welfare programmes are increasingly denounced as impeding the competitiveness of firms and countries in this new context. Recognition and response to these issues is said to require a radical adaptation of welfare states. This adaptation implies not only policies of retrenchment in social policy, but also a general change to render it more market- and employment-friendly. This shift has sometimes been theorised as a global shift from the typical Keynesian welfare state, where social policy is seen as favouring consumption and growth, to a 'Schumpeterian workfare state', aimed at strengthening the competitiveness of national economies and at subordinating welfare policy to the demands of flexibility (Jessop, 1994).

In the same vein, the Maastricht treaty should not be seen as imposing only technical criteria for the single currency. It also meant that all the European countries accepted a profound shift in the economic policy paradigm: the norm is now a sound public budget, limited debt, low inflation rate (which means both wage moderation and stabilisation of the level of social contributions).

Deregulation, increased competition, limitation of budgetary and state deficits, low inflation: these elements associated with the single market and the single currency correspond to a coherent (neo-classical) economic vision, based on supply-side economic policies, promoting free competition and budgetary restriction. With the single market and currency, the main goal of macro-economic policy definitively changed, from fighting unemployment (through reflation policy) to fighting inflation (though monetarist and strict budgetary policy). Peter Hall has shown how this shift from Keynesian to monetarist policies occurred in the late 1970s in UK, in the early 1980s in France (Hall, 1986). The Single market and Maastricht have brought about this kind of shift at the European level. Meanwhile, the welfare state appeared to still be associated with the earlier macro-economic policy paradigm, based on Keynes' ideas.

If most national macro-economic policies went through a paradigmatic shift during the 1980s (Jobert, 1994), in the 1980s and 1990s national social policies remained within the (Keynesian) logic of the past. Three reasons may explain this discrepancy. First, social policies were stuck in the past because of policy lock in, institutional stickiness and resilience which prevent them from rapid paradigmatic change (as Paul Pierson (1994, 1998, 2001) has convincingly shown). Second, few governments tried to implement major changes, preferring to use social policies as buffers to smooth the consequences (mainly rising unemployment) of economic policy changes (Levy, 1999). Third, while the orientation of economic policy is now defined at the European level, social policy is supposed to remain a national concern, rendering a pan-European change in welfare orientation more difficult. Thus, alongside the 'real causes' of welfare state difficulties - global and domestic changes - another set of problems appeared during the 1990s: an increasing contradiction between European economic policies and national social policies. Economic policies are now decided at the European level when social policies are still - formally - decided at the national one; economic policies are now based on a neo-classical, supply-side approach when national social policies are still linked with Keynesian, demand-side approaches.

Re-aligning social policies with macro-economic policies

However, in many countries and for many experts, Keynesian social policies appeared to be too contradictory with the new economic policies. Governments who had to follow the mainstream European economic line and wanted to limit budget deficits, to increase firm's competitiveness and to reduce inflation, found it difficult to see their social expenditure grow, to increase taxation and social contributions for welfare, and to continue to deliver 'passive' benefits. Increasingly, the issue of welfare reforms has been not only to cope with ageing or labour market changes, but also to re-adapt, to re-align the social policy paradigm to the new global economic paradigm. By the end of the 1990s, reforms seem increasingly oriented to restructuring (not only retrenching) social policies.

When looking at the goals and instruments of the reforms (more than their outcomes), there are some common trends in the different European countries. In pensions, using different paths, most of the countries are now developing a multi-pillar system which include both Paygo and funded schemes, with an emphasis on the tight link between the level of the pension and the volume of contribution paid. This is a particularly important change for systems mainly based on social insurance and Paygo, such as in continental countries (Bonoli, Palier, 2000). In health care systems, the introduction of managed competition seems to be spreading over all national health systems, but have also penetrated health insurance systems through competition among insurers, as in Germany and in the Netherlands (Hassenteufel et al., 2000). Employment policies are now focused on stimulating labour supply, and activation strategies are becoming central, even though there are still big differences in the implementation (Clasen, 2000, Barbier and Ludwig-Mayerhofer, 2004). As a consequence, increasing the employment rates has emerged as a general objective (to cope with unemployment and pension problems). Here again, this trend implies an important change for Bismarckian welfare state, which adopted a 'welfare state without work' strategy during the 1980s (Esping-Andersen, 1996).

All these trends can be understood as a general attempt to adapt social policies to supply-side economic policies. Nowadays, all national European governments seem to recognise that welfare states should be compatible with international competition. They should become 'employment friendly' in reducing their cost (especially non wage costs) and offering benefits that do not create disincentives (activation, making work pay). Welfare should rely not only on public intervention, but also draw on other actors contributing to the welfare mix (family, NGOs, private firms) (Daniel, Palier, 2001). This re-orientation implies fundamental reforms in social protection, inasmuch as they involve not only modifying existing parameters and instruments of social policy, but also changing the overall logic of established social protection. The new approach focuses less on protecting individuals against risk, and more on changing their behaviour. It is a question of moving from a guarantee of replacement income outside of the market ('decommodification') to a strategy of providing incentives (in a more or less coercive fashion) for a return to the labour market ('recommodification').

One could argue that all these changes are not specific to Europe. The new economic challenges may be more due to the globalization process than to European integration per se, and the common trends of welfare reforms are also visible in other non European countries. However, it is within the European single market that European firms and states have encountered increased economic competition. It is also with the Maastricht criteria that a lot of countries have had progressively to change their traditional use of social policies. During the 1990s, the idea that the traditional welfare state had become ill-adapted to new economic environment and policies has developed in parallel with European integration. Therefore, one can argue that European integration and European

Economic policies have played an important role as an intervening variable in European welfare reforms. Moreover, the search for new solution, compatible with economic requirements but socially acceptable, has become part of the EU activities.

3. Looking for European solutions

The literature on linkages between international factors and welfare state changes usually looks at the absence or presence of problems created by globalization and/or European integration for welfare states. However, there is another way of looking at the relationship between European integration and welfare states changes. Europe might also provide, or at least shape, specific solutions for the problems met by welfare states, whether or not caused by globalization/European integration. Certain international agencies and epistemic communities have proposed 'global solutions' to perceived welfare problems⁷. During the last years, European bodies attempted to influence this intellectual process aimed at re-designing social policy. Influencing national ideas in welfare policies has become of the main target of the EU, through the 'Open method of Coordination' (OMC). This new European activity started with the Luxembourg process launched in 1997 and concerned employment policies; it expanded with the Lisbon process launched in 2000 and concerned pension and social exclusion. Health care reform is planned to be included in the OMC process in the forthcoming years.

With OMC, European bodies have created a new form of intervention which is less aimed at institutional harmonisation or legislation than at harmonising ideas, knowledge and norms of action, in order to have policy goals converging towards 'a common political vision'. OMC is spreading this strategy to more and more policy fields. The aim is 'to organise a learning process about how to cope with the common challenges of the global economy in a co-ordinated way while also respecting national diversity.'⁸ The aim here is to achieve an europeanisation of social policy paradigm (Radaelli, 2003).

In order to understand this process of europeanisation, one has to explain how the field of employment and social policies entered the European agenda, despite the subsidiarity principle. Here again, the interaction between economic and social policy dynamics is central. This new form of European intervention emerged from a competition between economic and social actors in Europe, and tries to solve the double problem of European Welfare states in the context of European economic integration: the Keynesian/ Supply-side opposition, the national versus European locus of decision.

The political need for a more social Europe

During national debates on the adoption of the Maastricht Treaty, many European governments discovered that European integration was not always perceived as a good thing by their citizens who saw only economic constraints, not social advantages in European integration. In these circumstances, some European actors tried to promote a more social Europe, aimed at favouring full employment in a period of economic recession (1992-1993), in order to increase its legitimacy. Jacques Delors' white book *Growth, competitiveness and employment*, published in 1993, tried to link European macro-

⁷ On World Bank's views on employment and social policies, see Holzmann and Jorgensen, 2000 ; On OECD's approaches, See Beyeler, Armingeon, 2003.

⁸ Note from the Portuguese presidency 'The on-going experience of the Open Method of Coordination', 13 June 2000.

economic policy with welfare reforms aimed at rising employment levels. In September 1993, the European Employment Initiative was launched by the party of European Socialists. Influenced by its Nordic members, it attempted to rework the Delors' white book and to better connect issues of welfare and employment (Wincott, 2003).

In similar circumstances, the Directorate-General for Employment and Social Affairs (called DGV before the Commission reform) had two recommendations on social protection adopted by the European Council in 1992. The first concerned sufficient resources and social assistance in social protection systems. The second proposed a convergence of social protection objectives and policies, aimed at 'improving and modernising national social protection systems'.⁹ This recommendation began promoting the reduction of 'social burdens' (i.e. social contributions) on firms, aimed to make social protection more employment-friendly, to move from a passive to an active social policy framework. As for employment policies, the idea of using the classic European method of integration was given up in favour of a softer approach, elaborating common objectives for different national policies.

Following these orientations, in the Essen Summit in 1994, the European Council adopted five different axes around which to organise convergence of national employment policies: the improvement of employment opportunities; increasing the employment intensity of growth; development of active labour market policies; targeting of measures to re-activate the long-term unemployed; reduction of non-wage labour costs to encourage employers to hire low-skilled workers (Delaporte, Pochet, 2002). However, until 1997, no real efforts was made at the European level to follow through on these new strategies. It is the deepening of the competition over welfare issues between 'economically-oriented' actors and 'socially-oriented' European actors which increased the involvement of European institutions in social policies.

A 'race to the social'

Since 1997 employment policies and 2000 social protection (especially policies dealing with pensions and with social exclusion) have been formally included in European competence under the specific procedure of OMCs. The arrival of employment and social policies on the European agenda and procedures can be understood as an unintended consequence (a spill-over effect) of European economic and monetary integration. While most of the literature on the spill-over of European economic integration on social policies foresaw a 'race to the bottom', very few predicted a competition over competence in social fields between different European organisations, leading to innovation in European social policy orientation and practices. In the field of employment policy as well as in the field of social protection, 'economically-oriented' actors tried to pre-empt the definition of policy orientation so that welfare reforms could conform their own economic nostrums. 'Socially-oriented' actors reacted in alarm, lobbying national governments and promoting an alternative social policy orientation.¹⁰ By the mid 1990s, national governments were more

⁹ Council recommendation of 27 July 1992 (92/442/CEE), OJ L245 of 26 August 1992.

¹⁰ Economically-oriented actors correspond to the ex-DGII (economic and finance affairs), different lobbies of insurers, bankers, employers and the Economic Policy Committee. Socially-oriented actors correspond to the ex-DGV (employment and social affairs), and later the Employment Committee, and the Social Protection Committee. The two terms correspond to the vocabulary used by the actors themselves (at least within interviews) and has been used in different researches, See Mandin, 2001, and Delaporte, Pochet, 2002.

favourably oriented to social policy and reacted positively by launching new European social strategies but with an intergovernmental form.

Towards an European employment strategy

After the Essen summit, the Directorate-General for Economic and Financial Affairs, (previously called DGII), seized on the European Council new interest in employment policy to promote its own (neo-liberal) views on these policies. For instance, after 1997, DGII added a paragraph on employment to the Broad Economic Policy Guidelines they proposed. In it, they asked for more flexibility, denounced the disincentive effects of social benefits, rigidities of labour legislation, etc. Meanwhile, in some reports, the Economic Policy Committee (EPC) was asking for more flexible labour market, more liberal employment policies. The risk was that Europe promoted neo-liberal employment policies, in line with the development of the single market.

In reaction, DGV (current DG Empl) tried to counteract these trends by juxtaposing the term security to flexibility in Commission texts. Meanwhile, it lobbied national governments to make Employment an explicit, positive goal of the Union. DGV claimed that otherwise, national Ministers of Employment would be stripped of their role by the Council of Economic and Finance Ministers (Mandin, 2001). Such proposals met a favourable political juncture: newcomers in Europe (Austria, Finland and Sweden joined the EU in 1995) had pro-social policy traditions; meanwhile, left/social democratic governments were increasingly numerous across Europe. In this context, a new chapter on employment was included in the Amsterdam treaty, so that Europe explicitly recognised the goal of full employment. In June 1997, the recently elected French socialist Prime minister, Lionel Jospin pressed European countries to take action in this field even before the Treaty was adopted. An exceptional summit on employment was organised in Luxembourg in November 1997 to launch the European Employment strategy (EES). Since the Amsterdam Treaty was not yet adopted, all the processes it launched were purely voluntary in approach.

Competing for the definition of welfare reforms

The same kind of process occurred in social protection. With the adoption of the Growth and Stability Pact, European 'economically-oriented' actors (especially DGII and the EPC) believed that they had responsibility to guarantee that member states balance their budgets. The Pact asserted that a stable single currency needed sound public finance. Economic actors promoted an extensive version of the Pact, imposing the view that public expenditure had to be controlled or even diminished for the sake of a stable Euro. Multiple reports and studies from the ECP committee and DGII showed that for many European countries public spending increased most for health, and that demographic ageing would soon cause a sharp increase in public pension expenditure. They started to suggest 'structural reforms' of health and pension systems (especially to Continental European countries, whose social protection expenditure was among the highest and the least controlled). These reforms often meant a partial privatisation of health and pension systems.¹¹

¹¹ If texts published by the DGII remain implicit, interviews with European civil servants from DGII are unambiguous on this point. DGII has been appointed to build Europe on a market base: actors there do not see why social protection and employment policies should be exempted from that frame.

In reaction, members of DGV argued that left to unfold, these European dynamics would lead to the dismantling of national welfare systems and the demise of the European social model (Mandin, 2001). In July 1999, just before it resigned, the Santer Commission adopted a communication proposing 'A concerted strategy for modernising social protection' aimed at combining economic efficiency with social justice. In this context, Portugal prepared its presidency of the Union (for the first half of 2000) and convinced European governments that national welfare reforms should be coordinated through a balanced compromise between economic requirements and social objectives. In March 2000, during the Lisbon summit, the principle of the 'Open method of Co-ordination' was adopted, with implementation planned in several fields, including social protection (pensions, social exclusion/inclusion, making work pay, health care).

4. A New Welfare Policy Mix

The story of the competition between DGII and DGV reflects the growing contradiction between macro-economic policies implemented at the European level and the 'European (national) social model(s)'. The solutions promoted at the European level reflects an on-going attempt to find a new compromise between economic and social policies, between European economic integration and persisting distinctive national welfare regimes. In terms of content, this reconciliation seems based on modernisation and improvement of the social model, more than a recasting of economic policies. On the governance side, the difficulty is to combine a common approach with the acknowledgement of national sovereignty.

An European compromise between competitiveness and equity

DGII or ECP proposals for employment and social policies, reflect approaches developed at the international global level by the World Bank or OECD. These are social policies for an almost purely neo-liberal world, where solution are always market-driven, with as minimal a role for the State as possible. While these solutions could perhaps be implemented in the liberal welfare regimes (and even there, as Pierson (1994) has shown, nothing radical could be developed), they appeared too brutal for the European tradition (as DGV and many members states felt). Some reformulation and compromise was required to adapt these ideas to the so called 'European social model' (Wincott, 2003).

Whenever the European Council adopts a text on either employment or social policy, it is based on an ambiguous trade off between economic and social orientations: flexicurity has become the buzz word in employment policies, pensions should be both sustainable (financial viability) and adequate (as high level as possible, but corresponding to each one's contribution). In health care, the slogans are equality of access and quality combined with financial viability. The general orientation given to social policy guidelines elaborated at the European level is to reconcile economic growth with social concerns.

A lot of conceptual work has been launched by the EU (mainly DGV and some presidencies) in order to elaborate a new compromise between economic and social policy. The Lisbon Summit of 2000 was prepared with a focus on the knowledge-based economy and reforming social policy. Several major studies were commissioned from European experts.¹² Similarly, for the preparation of the Belgian presidency, which had also

¹² Maria Rodrigues, the former Portuguese minister of social policy, was in charge of organizing the Lisbon Summit. She spent six months visiting all countries in order to prepare the consensus on the new objectives

identified modernising social policy as a major theme, a report on a new social architecture for Europe was commissioned.¹³ In this new approach, social policies must focus more on prevention and social investment than on compensating for immediate difficulties. In its declaration, the EU is promoting the goal of “quality” as a way to reconcile economic and social policies. Social policy is constructed as a necessary feature of a well-functioning modern economy, particularly one that hopes to position itself in the high stakes of the knowledge economy. For the EU, promoting quality in employment and social policy is a key element in reaching the goals of building more and better jobs, creating a competitive and cohesive knowledge-based economy, and ensuring a positive mutual interaction between economic, employment and social policies. As such, quality goes hand in hand with improving efficiency, especially as far as public finances and labour market incentives are concerned (Jenson, Pochet, 2003). One can also read these compromises in the guidelines that are yearly produced in the framework of the various Open methods of coordination.¹⁴ The aim here is always to achieve a more integrated approach between economic, employment and social policies. The recent reforms of EES and OMCs processes go even further in that direction since it was decided in March 2003 to synchronise the Broad Economic Policy Guidelines and the European Employment Strategy. Furthermore, in 2004, the reform of the various OMCs aim at merging all the processes together.

If, theoretically, the issue is to find a new balance between competitiveness and solidarity (Goetschy, 1999), it seems however that at present the economic processes are able to impose most of their views on the employment policies. For instance, in March 2003, the new integrated approach to economic and employment policies guidelines emphasised the necessity to moderate wages and to remember the importance of making labour markets more flexible. However, we have seen that the content of European social policies are not always going in the downwards direction, the defensive reaction of national member states and ‘socially-oriented’ actors having been able to redress the balance towards more social Europe. However its content might change in the future, it is already clear that the new orientation for social policies (the EES and OMC) helps national welfare states to leave the good old Keynesian world and to find new principles and functions, a new general architecture for social policies, so that they will be more in line with supply-side economic policies. This emphasises an important issue of current and forthcoming welfare state reforms, which is to elaborate and organise a social policy paradigm shift, so that economic and social policies can be reconciled.

At the policy-making level, OMC is an attempt to combine European orientation with national sovereignty.

European co-ordination of national policies

The new OMC is an attempt to articulate the European and the national levels through a new multi-level governance arrangement. National governments were long reluctant to give European bodies any social policy competence. When they did so for the employment strategy in 1997, a means had to be found to preserve national autonomy for

and methods, and she appointed major European experts such as Maurizio Ferrera, Martin Rhodes, Anton Hemerijck, Anne-Marie Guillemard, and Gøsta Esping-Andersen to prepare reports on the future of social policy in Europe.

¹³ A revised version was published as Gøsta Esping-Andersen (ed.), 2002.

¹⁴ For a detailed analysis of these guidelines, see Delaporte, Pochet, 2002, and Pochet, Zeitlin, forthcoming.

the policies. Governments were faced by a spill-over process that started to involve a new field. Instead of resisting and keeping the domain solely national, member states created a new European competence, but in an intergovernmental way, which allowed them to implement the reforms they wanted and/or that fitted with their own welfare regime.

While already proposed in the recommendation in 1992 on modernising social protection (Delaporte, Pochet, 2002), this new procedure was inspired by the preparation for the single currency: common objectives were adopted (the Maastricht Criteria) and each national governments chose their way to reach them (different roads leading to EMU). According to the Portugal Presidency the aim is 'to combine coherence with respect for diversity and efficiency with democratic legitimacy. It is a case of defining strategic guidelines at European level for coping with structural change and then organising a process whereby Member States emulate each other in applying them, stimulating the exchange of best practices, while taking account of national characteristics.' The objective is to overcome the contradiction between the two levels of decision, to combine European orientation with national capacities to implement their own reforms.

A 'leverage effect' at the national level.

OMC is supposed to work differently from the classical European method of integration. Instead of regulations or directives imposed from above to be equally applied in all members states, the OMC co-ordinates different national policies around a policy vision. Therefore, one should not expect OMC to function as the classical method of European integration. One should not look for an impact of OMC guidelines analogous to the impact of a directive on national law. The policy guidelines should not be read as directives that are more or less transposed and applied in the different countries. National policies remain oriented by national actors, trying to address national issues, keeping national trajectories.

Does this mean that OMC is purely symbolic with no real significance for understanding national welfare reforms? Even if it is difficult to trace empirically the influence of ideas, we have shown that more and more national welfare reforms, in their overall logic, echoes the vision promoted at the European level. Moreover, analysis of the interaction between French employment and pensions policies and the EES and OMC show that if OMC does not dictate the orientation of the French policies, it provides national actors with European resources which might help them in their action at the national level (Barbier, Sylla, 2001; Coron, Palier, 2002; Ehrel, Mandin, Palier, forthcoming). During interviews on the influence of OMC or EES on their action, French political or administrative denied any direct impact but mentioned a 'leverage effect' produced by the instrument developed within the OMCs. The question was less to see whether they were 'implementing' OMC guidelines than whether these were useful to them in their interaction with other national actors. OMC becomes a supplementary resource for national actors more than an non-negotiable external constraint. They used OMC procedures, guidelines, orientations, and instruments as a lever to get their own position to win or to legitimise certain reforms.¹⁵

OMCs are providing new resources for national actors, instead of imposing new policies from above. However, when national actors use these new instruments and

¹⁵ For detailed analysis of the this 'leverage effect', see Coron, Palier, 2002, and Ehrel, Mandin, Palier, forthcoming.

resources, they also import and incorporate the general orientation on which the OMCs are based. One can of course claim that the effect of OMC is more than marginal on national policies, since the interests that have used OMC tools were already present in the national context, since political choices could be made without considering the European orientation. Yet, one could also argue that this was the case for the Maastricht Treaty and the Stability Pact: most of the shift to a new macro-economic orientation was already made before 1992, the paradigmatic shift in Economic policies occurring during the 1980s in many European countries, notably UK and France (Hall, 1986). However, the process of co-ordination of macro-economic policies associated with Maastricht and the Stability Pact has created a new institutional context supposed to guarantee the continuity of the new policies at the European level.¹⁶ One could argue that the OMCs will have this kind of role, safeguarding coherence and co-ordination of new employment and social policies adapted to and compatible with the new economic policy orientations.

Conclusion:

The paper has argued that an element of the crisis of the welfare state is often neglected in the current literature. This element derives from a double discrepancy : economic policies are now decided at the European level when social policies are still - formally - decided at the national one; economic policies are now based on a neo-classical, supply-side approach when national social policies are still linked with Keynesian, demand-side approaches. All the new policies aimed at co-ordinating employment and social policies at the European level try to resolve this crisis in offering a perspective for reconciling economic and social policies, and in articulating European and national policies.

Whether these new policies are efficient is an open question, but which should not be asked in the same terms as for the classic European method of integration. OMC does not pretend to impose the same law to all, but to elaborate a common European political vision of social policies and to spread new orientation for welfare reforms at the national level. Between global pressures and domestic structures, Europe acts as a catalyst. One should probably try to understand the kind of intellectual influence Europe may have on welfare reforms if one wants to understand welfare state changes. However, this implies first a change in the conception of what a reform is, and second to use certain approach in Public policy analysis, which focuses on the role of ideas.

The European contribution to the transformation of welfare state will be more visible if we analyse reforms less in terms of adjustments or adaptations to shocks (such as globalisation or population ageing), or less as a function of existing institutions and past policies, and more in terms of public policies constructed through social interaction increasingly involving European institutions. The point here is not to deny the importance of objective problems or of national political institutions. It is to say that identifying the cause of the difficulties as well as the institutional constraints is not enough to understand both the process and the orientation of a reform aimed at coping with these problems. To understand how certain solutions prevail, cognitive and normative aspects of the policy-making process have to be considered. The process of elaborating a reform is also an

¹⁶ The 2004 discussion of the Growth and Stability Pact by Germany and France reveals an hypocrite double game. While they contest the rigidities of the Pact at the European level, they meanwhile adopt very restrictive welfare reforms at home, such as the 2003 pension reform and 2004 Health care reform in France, or all the new measures decided in 2003 in Germany concerning old age and Health insurance.

intellectual process, in which European ideas are playing an increasing role, leading to a stronger integration of economic, employment and social policies. Whether economic policy will impose its own agenda to social policies depends on the way national and European actors, instead of following the basic market-driven path, try to re-invent and implement a 'new European social model'.

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