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The open method of coordination and EU integration

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List of abbreviations

BEPGs	broad economic policy guidelines
CEECs	Eastern European candidate countries
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of the Ministers of economy and finance
EES	European employment strategy
EMCO	employment committee
EMU	European Monetary Union
EP	European Parliament
ETUC	European trade union confederation
IGC	intergovernmental conference
NAPs	national action plans
NGOs	non government organizations
OMC	open method of coordination
SMEs	small and medium-sized enterprises
SPC	social protection committee
UNICE	Union of Industrial and Employers' Confederation of Europe

Icons

E	Examples
D	Definitions
T	Tasks
N	Notes
A	Aimes of study
E	Exercices
S	Summary

Introduction

With the Lisbon European Council (2000 [14]), the EC White Paper on governance (2001 [10]) and the ongoing Convention (2002 – 2003) due to prepare the next IGC for Treaty reform, the ‘open method of coordination’ (OMC) has become a central element in the debate on the future of Europe and the renewal of its modes of governance.

The Lisbon strategy (2000 [15]) coined the expression and defined the characteristics of the OMC, but the latter originated essentially in the Luxembourg process with the European Employment Strategy (EES) formally designed in the Amsterdam Treaty (1997). The EES itself as a process was inspired by previous devices set up in the Maastricht Treaty (1992) relating to macro-economic policy coordination and multilateral surveillance.

The OMC represents a new regulatory method which insists on the non-compulsory character of rules, their flexibility and openness, their decentralized character, the plurality of actors involved and which contrasts with the main characteristics of the traditional ‘community method’. The major features of the ‘community method’ have been described by most EU integration specialists as well as by the EC White Paper on governance (2001) as being the following: the transfer of powers from Member States to the European Union; the adoption of Community policies by the institutional triangle composed by the EC, the Council and the EP, which in itself was a subtle mixture of both intergovernmental and supranational forces; the central role of the EC, a supranational body in the shaping and implementation of Community policies; the possibility of qualified majority decision-making in the various specialized Councils; the binding character of adopted Community rules with the EC checking their implementation; the role of the European Court of Justice in case of breaches of Community law (DEHOUSSE 2002 [17]; EC White Paper on governance, 2001 [10]).

For the time being, the OMC exists in a variety of areas with the aim of achieving the objectives of the Lisbon European Council (2000 [15]). In the employment and social fields, OMCs are at work with regard to employment (1997), social inclusion (2000), pensions (2001) with another about to be elaborated in relation to health care (2002). Further, the Lisbon Council required the launching of an OMC in the field of education and training which led to a set of objectives endorsed by the Barcelona Council (2002). The OMC has also become a tool for accelerating transition to a knowledge economy – focusing on areas such as enterprise policy, innovation policy and research, as identified by the Lisbon Council (2000) – and for hastening structural economic reforms (as early as 1998 with the Cardiff European Council). Environment issues were later added to the list of areas falling within the Lisbon strategy for which an OMC should be used. Finally, it should be mentioned that an OMC has also been applied in the area of immigration and asylum, sectors not directly related to the Lisbon strategy (Göteborg, June 2001).

However, in reality, in all these various fields of application, OMC processes differ greatly as to their ambitions, functioning modes and legal bases. Their objectives can be short term, medium term or long term, more or less specifically targeted, quantitative or qualitative, with deadlines explicitly specified or not provided; these objectives can be commonly agreed at EU level or left to be specified at the national level. The EC monitoring, the detailed implementation procedures and the recurrent evaluation rhythm of those processes also vary greatly. In addition, major differences are also observed with regard to the role played by the various political and social actors (EU institutions, Member States, regions, social partners, civil society) in each OMC process. Finally, only two of the OMC processes, the one on employment (Amsterdam, 1997) and the one on macro-economic policy coordination (Maastricht, 1992) benefit from a legal Treaty basis, a situation that the next IGC is very likely to remedy.

In the employment and social fields, the OMC thus represents a new regulatory method for developing further the process of creating a social Europe. It is intended to be complementary to the already existing instruments at EU level, i.e. legislation, European collective agreements and social dialogue, structural funds, support programs and the integration processes of different policy fields, analysis and research. Until now employment through the EES has remained the field where the OMC is the most developed and where assessments as to its functioning are most numerous. This paper will therefore focus in particular on the experience of the EES functioning and outcomes.

Essential reading

Useful articles on the OMC and governance modes can be found on the following sites:

- <http://www.govercor.org>
- <http://eiop.or.at/eiop/>
- <http://wiscinfo.doit.wisc.edu/eucenter/Academics/Themes>

1 Why has a new mode of governance such as the OMC become necessary at EU level?

1.1 Accelerated EU economic integration had generated new problems for national employment and social policies

The speeding up of EU economic integration in the early 1990s resulted in new problems for Member States in the social and employment fields as a result of a spill over effect. Indeed, the completion of the internal market, but especially the monetary union and the Stability Pact, supported by Member States themselves, considerably reduced the countries' political room to manoeuvre. In the field of employment for instance, traditional employment policy tools such as competitive devaluation, adjustments of national interest rates, public deficit policies, state aid and wide-spread hiring in the public sector, were mostly invalidated due to monetary union. And the EU level regulatory tools available to Member States to help to compensate for their loss of autonomy proved to be largely insufficient as regards both macro-economic coordination and social and employment issues. The EES, one of the earliest form of OMC, was thus an answer and solution to a twofold imbalance generated by the acceleration of EU economic integration: an imbalance between highly integrated EU monetary policies and insufficient macro-economic coordination, an imbalance between EU economic integration over EU social integration.

In a similar way, with a centralized EU monetary policy, Member States could no longer rely on budget deficits for tackling social protection matters and had to find more long term solutions for the viability of their pension and health systems, reasons which inspired the OMC process and devices in the field of social inclusion and pensions.

1.2 Member State motives for enlarging the EU agenda on employment and social issues

In this context of accelerated economic integration and increasing globalization, Member States were keen to develop some sort of coordination mechanisms at EU level and to enlarge the EU agenda on certain employment and social matters for three slightly different motives: to prevent 'the race to the bottom' or 'beggar my neighbour' strategies (STREECK 1996 [58]), to avoid so-called negative externalities due to the interdependency of EU economies (this factor plays a more important role in the case of macro-economic and tax policies, and less so for employment and social protection policies) and 'to pool resources' at EU level (WESSELS 1997 [63]) in order to face similar challenges such as long term unemployment, an ageing population, low employment rates, or the necessary reform of social protection systems (health systems and pensions).

Member States were pushed to prevent the so-called ‘competitive race to the bottom’, under the pressure of their respective public opinions. Putting employment on the EU agenda was an answer to the EU legitimacy crisis which showed itself in the wave of euro-pessimism in the early and mid-1990s following the Maastricht Treaty ratification process: it became clear during the Amsterdam treaty negotiations (1997) that more ‘citizen-friendly’ measures in fields such as employment had to be taken if the EMU project altogether, and its planned timetable, were not to be at risk. Of course, the employment title in the Amsterdam Treaty also compensated for the insufficient progress of EU political integration in other fields such as foreign and security policy.

The ‘pooling of resources’ at EU level and the desire of the Member States to increase transparency and assess the potentials of national solutions at EU level with regard to their most urgent national social priorities such as the fight against unemployment (or subsequently social exclusion, pensions and social security issues) was all the more relevant as it concerned fields in which the European countries had been storing up a huge amount of diversified policy experience over the previous twenty five years which they could exchange. Moreover, their interest for enlarging the EU agenda on social and employment items was motivated by the hope that this might facilitate the adoption and implementation of difficult national reforms (regarding social protection and labour market policies), help them thus to ‘modernize’ the European social model as well as to improve the quality and efficiency of their respective national employment and social policies and if possible reduce their costs.

1.3 The wish of the Member States to tackle ‘sensitive’ national issues at EU level without a classical transfer of competences

However, in spite of the Member States’ interest in deepening EU integration in the social and employment fields given the acceleration of EU economic integration, growing globalization and the pressure of their respective public opinions, one could nonetheless observe a clear reluctance on the part of the Member States to transfer further competences to the EU level in a classical way in fields which were closely linked to electoral worries and where national diversity was high. Indeed, extension of EU legal competences through Treaty reforms became more and more difficult. During treaty reforms (cf. the Amsterdam Treaty, and this was also manifested later with the Nice Treaty), it rapidly emerged that the scope of EU competences could hardly be extended any further in a classical manner and transferring subjects from the unanimity voting rule to qualified majority voting proved equally difficult (as in the case of social protection, for example). In addition, in areas such as social protection which remained subject to Treaty competence under the unanimity voting rule, Member States still failed to reach agreement.

The argument of the national historical, cultural and institutional diversity of Member States' employment and social policies which led to the introduction of the principle of subsidiarity in the Maastricht Treaty (1992) has often been invoked for explaining the reluctance to transfer competences to the EU level. This line of argumentation becomes even stronger with the EU enlargement to the CEECs in 2004.

It is against this background that various efforts have been undertaken with the aim of deepening EU integration in the social and employment fields, albeit not in a classical manner. Consequently, the EU has had to invent new methods of integration, one of them being OMC.

1.4 Various criticisms had been addressed against the classical community method.

The classical community method itself had increasingly become subject to criticism.

In spite of extended legislative and contractual competences through the Maastricht Social Agreement (1992), Social Europe did not really produce sufficient results throughout the 1990s with regard both to employment issues in the face of severe and intractable unemployment problems and the issue of social protection where the urgency for reform was high. Indeed, the freshly broadened scope of EU social competences in the Maastricht Social Agreement (1992) were not really actively taken up by the Member States on the legislative side, nor by the EU social partners on the contractual side. Though the latter had achieved three employment-related interprofessional European collective agreements by the year 2000, these remained piecemeal and fairly minimalist. Moreover, the principle of subsidiarity also introduced with the Maastricht Treaty contributed to create some confusion and to encourage restrictive behaviour on behalf of employers (UNICE) and some Member States. The OMC was thus an answer to the slow progress achieved in relation to Social Europe developments in the 1990s within the frame of the traditional community method. In short, the traditional regulatory methods (legislative, contractual) were no longer sufficient by themselves given the complex nature of the problems to be solved.

A similar viewpoint was also partly taken up by the EC White Paper on EU Governance (2001). The latter, which represents a valuable reflection on new forms of governance, looks on the one hand for more flexible and open approaches to the development of EU integration and on the other hand makes several proposals to reform the community method itself in order to render it more efficient. It argues that the achievement of public objectives requires a range of instruments reflecting the complex interaction between social, economic, political and legal actors. Despite the fact that non-binding policy instruments can be permanent features of the EU and that the OMC is a mode of governance which can make a lasting and important contribution, the White Paper nevertheless concludes that a renewed and strengthened 'Community method' should remain at the heart of EU policy-making with the Commission playing an enhanced role.

This is why besides examining new governance modes, the White Paper on EU Governance (2001) also proposes to reform the community method itself to render it more efficient. It advocates a) a legislative simplification with directives looking more like ‘framework directives’ where rules are more general and simple leaving more executive scope to the EC, b) an enhanced executive role for the EC and c) a better functioning of the European Council and Council of Ministers; it argues that the European council has become too embroiled in the detail of day-to-day policy-making and that the European council should restrict itself to the setting of strategic priorities and regain political leadership (in partnership with the Commission); it states that the General Affairs Council has lost its capacity to arbitrate between the sectoral and often contradictory interests of the various specialized Councils of Ministers.

1.5 More legitimacy and more efficiency for EU policies through OMCs

The White Paper on EU Governance (2001) was essentially concerned with the fact that new modes of governance combined with a reformed community method should be able to enhance both the legitimacy and efficiency of EU decision-making and EU policy content.

Its proposals for change were organized along **four headings**:

- better involvement (more transparency and consultation around EU decision-making, closer links with local and regional democracy, involving and organizing the civil society, connecting with networks);
- better policy content, better regulation and better implementation (improved policy contents by using complementary policy instruments such as legislation, OMC, social dialogue etc.; simplification of community law; improvement of EU law implementation through agencies and at national level);
- the necessity for the EU to make a contribution to global governance at a world level;
- the necessity to refocus EU policies (more coordination between sectoral policies, to establish a better balance between economic and social issues) and refocus EU institutions.

Although the OMC represents according to the White Paper only one of the devices for enabling more efficient and legitimate EU decision-making and output, it has an important part to play in this reconquest.

2 The substantive and regulatory content of the Lisbon strategy (March 2000)

The Lisbon strategy was meant to provide a medium term – ten year – coherent project for EU integration in a variety of economic and social fields in a context of increasing globalization and technological change. By 2010, the EU intended to become *'the most competitive and most dynamic knowledge based economy in the world, capable of sustainable economic growth, with more and better and greater social cohesion'* (Lisbon European Council, March 2000 [15]). The Lisbon strategy provided the EU with a project that would encourage at the same time new economic growth dynamics, job creation and the modernization of the EU social model. It pursued **five different aims**:

First, it intended to catch up in those areas in which it lagged behind the USA such as economic growth, innovation and technological change and employment. In comparison with the USA, the EU economy was suffering from too much long-term unemployment, too low employment rates and an insufficiently developed service sector. Its ambition was to become stronger in the world economy.

Second, the Lisbon strategy further advocated the speeding up of the internal market i.e. the removal of obstacles to the liberalisation of services, financial markets, transport, postal and energy markets.

Third, it aimed at finding a fairer balance between EU economic integration and EU social integration. Whereas the early 1990s had seen the speeding up of EU economic integration (internal market on the one hand, EMU on the other hand with a much stronger emphasis on monetary policy rather than on economic policy coordination), the time had come for more concern for employment and social issues. The Amsterdam Treaty (1997) already reflected such a search for a better balance through the formal adoption of the European Employment Strategy. The EES was a means of bringing employment onto the EU agenda in order to compensate for the acceleration in EU monetary policy, especially under the pressure of Member States such as Sweden, Denmark, Austria and the Benelux countries. The Lisbon strategy attempted a few further **steps to reduce the imbalance**:

- it set an objective of a yearly 3% growth rate, a full employment target for the EU by the year 2010 and employment rates of 70% on average and 60% for women by that date;
- it called for more policy coordination with regard to content at EU level between the yearly **Broad Economic Policy Guidelines (BEPGs)**, sectoral economic policies, tax policies, employment and social policies and education/training policies in order to avoid on the one hand what economists call 'negative externalities' due to non-coordinated competitive Member State policies, and on the other hand EU policies with contradictory objectives. At EU level, the BEPGs were expected to deal with medium- and long-term implications of

structural policies and reforms while the Cologne, Cardiff and Luxembourg processes should focus on their respective subject matters.

- The Lisbon strategy also tried to put economic and social and employment policies on a more equal footing via several institutional devices, in particular by devoting a specific spring European Council to those issues, by granting the latter a key political and strategic guidance role over the traditionally most prominent ECOFIN Council and by trying to associate the different Council formations in the policy elaboration of the BEPGs;
- it promoted a governance mode, the OMC, which appeared to be the only realistic way to enlarge the EU agenda on social issues given the difficulty of further extending social competences via the classical community method.

To resume, a better balance between economic and social concerns was dependent on steady and ambitious EU targets, more policy coordination, institutional reforms among the existing institutions (e.g. more importance to the European Council, less to the Economy and Finance Ministers) and on innovation with regard to the mode of governance with the OMC as a new regulatory tool.

Fourth, beside asserting the specificity and importance of the European Social Model vis-à-vis the rest of the world and in the history of EU integration, a further objective of the Lisbon strategy was also to 'modernize' this social model which meant moving national employment policies in a certain direction (activation policies, increasing employment rates, combining flexibility and security elements in employment contracts etc.) as well as reforming the highly diverse social protection systems (pensions, health). The Lisbon strategy was thus supposed to be a catalyst for carrying through difficult national reforms.

Fifth, the Lisbon strategy aimed to make a breakthrough on governance issues by designing a new working method, the OMC, which, apart from enlarging the EU agenda on difficult and sensitive issues, also presented other advantages (see below). The European Council, which does not usually deal with such procedural aspects, provided the methodological characteristics of the OMC. They read as follows.

The **OMC**, which is *'designed to help Member States to progressively develop their own policies involves:*

- *fixing guidelines for the Union with specific timetables for achieving the goals which they set in the short, medium and long terms;*
- *establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;*
- *translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;*

– *periodic monitoring, evaluation and peer review organized as mutual learning processes.*'

(par. 37, Lisbon European Council conclusions, 2000 [15]).

Further, the Lisbon European Council provided the following orientations that should inspire the **OMC's contours and functioning**:

'A fully decentralized approach will be applied in line with the principle of subsidiarity in which the Union, the Members States, the regional and local levels, as well as the social partners and the civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs.' (par. 38, Lisbon European Council conclusions, 2000 [15]).

3 The genealogy of the Lisbon strategy

The Lisbon European Council (2000) is often regarded as a starting point of a new mode of policy-making, the OMC, for which it defined the likely contours and fields of application. However, it was largely inspired by the already functioning European Employment Strategy (EES) also called the 'Luxembourg process' (1997). Moreover, we shall also present here two other processes 'the macro-economic coordination process' (1992) as well as the 'Cardiff process' (1998), which contain some OMC devices and belong to the genealogy of the Lisbon strategy. To be complete, the 'Cologne process' (1999) will further be mentioned: though it is generally not considered as an OMC process, it represents a useful tool for policy coordination that entails certain attributes of the OMC method.

The European Employment Strategy (EES) was formalized in the Amsterdam Treaty (June 1997) and its practical content was developed during the Luxembourg European Council (November 1997). The EES, which introduced the key concepts and procedures of an OMC process, came onto the EU agenda in an incremental way and was itself based on earlier foundations (see below). Indeed, the idea of an EES had already been initiated by the Delors' White Paper on 'Growth, Competitiveness and Employment' (1993 [6]) and been made operational on a pragmatic basis by the Essen process (1994). In the early 1990s within the Delors' White paper (1993), employment debates and actions were essentially linked with the need to get the monetary union onto a solid footing and with the hope of coupling it with a project of 'grands travaux' at EU level (a program which partly failed) as well as with the broader EU diffusion of some common EU labour market paradigms (such as activation and flexibility policies). In the mid 1990s, with the employment title in the Amsterdam Treaty and with the Luxembourg process, emphasis was further placed on the launching of an employment convergence process, on improving the monitoring and outputs of the EU national employment policies.

In addition, the EES itself had in a mimetic way been taking up some devices and techniques from EMU and the macro-economic coordination process through the Broad Economic Policy Guidelines designed in the earlier Maastricht Treaty (1992). One must recall that monetary policy management has indeed become, with the Maastricht Treaty, the exclusive responsibility of the ECB (European Central Bank), whereas economic and budgetary policies are a national matter. In 1989 the Delors committee report advocated a better balance between the two, but such an approach was not retained in the Maastricht Treaty due to differences in Member States' preferences. However, the Maastricht Treaty (1992) did introduce a tool for better macro-economic coordination, namely, the Broad Economic Policy Guidelines (BEPGs), and in 1997 the Amsterdam Council introduced a further tool, the Stability and Growth Pact, which resulted from a declaration and two rulings. Whereas the BEPG's aim was to provide EU guidelines for national economic policies as well as a multilateral monitoring process, the Stability and Growth Pact seeks to reinforce budgetary discipline, providing for multilateral monitoring to that end. Whereas the BEPGs might issue non-binding recommendations to non-compliant Member States, the Stability Pact entails both a preventive mechanism and a set of dissuasive rules with binding force. The process around the BEPGs has been analyzed as the first sort of OMC procedure (HODSON / MAHER 2001 [36]); as to the Stability Pact, if it differs greatly in its compulsory character, some of its features nevertheless borrow from the OMC procedural evaluation culture.

Moreover, in the genealogy of the Lisbon European Council, one must recall two other processes set up after the EES with the aim of better coordinating economic policies. On the one hand, the Cardiff process (1998) concerning economic structural reforms was established to accelerate the full implementation of the internal market which had not yet fully been achieved: it aimed at rendering the EU economy more competitive, at liberalizing the capital, services and goods markets and at a greater flexibility of the labour market. This process has to do with improving the supply-side performance of the economy and its macroeconomic performance. With EMU, the loss of the exchange rate instrument has put a greater burden of adjustment on the real economy which bears consequences both for labour markets (a strain to which the EES was the answer) as well as for markets of goods, services and capital that led to the Cardiff process. The European Commission had advanced three major reasons in favour of coordinating structural economic policies: it may reduce national resistance (such as the repeated reluctance of France vis-à-vis public sector liberalisation reforms), it may improve the coherence of reforms, it may enable a better integration of economic structural reforms and macro-economic policy. The Cardiff process functions on the basis of an OMC procedure with national progress reports which lead to the Commission 'Cardiff report' (a synthesis of the national reports written up by the Directorate General Internal Market), peer reviews and an annual report by the Economic Policy Committee – a technical committee of the Council of Ministers of Economy and Finance. The conclusions of the annual Cardiff reports represent a substantial part of the yearly Broad Economic Policy Guidelines (BEPGs). As an OMC process and compared with the EES (see below), the

major features of the Cardiff process are the absence of European guidelines, the lack of a Treaty base and the lack of a procedure to involve social partners (FODEN/MAGNUSSON 2002 [23]). According to several observers, the Cardiff process operates fairly much as a deregulatory tool somehow antinomic to the search for a new balance between economic and social developments of the Lisbon strategy.

On the other hand, in 1999, the Cologne process was set up in order to promote a 'macro-economic dialogue' between the European Central Bank, the social partners, national governments and the Commission. In the same way as the macro-economic coordination process of Maastricht (1992), the Cologne process was meant to partly alleviate the lack of coordination between monetary policies defined by the ECB and other policies such as budget policies defined by governments and wage policies depending on social partners. This dialogue remains largely 'confidential' and basically consists in an exchange of views and information. Both technical (twice a year) and political meetings (twice a year) take place. Although it intends to coordinate viewpoints on macro-economic issues and to create a climate of confidence so that the ECB might eventually be inclined to carry out a less restrictive monetary policy, the Cologne process is very different from OMC processes as it does not have recourse to any of the devices such as guidelines or objectives, peer review, evaluation etc. which belong to an OMC process. The idea is essentially to create virtuous circles between the monetary policy of the ECB and the structural employment reforms and wages policies embarked upon by Member States and social partners.

4 The European employment strategy (Institutional features, results of the five-year assessment, future prospects)

After Amsterdam (1997) where it was given a Treaty base, the EES has been put into practice on the basis of the employment guidelines organized around four pillars (employability, entrepreneurship, adaptability, gender equality) during the special Luxembourg European Council (November 1997).

Since then the EES has been reaching what can be called its own 'cruising speed' with its annual European guidelines, National Action Plans in Member States, and a process of annual Recommendations addressed by the Council to Member States after evaluation. With the Lisbon European Council (March 2000), the EES was given new impetus as it has become part of a broader ten year economic and social strategy for the EU aimed at reaching full employment and a 70% employment rate target by 2010 with a yearly 3% growth; the Lisbon strategy also aimed at articulating in a better way employment policies with other policy fields (macro-economy, structural economic reforms, innovation policy, social inclusion, social protection, education/training, environment policy ...), mostly areas in which other OMC processes were meant to be launched.

After five years of functioning, the respective merits and shortcomings of the EES process have been evaluated both at EU and national level in a recent publication of the European Commission (COM 2002: “Taking stock of five years of the European Employment Strategy” [11]). This evaluation was meant to help redesign the future contours of the EES (see COM 2003 [13]: “The Future of the European Employment Strategy (EES): a strategy for full employment and better jobs for all”).

4.1 The Employment Title in the Amsterdam Treaty (1997)

The EES process as designed by the Amsterdam Treaty has the following form. Each year, following the Commission's proposal, the Council (Social Affairs and Ecofin) adopts common European employment guidelines by a qualified majority vote. Afterwards they have to be translated into national employment policies on which each Member State reports to the Commission and the Council in their yearly ‘**National Action Plans (NAPs)**’. An annual joint evaluation by the Commission and the Council then takes place, on the basis of which the Council can issue recommendations to the Member States. Such **recommendations to individual states** that are deemed either

- (i) not to have followed the guidelines or
- (ii) not to have achieved acceptable results or
- (iii) not to have properly identified specific national challenges adequately, have no binding effect but are nevertheless politically powerful.

The **Employment Committee (EMCO)** participates in the EES as an advisory body: each Member State and the EC nominates two representatives to sit in the EMCO. The latter plays in fact a major role in the whole process. Although the Employment Title was not very explicit on the point, subsequent EU summits insisted that national governments be expected to engage trade unions and employer associations at various levels in both developing and implementing their NAPs.

Three elements characterize the Employment Title in the Treaty: it is based on the previous experience of the Essen procedure (1994) establishing a multilateral monitoring procedure for national employment policies; the procedural approach of the EES was inspired by the convergence process in the macro-economic field set up in the Maastricht Treaty (1992); and it is the national level which remains primarily responsible for employment policies and achievements, though employment is considered an issue of common concern for both the national and the Community level. The fact that employment is a 'shared competence' between the Community and national levels is consistent with the principle of subsidiarity and clearly shows that the EES represents an effort to promote greater convergence of national employment policies while at the same time respecting national diversity.

Since the Luxembourg summit of 1997, the annual **European employment guidelines** have been organized under **four pillars**:

- 1) improving employability: aimed at improving the access of the unemployed to the labour market, it focuses on the development of a 'preventive approach' to avoiding long-term unemployment and on the implementation of 'activation policies';
- 2) developing entrepreneurship: making it easier not only to start and run a new business but also to hire people by reducing administrative constraints and rendering taxation more employment-friendly;
- 3) encouraging adaptability both for employees and businesses: this entails modernization of work organization and other forms of adaptability in enterprises;
- 4) strengthening equal opportunity policies; this involves a gender mainstreaming approach for all four pillars, reducing the gender gap, reconciling work and family life, and facilitating re-integration into the labour market.

About twenty such EU guidelines are formulated each year with only a few of them corresponding to quantified targets; in addition, horizontal objectives were introduced, the first ones in the Employment Guidelines 2001. As to recommendations, a total of around fifty of them have been addressed to Member States, with an average of around four recommendations per Member State (less to well performing countries, more to countries with poor employment performance).

It must be stressed here that in practice, the Commission plays a major initiative, coordination and evaluation role in the process. It proposes guidelines and future themes for debate through its 'communication' papers, assesses the content of the NAPs against the guidelines, monitors their actual implementation, assesses how far they address the problems and needs of each country, verifies that national social partners have been involved, accelerates the adoption of common statistical instruments and policy evaluation methods, proposes recommendations concerning Member States' inadequate implementation, identifies 'best practices' and monitors peer review meetings between a cluster of Member States in order to disseminate these practices. By defining problems, solutions and interpretations, the Commission structures the behaviour of the multiplicity of actors, channels conflicts, organizes alliance building and socializes the actors to share its definition of issues and objectives (GREENWOOD 1997 [33]). Furthermore, the Commission also needs to be diplomatic in its management of the process. It must exercise firm control, but must not irritate Member States by ongoing harassment or undermine their own voluntary political commitment. Here too a learning process takes place: whereas the monitoring of the 2000 Recommendations to the Member States had caused certain annoyance among some of them (it was the first ever generation of Recommendations, after the Amsterdam Treaty came into force, and some of the Member States were surprised by the Commission's use of the instrument), the monitoring procedure for the 2001 Recommendations has changed and proved to be

more diplomatic. Faced with a great diversity of national interests, the Commission directs the show, as it manages the agenda, has intimate knowledge of the institutional and procedural complexities of the EU and is able to represent the history and memory of Community proposals against the background of circulating Union presidencies and the changing political identities of Member States.

4.2 A few lessons learned from the five-year EC evaluation of the EES and the future of the EES.

The European Social Agenda adopted at the Nice European Council (2000) called for an in-depth review of the first five years of the EES in 2002 that was published in an EC Communication ('Taking stock of five years of the EES', 2002 [11]). Two questions had been asked: to what extent have national employment policies been changing under the influence of the EU employment guidelines (EGs) in terms both of their content and of the decision-making process via which they are reached? What has been the concrete impact of EGs on Member State employment performances and results, for example, on unemployment levels and employment rates? The answers to those questions are supposed to determine the EES's future, its content and procedures, which will have to be subject to some reform.

Such an **evaluation** exercise entailed **two basic difficulties**:

First, even if national employment policies appear to be in line with the EU guidelines, it will be difficult to prove (especially in the case of non-compulsory EU measures) which measures the Member States would have undertaken in any case (without the existence of the EES) and which measures have been undertaken under the pressure of the EES.

Second, it is very difficult to evaluate what share of the improvement in employment figures is due to structural labour market reforms (and the EES belongs to this category) and what share is due to economic growth (which is itself influenced by the global economic situation, national macro-economic policies, the ECB's monetary policy, etc.).

These reservations being made, the five-year assessment reveals the following positive **results**:

- National employment policies appear to have become more convergent towards successful models under the EES on a number of subjects such as the reshaping of public employment services which have developed active and preventive approaches, the adaptation of tax-benefit systems, more labour-friendly taxation, working time arrangements and more flexible work contracts, partial rethinking of education/training systems, reduction of gender gaps, improving the reconciliation of work and family life.
- The EES seems especially to have fostered political agreement on new common paradigms such as prevention and activation policies, quality

of work, lifelong learning, the enhancing of employment rates (of women, of the elderly so as to reduce unemployment, to increase growth and to finance social protection), the development of a more global and strategic approach to work trajectories (cf. “flexicurity”), the necessity to better combine professional and private life, the need for a better coordination between employment, social protection and tax policies, the need to reform employment services so as to promote more qualitative approaches towards job seekers.

- In terms of impact, the evaluation confirms a threefold development: the reduction of structural unemployment levels (with a decline in youth and long term unemployment and an increase in labour market participation), a more employment-intensive pattern of economic growth and more rapid labour market adjustments and responsiveness of employment to economic changes. The price to pay for this reduction in structural unemployment and fast employment responsiveness to the economy was the important development of fixed-term and part-time employment and the acceptance of wage moderation. In the five-year time span (1997-2001), the number of jobs grew by 10 million, unemployment declined by 4 million and labour force participation increased by 5 million. The share of long-term unemployment was reduced from 50% to 42%. The target set to offer active measures to 20% of the unemployed was generally reached. Training measures proved to be effective for certain target groups (women, immigrants); the results with subsidised employment were mixed and more effective in the private sector; job-search assistance was also very useful.
- As an **open method of coordination**, the **EES** has:
 - a) launched new cooperation links with a vast array of social and political actors (EU institutions, governments, local authorities, social partners,);
 - b) intensified institutional cooperation at EU level between various actors: the European Council and the various Minister Council formations, between the various Minister Council formations (Economy/Finance, Employment/Social Affairs, Education) and their respective committees (Employment Committee, Social Protection Committee, Economic Policy Committee, Finance Committee); between the EC and the Council; between Commission services and their various Directorate Generals (employment/ social protection; education/training; macro-economy; interior market; research; innovation; enterprise); at national level it has also fostered closer cooperation between different ministries;
 - c) promoted new working methods such as management by objectives, the definition of numerous statistical indicators (more than 90 for employment issues) and an evaluation culture;
 - d) started to establish better links between decision-making levels (EU, national, regional) and policy fields (economic, social).

Despite those steps forward, numerous **shortcomings** are to be deplored especially at national level.

The involvement of the social partners has been insufficient and differs a great deal between countries (FODEN 1999 [22]). It is reported to be highest in Sweden, Austria, Italy. Nine countries have set up some sort of tripartite structures for that purpose (France, Germany, Sweden, Ireland, Belgium, Greece, Italy, Portugal, Spain). In general, social partners were more involved in the elaboration of the NAPs and less so in their implementation. The overall visibility of the social partners' joint activities remains blurred (especially concerning work organization reforms). They could have improved the visibility of their activities by submitting a progress report on work organization reforms undertaken, as was required by the Commission, but failed to do so.

As to NGOs, they were hardly involved in the EES at all. The level of participation of regional and local authorities in the NAPs, which was somewhat higher in general national employment strategies, is far from being satisfactory although considerable progress in the development of a territorial dimension of the EES has been made in most of the Member States. The same applies to national Parliaments that were not really consulted in the NAPs' discussions (except in Portugal). Altogether, it has often been recorded that activities around the NAPs tended to be limited to specific Ministries and very specific departments within those Ministries.

Both at EU and national level, the EES is reported as having remained to a large extent in the hands of a community of experts and specialized committees.

In terms of content, according to the EC evaluation, considerable structural **problems and challenges** remain:

- almost 13 million people are still unemployed (of which 42% are long term unemployed);
- reaching the Lisbon rate targets (70% overall by 2010, 60% for women, 50% for the older workers) will require tremendous efforts and the creation of 15.4 million jobs from 2002 onwards; regional differences remain a problem in several Member States;
- as was pointed out in the various Joint Employment Reports, national employment measures have not been conceived in a coherent way between the four pillars (employability, entrepreneurship, adaptability, gender equality), as for instance in the case of horizontal objectives such as active ageing; Member States are reluctant to adopt specific national targets (e.g. on employment rates or on investment in human resources); and the budgetary dimension of national measures taken is often missing; rather than remodelling their own objectives, Member States often just replicate in their NAPs what they are doing already;
- the content of each specific pillar could be improved: as regards employability for instance the follow-up of beneficiaries and the cost-effectiveness of active measures deserve more attention; more needs to be done for the disadvantaged groups (disabled, ethnic minorities,

immigrants); active ageing requires increased emphasis, as do the increasing gaps between beneficiaries of education/training measures. Worryingly, there are signs of a widening gap in access to training between those with low skills and the more highly educated. Further, life long learning is less developed among the elderly, SMEs' and those on flexible work contract. Moreover, school drop out rates remain high at nearly 20%.

As regards entrepreneurship, the SMEs' surveys show that administrative charges are still a major constraint for business performance (despite numerous measures taken for administrative simplification), and reliable indicators are missing to evaluate the likely favourable impact of their reduction on job creation; if the overall tax burden on labour has been reversed with a reduction of 2% between 1997 and 2001, the mix between tax measures and benefit measures for the unemployed needs to be improved especially for preventing early labour market withdrawal.

The adaptability pillar which essentially covers the modernization of work and flexibility in the regulatory framework for work organization and labour contracts, has tried to introduce a balance between flexibility, security and job quality; however, the flexibility aspect has clearly been increased to a greater degree than the security aspect; indeed, in many countries job creation is due to the increase in flexible work contracts and the latter are more likely to lead to unemployment, and often long term unemployment and inactivity; on the other hand, increased flexibility through working time arrangements seems to have more to do with economic adaptability (i.e. long term employment levels) and less with job creation in the short term.

The equal opportunity pillar has received an important impetus through the EES, and the fact of introducing gender mainstreaming across the pillars was an important element in that respect. Over the last five years, women benefited from the majority of new jobs created; the gender gap in the employment rate was reduced from 20% to 18% and the unemployment gap declined from 12% to 9%. Considerable efforts need to be made in order to reach the Lisbon and Stockholm European Councils' objectives. It is however deplorable that social partners are insufficiently involved in the area of pay differentials (still 16% in the private sector in 1998) and parental leave, whereas since the Barcelona Council governments have been expected to meet new quantified targets with regard to childcare facilities by 2010.

As to the **future of the EES**, the EC has issued proposals for reform in a recent Communication called 'The Future of the European Employment Strategy (EES): a strategy for full employment and better jobs for all' (2003 [13]) where it advocates a more concentrated set of priorities for the future guidelines (around ten guidelines instead of twenty in the past) which would aim at reaching three overarching objectives: full employment in line with the Lisbon targets, quality and productivity at work, cohesion and an inclusive labour market so as to reduce existing disparities in access to the labour market. The simplified guidelines would be defined with a time horizon of 2010 closely in line with the Lisbon tar-

gets and remain stable until a mid-term review to take place in 2006. The ten guidelines would have to satisfy the following priorities: helping those without a job into work and making work pay; fostering entrepreneurship; combating undeclared work; promoting active ageing; managing immigration; promoting adaptability on the labour market; investment in human capital; gender equality; combating discrimination on the labour market; addressing regional employment disparities. More emphasis will be put on results. The Commission further proposes to improve the governance of the strategy, especially through greater involvement of social partners and civil society and parliamentary bodies. The latter could facilitate a better integration of the NAP processes in the overall national policy framework, including budgetary allocations, especially since the new timetable of the EES will bring the national discussions closer towards the end of the year, as a result of a new synchronisation between the Employment Guidelines and the Broad Economic Policy Guidelines (2002 [12]). The new procedure will lead to a synchronisation in time (with an implementation package in January and a Guidelines package in April) which should also lead to a better synchronisation in terms of content, avoiding overlaps or even contradictions between messages.

The Commission will make the formal proposal for the new employment guidelines (the sixth employment guideline package since 1997) and recommendations by early April 2003.

5 Strengths and weaknesses of the OMC

In this section we intend to discuss what we consider to be the major strengths and weaknesses of the OMC as a mode of governance. We shall rely essentially on the experience provided by the functioning of the EES, the most advanced OMC process. Two basic questions shall be answered:

- a) which are the new elements of governance in the process and what assets does the OMC bring to the future of European integration?
- b) which are the contentious issues which the OMC has given rise to?



5.1 Strengths of the OMC process

Altogether, the OMC can be considered as a **third way** between traditional EU integration relying on the community method and the rationale of mere intergovernmental cooperation: it is meant to be more flexible and open than the former and more constraining and better monitored than the latter. The EC is largely in charge of this monitoring role. On the basis of the full-scale impact evaluation of the EES and first assessment papers in some OMC policy fields, we identified **eight major strengths of the EES as an OMC process**:

First, a vast array of advantages are linked to the fact that the EES is basically an **‘iterative process’** (GOETSCHY 1999 [25]). This ‘iterativeness’ involving top-down and bottom-up relations between various levels (local, national, EU) and between a multiplicity of actors (EU institutions, Member States, regions, social partners, NGOs.) presents a number of **advantages**:

- it enhances the political commitment of the Member States in EU decision-making which are thus in a better position to control, accept and implement EU guidelines;
- it implies decisions which are better adjusted to the national diversity of institutions and employment policies; decisions are thus supposed to become more realistic and less prone to ‘would-be-policy’;
- knowledge about national realities is supposed to be improved and implementation assumed to be better by virtue of this iterativeness;
- it enables the involvement of a multitude of economic, social and political actors at various levels (supranational, national, regional);
- deeper and regular Member State involvement finally provides a chance for the real national social priorities (employment, social protection issues) to figure on the EU agenda: social issues of ‘high politics’ which are not really fully acknowledged EU competences and which are highly contentious, can thus be dealt with at EU level;
- it encourages at the same time a ‘Europeanization’ and ‘renationalization’ of employment policies through a mutual learning process (see: RADAELLI 2000 [51]; BÖRZEL / RISSE 2000 [5]; TRUBEK / MOSHER 2003 [62]; SCHMIDT 2001 [57]);
- it should increase both the legitimacy (of decisions) by input (more actors involved) and the legitimacy (of decisions) by output (better employment performances are expected) (SCHARPF 1999 [54]);
- one of the OMC’s biggest challenges, is that it requires developing new cooperation between sometimes slightly rival actors and levels (EC/Council; ECO/FIN and Council of Social Affairs; social partners/civil society etc.): indeed, new forms cooperation between the European Commission and the Council, and between the Finance and Social affair ministers both at EU level and national level do seem to have taken place.

Second, the duration element of the process is yet another basic force. The medium term, multi-annual time perspective of the EES and other OMCs (such as social inclusion or pensions) with their results of an incremental nature which transcend short-term political gains can help to tackle in depth problems of unemployment, low employment rates and social problems (social exclusion, pension reforms). The fact of setting the EES and the other OMCs in a 10-year more global EU economic and social project through the Lisbon strategy reinforces even more the benefits to be drawn from the duration element. One can say that the duration element of the OMCs with their medium term objectives is a way to ‘depoliticise’ partly social and employment problems and to free them from

their immediate national contingencies: implicit in this orientation (as with EMU and its convergence criteria) is the belief that politicians need to be detached from their immediate national constraints and political contingencies. On the basis of common objectives set within a supranational framework they are most likely to develop a capacity to solve fundamental employment problems and to undertake social protection reforms. The fact that the EES and other OMCs are designed as enduring processes also means that the nature of transactions between Member States is different from that which applies in the case of the adoption of directives. In the latter instance, the diplomatic mode of interaction – where utilities are exchanged, involving trade-offs among a variety of issues, and where short term political conjunctures are often decisive – tends to prevail; when placed in an ad hoc short term perspective, political negotiations and coalitions of interest often dominate, whereas when given longer time, as is the case with OMCs, consensus around new paradigms, around new statistical tools, common reference frames and mutual learning have a greater chance to develop.

Issues are tackled in depth within the frame of specialized committees which represent key institutions in all OMC processes: the EMCO (employment committee) for the EES and the SPC (social protection committee) for social protection issues in which committee members seem to be dedicated to genuinely reaching agreement and to revealing fairly open-minded attitudes (JACOBSSON / VIFELL, 2002 [39]).

Of course the planned multi-annual dimension might present the risk of developing routine behaviour and lead to lack of momentum after a while as well as rendering other policy innovations difficult. Further, the Lisbon strategy is a projection into the future which might not always take sufficient care of societal stock problems and intractable national specificities and policies which are especially important in the field of social and employment policies (e.g. massive long term and youth unemployment explain the importance and persistence of early retirement plans in France and Germany). Indeed, a medium term perspective with the objective of convergent policies represents all the more a challenge for Member States as it disturbs societal coherences and as the national objectives traditionally differ from those of the EU.

Third, the method itself is meant to be an elaborate tool for the modernization of public policy making with its targets and deadlines and its 'evaluation culture' aimed at assessing both the quantitative and qualitative implementation of EU guidelines or objectives; it is meant to serve as a catalyst for the efficiency of national employment policies in several ways: by establishing external constraints and targets to reach within a specified timetable (a method which had proved successful for setting up the European monetary union), by aligning such targets on the best performing countries (benchmarking), by putting employment policies to the test of national comparison with a wide battery of indicators, submitting them to the examination of a wide range of EU institutions through the Joint Assessment Reports (Council and Commission) and making them depend (this is the case for the EES only) on EU 'recommendations' adopted by the Council; the degree of severity of the monitoring and

evaluation process varies according to the OMC at stake; tough monitoring on behalf of the EC and a real evaluation culture are for the moment essentially the case with the EES.

Evaluation of the various OMC processes' achievements will make it possible to readjust EU guidelines and policy objectives over time, and to measure whether national policies are converging (see: TRONTI 1999 [61]; KNILL / LEHMKUHL 1999 [44]).

Fourth, the OMC represents a new opportunity for enlarging the EU policy agenda especially on issues where EU prerogatives are inexistent, or on issues which are too conflictual to lead to EU rule-making even if they are subject to EU competence under either qualified majority or unanimity voting. Employment and social protection are policy fields that are politically highly sensitive for Member States' electorates and where national diversity is important. In other words, as it enlarges the EU agenda, the OMC is clearly a way to further develop and deepen EU integration.

Fifth, the EES as well as the OMC in other fields are supposed to develop a mutual learning process between the various actors, in particular between the various Member States. It appears that the EES contributes to the emergence of an 'epistemic community' (HAAS 1992 [34]) at the EU level, where experts and social and political actors share similar cognitive and normative orientations towards the key objectives and issues for employment reforms. The development of such an epistemic community both relies on and at the same time engenders confidence-building, learning processes and favours convergence processes among Member States. A longer time span for acting collectively, appropriate procedural tools and multi-level governance indeed help to link more tightly the preferences and outcomes of supranational organizations, social partners and the Member States. A mutual socialization process – subject to a multiplier effect due to multi-level governance (more actors, more fora, more policy fields) – should thus develop, as a result of which actors adjust their respective value systems. While a gradual Europeanization of national views should occur, the supranational institutions for their part are expected to pay greater attention to national diversity. Such a process does not prevent Member States from maintaining a clear view of their national interests. On the contrary, through comparison with the other countries, it helps them sharpen their own positions and views.

Through OMCs and especially in the case of the EES one expects the pooling of lessons learned by Member states in their respective policy fields not only over the last five years of the OMC's existence but over more than twenty five years of experience with employment policies; in the employment field those lessons not only concern the exchange of good practices with regard to the four pillars of the EES (employability, entrepreneurship, adaptability, gender equality) but also concern broader issues which are:

- the virtues of the policy mix between macro-economic policies and structural labour market reforms for job creation;

- more knowledge about the nature of links between a variety of structural labour market reforms and employment performances;
- the benefits to be drawn from a better articulation between employment policy, social protection policy and tax policy.

Sixth, each OMC process – and this is especially true with the EES – offers the possibility to deal with a whole policy field in an encompassing way and does not merely tackle problems in a piecemeal manner as is the case with single social directives. This fundamental encompassing characteristic renders subsequent coordination between different policy fields possible. A better (formal and informal) coordination of the various processes, i.e. the BEPGs, the EES, the Cardiff process, the Cologne process, OMCs in social exclusion, pensions, education/training, innovation policy etc. is expected to lead to a synergy, to more powerful mutual effects among policies and a better balance between economic and social issues at EU (and national) level, objectives which the Lisbon strategy aims precisely to reach.

Of course policy coordination seen as a way of establishing a better balance between economic and social fields remains a difficult task as the last three spring European Councils have shown (Lisbon, Stockholm, Barcelona). Moreover, in spite of the benefits of policy coordination, bringing employment and social policies closer to market policies might induce some loss of autonomy for each single policy field that can be detrimental to the intrinsic specificity of their own objectives.

Seventh, the OMC can fruitfully complement the more legalistic “*acquis communautaire*” approach: it induces a new way of looking at the desirable articulation between the communitarian method and intergovernmentalism and calls for new balances and reforms within the EU institutional triangle (EC/Council/EP) (cf. ongoing convention and future IGC 2004).

Finally, the OMC is the most relevant method not only in view of present and future EU integration difficulties but also taking into consideration the Member States’ wishes for deeper EU integration. Hence at present, the EU somehow has to reconcile a number of contradictory objectives: respecting the subsidiarity principle in the context of the growing diversity of social institutions engendered by enlargement, the reluctance of the fifteen Member states to transfer further economic and social competences to the EU level, and the fact that the EU Member States are nevertheless keen to deal more with redistributive issues at EU level in order not to jeopardize EU economic integration which they benefit from, at the same time as satisfying the expectations of public opinion. This calls for a mode of governance which is able to develop more convergences between countries in each policy field and able at the same time to respect the diversity of national systems, institutions and cultures.

The OMC concept is probably the most subtle answer devised so far in this search for a new balance between convergence and the respect for national diversity. The OMC takes national diversity seriously by making it into a new principle of integration through the development of mutual learning and the promotion of multi-level governance. At the same time, it sets up a method for achieving convergence on the basis of modern public policy devices such as common targets, benchmarking, evaluation processes as well as policy coordination.

But those two elements – the search for convergences and respect for national diversity – are subject to an implicit and permanent tension. Indeed, the EES for example entails important ‘vectors’ favouring convergence: externalisation of constraints; common EU guidelines; comparative evaluations in the joint report; recommendations; peer reviews; recurrent yearly procedure; long-term EU employment perspectives; however it also contains numerous ‘vectors’ for respecting national diversity: though it is a shared and complementary competence, employment remains essentially a national responsibility; lack of legal sanctions in case of non-compliance; most guidelines issue general norms and are not linked to quantitative objectives; Member States can define their own objectives in several fields; the evaluation process is partly carried out on the basis of each country’s difficulties and starting points.

The EES as an OMC process contributes to enhancing the ongoing Europeanization and convergence of certain elements of national employment policies, as shown in the NAPs, the Joint Employment Report and the five-year evaluation report. But at the same time, through the EES process of evaluation and comparison, Member States become increasingly aware of the respective strengths and weaknesses of their national markets and employment policies, and their related policies (tax, social protection), which in turn supports new institutional arrangements, such as national social pacts (FAJERTAG / POCHET 2000 [20]; RHODES 2001 [52]) and the mobilization of specific national assets in the context of globalization. After five years of operation, this underlying tension between ‘convergence vectors’ and ‘diversity vectors’ can be observed to have grown deep roots, leaving Member States with sometimes ambivalent feelings and behaviour.

Two final remarks: The desire to respect the specificities of national contexts and their social systems is evident through the fact that the Lisbon European Council (2000) repeatedly refers to the principle of subsidiarity introduced in the Maastricht treaty (1992). This striving for more EU convergence and the invocation of the ‘external constraint’ helps Member States to carry through difficult national reforms and to manage social change in areas such as social protection (pensions, health systems) or employment (e.g. the promotion of activation policies and more flexibility). One replicates here to some extent the method of the ‘stress for convergence’ previously used for setting up the EMU where national politicians can shift the political

blame onto the EU shoulders. Unlike the EMU convergence criteria, however, the employment guidelines and objectives of other OMC processes are less binding, but the multi-governance aspects are also more pronounced, facilitating in their own way such a ‘stress for convergence’.

5.2 Contentious issues around OMC processes

5.2.1 The imbalance between EU economic integration and EU social integration and the difficulty of policy coordination

The various OMCs (in particular the EES, but also the OMCs relating to social inclusion and pensions) suffer from a **double imbalance** which has important consequences for their results:

first, the domination of a centralized monetary policy over other macro-economic policies such as budget and fiscal policies which remain national (insufficiently coordinated at EU level) albeit highly constrained by the Stability Pact;

second, the domination of the BEPGs over the various OMC processes.

The BEPGs and the Cologne process represented useful, even if largely inadequate, institutional answers to the first type of domination. As for the second type of domination, the Lisbon strategy (2000) was meant to provide solutions by calling for more policy coordination between the BEPGs and social, employment, education, environment and taxation policies, and by trying to put economic and social policies on a more equal footing (see: BEGG / HODSON / MAHER 2003 [2]).

All these economic constraints over EU social integration however seem to be of an enduring nature. Despite the lively debates it has given rise to on numerous occasions in some Member States, the Stability Pact seems to represent a lasting cornerstone of EU economic integration which is not very likely to be amended. A major difficulty lies in the fact that the Stability Pact is an overarching framework to which the Lisbon strategy has to be subordinated.

As for the Lisbon strategy itself, in terms of content it entails some contradictory objectives which are difficult to reconcile. Besides its appeal for a better balance between EU economic and social integration, it advocates the speeding up of the internal market and the acceleration of economic structural reforms such as liberalisation policies with regard to public utilities, financial markets, as well as the alleviation of barriers to competition which in some instances might stand in contradiction to employment and social targets and might not contribute towards the establishment of a better balance at least in the short run. Indeed the functioning of the Lisbon strategy has demonstrated a real risk of creating hierarchies between policy fields rather than genuine coordination: one has witnessed a prioritisation of economic over employment and social issues; and structural economic reforms and the Stability Pact themselves have had precedence over macro-economic governance issues.

The difficulty in reaching a balanced approach has been demonstrated clearly for example in the preparation of the EC synthesis report for the Stockholm and Barcelona Council and in the European Councils' conclusions. In a way the Lisbon program contains too large a variety of public goods, with some being very market oriented and others with a more markedly social character. Of course, the reconciliation of different political interests and political fields is what politics is all about, but whereas at national level one generally observes some dominant political ideological framework of the government in power, within which such compromises are reached and interests filtered, the EU level by contrast has to reach compromises on the basis of a much greater variety of political and ideological governmental stances (right/left) (DEHOUSSE 2002 [17]).

Some observers argue that contrary to the initial objective of the Lisbon strategy to enhance the status of social issues through the spring European Council, one seems instead to have witnessed a strengthening of the influence of the ECOFIN council and an increasingly high profile for the BEPGs which, to better fulfil their own objectives, seem to have tended, phagocyte-like, to incorporate the objectives of the other OMC processes (EES, social inclusion, pensions), by stressing the necessity to respect the Stability Pact and by making 'higher employment rates' into the major federating principle. Thus in order to satisfy the aim of policy coordination, some of the more specific objectives of the EES (e.g. the reduction of unemployment for its own sake) and social inclusion process (e.g. the fight against poverty for its own sake) risk dropping out of sight (GOETSCHY 2002 [30]).

The reasons for the overwhelming role of the Stability Pact are of course a direct outcome of its compulsory rules. As far as the domination of the BEPGs' is concerned, the greater homogeneity of cognitive frameworks among those dealing with economic matters (politicians, members of expert committees to the Councils) tends to be an advantage over the more fragmented views of those dealing with employment and social issues. In other words, OMCs that are internally well coordinated have a better chance of dominating other more fragmented OMC processes. Furthermore, fields with an overarching function such as macro-economics which regularly appear in a wide range of other areas, also have a greater chance to influence all the other policy areas (DE LA PORTE / POCHET 2002 [18]).

Others arguments are further put forward for explaining the difficulties of policy coordination. Institutional deficiencies are often invoked with regard to the functioning of the European Council on the one hand and the Council of Ministers on the other: the European council is said to have become too embroiled in the detail of day-to-day policy-making and the General Affairs Council has lost its capacity to arbitrate between the sectoral and often contradictory interests of the various specialized Councils of Ministers. In addition, the EC lacks the appropriate internal coordination procedures between its various DGs (macro economic affairs, internal market, competition, social affairs, environment, education) that would be required to better fulfil the Lisbon strategy (EC White Paper on Governance, 2001 [10]).

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Finally, the burdensome task for policy coordination emanates from the existence of a great number of coordination processes that creates a fairly complex set up and constitutes a serious problem of governability. Beyond the various eponymous processes initiated at successive EU summits, Luxembourg (1997: convergence of labour market policies), Cardiff (1998: convergence of economic structural policies), Cologne (1999: coordination of macro-economic policy, wages, and employment), Lisbon (2000: interlinkages of policies; new policy fields subject to the OMC), there exist three other arenas of economic coordination (the BEPG for macroeconomic coordination, the surveillance procedure for implementing the Stability Pact, and the Eurogroup for coordinating fiscal policies), two other coordination processes in the social protection field (social exclusion; pensions) and one in the field of education and training. Indeed, all these processes have different constitutional and institutional statuses. They are marked to varying degrees by ‘inter-governmentalism’ and the ‘Community method’. Some of them are only nascent and their functioning still remains fairly imprecise.

5.2.2 The risk of a regulatory competition between hard law (legislative or contractual) and soft law devices

The **OMC** has very often been criticized for being a **soft law instrument**. Five major types of argument have been put forward in that respect:

First, some authors consider that non-compulsory EU guidelines are not likely to be implemented properly by Member States given their non-compulsory character: they therefore lack implementation effectivity; as a result EU employment guidelines and the objectives of the other OMCs (social inclusion; pension; education/training) will not lead to Member States changing their national policies.

Second, they fear that the OMC might become the dominant mode of EU regulation for issues which are subject to little or no EU competence and more seriously for issues which are subject to hard law, thus disqualifying the EU classical community method (legislative, contractual). Indeed, the spreading of the OMC to a variety of fields has been hasty; and the OMC philosophy has already entered the EU social dialogue and European collective bargaining (BERCUSSON 2001 [3]). Such a risk could be alleviated by specifying, for instance in a future Treaty revision, that the OMC should not be used when legislative action under the community method is possible.

Third, the above-mentioned fear of a likely disqualification of the classical community method might be accompanied by some sort of unhealthy regulatory competition. There seems to be growing consensus around the idea that the choice of a given regulatory method (legislative, contractual, OMC) will depend on the issue at stake and the nature of the problem to be solved: on that point both the EC White Paper on governance (2001) and the proponents of the Lisbon strategy seem to agree; what is less

clear for the moment is which institution will be able to take such a decision: whereas the EC White Paper on governance (2001) suggests that it is the Commission which should be in charge of evaluating which is the relevant regulatory tool to be used, the proponents of Lisbon strategy are open and imprecise on that point.

Fourth, it is further feared that such modes of governance based on soft law – in so far as they might become the dominant mode of regulation – might jeopardize in the future not only the very foundations of the classical community method but also the institutional triangle on which it relies (EC, EP, Council). The danger here is the shift towards intergovernmentalism that would mean the diminishing of the role of the Commission and the European Parliament in the rule-making process and the definite increase of the role of the Council. This is why the EC White paper on governance (2001) showed itself to be slightly suspicious vis-à-vis an uncontrolled development of numerous OMCs and concluded that it is a renewed and strengthened ‘Community method’ which should be at the heart of EU policy-making with the Commission playing an enhanced role.

One should indeed be aware of the fact that the **OMC** might be called a **"third way"** between supranational integration and traditional intergovernmental cooperation. The novelty lies in the fact that the Commission and the Council will have to work more closely together. Under the OMC, the Commission plays the role of a "catalyst" and of initiator through the presentation of guidelines, the organisation of the exchange of best practices, the proposal for indicators, the management of the follow-up and examination by the peers. As an independent institution and guarantor of the Community interest, it plays an arbitrational and monitoring role which represents a guarantee of neutrality for the Member States. In OMC fields where there is no Treaty base yet (the EES being the exception), the European Council remains the major institution behind the introduction of OMC processes. However, the concrete developments which take place afterwards in the various OMC fields in order to make them operational, depend de facto on a close cooperation between the Commission and the relevant specialized Councils (and their respective technical committees) where consensus needs to be reached in order to achieve a degree of progress. So far, there was no conflict between Commission and Council, but rather an identity of interests and objectives and therefore no real problem. But what would happen if there were one? And very probably there will be one sooner or later. And even below that threshold, is it comfortable to see the Council and more specifically the European Council setting itself a new role? There is obviously (e.g. the Nice Treaty, some proposals from governments for institutional reform) a general trend in the EU towards a strengthening of intergovernmental cooperation, and OMC is partly a result of that trend, and it is partly supporting that trend, and that may only be because of its sheer effectiveness.

A **fifth argument** which follows from the above lies in the fact that there also might be a danger that in the future, Treaty reforms will no longer concentrate on widening EU competences or on shifting issues subject to unanimity voting to qualified majority voting, as the Nice Treaty seems to have already shown.

5.2.3 Legitimacy issues

The establishment of OMC was motivated by considerations of efficiency, to secure decisions of better quality and to improve their implementation; but it was also introduced to improve the democratic legitimacy of EU decisions by granting a more important role to Member States, as well as to social partners and other interests of civil society, thus paying greater attention to the diversity of national situations (TEAGUE 2001 [59]).

Yet after examination of the OMCs' design and their functioning (essentially the EES and the social inclusion process), **several legitimacy problems** have arisen:

First, the multitude of actors involved in the fairly numerous OMC processes are said to create a complex and blurred picture which is difficult to subject to democratic control. Indeed, including a broader range of interests and actors means greater complexity in the compromises to be struck and creates some difficulty for democratic transparency.

Second, the duration element of OMC processes which entails a relative 'depoliticization' of decision-making and the reliance of the OMC on expert networks and procedural routines does not facilitate public political debate. Democratic control mechanisms would be all the more important as the OMCs deal with redistributive issues which are highly sensitive and generally subject to harsh public debates in our democratic societies.

When looking at the functioning of the EES and the social inclusion process, the role played by experts and civil servants both at EU level – in the respective committees (EMCO and SPC) – and at national level – within the Ministries – appears crucial. In addition, public debate at national level about these processes is rare. In the press and the media, there is very little trace of the OMC processes even when the European Council conclusions – which OMCs are generally part of – are discussed; only the Stability Pact receives some spectacular media coverage from time to time. The fact that the Commission plays a major role in the OMC processes, in its initiative, coordination and evaluation function, strengthens the beliefs of those who consider that these new modes of governance remain of an elitist nature, are expertise-driven and lack transparency.

Third, the weak involvement of the European Parliament (EP) as well as of national parliaments in OMC processes has often been deplored. More and more policy fields are bound to escape from the EP's influence if they are not subject to the traditional community method which repre-

sents a serious matter for concern in the future especially if the items tackled cover most of the economic and social policy fields. Several proposals in the current Convention attempt to remedy such a situation.

In the debate on those **democratic insufficiencies** the following arguments are often advanced to temper such worries. Some authors assert that the EU rests upon two types of legitimacy (the one emanating from Member States, the other exerted through the European Parliament), and that the OMC has somehow enhanced democratic legitimacy by giving more weight to the former type of legitimacy (greater involvement of Member States) to the detriment of the latter (less involvement of the European Parliament). Through the OMC and the Lisbon strategy, at least one of the most legitimate EU actors (the Member States through the spring European Council and their specialized Councils) seems to have regained power (TELO 2002 [60]).

If solutions for a better involvement of the EP are important through institutional Treaty reforms, it is also as urgent to start democratising OMC processes at national level: it is first of all up to Member States, being the major player in the process, to give rise to more national debates on OMC guidelines and recommendations within their respective national Parliaments, in civil society and with their social partners (RODRIGUEZ 2002 [53]).

Besides, it is also argued that we have entered a period where legitimacy by output (i.e. the quality of EU decisions and the quality of their implementation) is at least as important for the future of the EU as legitimacy by input (the decision-making procedures themselves) (SCHARPF 1999 [54]). To remain legitimate, the EU has to show first of all that it can deliver EU decisions of quality, secure their implementation and assess their impact.

Conclusions

In the late 1990s, both research on EU integration and political debates have been increasingly concerned with new modes of governance which differ from the 'classical community method' and which have looked for more flexible and open approaches enabling further EU convergence whilst respecting national diversity. The need for more efficient and legitimate EU policies has been emphasized. The OMC has thus become a central element in the debates which have sometimes tended to be overdogmatic: the OMC is often perceived by the more federally-minded Member States to represent a dangerous shift towards intergovernmentalism, whereas on the contrary other countries – those which would not like to see EU integration advance too fast and too far – see the OMC as an incursion designed to circumvent the subsidiarity principle and a possibility for an unlimited array of issues to figure on the EU agenda.

In practice, the OMC has, as shown throughout this text, been spreading fast to a vast range of fields concerning employment and social issues as well as to subjects linked to the knowledge economy and economic struc-

tural reforms. The various OMCs have been set in an overarching ten year EU project designed by the Lisbon strategy. As illustrated here, ways in which the OMCs are meant to operate differ a great deal between fields: their objectives are more or less ambitious; their respective monitoring procedures are constraining to various degrees; the policy fields covered are more or less 'encompassing'; their respective Treaty bases differ; their Europeanization potential varies depending on the degree of diversity among Member States on a given subject.

It is very likely that the OMCs' usefulness will be highest in policy areas where Member States have to carry through difficult national reforms and where their expectations vis-à-vis EU convergences at EU level are not too urgent or too high.

The challenge now for all those OMCs is a triple one. One is the way in which the various OMCs will be coordinated: is it far from easy to achieve a balanced articulation between structural economic policies, macro-economic policies, employment, social inclusion, pensions and education and training policies within the ten year Lisbon strategy. Both the Broad Economic Policy Guidelines and the structural economic reforms (Cardiff process), constrained by the Stability Pact, tend to play a fairly dominant role over the rest. Moreover, the existence of a high number of coordination processes as well as some institutional deficiencies linked to the functioning of the European Council, the unsatisfactory coordination between specialized Councils of Ministers at EU level and between the various Directorates General of the EC, the new forms of collaboration to be found between the EC and the Council, render coherent and coordinated governance very difficult.

The second challenge is the extent to which the various OMCs will be given legal support in the next Treaty reform, the manner in which they will be linked to the traditional community method (legislative, contractual) and how the respective role of EU supranational and national political and social actors in those processes will be redesigned. All this will depend on the way in which these will be discussed by the ongoing EU Convention.

Finally, the extent to which future European Councils might show real enthusiasm towards the implementation of the 10-year Lisbon agenda remains an open question. The 2003 Spring Council will for the first time examine what the Lisbon strategy means for the CEECs. Here difficult and new contradictory objectives will have to be reconciled: whereas on the one hand, the Lisbon commitments should not be delayed or postponed taking enlargement as a pretext, on the other hand serious consideration should be given to the ways in which the accession countries can take the Lisbon targets on board and progressively implement them.

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