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**The Influence of the EU on the  
Evolution of National  
Employment Models**

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International Institute for Labour Studies  
Geneva

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ISBN Print: 978-92-9014-864-7

Web/pdf: 978-92-9014-865-4

*First published 2008*

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Requests for this publication should be sent to: ILS Publications, International Institute for Labour Studies, P.O. Box 6, CH-1211 Geneva 22 (Switzerland).

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## Preface

There is heated debate in European countries regarding how the need for flexibility in the functioning of labour markets can be combined with that for workers' security — the so-called "flexicurity" approach. The premise behind this debate is that workers' mobility, employment-oriented social protection and stiff product-market competition are required in order to realise the potential gains arising from globalisation and structural change. But, as part of the flexicurity approach, such policies need to be *balanced* with social goals such as job protection, income security and welfare benefits.

This paper provides examples of how the EU has embraced the flexicurity approach, including through its European Employment Strategy. At the same time, the authors claim that, in practice, the majority of EU countries have focused primarily on the flexibility dimensions. In a limited number of cases, an attempt has been made to enhance security for those employed in flexible jobs.

More generally, a key message from the paper is that promoting social policy goals, including social protection and job quality, can be a major productive factor. In particular, greater policy focus on job quality may enhance firms' responsiveness to economic shocks and also reduce pressures on the welfare and fiscal systems. Social policy can also strengthen social cohesion — thereby reinforcing support for pro-growth reforms — while also promoting opportunities to participate in the labour market and improve career prospects. The paper thus provides examples of how the ILO decent work agenda can contribute to economic development.

In short, drawing on a rich analysis of country experiences, the authors provide a refreshing critical eye regarding the relevance of the European Employment Strategy and put forward a new approach to employment policy.

Raymond Torres  
Director, International Institute for Labour Studies





## Introduction

This paper focuses on the role of the European Union in promoting and shaping the direction of change and reform of European employment models. The EU has taken on and developed a reform agenda for European employment models, with the vision for their future encapsulated within the guidelines and rhetoric associated with the Lisbon agenda and in particular the European Employment Strategy (EES). The Lisbon agenda has set for Europe the dual goals of achieving both a productive and a socially cohesive society. These can be considered to be the characteristics of many European states in the post war period but there is a perceived need for reform and modernisation if they are to continue to be able to provide both security for their citizens and flexibility and productivity in the new service economy and knowledge society.

The issue of the future of European employment models within the Lisbon agenda holds significant policy interest for the ILO and its decent work agenda. Decent work is much more likely to be adopted as a key principle for international action, as the ILO would wish, if there is clear evidence of compatibilities and ideally synergies between employment quality and economic and social development. The argument that is developed through this paper is that the decent work agenda is in danger of being omitted from the reform of the European employment models, with the consequence that Europe risks not achieving either of the productivity and social cohesion goals, let alone both of them together. Europe has provided the main examples – possibly along with Japan- of societies that have combined strong labour standards and social protection with economic success. The European agenda now focuses on social protection and labour standards as a means to gain agreement for, and to spread the risks associated with, an increase in the flexibility of employment arrangements and contracts. This “flexicurity” agenda (COM(2007)359) sees social and employment policy primarily as a means of achieving potentially divergent objectives and not as a direct input into the development of a high performing economy.

The decent work agenda does derive support from the considerable body of evidence, based on research on European societies and other advanced economies such as Japan, which demonstrates that quality employment can provide appropriate trust-based relationships to underpin innovative and flexible high quality production systems. It is this evidence, primarily drawn from comparisons of work organisation and performance in manufacturing that has been used within the varieties of capitalism debates to suggest that there are effective development alternatives to the market-based liberal approach (Maurice et al. 1986; Hall and Soskice 2001; Appelbaum and Batt 1994; Hollingsworth and Boyer 1997). Moreover, it follows from the evidence of successful alternatives that social policy, if appropriately formulated, can indeed constitute a directly productive factor<sup>1</sup> and is not, as is assumed within the liberal economy model, a form of luxury good to be paid for only after the profits of a market-based production system have been generated without undue regulatory interference. However, this evidence-based support for a decent work agenda is much less strong in relation to performance in services, an area that has been little studied under the varieties of capitalism literature. Policymakers have thus been free, in developing so-called employment friendly models for the service economy, to draw on work that focuses on the need for low cost service production (Baumol 1967), while leaving open the question as to how advanced societies are to develop comparative advantage to sustain consumption and employment in a primarily services economy.

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<sup>1</sup> We use the term ‘social policy as a productive factor’ here rather than, for example, decent work policy to pick up on the agenda under this title pursued by some within the EU at the beginning of the EES (Hermans 2005).

This separation between employment issues and the development of the EU's productive base is also evident in the approach taken to competition and macroeconomic policy within the EU, where the impact of changes in product market regulation and restrictions on public sector budgets on employment quality are not directly considered, unless these are forced on the agenda by resistance in national and European parliaments.<sup>2</sup> The potential for further change in competition policy, particularly in the area of services, also creates further uncertainty for the future of European employment models.

Just as job quality or decent work concerns have been increasingly omitted from consideration of economic development and effective competition, there is also a danger that they will disappear from the consideration of a sustainable welfare system. The activation agenda of the EU has, as we will argue, primarily focused on moving people off benefits and into employment. This activation agenda cannot be at the expense of job quality concerns, as a modernised social protection system still needs to be underpinned by an economy based on decent work, not only to fund the system but also to ensure that the majority enjoy protection from poverty without recourse to benefits. The potential for a decent work or quality employment agenda to provide the cornerstone of the modernisation and reform agenda has not necessarily been fully recognised in debates on reforming either the production or the welfare systems. It is from this perspective, therefore, that we explore the influence of the EU in the reform of European national employment models.

## 1. The EU and the change agenda

The calls for reform and modernisation of European employment models have been made from a number of divergent perspectives. First there is the clear need to adapt to social and economic change. Models that emerged in the Fordist era, oriented towards manufacturing and the male breadwinner household, are no longer fully appropriate to meet the needs of a more diverse labour force, changing family and gender relations, flexible work organization, and the dominant service economy. Change is thus required to support new behaviours and meet the new needs of citizens and, at the same time, to extend the scope of social protection to be more inclusive. Second, there is the apparent need to respond to external threats or challenges (Hay, Watson and Wincott 1999). New economic conditions- in particular the extension of globalisation - are said to require new approaches to employment and welfare that emphasise flexibility. Many advocates of change to counter external threats regard economic growth as best achieved by adjusting to the dictates of the market and, thereby, reject a longer term approach, based on the development of unique institutional and societal arrangements to confer comparative advantage. Consequently, aspects of the models that provide protection for current modes of activity need to be removed, while incentives for change and flexibility are increased. For example, the generosity of unemployment allowances should be reduced to encourage activation and re-entry into employment. Some go further to suggest that, in this new economic era, it is no longer possible for the state and the employer to shelter labour from economic risks; instead, the orientation of the welfare state must be to create more self-reliant and employable individuals who are better able to respond to risks (Jepsen and Serrano- Pascual 2006: 31). Third, there is the public finance issue. The argument is made that due to the ageing of European society, on the one hand, and the need to promote flexibility, on the other, the age of decommodification of labour through generous and passive benefits (both unemployment benefits and early retirement pensions) must be considered over. The agenda must now be to maximise the employment rate of the prime age population and indeed to extend the notion of prime age as longevity increases.

It is in this context that the EU has engaged in promoting the reform of European employment models. From the EU's perspective, reform is required if Europe is to achieve its

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<sup>2</sup> Note that despite the integration of employment issues with macro and micro economic issues in the new national reform programmes agenda of the EU, employment issues are rarely directly referenced under the macro or the micro parts of the NRPs (Rubery et al. 2006).

stated goals in the Lisbon agenda to become a powerful player in the knowledge society and to achieve this objective while ensuring the development of a cohesive and inclusive society. By placing the goals of competitiveness and productivity alongside those of cohesion and inclusion, the EU is appearing to continue to mark out European employment models from pure market-based models and to recognise the need to meet social as well as economic objectives.<sup>3</sup> Within the employment strategy there is some recognition, at least in the chosen language or rhetoric, of the need not only for more but also for better jobs. From this perspective the EU can present itself as the saviour rather than the destroyer of Europe's distinctive employment models that combine social and economic objectives. The term European Social Model<sup>4</sup> has been used in the EU context, to refer to a new vision of Europe, based around certain key principles such as an active welfare state and more recently a commitment to flexicurity (Jepsen and Serrano Pascual 2006). Without the EU to persuade and nudge the member states into reform, the likely scenario is presented as stagnation, resulting in a future need for more dramatic cutbacks in welfare as the economies of Europe fail to compete under the challenges of globalisation and the move to knowledge-based service economies. However, this vision of the EU's role is not by any means shared by all political actors and social analysts: for some it is an agenda to undermine social protection and employment rights through promoting convergence around a liberal market model (Chapon and Euzby 2002); while for others it is an agenda to spread European social models to existing liberal market models- such as may be found in the UK or in many of the new member states.

The EU began to take an active role in promoting a vision for a reformed European Social Model in the mid 1990s, with the emergence of the European Employment Strategy (EES) in 1997 and its associated open method of coordination, whereby member states follow common guidelines in producing action plans but can move at different speeds and according to their own specific path of development.<sup>5</sup> The scope of the agenda has been increased with the social inclusion strategy- now including health and pensions. These soft law developments have been in part incorporated into the *acquis* that new member states have been expected to introduce in preparation for membership, such that there is now a relatively clear vision of the type of welfare and employment system that new members of the EU should aspire to. However, this agenda to modernise employment and welfare systems took active form precisely at the time that the EU was increasing its influence on member states through other elements of its policy agenda, namely macroeconomic policy and product market regulatory policy.

This conjuncture of influences thus requires a number of interrelated questions to be explored concerning the role of the EU as a force for change in European social and employment models. The first issue is the appropriateness of the particular model or models that the EU has adopted as implicit 'best practice' for meeting its productivity and social cohesion/inclusion goals. The second issue is the scope for influence by the EU and the relative importance and effectiveness of the different policy levers that the EU has at its disposal. And the third issue is to trace the actual experience of EU member states. This experience, even in employment welfare matters, is influenced not only by the EU's employment and social policy initiatives but also by the more indirect but potentially stronger effects of the EU's macroeconomic and product market

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<sup>3</sup> Zeitlin (2007) points out that there are marked differences in interpretation of the Lisbon agenda; some see productivity and social cohesion as having equal in status in the objectives, others see that productivity and competitiveness dominate the social agenda.

<sup>4</sup> European social model- or more appropriately social models- is also often used to refer to the actual combinations at national level of employment and welfare models. The term social model refers both to social standards in employment models but also to those in the wider society. Social standards in employment are, however, the main pillar of the European social models. Many entitlements for social benefits for periods of non-work are acquired through employment. However the term social model does not fully capture the links with the production system; as our prime concern in this paper is with employment we will use the term employment models defined in their widest sense to include their interrelationships with the production system (following the varieties of capitalism literature) and with welfare and family system (following the varieties of welfare system literature). We will use European Social Model in the sense of the EU agenda for reform.

<sup>5</sup> There are, however, some common quantitative targets.

policy. This discussion will inevitably not be able to fully identify the direct role of the EU and separate it from the pursuit of policies along similar or associated lines generated within national political debates. However, the working assumption is that the debate on change in employment models at the EU level is likely to have some form of direct or indirect influence on national internal debates, even if mapping the intersections between discourse at European and national levels in shaping action at a national level is somewhat beyond the scope of this paper. The exploration of these three questions in the following sections of this paper provide a basis to return, in the final section, to the question of whether the dynamics of change within national employment models in Europe are likely to produce new sustainable models, capable of generating growth and social welfare or whether the contradictions in both EU and national agendas for change may result in a long term undermining of European welfare capitalism.

## **2. The European Employment Strategy as a means of securing the future of the European Social model?**

To evaluate the appropriateness of the EES as a modernising agenda for the ESM, we first need to establish the purposes and functions of a European social model. Social protection can be provided through employment protection and regulation or, alternatively, may focus primarily on provision of welfare benefits and redistribution. European social models have tended to combine both employment and social protection elements. There is a major divide in the policy debate between those who see the social elements as ideally add-ons after the market is allowed to work efficiently and according to universal values, such that social policy should not attempt to shape or influence the production model, and those who see models that provide for high quality of employment and social protection as a means of building comparative advantage within the capitalist system, through development of interlocking institutions that in turn create distinctive strengths and capacities. In the past it is these reinforcing mechanisms that have enabled European economies to compete successfully on the world stage. For the former group, the key issue with respect to renewal of the ESM is to identify the form of market arrangements that best fit current competitive conditions and then to design a welfare system that interferes least with the demands of the market. Instead of promoting decent work, social welfare should only compensate for poor work conditions where these are dictated by the market. For the latter group, the social and institutional arrangements are not to be traded-off against efficient markets but are part of the development of institutional comparative advantage. As we have argued, this latter approach has resonances with the varieties of capitalism literature (Hall and Soskice 2001), where the development of collective public goods or resources facilitates the adoption of a high road development path, including high road employment practices. The analogy at the firm level is the contrast between the neoclassical analysis of the firm as a passive responder to market signals and the resource-based view of the firm (Barney 1991), where competitiveness depends on path-specific development of human capital, tacit knowledge and social capital that is relatively unique and inimitable. It is also important to note that, in the European context, the high road development model has been strongly associated with a social partnership model of governance. High skill and high efficiency are seen as dependent upon the development and maintenance of high trust relations.

While there is now a well established debate between the espousers of universal markets and those who see the potential for varieties of capitalism, the ever growing importance of services within national economies has posed new problems. Historical experience has provided extensive evidence of the importance of institutional arrangements for the development of and success in specific types of markets, products and organisations in manufacturing (Appelbaum and Batt 1994) but there is much less known about how configurations of institutional arrangements may promote comparative advantage in services (Bosch and Lehndorff 2005). Furthermore, while institutions can be identified as of importance in, for example, the creation of the City of London as a world financial centre, there is much more limited evidence that this success is related to specific aspects of employment organisation or workforce capacities. The continuing focus on manufacturing within the varieties of capitalism literature has thus left the

argument exposed to the full force of the free marketers. To the extent that skills are required for a flexible service economy, education has come to be seen as the main way to provide the required flexible general skills. These skills are provided by the education sector to the employer and their utilisation at the workplace is regarded as universal, individualised and market driven. Beyond the graduate labour market segments, the services economy is held to only require soft skills, to be acquired through appropriate socialisation and without the need for technical knowledge or capacities. Furthermore, the development of the service economy is identified more with achieving the most appropriate incentives for consumers to increase their demands for services- through the growth of low wage jobs that allows for price elastic personal services to be more widely consumed (Baumol 1967).

The European Employment Strategy and the Lisbon agenda clearly reflect this weak state of knowledge on the linkages between employment models and comparative advantage. The early stages of the EES and the initial development of the Lisbon strategy did promote the notion of social policy as a productive factor (Hermans 2005), such that a creative and innovative society had to be founded on high trust relations. This argument was put at an EU presidency conference in 1997 shortly before the EES was launched.

“If social cohesion and stability are thus recognized as productive resources, then surely the contradiction between social justice and economic efficiency breaks down. Social policy can then no longer be perceived as leading to consumption related benefits, taken out of an efficient economy by distributive politics. Social policy itself becomes a productive resource which, instead of countering economic policy by protecting or ‘decommodifying’ labour, comes to play a part in improving the economy’s performance potential. From this perspective, social policy and economic performance are closely, perhaps even indissolubly, interconnected.” (Hemerijck 1997 quoted in Hermans 2005: 8).

However, the EES, right from the beginning, steered clear of any EU policy with respect to promoting good practices in work organisation or industrial relations from a productivity perspective. References to social partnership were not only limited but, in practice, primarily used to exclude issues of workplace organisation from the direct responsibility of national governments or the EU. The focus, thus, was on the employment/ welfare state and not on the employment/ production interface. As such it linked to the varieties of welfare states debates (Esping-Andersen 2002) rather than to varieties of production systems. In 2001 the EU adopted a policy to promote job quality to secure both greater social cohesion and long term competitiveness but this approach quickly disappeared as the second phase of the EES, following the recommendations of the Employment Taskforce chaired by Kok (2003), adopted a much narrower focus on growth and jobs, measured by quantitative indicators only.

The Lisbon strategy has only one target with respect to knowledge development and that is related to research and development expenditure, an indicator that is strongly oriented to science and, by implication, to manufacturing. While services may well be major users of R and D outcomes, the R and D requirements or skills and capacities of the service economy have not been directly considered within the policy framework. Furthermore, the growth of services is seen primarily as a means to fulfil objectives with respect to the quantity of employment, such that there is no perceived conflict between promoting low wage service work and the goals of being at the forefront of the knowledge society. Achieving comparative advantage in services is implicitly viewed as an issue of product market regulation- or rather deregulation- and responsible fiscal policy: provided the market incentives are right, the employment growth is expected to follow. From this approach the main objective in the employment strategy can be reduced to maximising the quantity rather than the quality of jobs.

The result of this de-linking of national models with comparative and long term institutional advantage is that the debate on modernising employment and welfare systems is narrowly focused on two issues: first the need to ensure that the labour market does not inhibit the development of new firms, sectors and employment expansion; second, the need to keep

down the costs of social guarantees, an objective best achieved by both reducing the generosity of benefits and by maximizing the employment rate, thereby minimizing the number of people dependent on benefits. These economic objectives are still to some extent tempered by social objectives or social rights that either legitimise or partially modify the policy to fit with expectations of European citizens. Thus flexibility should be tempered by security, as means of improving the acceptability of the strategy to European citizens and to create a more cohesive and inclusive society. Incentives should be provided to enter or remain in wage work, not only to achieve employment rate targets and minimise welfare dependency but also because employment is believed to be the best route out of poverty. Similarly, part-time work should be promoted as it, apparently, not only serves to provide employers with flexibility but also allows for both better work life balance and the promotion of women's employment opportunities.

In the absence of a detailed investigation of the impact of these policies on productivity and job quality, many of the potential contradictions between policy agendas fail to be identified. Employment is taken to be the best route out of poverty, but this is assumed to be assured by the market, requiring little intervention to ensure job quality and long term career paths. There is likewise no debate on whether the promotion of flexible or low wage employment might drive out a high road approach to services development. Nor do the policy documents address the problems that part-time work may pose for women's careers, economic independence and indeed for work life balance, if organised to meet the needs of employers rather than families. Even lifelong learning is primarily seen as a means to allow people to remain longer in employment,<sup>6</sup> instead of a means of developing and extending skills in the workplace to promote comparative advantage. The need for high trust relations at the workplace to develop comparative advantage is notably not included in the policy message.

The main gap in the approach, as we have suggested, is that the notion of decent work has not been firmly implanted within the objectives of reformed European employment models. The overriding agenda of modernisation and change has focused attention on new ways of providing security and protection against poverty to citizens: social protection should be achieved through maximising employment opportunities rather than through providing passive welfare benefits, and policies should promote security in employment, not security in the particular job. However, this approach has been adopted at the expense of attention to the building blocks needed to sustain social welfare and protection, namely the development of labour markets that offer sufficient decent work opportunities so that most of the prime age population does not need continuous and active support from the social welfare system. Decommodification of labour comes about through combinations of both decent work and social welfare, and to neglect the need for a decent work dimension to social protection increases the burden placed on the social welfare system. The entry to employment may not provide the hoped for route out of poverty or even welfare dependency if there are no or only limited policies to promote quality job opportunities.

To support this approach to employment policy, the EES guidelines and dialogue make implicit, and often explicit, references to specific types of employment and welfare systems. These are effectively divided into those which are judged as appropriate, or in line with the EES, and those which represent the abstract model of the old-fashioned, inflexible employment and

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<sup>6</sup> Examples from the Kok report (2003) show that the focus on training is primarily about maintaining employability, not about the skills needed for dynamic and innovative firms. The employability objective is argued to have social as well as economic legitimacy but the economic arguments are not related to developing distinctive capacities at the national or European level. 'Sweden, with the highest employment rate of older workers, also provides a striking example of the value of emphasising the importance of lifelong learning for all ages. In contrast to most Member States, the participation in training of older workers is about the same as for the rest of the workforce.' (Kok 2003:43) 'Specific measures are also necessary to improve equality of access and effective take-up of training schemes for the low-paid, the low-skilled, older workers and non-permanent workers. Participation of the low-skilled in training varies from 10.5% in Sweden to 0.1% in Greece.' (Kok 2003:53).

welfare model that the EES is designed to fight against. However, the use of specific country examples in developing the EES is selective and not designed to identify the full interlocking nature of the employment systems. Policies are often presented as good practice without attention to some of the preconditions for this best practice policy to be effective or to the drawbacks that may emerge on other policy dimensions.

This selective use of best practice examples means that the ideal-type ESM underpinning the EES model is inherently eclectic. While the Swedish model provides the largest number of examples of best practice policies with respect to achieved high levels of employment levels, based on strong activation, late retirement and high female employment, there is also widespread reference to both the Danish and the Dutch models with respect to flexicurity (Kok 2003: 9), the Irish model with respect to new forms of responsible social partnership and of course the UK with respect to a really flexible labour market and major opportunities for flexible working. These best practice examples do reflect very different approaches, which not only have both advantages and disadvantages but also are dependent on complementary institutional arrangements or social and political conditions that could not necessarily be established within other member states. For example, the Danish flexicurity system provides protection for employees that are laid off or dismissed through high unemployment benefits counterbalanced by strong and efficient activation and retraining policies. This arrangement is highly dependent upon country-specific institutions and practices, not least of which is the high societal-level subsidy through taxation to employers who wish to shed labour costs during recession (Madsen 2004, Gazier 2006). The Dutch model of flexicurity is based, in contrast, on a policy of reducing the security of those on full-time standard contracts in return for higher levels of security attached to non standard – part-time and flexible- contracts (Wilthagen and Tros 2004). This promotion of the use of part-time contracts also involves high levels of lifetime inequality between women and men, due to very low levels of full-time working among women (Plantenga 2002). Moreover, the relatively high share of men in the Netherlands working part-time may be reflective not of greater gender equality but of a wider social norm favouring shorter working time.<sup>7</sup> The Swedish model of high employment involves both relatively high tax rates and indeed high levels of gender segregation, with women concentrated in the public sector (Gornick and Jacobs 1998). The Irish model, despite its adoption of European social partnership arrangements, continues to have wide wage dispersion and a large gender pay gap (Plantenga and Remery 2006). The UK model not only has one of the highest rates of part-time working but also the largest gender pay gap for part-time workers in the EU (CEC 2002a) in contrast to, for example, part-time work in Sweden which does not incur high wage penalties. Here part-time work largely takes the form of temporary reduced hours working within standard employment and is less associated with the development of specific part-time work at low wage rates.

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<sup>7</sup> Average full-time hours in 2006 in the Netherlands are among the shortest in Europe (5<sup>th</sup> out of 27 countries) at 40.9 hours compared to 41.9 EU 27 country average but in addition 23% of males work part-time, nearly 10 percentage points higher than the next country Denmark at 13.3% of males. (Eurostat long term indicators- population and social conditions- labour market indicators).



### The European Employment Strategy: Positive and Negative Policies and Practices

#### Positive models

Sweden (activation, employment for women, older workers)

Denmark (flexicurity)

Netherlands (part-time work, flexicurity, social partnership)

Ireland (social partnership and flexibility)

UK (employment rate, flexibility)

#### Negative models

Too high employment security (France, Southern countries)

Too constrained working hours (Germany, France)

Too high welfare benefits (Germany, Belgium and Finland)

Limited activation (Greece, Italy)

Too high tax wedges/ social security payments (France, Spain)

Too little regional wage differentiation (Germany, Italy and Spain)

Low female employment (tax issues Germany; part-time work restrictions Southern countries and new member states)

Too much early retirement (Austria, Belgium, Italy, France and new member states)

The ideal-type model implicit in the EES is thus in practice very much a hybrid, with examples drawn from a range of very different systems and with policy examples having very different impacts, with respect to both economic and social objectives. The characterisation of the traditional or outdated ESM model, to which the EES is set up in opposition, is also essentially a hybrid. It is thus an abstract model that is given form through reference to specific examples from individual member states. Some member states appear frequently within the group where more efforts are needed but nevertheless the particular problems where action is needed vary significantly. Thus it is countries such as France, Spain, Italy and Portugal where employment security is seen as too high for flexible labour markets (Kok 2003: 32); France and Germany that have too short working hours;<sup>8</sup> Germany, Belgium and Finland that may have too high welfare benefits that discourage job seeking (Kok 2003: 35), while Greece and Italy have limited development of activation policies (Kok 2003: 39). Germany, Italy and Spain have too little wage differentiation by region (Kok 2003:23) while France and Spain have too high tax wedges, including social security contributions that discourage job creation. Low female employment is seen as emanating from tax disincentives in Germany (Kok 2003:41) but from lack of part-time work opportunities in southern countries (Kok 2003: 30 and 32<sup>9</sup>). Finally, Austria, Belgium, Italy, France and the new member states still allow too many to leave the labour market through early retirement provisions (Kok 2003: 15, 44).

The argument can be made that this eclecticism in fact justifies the whole open method of coordination approach, which allows member states to move towards common objectives and to deal with common challenges by pursuing their own policies, reflective of their historical path of development and their stage of development. However, the methodology of using partial and selective examples generates a cross-sectional cut on particular areas of policy and impedes a detailed follow through of the implications of policy innovation in one area and outcomes in another. There is, therefore, no scope for the more holistic analysis of interlocking institutional arrangements which not only typifies the varieties of capitalism approach (Hall and Soskice

<sup>8</sup> In a recent Joint Employment Report (CEC 2006: 12) too short working hours in the Netherlands has been identified as a problem which, to some extent, is at odds with the identification of its flexicurity policy as a best practice example.

<sup>9</sup> A prime example of the lack of holistic analysis is that there is no reflection on the fact that Portugal is, along with Greece, a low user of part-time work but, unlike Greece, has a high female employment rate.

2001, Maurice and Sorge 2000) but is also implied by the decision to allow member states to follow their own development path and not to be overly prescriptive as to the form or pace of policies. Further barriers that may exist to the full adoption of particular models are not identified; thus while Sweden provides many good practice examples, the fiscal problems that would be encountered, given the EMU rules, by other member states aiming to develop a new Swedish-type model are not considered. A more holistic analysis is also needed if the full costs, as well as benefits, of learning and borrowing from other examples are to be really understood.

While the open method of coordination appears to avoid the need to move from a national to a pan-European employment model, by allowing policies to reflect different levels and paths of development, it does not confront the tendencies in other elements of EU policy to place national models in more direct competition with each other. This issue, as we discuss below, came to a head through the controversy over the services directive which, in its first formulation, adopted the country of origin principle and which would have allowed service workers operating in the same national market to be paid differently, with posted workers covered only by the minimum standards of the home rather than the host country.

Particular problems with this piecemeal approach also arise in presenting an ideal-type model of the ESM to new member states. There is no real attempt to sketch out alternative and potentially equally valid routes towards developing an employment and welfare system appropriate for their particular economy; instead they are presented with patchwork examples and effectively invited to pick and choose. Moreover, despite formal institutional and legal requirements to adopt and develop a social partnership approach, in practice these institutional arrangements have remained weak and dominated by national governments, hence leaving the path clear for the adoption of a more Anglo-Saxon liberal model (Lafoucriere and Green 2006).

### **3. EU levers: rules, resources, rhetoric and recommendations**

To clarify the potential role of the EU in reshaping national employment models, we need to distinguish between different types of policy levers and the different conditions under which those levers may have impact. There are four main routes by which the EU can in principle influence the actions of the member states: the first is through rules that it can and may enforce; the second is through the rationing of access to resources; the third is through the development and sustaining of a European discourse or rhetoric on what constitutes the European project and what member states should be doing to achieve the common goals; and the fourth is through recommendations and other comments on member states that may induce responses for reputational reasons. In practice these levers may be interconnected; the rhetoric and recommendations may have more impact where these are mirrored in the requirements to gain access to resources. Furthermore the distinctions between rules and rhetoric or hard and soft law may not always be that strong; hard laws may be transposed into national laws but weakly or ineffectively enforced; following soft law recommendations may have the merit of securing access to structural funds or, in the case of applicant member states, be seen as the route to accession. In addition EU interventions might affect countries differently because of their substantial institutional and economic differences.

The strongest levers that the EU has to operate with are, by and large, not directly related to employment and welfare systems. While there is a raft of hard law legislation in employment and welfare, the EU has not always enforced its transfer into national law--some member states are extremely slow in this regard (Karamessini 2007)--and certainly there are limited efforts to ensure that the law is enforced once transposed. A very different approach applies with respect to product market regulations where the EU does take cases against member states when it considers that the rules on internal markets are not being complied with; obviously compliance still varies but the product market regulations have teeth. The rules, as we shall discuss below, have considerable implications for employment and welfare models but through indirect effects; for example the rules on privatisation impact on the national employment models through the change from public to private sector employment. Other indirect effects on employment and

welfare from the creation of the single market include the creation of more open capital markets, with the implication of a trend towards shareholder capitalism. The significance of capital market policy in changing national models has recently increased through the decision by the European Court that it is not possible to protect even key private sector companies such as Volkswagen from takeovers and mergers, and thus potential delocalisation of production, through the holding of shares by the state. This decision could spell the end of so-called 'patient capital' in Germany where investors are willing and able to take a long term perspective in the interest of both the organisation and the national interest. Likewise, the creation of a single market for labour has meant that, with enlargement, member states have limited scope to operate as if they had a closed labour market.

Monetary union and the growth and stability pact also constitute rules of the European Union and non compliant member states can and have been fined. However, there has also been more accommodation made than anticipated to the problems of rectifying budgets in periods of recession, such that enforcement is applied with reference to emerging political conditions. For example, the constraints of EMU were largely ignored by Greece in the run up to the Olympics. This flexibility in enforcement has itself caused resentments, with countries such as Portugal claiming to have had to make more efforts to come back into line than big countries such as Germany (Busemeyer 2004).<sup>10</sup> Whatever the precise enforcement regime, there is, however, no doubt that the EMU has had, and continues to have, a major impact on the refashioning of European employment models. This impact was particularly strong for those countries that had to demonstrate fiscal and monetary probity, given a history of lax financial management, in order to be accepted in the EMU in the first place. It has also had major impacts on member states such as Italy that regularly used devaluation as a means of restoring competitiveness in its export markets.

One of the major consequences of EMU is that it does not allow for any major catching up process by member states that have as yet to develop a universal and strong welfare system. Constraints on public finances are independent of the level of development of the welfare state or the size of public sector employment. The scope for a uniform European social model to emerge is thereby much reduced. This approach also places particular constraints on those new member states that are seeking permission to join the EMU and may not have developed a full or strong social protection system prior to joining the EU.<sup>11</sup> Furthermore the focus on the public sector debt ratio has provided further impetus to forms of privatisation, again with implications for employment and welfare systems.

The EU's role in redistributing resources across EU member states through structural and other funds can prove an extremely powerful lever in member states where expectations of benefiting from redistribution are high (we will not consider agricultural policy here, the other major area of redistribution). The structural funds are the main means by which member states may be able to catch up with more developed members through both infrastructure projects and through funding for projects and policy interventions- such as active labour market policies- that are in line with the objectives of the soft law strategies. Structural funds are not available, however, to enable member states to catch up in areas of basic welfare rights and entitlements such as pensions or unemployment benefits.<sup>12</sup> The emphasis of reform is on activation rather than on extending benefits to all groups, even if the latter is a more obvious immediate need on social justice grounds.

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<sup>10</sup> Although in contrast to the position in 2003, by 2007 the German deficit is well under 3% and the Portuguese deficit above the 3% limit.

<sup>11</sup> Not all new member states have underdeveloped social protection systems; for example the pension system in Hungary is relatively generous (OECD 2005), but EMU rules may still make it difficult to develop the welfare system in line with economic growth.

<sup>12</sup> There is provision for funds to be used to develop human resources, primarily through training not formal education.

The influence of the European discourse, and its soft law aspects, such as the provision of country specific recommendations, is the most intangible. Its impact depends clearly, as we will discuss in the following section, on responses at the member state level which vary not only across countries but also over time, according to internal political priorities and the changing fortunes of different political parties and personalities. While many member states have seen significant changes over the past decade in their own internal policies and priorities, the rhetoric at European level has been based on a somewhat sustained approach to the priorities for the refashioning of employment and welfare systems. Since the Kok report in 2003 there has been more focus on employment rate targets and the influence of objectives such as gender equality or job quality has declined. Nevertheless, the sustained nature of the message from Europe, followed up by oft repeated recommendations to member states, has undoubtedly served to increase the potential influence of the EU approach to modernising employment and welfare systems. With a sustained message the probability increases that some actor or actors within the domestic political arena of the member state will, at some stage, draw on the European dialogue to promote a particular policy or to demonstrate a willingness to change or modernise.<sup>13</sup> This parallel dialogue can thus be considered as a resource available to the participants in the national debates.

The likelihood of influence by the EU on the national agenda will depend on specific contexts; applicant countries may respond positively to the dialogue when making an application but soon forget about the approach once in membership. Politicians may choose to ignore an area of policy where the national outcome is poor but, by so doing, lay themselves open to opposition politicians or social partners taking up the cause and using the EU discourse to their advantage. Where an approach to policy was already deeply embedded in the national employment model prior to the development of the EES, the influence of Europe on this particular area of policy is hard to identify and indeed the influence may be more from the member state to the EU than vice versa, but where the policy was not developed prior to the EES or to joining the EU, the influence of the EU may be more significant, even if the outcome in the policy area is still weak compared to member states with a long history of implementing a particular policy, such as activation or gender mainstreaming. Purely quantitative measures of outcomes therefore provide poor indications of underlying influence.

#### **4. The EU and change in national employment models: examples from ten member states**

To simplify the discussion, we will divide the influences of the EU into those related to hard law (or rules) and soft law (rhetoric and recommendations); there is no hard and fast boundary between these influences and the complementarities, synergies and contradictions between these influences will be considered throughout the discussion. For a similar reason, we will consider the influence of access to resources- through the structural funds, as a factor that may strengthen the impact of soft and hard law in countries where structural funds are financially important. We draw here for our examples on the experience in ten EU member states represented within an EU Framework 6 project on the dynamics of national employment models. Selective examples only will be provided.<sup>14</sup>

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<sup>13</sup> The actors may also seek to distance themselves and their policy from the European dialogue in contexts where there is political mileage in stressing national independence from Brussels.

<sup>14</sup> This paper draws on papers produced as part of an EU FP6 project on the dynamics of national employment models covering Germany, UK, France, Italy, Spain, Greece, Ireland, Hungary, Austria, Sweden. Reference is made in the text to some specific papers, all of which can be found on the dynamo website - <http://www.dynamoproject.eu>. In addition the paper draws on knowledge and information accumulated through ten years of evaluating national action plans on employment from a gender equality perspective through the first author's role as coordinator of the EU 's experts groups on gender, social inclusion and employment. Details of this work can be found using the following websites: [http://ec.europa.eu/employment\\_social/gender\\_equality/gender\\_mainstreaming/gender/exp\\_group\\_en.html](http://ec.europa.eu/employment_social/gender_equality/gender_mainstreaming/gender/exp_group_en.html)

#### **4.1 Hard law or EU regulation and change in national employment models**

As we have already argued, there is hierarchy of hard law regulation, from product market regulation where the EU is most likely to pursue active enforcement, through macroeconomic regulation, where a common interest rate is implemented but public expenditure and deficit targets are more weakly enforced, to employment and social legislation where the level of enforcement is more determined within the nation state than by the efforts of the EU.

##### *i) Competition policy*

It is through competition and product market regulation policy that the EU has arguably had the most profound impact on the underlying employment models. However, until the recent controversy over the services directive (Bosch et al. 2007a), the specific link between competition and product market regulation and the nature of European employment models was not explicitly made within EU circles. The strength of the opposition to the services directive in its first published form forced a review of the directive and thus, for the first time, effectively introduced a linkage between competition policy and employment models within EU debates.

There are three main ways in which the EU is shaping future employment models through its competition regulations. First by opening up the internal product and labour market it puts the different employment and welfare systems into more direct competition with each other, with particular implications for labour standards. It was this issue that sparked the controversy over the services directive. In its first form, it allowed for competition within national labour markets based on labour standards set in the home rather than the host country, thereby establishing similar forms of competition as have been common in manufactured commodities. The difference in services is that workers might be operating in adjacent locations serving the same market but covered by different minimum standards. The logic of such an approach, in contrast to the apparent approach of the open method of coordination, would be to move towards an EU employment model based inevitably on lower minimum standards than those that prevail in many of the more developed economies, and in particular in those that have developed through principle of strong employment regulation. Even with the revised formulation, where host country standards have to apply, the policy has varying implications for member states, according to the particular ways in which they protect labour standards. As has already been found with the posted workers directive and the opening up of product markets like utilities to competition, some member states have regulatory systems that facilitate the extension of labour standards to new sources of competition, including those from other member states. In particular standards are easier to maintain in those member states that either have legally binding collective regulations extended to all companies (Austria, France, Italy, Spain and Greece out of the ten member states considered here) or that have operated effective trade union pressure to ensure common standards apply (Scandinavian countries including Sweden). In Hungary, Ireland and the UK the only protection of common standards is found in the national minimum wage (Rubery et al. 2007). Germany faces the greatest difficulties of all as it no longer extends collective agreements but has yet to establish any national minimum wage, although there are now possibilities for sector specific minimum wages, a provision that has led to a minimum wage being introduced in postal services. Even establishing this minimum wage was difficult because of the strong social norm that the state does not interfere in collective bargaining (Bosch and Weinkopf 2008).

The second influence is through competition rules as applied to public ownership and procurement. Here the influence of the EU is clear, particularly in those member states where the policy has been resisted. In Germany and France there are still efforts to maintain some public control, in France at the national but in Germany more at the local level. In Greece union opposition has postponed compliance and resulted in only partial privatisation. In contrast the UK and Sweden pursued these policies without direct reference to EU policy and regulations, as did Hungary, following in this case the model that was 'recommended' by international

institutions in the transition period and the preparation for a bid for EU entry. These policies have been promoted by the EU based on two interrelated beliefs; first that competition particularly from the private sector will enhance innovation and growth and second that public sector monopolistic provision gives rise to segmented labour markets that benefit privileged insiders at the expense of both labour market outsiders and the general consumer. Thus, although these policies are pursued under the auspices of competition policy, they are also driven by a belief that labour markets should be organised as competitive markets. The notion is that employment protection in the public sector primarily acts to create divisions among the workforce and its role in generating a platform for the development of decent work, and even for offering a good practice example for the private sector, as Crouch et al. have suggested (Crouch et al. 1999, Wickham 2005), is discounted. The impact of these policies has varied across member states, in part according to their starting positions. Austria is an example where the move towards private ownership and the opening up of markets associated with EU membership is having a major impact on the traditional corporatist model, with a notable growth in shareholder orientation and distribution towards dividends, together with a reduction in commitment to the dual training systems since privatisation started in earnest in 1993 (Hermann and Flecker 2007). Not all EU countries, however, have experienced a major change in employment conditions after privatisation. Italy, Spain and Greece, while following the requirement to privatise- if with a lag- have to date mainly transferred public sector rents to the private sector such that apart from the profit share rising, there have been rather few changes so far made to the organisation of the sector or employment (Simonazzi et al. 2007, Miguélez et al. 2007, Karamessini 2007). Nevertheless in some sectors such as telecommunications some work is beginning to be outsourced.<sup>15</sup> Sweden not only pursued privatisation independently of, and prior to joining the EU (Anxo and Niklassen 2006), but due to the high coverage of collective agreements has succeeded so far in maintaining high labour standards within privatised activities.

More significant effects have occurred or are anticipated to occur both in the Anglo Saxon countries of the UK and Ireland and in France and Germany. In both sets of countries the lack of enforceable strong sector level standards opens up the scope for destabilisation of the decent work conditions associated with public sector employment. While this occurred in the UK in the 1980s and 1990s with respect to utilities and transport, it is still an unfinished process as contracting out of service activities increases, with consequences for labour standards and decent work. There has been some successful push back from the trade unions on this, to reduce the risks of downgrading of employment conditions but with success only really evident in the health sector (Department of Health 2007). The scope for further change in public sector employment within EU member states consequent on this push for privatisation and the implementation of the services directive is enormous; there is little reason to think that once more consumer-oriented services have been subject to EU competition rules that there will not be a further extension to health and education as originally planned when the services directive was first mooted. Until or unless this issue is resolved, national models will remain in a state of flux and the issue of the impact of the EU reform agenda on the quality of work will remain an open question. However, the long term opening up of all such areas to private and unregulated competition is by no means a foregone conclusion; even in the UK trade unions for lower skilled staff and for professional groups<sup>16</sup> have limited the state's capacity to make changes to employment arrangements as the delivery of public services is highly dependent upon a specifically skilled workforce and the quality of public services remains a significant electoral issue in most European states. Wickham (2005) has argued convincingly that the attack on the role of the state in providing public services and public employment, as embedded in EU competition policy, may undermine the commitment to the public realm and the legitimacy of the state that sets the European social model apart from the US variety of capitalism; however it

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<sup>15</sup> For example Telefonica in Spain is outsourcing call centres both nationally and internationally.

<sup>16</sup> In the NHS doctors have been able to negotiate significant improvements to their rewards and civil servants have been able to stave off most of the proposed cuts to pension entitlements.

is also the case that the belief in the public realm may ultimately limit the extent to which the citizens of Europe will tolerate provision of public services by the private sector.

The third significant influence of competition policy relates to capital markets, the liberalisation of which is part of the European project. Again this policy has very different implications for member states according to their particular path of development or their variety of capitalism. Germany is the most obvious example of a country with a model based on an alternative form of capital market to the short term open markets favoured by the EU project; the result of recent change has been a reduction in the availability of 'patient' capital, with the ending of the holding of cross over shares by banks and big companies. Evidence still suggests that the capital market works somewhat differently in Germany than elsewhere (Deeg 2005) but the change within the national model is nevertheless significant. Most of the member states have followed capital market reforms, although for example in Italy the impact of reforms has apparently been limited. Not all of these changes were associated with the EU; the UK has long had liberal capital markets and Sweden liberalised its market in the mid 1980s. In contrast Austria had to make significant changes just before accession in 1993, although foreign direct investment was already an important element in its market. Changes in capital markets have been influential in shaping the evolution of national models. The UK has in fact moved further ahead as a dominant finance centre, in part because of recent onerous legislation introduced in the US after the Enron scandal (Sarbanes –Oxley Act 2002). In Spain the availability of short term financing has helped boost a construction boom that has underpinned its recent period of growth (Miguélez et al. 2007). Hungary provides an example of the lack of sustainability of a model of development based on free flows of capital. Foreign direct investment was the main means of funding the initial transition phase but the recent problems in the Hungarian model were exacerbated in part by decreasing capital inflow (Neumann et al. 2007).

#### *ii) Macroeconomic policy*

We have already argued that the competition agenda of the EU has had differential impacts on national models. A similar diversity of impacts is found when we turn to macroeconomic regulation. This diversity is in part related to whether the countries in question are in the Eurozone or, as Hungary, applying to join the Eurozone. The survival of the European employment and social models is strongly bound up with their ability to deliver growth and employment; when unemployment is high or rising, the pressure for reform of the underlying social institutions increases even if unemployment is not directly linked to problems in institutional arrangements. This is undoubtedly the case in Germany, where high unemployment increased pressure for reform of the labour market and led to the implementation of the Hartz reforms that reduced the length and level of unemployment benefits. The German model came to be labelled as a failing model, even at a time of very strong performance in manufacturing exports, and it is not yet clear whether the labour market reforms will affect its long term manufacturing strength.<sup>17</sup> The macroeconomic problems faced by Germany can mainly be attributed to the impact of German unification but also in part to the Eurozone rules that require a deflationary stance. These rules were to a large extent drawn up by Germany itself, creating in practice pressure to change some of the fundamentals of the very model that they were supposed to protect (Hay et al. 1999). On the other hand, the Eurozone rules have also assisted in the effective devaluation of German prices with the rest of Europe, given the weakest wage increases within the EU over a decade, thereby boosting its export success. In contrast, Italy, Greece and Spain report a loss of competitiveness due to higher price increases which corresponds to revaluations within the Eurozone. Italy in particular had made regular use of devaluation to restore its external competitiveness in the period before entering the Eurozone and has yet to find an alternative mechanism for external adjustment (Simonazzi et al. 2007). For

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<sup>17</sup> The recent upturn in the German economy is leading commentators to regard the Hartz reforms as the basis for this success but the strong performance in high end industries is not likely to be related to policies aimed at pressurising the long term unemployed back into work. Moreover if the longer term outcome is to undermine the cohesiveness of the German model, the current strong elements of the model may be weakened.

France the EMU can be regarded as very much a continuation of the restrictive monetary policy started back in 1983 and maintained under the *franc fort* policy (Berrebi-Hoffmann et al. 2007). However, for Austria it spelt the end for its largely Keynesian deficit spending policy and introduced a new era of austerity (Flecker and Hermann 2007). Greece provides an example where internal political priorities can still override EU rules, at least in the short term, as deficit spending rules were entirely ignored during the run up to the Olympics, with positive impacts on the rate of growth in the economy (Karamessini 2007). Prior to 2001, however, Greece had to demonstrate extreme probity in its finances in order to gain entry to EMU and the country is now again under pressure to meet Eurozone rules. Hungary has also recently come under pressure to adopt an austerity policy: from 2000 to 2006 it had been pursuing a more neo-Keynesian approach, associated with attempts to develop a national model that followed a Rhenish rather than an Anglo-Saxon capitalist model but the deficit problems led to a major U turn in 2006, when the new government reduced public spending to bring the economy back in line with EMU requirements (Neumann et al. 2007). Thus although there is in principle freedom to experiment with alternative development paths under the OMC process, the situation of also being a member of, or applying for membership of the EMU may act to severely constrain available policy options.

Sweden and the UK, while not entirely free of the influence of the macroeconomic regime established for the Eurozone, nevertheless have much wider scope for determining their own approach and for allowing changes in the valuation of their currencies. This freedom has been more explicitly used by the UK since 1997 to promote stable growth and to facilitate a significant increase in public expenditure on health and education after allowing its public services to run down during 17 years of restrictive spending. In contrast Sweden independently adopted a stricter monetary policy from the early 1990s following a major financial crisis that was due in part to the previous accommodative monetary policy approach (Anxo and Niklassen 2006). EMU rules have had some influence, nonetheless, on the form of expansion adopted by the UK. Much of the renewal of the capital infrastructure has been carried out through private finance initiatives in order to minimise the level of public sector debt, one of the key indicators of financial probity in the growth and stability pact of the EU.

The importance of this macroeconomic environment for the development of national models is immense: it impacts directly on the overall level of employment and growth and affects other key parameters such as the funding and form of pension provision, the distribution of jobs between public and private sectors and the wage share in the economy. Furthermore, it leaves actors with few options other than to turn to supply side measures to try to adjust the model to fit the prevailing macroeconomic conditions even though supply side measures, such as policies to encourage or force the unemployed into jobs, are clearly insufficient in a context of a gap in labour demand.

The focus on public sector deficits has clearly speeded up pension reforms in many EU countries, and here we can see the impact of policies applied equally across member states without regard to their level of development. Thus Italy has inadequate coverage of pensions but, instead of providing more inclusive and equal cover, the impact of the reform has been to exclude even more of the younger generations while preserving the rights of current insiders (Simonazzi et al. 2007). While the macroeconomic conditions could be expected to stimulate a rethinking and modernisation of the welfare system, the direction of travel is not necessarily towards a more inclusive system to meet the needs of the changing labour market, including the higher share of workers on non standard contracts and higher female participation. Instead, developments are primarily motivated by a need to reduce future costs, which is often more easily achieved by reducing rights of the young who are furthest away from retirement.

### *iii) employment and social rights*

The third area of hard law relates directly to employment and social protection, namely the raft of directives that member states are required to transpose into national law if their standards



are below those set by European legislation. Again the impact of the rules depends upon the starting point of the member states. Greece, Hungary and the UK stand out among the ten member states considered here as cases where the EU employment legislation has made a significant difference to the set of legal labour standards, even if problems of enforcement are still an issue particularly in Hungary where unions are weak. In all three countries it is EU legislation that has led to the expansion of legal employment rights, particularly in the area of equal opportunities, and in the Greek case in regards to the rights of workers on non standard contracts. In Greece health and safety legislation has also been important but this area of law was already well established in the UK. In Greece and Hungary the attention paid to issues such as equal opportunities was also reinforced by the inclusion of such criteria in the reporting requirements of the structural funds; that is the attention paid to elements of the legislation is reinforced by the linkage to access to resources. In both cases, however, the enforcement mechanism remains weak, even if the EU has been able to put new issues on the policy agenda. The story is somewhat different in the UK where the attention paid to EU law was in part driven by the trade unions which have actively utilised the law to further collective bargaining agendas - in part because of the existence of a relatively well-established enforcement mechanism. The trade unions have supported individual cases through the employment tribunal systems to put pressure on employers to adjust pay, working time and other employment arrangements in the interest of equal opportunities. They have also successfully mobilised the acquired rights directive to protect the terms and conditions of workers outsourced from the public sector. This active use of European law by trade unions in the UK is somewhat unusual and can perhaps be explained by the sharp confrontation between relatively strong unions and a hard line Conservative government in the 1980s. In the absence of any social compromise the unions found it necessary to resort to European law to make any progress against the downgrading of employment rights. Other member states have either made more use of social compromises or the trade unions and/or the legal framework for enforcing employment rights have been too weak for such a strategy.

At the other end of the spectrum, the impact in Sweden has been limited by the fact that labour standards in Sweden exceed those included in European legislation. Even here there has been some accommodation to European legislation as traditionally employment rights were left entirely in the sphere of collective bargaining. The law still remains largely subservient to collective regulation but Sweden was required to introduce some changes in the responsibility for equal opportunities policies as a result of EU entry (Rubery et al. 2003). Germany, France and Austria also have had to make relatively few adjustments to labour standards, except in the area of equal opportunities where the EU legislation has improved awareness and rights. Spain and Italy have in principle been even more affected by the laws but half-hearted and delayed implementation has reduced the impact. Employment rights are still primarily provided through collective regulation and primarily limited to those in permanent and formal employment. Nevertheless, the series of labour law reforms in Italy (for example the Biagi laws) and Spain have both reduced employment protection for standard contracts and provided some greater protection for those on non standard contracts, thereby reducing the disparity between the high and the low protected forms of employment in line with EU legal principles and the flexible labour markets agenda. Hard law is certainly, thereby, reinforcing pressures towards change in employment models embedded in soft law guidelines.<sup>18</sup>

The right to labour mobility is a key principle embedded in the EU treaty from the beginning. However, it is only since enlargement that there has been a strong debate about this principle and for the first time restrictions have been imposed on mobility from new member

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<sup>18</sup> It should also be noted that hard law also reinforces one of the soft law principles that is the concept of social partnership and social dialogue. There are opportunities for social partners to be engaged in the implementation of directives (for example the working time directive) as well as directives on information and consultation that provide for opportunities for new forms of both national and European level employee involvement systems to develop.

states to old member states in all cases except for the UK and Sweden. While the UK has experienced very large flows of migrants, Sweden has only had rather modest flows, possibly due to the high cost of living as well as problems of language. Total migration flows are not in any case determined by policies towards the new member states; Spain has restrictions on mobility but the largest overall pool of migrants. Migration in general is in many cases reinforcing segmentation within national labour markets, often both within the formal sector by promoting flows of labour for low paid employment and through growth of the hidden economy. Migration is said to be keeping pressure on wages down at the bottom of the labour market and could thereby serve to halt improvements in minimum wages or even fuel a process of downgrading. In Germany the prospect of high migration, once restrictions for the new members states are lifted in 2009, coupled with the threat of undercutting of wages through the posted workers directive, are driving a debate on introducing minimum wages to supplement the traditional reliance on collective bargaining in setting minimum standards. Minima have been introduced at least in vulnerable sectors such as construction and postal services but there is also discussion of a national minimum wage which might not have taken place without the prospect of posted workers and migration after enlargement.

#### **4.2. Soft law, the European employment strategy and change in national employment models**

In this section we focus on the role of the EU in influencing employment models through non-binding interventions and the associated development of an EU dialogue or rhetoric on how European employment and welfare systems should develop and operate. For some writers, the notion of the European Social Model is in fact a construct of the EU and in particular of the Commission's own rhetoric and agenda (Jepsen and Serrano Pascual 2006) to provide legitimacy to the role of EU institutions and to differentiate Europe implicitly from the American model. Whatever its function, there is no doubt that the rhetoric and dialogue over the ESM, as sustained since the 1990s, has introduced new concepts and terminology into welfare and employment debates: in the 1980s the terms employability, activation, flexicurity and gender mainstreaming would hardly be recognised within employment policy debates in many countries.<sup>19</sup> Even the term social partnership, which has been diffused throughout the EU through documents and policies, was not a recognised concept in parts of the EU including the UK and many of the new member states.

The focus of this section is on the European employment strategy and the associated open method of coordination, although the impact of these policies is reinforced by the wider European dialogue on employment, social policy and social dialogue, including the development of the so-called *acquis* for new member states that effectively comprises both hard and soft law elements and by the embedding of the EES in the criteria for structural funds assessments.

The European Employment Strategy is, by design, expected to shape the policy agenda and orientation rather than to produce specific common policies and outcomes. As such, its influence is necessarily diffuse. The openness of the process allows member states to interpret the goals in a highly flexible manner, such that it is equally possible for two member states as diverse as the UK and Sweden to claim that the EES agenda is effectively synonymous with their own national employment and social agendas. Indeed, for several member states there are grounds for regarding the EES as having been influenced by strategies adopted by the member state prior to the EES rather than the influence being from the EES to the national model. Thus the EES has borrowed the strong commitment to activation for men, women and older workers from Sweden, the promotion of flexibility, in-work benefits and downgrading of unemployment benefits from the UK, the notion of flexicurity from Denmark and the Netherlands and provision of childcare from Scandinavian countries and France. The EES is not operating in isolation from international policy developments. The EES when first launched put a certain distance between its flexibility with social cohesion policy and the strict deregulation recommended by the OECD

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<sup>19</sup> These terms were not all invented by the EU/EES but have been diffused through the EES and other EU activities.

in its 1994 Jobs Study. Nevertheless, the impact was to reinforce the international promotion of a change agenda for employment and welfare regulations. Recently there has been a convergence of approach, with the EES stressing more the growth and flexibility agenda and the OECD conceding that there are a range of possible policy packages in employment and social protection that can deliver growth and high employment.

The influence of the EES is clouded further by differences between member states in the public awareness of the process (Zeitlin 2005); it is hardly recognised by political commentators in, for example, the UK and Germany, while the drawing up of the national action plans is subject to formal tripartite scrutiny in others such as Luxembourg. Furthermore, member states vary in the extent to which the EES has changed the policy agenda. In Greece, for example, the EES can be credited with introducing entirely new areas of policy in the public debate- including active labour market policies, lifelong learning and gender equality. Furthermore, although the EU has been active in promoting non standard contracts over a long period, the trade unions have remained opposed to promoting and regularising these forms of work. For Greece, and for other Southern and transition economies, it is therefore the embedding of the EES within the criteria for access to the structural funds that has opened up all these policy areas and forced some degree of compliance with the flexible labour market agenda. This influence of structural funds is related to their importance for the national or regional economies. Spain, Italy, Greece, Ireland and Eastern Germany have all been major recipients of structural funds and Hungary stands to receive 3 to 3.5% of its GDP in this form by 2010/12. The main areas supported apart from infrastructure are employment and social policies, particularly policies promoting activation, training, equal opportunities, etc. As such the structural funds reinforce the employment and inclusion strategies by promoting approved approaches to employment and welfare systems. What they do not do is provide a means of filling the gaps between the welfare systems in the less well off member states, compared to those with more developed systems. For example all member states are expected to focus on promoting active ageing by providing incentives to continue working, but this policy is focused on levelling down of rights in some member states where still only a privileged minority have access to good quality pensions and early retirement opportunities. There is little focus on improving the basic pension rights of those who are only partially covered or excluded. On the other hand, when EU policy seeks to introduce new areas of social infrastructure –for example, childcare- in the interest of promoting employment, there is less of a difference between the development of the welfare state and its reorientation.

Even where there is limited public debate and limited impact from structural funds, the ideas behind the EES and the Lisbon agenda may still have percolated national debates. In Germany, the Hartz reform that reduced the length and size of income related unemployment benefits is not only in line with the EES focus on activation and making work pay, but also contrary to the protection of occupational status at the heart of the German model. The national debate drew on examples from other European countries on how to activate workers through financial penalties, not just through improving job match through vocational training (Kemmerling and Bruttel 2005). There are also strong similarities between the prescriptions of the EES and the direction of change in many member states with respect to employment regulation, even if reforms to laws and regulations are not directly attributed to the EES. To further identify the influence of EES principles in reshaping national models, we will consider four main areas of European policy:<sup>20</sup> i) promoting employment -activation, active ageing, and make work pay, ii) promoting flexibility -flexibility and flexicurity, iii) promoting women's employment and gender equality, iv) the use of social partnership and social dialogue.

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<sup>20</sup> Other issues such as lifecycle and lifelong learning policies, reducing the hidden economy, skills matching etc. will be addressed within these areas, according to their relevance.

*i) Promoting employment: activation, active ageing, and make work pay*

One of the main influences of European employment policy, even before the launching of the EES, has been to promote an active rather than a passive approach to the management of unemployment. In adopting this policy the EU was clearly borrowing from the Scandinavian and German experience of active labour market policies but the notion of proactive policies to encourage the unemployed back into work was new to several member states, including most of the Southern European countries. In part this lack of development of active labour market policies was due to the limited development of unemployment benefits, particularly in Italy and Greece, so the presumption of a high fiscal cost to passive policies was not fully valid. Through the EES some member states' policy solutions have been generalised to other societies where neither the problem nor the solution had previously been a significant part of the national model. Low employment rates in some Southern European countries were clearly more related to lack of labour demand than to over generous welfare payments, but the result of the EES has been to focus policy activity primarily on the supply side.<sup>21</sup> For most member states, the EES can be said to have had some impact on the approach to the management of unemployment. Where active policies were weak and the public employment service underdeveloped, most member states report some progress, although in countries such as Greece the extent of the active labour market policy programme is highly dependent on EU funding. In Hungary the experience of following the EES has been to place more focus on assistance for specific vulnerable and disadvantaged groups, again with a whole raft of specific programmes supported by EU funding.

The impact of the EES has not only been to promote assistance for the unemployed but also to require the unemployed to demonstrate a more active approach to job seeking. Requirements to participate in active job seeking have tightened, even in member states such as Austria with strong traditions of active policies. Some member states, such as the UK, have stressed more the restrictions on levels of benefits than active policies, although the new deal programmes launched by Labour after 1997 happened to coincide with the start of the EES and marked a change from the solely punitive approach by the Conservative governments (Barbier 2006). In France, there has been some development of activation policies but these have been combined with a continuing commitment to social solidarity in the form of minimum income guarantees for those entering low paid work. In Spain the impact of activation has been to increase the supply of workers for low paid and temporary work without social guarantees. Sweden has traditionally combined high social guarantees with activation, a pattern yet to be fully emulated in other member states where the focus has been on activation and financial penalties through lower benefits and or threats of withdrawal of benefits. Sweden has modified this policy recently but only cutting replacement rates for unemployment benefits from 80% to 70%, still much higher than average. Germany has succumbed to pressure to focus more on forcing the unemployed off benefits through restrictions on entitlements and removal of earnings related benefits after a period; this approach was linked with a substantial reduction in the availability of vocational training for the unemployed so that Germany is moving more towards the UK than the Swedish approach, reducing the focus on matching people and their skills and qualifications to job vacancies in favour of a work first policy (Bosch et al.2007a,b, Kemmerling and Bruttel 2005).

While there has been a general trend towards activation, the approaches to activation reflect specific national priorities. In the UK there is a particular national concern with reducing workless households, particularly lone parent households. There is a much weaker concern with overall activation strategies, with those without jobs but not claiming benefits not considered an issue (Rubery et al. 2006). This provides an example of how the EES objectives have been moulded to fit national objectives, with the UK more concerned with reducing welfare dependency than with raising employment levels per se. Moreover, this approach has

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<sup>21</sup> In recognition of the demand side gaps some of the Southern countries – for example Greece, Spain and Italy – have provided subsidies for hiring, particularly into permanent jobs, but the long term effectiveness of these subsidies is in doubt in the absence of underlying labour demand.

underpinned the focus on make work pay policies in the UK, with household-based means tested in-work benefits. The focus is on moving households off benefits and not on the disincentives for second income earners or women to enter employment that result from in-work benefits. Germany provides another example where there are contradictions between elements of its employment policy, given the overall set of EES objectives: its main make work pay policy, the promotion of mini jobs outside of tax, at low wages and with limited social protection, is facilitated by its income splitting household taxation system. This taxation system has been criticised by the EU for being at odds both with gender equality objectives and indeed employment promotion objectives but the link between the tax system and the growth of mini jobs tends not to be made in EU employment policy assessments. Thus responses to the make work pay agenda may create considerable inconsistencies with other elements of the EES espoused agenda and may even prop up the traditional employment models that the EES is supposedly modernising.

The three main elements of make work pay policy are reforms of tax, benefits and wage structures. Wage structures have received relative little attention, although the UK and Ireland have introduced minimum wages and Hungary, Spain and indeed the UK have raised the level of the minimum wage rate although from an extremely low level in the case of Spain (Recio 2001). In Hungary the policy of making work more attractive has been put in jeopardy by the change in policy approach from 2006 on due to the budget deficit. The UK's improvement to its minimum wage is designed in part to keep down the cost of the in work benefits. Greece has introduced a pay premium for those on short part-time jobs in order to overcome prejudice against this form of employment, but with limited impact so far. Overall, however, the main focus has been on taxes and benefits, not wage structures. Several member states have responded to pressure under the EES to both reduce taxes for employees at the low income end and to reduce the tax wedge on low wage jobs, thereby apparently promoting both the creation and the filling of low wage jobs. Sweden has moderated its tax levels on low incomes and, interestingly, also varied the cost of childcare to reduce the effective tax faced by mothers, thereby reinforcing its activation approach. Italy and Spain have focused more on reducing the tax wedge for employers, in part to reduce the size of the black or hidden economy, but with limited effects so far. Germany, as we have already discussed, has not changed its income splitting tax system but has 'managed' the negative impacts on participation by promoting the growth of mini jobs.

The EES strategy of activation and make work pay also links to the policy of encouraging older workers to stay in the labour market and not to retire.<sup>22</sup> In practice most of the active ageing policies have involved changes to pensions, through restrictions on, or phasing out of, early retirement and through changes to contributions years or date of standard retirement for full pensions. These changes have been motivated by public sector deficits, both current and projected, and there has been little evidence of positive policies to promote employment amongst older workers, although some countries have introduced specific activation programmes for older workers (UK, Greece, Hungary), some have restricted eligibility for long term unemployment benefits or disability benefits to reduce the slippage into inactivity (Germany, UK), and some have increased incentives to remain in employment through bonuses for late pension claimants (Spain, UK). The pension reforms introduced have either changed the method of pension entitlement calculation and contribution such that there is a considerable shifting of risk from the society to the individual, through a switch from defined benefit to defined contribution schemes (the reform adopted in Sweden and Italy for example) or there is an intensification of the need to conform to the male breadwinner model of full-time continuous employment until a late age in order to have the security of a full pension. There are, therefore, considerable contradictions involved in the policy adopted towards active ageing, for, while

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<sup>22</sup> The third route to increase employment of older people is to improve re-entry rates of women after childrearing but this has not been explicitly addressed within the active ageing policy which tends to focus on the behaviour of the typical male employee.

promoting the longer employment of older workers, it often does so at the expense of pension entitlements for those on more diverse employment trajectories, despite the policy objective of promoting flexible employment. In some cases these effects have been modified by greater pension credits for time spent caring. However, in most cases the impact of the changes is postponed and will only really impact on perceptions of the employment and social model in place a couple of decades down the line, when the real changes in entitlements become manifest. There is the further complication that although public subsidies to early retirement have largely been phased out or reduced, employers still may favour the use of early retirement as a means of restructuring (for example in the Hungarian public services) or as a means of reducing labour costs (for example in Spain). The active ageing policy presumes that there are sufficient jobs to more than meet the demand for employment but the policy of promoting longer employment for older people is challenged in a context where demand for labour falls below supply, resulting for example in high unemployment among younger workers.

The size of the pension funding problem in many member states has meant that the issue of how to reform the employment and welfare systems to take into account the ageing population is an issue that would appear on national policy agendas irrespective of EU interventions. However, the EU has still played an important role in promoting these reforms in three respects: i) through the focus on public sector deficits under the EMU rules; ii) through the requirement to equalise male and female retirement ages which may have been a trigger for a wider debate on retirement ages; iii) by providing an employment rate target for older workers of 50% by 2010 and raising concerns about early retirement and the need to support an ageing population. It is the general debate over pensions that has perhaps allowed countries such as the UK, which currently have relatively low projected deficits, to introduce later retirement even in a context where the problem could be considered more one of low rather than excessive provision; and these concerns about active ageing have also kept issues of inadequate pension coverage off the agenda in countries such as Italy and instead focused attention on the raising of retirement ages and reductions in pension costs.

*ii) promoting flexibility - flexibility and flexicurity*

The promotion of so-called flexible labour markets has been at the heart of the European project. Member states which operated restrictions on the use of non standard workers have long been under pressure to remove these obstacles to flexibility and have continued to come under pressure under the EES system. Greece, in particular, has introduced legislation to regularise non standard work even though it met resistance from trade unions and so far has not had a rapid uptake. There is more evidence that this approach has been changing the model in Spain where female employment has risen, partly associated with a significant growth in part-time work. Short part-time working has been stimulated in Germany under the mini jobs policy and is also growing in Austria. The other side of flexibility is the protection offered in permanent jobs and many member states have reduced that protection over recent years- for example Italy through the Treu and Biagi laws and Spain where the focus has been on attempting to reduce segmentation and the very high level of temporary contracts through incentives to hire staff on a permanent contract, offered with still high but reduced protection. However, the lack of success in this area suggests that Spanish employers still prefer the explicitly flexible temporary contract.

Another dimension to flexibility is flexibility in scheduling of working hours; here the UK stands out with both long and highly flexible working hours protected by the use of the opt out from the working time directive (Boulin et al. 2006). Hungary has also provided for collective bargaining agreements to allow for derogations from the working time directive requirements but, given the weakness of unions in Hungary, the employers have been able to use these derogations to bring in more flexible scheduling and working hours. In France greater flexibility over scheduling was part of the price that labour had to pay for the 35 hour week and even if working time is now extended again under the new government, the scheduling flexibility is likely to remain (Charpentier et al. 2006).

Despite the discourse on flexicurity, there have been very few measures to promote flexibility and security as combined objectives, except through the implementation of EU directives on fixed term and part-time employment. Indeed the overriding emphasis has been on flexibility and the lowering of protection for insiders without significant extensions of rights for the outsiders. In practice, the objective of flexibility has taken precedence over the extension of rights to non standard workers; in Italy, for example, there has been no expansion of welfare protection to include non standard workers and the welfare system remains concentrated on employees in large companies, even though they constitute an even smaller share of the working age population than of actual employment. The main positive example of flexicurity<sup>23</sup> is in Sweden where flexibility is conceived as providing opportunities to reconcile work and other activities over the life course and the welfare system is designed to provide a smoothing of access to income to facilitate a lifecourse approach to working life. While this approach may lie at the heart of the flexicurity debate, it is more noticeable by its absence from other member states. Indeed in many countries those opting for more diverse working hours and contractual arrangements may be increasingly disadvantaged in lifetime income because of pension reform.

*iii) promoting women's employment and gender equality*

One of the most frequently cited impacts of the EES is to have put, or kept, gender equality issues on the policy agenda (see for example five year review of EES in 2002 (CEC 2002b)). Further analysis of these claims suggests that the main impact has been to keep gender issues at least present on the policy agenda, even if they are not by any means adequately addressed. The EES has certainly been innovative in specifying at its launch that equal opportunities was one of the four pillars of the strategy, in requiring all policies to be gender mainstreamed and finally in setting a female employment rate target of 60% for 2010, followed up by targets on the provision of childcare to facilitate achieving the target. While the responses to these elements of the EES by member states was, by and large, at best half-hearted, without these measures most member states would probably not even have mentioned gender at all in their national action plans. Evidence in support of this contention comes from the almost complete absence of references to gender issues since the development of new guidelines in 2006, with the integration of the EES in the National Reform Programme (NRP). Under the new guidelines the gender guideline disappeared and gender issues are only mentioned under other guidelines, with no headline requirement to report on gender equality. As a consequence, most mentions of gender issues relate solely to the employment target, with some references to childcare or to the promotion of part-time working as part of the flexible labour market agenda (Rubery et al. 2006).

However, interpretation of these trends is made more complex by the fact that some developments in promoting gender equality are now taking place without them being headlined in the NRPs; the EU may still have been an influence or a catalyst by placing gender equality on the internal policy agenda. Examples of member states with important recent new gender equality measures include Spain with its dependency and equality acts,<sup>24</sup> the UK with its new requirement on public bodies to promote gender equality and its improvements to the availability of childcare (Rubery et al. 2006), Germany with its move towards income-related maternity pay and recent expansion of childcare for the under 3s, France with its series of acts requiring that social partners bargain over gender equality, and Sweden with its moves to include childcare in marginal taxation calculations, its extensions of leave exclusively for fathers and its requirements on employers to undertake and publish pay audits. Italy also introduced improved parental leave arrangements in 2000, with special leaves for fathers, even though these measures were not really implemented following a change of government.

<sup>23</sup> Measures to encourage movement of work from the hidden to the formal economy may be also considered a form of flexicurity policy but, by and large, these measures-for example in Italy and Greece- have been largely unsuccessful with a strong preference still revealed for hidden economy work over formal flexible employment.

<sup>24</sup> The dependency act is particularly notable as it gives elderly people the right to receive care for the first time when they are living with their children, thereby breaking with the assumption of care in the family (Rubery et al. 2006).

The significance of the EU in promoting gender equality depends upon how developed gender equality policy was within the country prior to joining the EU. At one extreme Sweden already had well established principles of gender equality before joining and one of the factors in the campaign for a no vote for joining the EU was that gender equality measures would be reduced rather than enhanced. At the other extreme, the EU has been the main driver behind gender equality measures and policies in Greece, including first through the legal framework and latterly through the EES, evident in the development of policies for childcare, extended leave and even processes for gender mainstreaming of policy. Here the reinforcement of the same principles through the structural funds may also have had an impact.

If the specific policies associated with the EES are considered, a very mixed range of policies with highly variable implications for gender equality can be identified. First there is very limited attention to issues of job quality, either with respect to issues of gender segregation or to the gender pay gap, with the exception of Sweden. The gender pay gap is a particular problem in the UK and the trade unions' use of EU law to promote gender pay gap issues has been influential in promoting some government action, including a Women and Work commission and action plans on gender equality, but these initiatives have stopped short of compulsion on employers to act, in line with Swedish-style gender pay audits. Turning to policies to promote activation, we find the most positive area of development is childcare, where most member states have improved availability of childcare and issues of childcare have emerged on the policy agenda in countries such as the UK, Germany, Greece and Hungary. France and Sweden already have good childcare availability but Austria, Spain and Italy have low availability –at least for under 3s – but limited evidence of action to improve supply. Another popular activation measure has been to promote part-time employment, although this approach has highly variable implications for gender equality. Spain, Italy, Greece and Hungary have traditionally discouraged part-time work through regulations and higher overhead costs but most of these have now been removed under pressure from the EU. However, the impact on take up of part-time work has been much higher in Spain than in the other three countries (Rubery et al. 2006); social norms in all three countries still mean that informal work is more common than formal part-time work. Furthermore, to the extent that part-time work has begun to rise for women, there is very limited development of security dimensions to this flexible form; part-time remains concentrated in low paid and insecure segments and there has been very limited development of rights for employees to work reduced hours in their current employment, following the Swedish model. In Germany and Austria there has been a major growth in short part-time jobs, fuelled by favourable tax treatments but this type of work is known not to provide good career prospects.

Inconsistencies and contradictions are evident between the espoused values of the EES to promote women's employment and actual policies pursued with respect to both taxation and leave. Hungary has persisted with its very long parental leaves of three years, even though this creates problems for reintegration of women in the labour market. Some measures are being taken to promote integration but all within the three year framework. France and Austria have developed new policies that in practice encourage mothers to leave the labour market or at most, in the case of Austria, work in short part-time jobs.<sup>25</sup> Germany has continued with its income splitting tax system that creates incentives towards inactivity or short part-time work and the UK has introduced more extensive working tax credits that encourage lone parents and main breadwinners to enter employment but have negative incentive effects for the second income earner. These contradictions have by and large not been picked up by the EU in making recommendations back to member states on how far their policies fit with the objectives of the EES, the only exception being the German income splitting system that comes in for criticism.

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<sup>25</sup> France has extended subsidies to mothers of now two children to stay out of the labour market and has even provided some subsidy for mothers with their first child (previously this subsidy was only available after the third child) and the result has been a drop in participation rates, contradicting the promotion of female employment and the make work pay agenda. Austria has extended childcare benefits beyond the date at which return to a job is protected (to 30 months compared to 24 months) thereby creating pressures for women to remain looking after children and not return to work or to combine benefits with a part-time job.



This suggests that a certain gender blindness still remains at the heart of the EES, despite the apparently innovative embrace of both gender equality and gender mainstreaming in the formulation of the policy.

*iv) social partnership and social dialogue*

This fourth topic, social partnership and social dialogue, is not so much promoted as a major policy point in the EES but assumed to be a standard part of the governance structure of European employment models. The impact of this assumption on actual practice varies widely. In the UK it has been firmly ignored by both Conservative and Labour governments who have been at pains to maintain the exclusion of trade unions from national policy-making. The EU has also had limited impact on promoting social partnership where this was a firmly established element of the national model before entry, as in corporatist Austria and social democratic Sweden. At the other end of the spectrum, Ireland in the 1980s rediscovered and reinvented its social partnership agreements that had been established in the 1940s but which would not have been adopted as a major element of economic management if it had not been for the support of the EU for social partnership approaches (Wickham and Schweiger 2007). Indeed, without the promotion of social partnership by the EU, such an approach would be difficult to sustain in an economy with a high presence of US and UK MNCs. Italy and Greece provide further examples of member states where trade unions have been brought more into employment policy negotiations than would have been the case without the promotion of such dialogue by the EU. Indeed entry in the EU in Greece became associated with the development of a more consensual industrial relations system and a marked reduction in adversarial industrial relations (Karamessini 2007). Hungary has also been affected by the social partnership agenda and introduced some of the institutions for social partnership and social dialogue as a result of the negotiations with the EU over the *acquis*, for example introducing both national tripartite bodies and workplace-based works councils. However, the trade unions have remained too weak for these to have any strong impact. Lafoucriere and Green (2006) have argued that in many new member states, including Hungary, the response to the *acquis* has been to set up tripartite bodies for social dialogue where the state is dominant and social partners often do not even attend meetings.

In some member states the main impact of the EU has been to introduce new topics on to the agenda; for example in Spain and Greece equal opportunities and active labour market policies were not discussed within collective bargaining prior to joining the EU and the EU has also led to the involvement of social partners in negotiating proposals for labour law reforms. This extension of the agenda for social partnership can be interpreted as a necessary modernisation of the social partners' agenda, to deal, for example, with the interests of the growing number of women among trade union members. It may also be considered to be evidence of the impact of the sustained rhetoric, reinforced by, for example, persistent high unemployment overall or for the young, on the need for flexibility and change, such that the social partners become engaged in that debate, often against the better judgement of the trade union parties.

The impact of the EU on social partnership at the workplace is primarily through hard law initiatives on European Works Councils and the information and consultation directive. In Germany 140 out of the 180 European companies now have European works councils and this development is internationalising the approach to industrial relations. This may contribute to somehow more balanced power relations in large multinationals, though the main effect is argued to be a "better sharing of burdens" amongst workers across countries (Haipeter 2006). However, the impact in countries like the UK is likely to be much weaker since there is a limited domestic tradition of works councils.

## 5. The EU and the future of European social model(s)

This concluding section address two main issues: first can the role of the EU be said to be one of modernising and ‘saving’ the European employment models, or is its impact more to call into question the coherence and sustainability of the various national models? And secondly, to the extent that the EU ‘s record in promoting new coherent European employment models to date is at best mixed, what are the main changes that should be introduced into the EU policy agenda in the future?

### *Assessing the impact of the EU on European employment models*

On the basis of our review of the main EU policy levers, coupled with examples drawn from the experience in the ten member states, we can make the following five observations. First, there is evidence of a significant degree of change taking place within the models, thereby refuting any notion that European models are unchanging and stagnant. Second, there are common directions of change: towards more activation policies, more flexibility, to prolong working life through pension reform, and towards a form of dual earner society. These common themes relate to common issues or problems that would undoubtedly in many cases have become part of the domestic agenda without the role of the EU; demographic ageing, changing gender roles, problems of high unemployment related to restructuring are challenges facing individual member states as well as the EU as a whole. Nevertheless, the EU has clearly played a role in generalising particular policy approaches: introducing activation into countries where there was no such tradition, promoting more flexible forms of work by pressing for the removal of regulatory obstacles to such forms, promoting make work pay policies, including incentives to move off benefits through sticks (reduced benefits or entitlements) and some carrots (in-work benefits), and for employers to create jobs in low wage segments or for vulnerable groups. Provision of childcare is one particular example of a policy that would not have moved on to the policy agenda in as many member states without its promotion by the EU.

The third observation is that there is still an evident commitment to social policy and welfare provision in Europe, such that there is no clear convergence with the US; pensions have been reformed but not abolished; social protection may be more tied to activation but is still more available than in the US and in some cases has been extended to new groups; and commitments to work-life balance and childcare provisions are extending the functions of the welfare state in many instances, as the ability or willingness of the family to provide care services diminishes. Social partnership and social dialogue is still a key feature of most European employment models, even if in the new member states it is often weak and where present largely dominated by the state (Lafoucriere and Green 2006).

Fourthly, the impact of the various forms of EU interventions- from hard law in the product market to soft law with respect to gender equality- is highly variable. These differences relate not only to variations in reactions to the policies but also to the differences in the ways in which the EU’s policy orientations interact with the key features of the models and their current state of development. Furthermore, the strongest influences on the evolution of employment models do not always derive from policies and regulations that are directly concerned with employment. Not only do other policy levers often have more clout (although again variable by member state) but their impact may be at odds with the developments promoted within the EES itself. For example, reforms to pension systems may be more focused on budgetary considerations than the creation of a more inclusive labour market as promoted by the flexicurity agenda.

So how do these observations relate to the key question of the role of the EU in promoting the survival, modernisation and strengthening of the European employment models? Is there evidence of evolution towards a more modern and appropriate form, more in line with changing competitive needs and the changing aspirations and behaviour of the citizens, or are the changes taking place undermining the key characteristics of the European employment models, particularly their association with conditions of decent work? And are current developments helping Europe to achieve the full Lisbon agenda, that is combining the needs for comparative

advantage in the world economy with the development and maintenance of a socially cohesive society? And furthermore, is there a path towards convergence of European employment models or is there evidence of continued and even increased divergence?

If we turn to the last question first, our overview of the impact of both hard and soft EU policies has first of all made it clear that the process of convergence in European models- to the extent that it exists- relates primarily to the orientation of policies and not towards the level of social provision. In this respect the EU may be a source of continuing divergence rather than convergence as the rules of the EMU relate public expenditure and debt limits to percentages of own GDP and not the development of public services. As such the EU does not provide, except through the structural funds, for a catching up or harmonisation of levels of social support. The structural funds do support infrastructure but not social benefits. In addition, they promote policies in line with the approved orientation such as activation and flexibility. However, promotion of orientation is hardly sufficient to bring about convergence towards a modernised welfare state as member states do not have the scope to undertake the major investments needed to move from, for example, a domestic or family system of service provision to service provision through public services. The celebration of difference within the OMC allows the EU to hide behind the fact that even if the EES was in part inspired by the Swedish model, the EU's regulatory approach precludes the emergence of new Scandinavian welfare states within the EU. This concern with convergence in orientation rather than substantive policies fits with the view that the European project is more about a convergence of a political vision aimed at 'harmonisation of ideas, visions, norms of action, rather than of institutions and regulation' (Jepsen and Serrano Pascual 2006: 35). But unless there are long term processes towards some degree of harmonisation of the substantive systems, this may in fact reinforce the historical divergence of levels of social protection and decent work. The problem is that the EU policy limits the scope for real innovatory institution building in the area of employment and social policy, particularly in member states where social policy is currently underdeveloped, but at the same time the EU policy exposes these same member states to the rigours of competition in the areas of product markets and macro policy.

Another factor in the lack of real convergence processes is that the assessment of policy initiatives within the broad approved fields such as activation, flexibility or gender equality are not subject to detailed scrutiny. Certainly they are not assessed with respect to some form of quality threshold as to their likelihood of modernising the employment model. In particular, interactions and contradictions between policy areas, even within the employment field, remain unexplored and unnoticed; that policies may make work pay for some groups but not for others is not highlighted by governments nor brought out by the EU assessment of policies. Flexibility policies such as the promotion of part-time work are not evaluated for their actual impact on gender equality. The variety of approaches is legitimated within the EES by the fact that first of all the EU has limited competence in social policy (Scharpf 2002) and by the apparent value of different historical paths and trajectories of development as demonstrated within the varieties of capitalism literature. However, this celebration of diversity in fact does not lead to critiques of any policies introduced that may undermine rather than support a particular variety of capitalism. For example, France has historically had a reasonably high employment rate through its policies that support women to stay in work but new policies that promote women staying out of the labour market when they have their second child have not been criticised at EU level for moving away from the joint employment targets of 70% overall and 60% for women, or indeed potentially undermining commitments to gender equality. This loose approach to policy evaluation, coupled with the very different traditions of social policy and current levels of development make it highly unlikely that there will be any strong move towards convergence in social policy. This openness may have some upsides, for example by enabling those countries with already developed social policies to retain a higher than average system of social protection. However, the downside is that there is very limited evidence that the application of the orientation of the EES is leading to the development of coherent new social models.

This variety in approaches to social policy is in part tolerated because social policy is no longer viewed as a main source of future productivity and development of the European society. The EES, when first initiated, did have as one of its origins a belief- as expressed by the then Director General of DG employment - that social policy should be regarded as a productive factor. As such the development of an appropriate social policy should not only provide for social cohesion and inclusion but should also help to achieve the goals of a productive and knowledge-based society (Hermans 2005). After the review of the Lisbon strategy by Kok (2003), the definition of the objectives of the EES narrowed. Economic objectives were not only to be considered primary but also separate from social policy as the key recommendation was for ‘new impetus and attention to policies that both accelerate employment growth and boost productivity’ (op.cit: 17). Outside DG Employment there has always been, in any case, scepticism of the social policy as a productive factor argument. Instead the focus in those DGs dealing with competition is to promote the role of the market in creating comparative advantage. Privatisation and removal of obstacles to trade are the primary requirements identified for a productive society. Social policy is to be productivist only in the sense of creating more self-reliant individuals, able to be flexible across their working lives and to respond to market changes through willingness to change employment, hours and develop skills through lifelong learning. So social policy should be oriented to facilitate market functions but not to create distinctive collective capital on which the EU project as a whole can draw. It is not, however, only in social policy that the EU can be argued to be weak in boosting collective capital: raising research and development is the main such EU policy but it is so far an area of limited impact, with all countries other than Sweden and Germany<sup>26</sup> falling well below the EU target of 3% of GDP. Reforms of university systems are taking place but this lies in principle outside the EU as it has no competency in education, although the Bologna process would not have taken place without the presence of the EU.

Two identifiable problems emerge from this neglect of the notion of social policy as a productive factor. First, the importance of the labour market and job quality to the achievement of social protection has not been taken into account. As Wickham argues, policies to destabilise labour markets through privatisation and competition may in fact serve to undermine the basis for a European social model.

The creation of a market for services is thus part of the process of negative integration within the EU in which national barriers are politically torn down but no social policies created which would provide positive integration (Scharpf, 1999). In the short term these processes enhance the power of those EU institutions concerned with market expansion, but in the long term may well undermine the rationale of the European project itself. (Wickham 2005 :14)

Such policies increase the need for social protection by reducing job protection but destabilise the conditions under which social protection can be readily funded, that is by people in stable and often full-time jobs, paying wages at levels where they are able to make contributions to social protection funds. The stabilisation of employment contracts and systems and the development of welfare systems have historically gone hand in hand (Deakin and Wilkinson 2005). The notion of the flexible self reliant, infinitely adjustable labour market participant is a figment of the EU’s imagination; the only model that resembles this approach within our sample of ten countries is that of Sweden but this is based on highly developed institutional arrangements that shape the operation of the market to socialise risks across the life course and which provides access to high levels of support as the back up to policies of promoting flexible labour markets. Moreover, in these ‘exemplary’ models of flexicurity- Sweden among our ten countries but also Denmark- the complementary institutional arrangements serve to shore up the quality of jobs and work experiences; in a context of high

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<sup>26</sup> Even looking at all EU countries not just the ten considered here only Finland as well as Sweden and Germany have reached the target.

levels of low quality jobs the acceptance of flexibility would not be so great, even if social benefits were relatively generous. Flexible labour markets without such institutional support structures – and that cannot in fact be constructed due to restrictions on economic policy in the EU - will not provide a basis for both flexibility and protection. The EU has not yet recognised the contradictions in promoting women's employment in order to solve the fiscal crisis of the ageing society but at the same time allowing and even encouraging their employment to concentrate in flexible and short part-time jobs where neither employer nor employee makes significant contributions to social protection.

#### *Towards a new approach to EU employment policy*

The argument of this paper is that the problems of EU policy with respect to the modernisation of European employment models lie primarily in the narrowness of the approach taken. The mantras of the EES -such as activation, make work pay, promoting equal opportunities, and flexicurity- are in themselves important elements of a policy to promote adaptability and change in response to new challenges. However, the ambition of the project is too limited and, as a consequence, the outcomes are as likely to be negative as positive. Three main failures of ambition can be identified; first there is limited scope for real social innovation and new institution building at a societal level within the framework, which is primarily oriented towards removing 'rigidities' from existing models. Second, there has been a systematic neglect of opportunities to build positive linkages between employment and the production system on the one hand and the welfare system on the other. These linkages, we would assert, can be made through a focus on promoting job quality. Furthermore, in contradiction to the notion of distinctive employment regimes based on interlocking sets of institutional arrangements, policy evaluation has been based on a pick and mix approach, with limited analysis of contradictions between both objectives and policies. Moreover, some changes in context or social objectives may call for a more fundamental redesign of aspects of the model, not just piecemeal adaptation. The changes needed in the EU policy approach thus relate to i) promoting societal innovation, ii) promoting job quality as a productive factor, iii) analysing policy interactions to promote more complementary, less contradictory developments.

#### *Promoting societal innovation*

Current policy approaches inhibit societal innovation by providing limited opportunities for member states that have low levels of either social provision or job quality to 'catch up' with more developed EU member states. Such catch up problems include extending provision so that social protection is more inclusive. Examples of current exclusion are pension coverage in Italy, where pension reform has focused on changing benefits, not extending coverage; unemployment benefits, again in Italy where younger generations and women tend not to have access as higher level benefits are only available to those who have already been in stable employment, or in the UK where part-time workers tend not to be eligible due to a relatively high income threshold. Other examples include providing new types of services, for example in Spain there have been recent efforts to change from a family-based welfare system to reflect the more complex social reality; its new dependency law allows for elderly people living with their children to have access to state provided care and its new "emancipation income," a rental subsidy for young people 22-30 years old is addressing the problem of youth dependency, that results in low formation of independent households and low fertility. However, these new developments are constrained by lack of resources. Including levels of provision -coverage of provision and extending to new services- as factors alongside the reorientation of the welfare system provides an opportunity for positive integration and convergence, by allowing for potential improvements to social provision in the weaker member states and promoting, in all member states, a more inclusive approach to employment quality and social protection, in line with the changing structure of jobs and changing composition of the workforce. In a process of 'catch up', member states should not be expected to follow the policies of the past; indeed it is by allowing for the possibility of new developments in social and employment policy in the future, that we may find more scope for societal innovation and institution building to meet the needs of the

current century. The more restrictive policy approach tends to rule out real innovation and focuses instead on minimising the cost of existing provisions, rather than on designing new systems to meet new conditions. A very important issue here is allowing member states the fiscal space to be innovative and to plan for long term change; the opportunity for other member states to learn from, for example, the Danish flexicurity system, is extremely constrained where fiscal rules and international pressure prevent member states from developing security policies to support the flexibility policies to provide the virtual circle that the EU promotes through its rhetoric but constrains through its conservative fiscal policies.

*Promoting job quality as a productive factor*

There are three aspects to the notion of job quality as a productive factor. First job quality may contribute to the development of comparative advantage and competitiveness through positive impacts on the production model of the economy; second, job quality can reduce the costs of welfare provision; and third promotion of job quality can be a means of combining social inclusion strategies with productivity objectives. Developing this more positive link between job quality and the overriding policy objectives of the EU could also help to place decent work more firmly on the international policy agenda.

i) Job quality, production models and comparative advantage

More needs to be done to link employment policy in general, and job quality in particular, to the need for Europe to become a knowledge-intensive economy to establish comparative advantage in a globalised and services-dominated world. It is relatively well established that job quality- associated with high performing work systems and high trust relations- can contribute to comparative advantage in manufacturing. A focus on employment and work organisation is especially warranted in services as human resources clearly play a critical role in a service economy; innovation is dependent upon knowledge work; the quality of products, particularly in services, depend upon employee-client interactions; and firm competitiveness may depend upon employee motivation, mobility and flexibility. Despite the critical role that work organisation and the quality of work could play in developing comparative advantage, attention to developing high performance work systems as an outcome of employment policy is almost non-existent. The organisation of work and the development of quality employment are left to the market, the education system and /or to social partners, without the apparent need for intervention. Even attention to skills and training is focused primarily on issues such as social inclusion; interest in lifelong learning focuses on prolonging working life, not on developing skills for improving the productive economy. Skill shortage only enters into the story in the EES when there are problems filling vacancies. The wider question as to whether those at work are trained to their full capacity and /or enabled to work in a productive and efficient manner is not addressed. The EES thus should ask for information on policies and strategies designed to promote improvements in the work place, including developments in work organisation and in skills and competences, to promote comparative advantage. These policies could include indirect strategies such as promotion of employee voice to improve industrial relations and manager/ employee trust.

ii) Job quality as a means of enhancing welfare provision and social protection

Unless employment policies promote not only more but also better jobs- measured by wage levels, employment stability, skill and career development-, the outcome may well be to place even more burdens on Europe's social protection systems. The first problem is that many new jobs- for example mini jobs in Germany- do not contribute significantly to the fiscal base as the earnings levels fall below tax and social security thresholds. The second problem is that if the security afforded by the labour market diminishes- in the form of either lower pay or greater job insecurity then citizens will require protection from the state to compensate, at least in part, for these higher risks. Examples here include the development of in-work benefits to bring income up to levels that provide acceptable standards of living. Moreover, if the aim is to have a more extensive and inclusive social protection system, covering flexible and non standard employment

as well as standard employment, there is a need to raise the overall level of job quality in the labour market to provide not only fiscal support for the welfare system but also to reduce the frequency with which citizens become dependent upon the welfare systems.

iii) Job quality to combine social inclusion with enhanced productivity

Improving job quality for the individual, and ensuring that individuals have jobs in which they are able to utilise and develop their full skills and potential, could provide a means of combining policies for social inclusion with policies to enhance productivity. Underutilised employees include not only many prime age women, immigrants and other discriminated against groups but also many new graduates and young people who are unable to find a job appropriate to their skills. In the UK a recent estimate put the number of employees who feel underutilised at 4.8 million, excluding those with no qualifications (Hurrell et al. 2007). Employment policy needs to be oriented towards assisting both the unemployed and the underemployed, with a focus on moving the latter up the employment hierarchy. This approach would not only provide for greater equality of opportunity and enhanced productivity but would also serve to free up lower level jobs for those who are currently regarded as hard to employ and excluded from employment. A policy of reducing underutilisation of talent, rather than one of stacking up more and more low quality jobs,<sup>27</sup> provides a means of solving the conundrum of how to promote social inclusion and higher productivity. Firms, therefore, need encouraging to create not just low wage jobs but also medium and high skill jobs and to provide career ladders between the lower level and the medium level jobs.

*Promoting more complementary, less contradictory policy mixes*

The EU tends to promote all policies as complementary; there is limited recognition in any of the policy analyses of the potential for contradictions. Without a serious attempt to analyse interactions to identify whether the various elements of the policy approach have strong contradictory elements, the scope for developing effective policy responses to new challenges is limited. The potential for the policy mix to be either complementary or contradictory applies at a range of different levels.

Within the EES itself there are combinations of policies that could, if developed together, provide an effective response to a challenge but which if only pursued along one of the directions could do as much damage as harm to the pursuit of the combined objectives of a productive and socially inclusive European society. A prime example is the EU policy of promoting flexicurity. While calling for a combined policy mix, in practice the EU is willing to evaluate policies favourably that promote flexibility without positive policies on security. Perhaps the prime recent example of this approach is the lack of criticism of the mini jobs boom in Germany. In other areas the need for complementarities have not been identified, allowing even more scope for contradictions: for example, between its gender equality objectives and reforming pensions in ways that disadvantage those with discontinuous careers or high levels of part-time working in core ages. The extension of qualifying years and switches to defined contribution systems have disadvantaged women, without this being the subject of comment or analysis at member state or EU level (Rubery et al. 2006). The requirement for gender mainstreaming should in principle bring out some of these contradictions but member states fail to apply this approach. Moreover, by and large they are not held accountable for contradictions in policy by the EU in its own evaluations. For example, there has been limited criticism or awareness of the impact of new in-work benefits on work incentives for second income earners; it is the OECD that has been more forceful in pointing out these contradictions (OECD 2003: 117). Designing policies that combine the productivity and social objectives of the EU, rather

<sup>27</sup> A good example of a positive skill upgrading strategy is the skills escalator policy adopted by the NHS in the UK to provide opportunities for lower level staff to move up the jobs hierarchy. This contrasts with social care work where the majority of care work has been outsourced to private sector providers who pay lower wages and provide limited opportunities for upward mobility.  
[http://www.dh.gov.uk/en/Managingyourorganisation/Humanresourcesandtraining/Modelcareer/DH\\_4055527](http://www.dh.gov.uk/en/Managingyourorganisation/Humanresourcesandtraining/Modelcareer/DH_4055527).

than policies that promote one objective at the expense of the others, must be a prime principle of any revised EU policy on employment.<sup>28</sup>

Complementarities and contradictions need to be considered not just at the level of policy area but also at the level of country or national model. The EU is composed of member states with distinctive employment regimes based on different combinations of interlocking institutions that provide for different but potentially successful systems. Policy evaluations, therefore, need to consider not only whether the policy mix fits with the EU objectives in principle but also whether it complements or is in opposition to the member state's particular set of institutional arrangements. While designing policies that go with the grain of the national model is in many cases important for policy effectiveness- and too often ignored in comparative policy analysis-, there are also contexts in which the EU may indeed wish to prompt member states to recognise the need to change some of the underlying principles on which its national model is founded. There are tipping points in the evolution of national models when core principles need to be reconsidered, for example: when most households and individuals no longer fit within the male breadwinner household model on which the welfare and employment system is founded; when industrial relations systems remain oriented to manufacturing when the vast majority of employees are in services; where vocational training and education is reserved only for school leavers not proceeding to higher education, but where there are vocational training needs for graduates or those in mid life wishing to re-skill or re-orientate careers.

While the modernisation of EU models must in some contexts involve some ruptures with past principles, nevertheless, for the most part models will adapt through incremental change. Recent experience within Europe suggests that there is more than one route to relatively successful change, such that the notion that there is only one route forward must be rejected. This is implicit in the EU's own celebration of different models, from the Swedish social democratic model to the more deregulated UK model. Best practice examples are selected from a range of different types of models, thereby endorsing a diversity of approaches. However, this diversity of approaches is not linked in to the notion of complementarities; new member states seeking to conform to the *acquis* of the EU in both hard and soft law terms are invited to pick and mix without explicit reference to the notion of alternative sets of policies that may work well together due to complementarities. The notion of complementarity is also important in helping new member states develop models that respond to specific social and economic conditions and institutional arrangements in their own history. Hungary is a case in point; it started to consider developing a model based more on Rhenish than Anglo-Saxon capitalism, in line with its close links to the German economy, but has currently backtracked from that strategy under pressure from the EU to meet financial targets associated with its proposed entry to the Eurozone (Neumann et al. 2007).

However, perhaps the most important scope for contradictions in EU policy lies not within the employment and social policy agenda but between these areas of policy and the EU's competition and macroeconomic policy agenda. As we have identified in this paper, key contradictions arise between the application of EU macroeconomic rules and the objective of a high employment rate, particularly during downturns; between the application of competition policy that is based on a belief that stability of employment, especially under public ownership, creates privileged insiders, and the objective of maintaining and promoting job quality, or decent work; and between wage policy to meet inflation objectives and wage policy to close the gender pay gap. These contradictions need to be made clear, directly explored and in a context where it is not presumed that narrowly defined economic objectives must take precedence. The prime need is to re-establish in policy making a positive role for job quality and decent work agendas

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<sup>28</sup> Evaluations should also allow for and identify any perverse effects of policies that are not captured within the main concerns of the EES. For example, policy reform that reduces the generosity of public provision of pensions and other benefits on the basis that the policies are favouring insiders rather than outsiders, could result in a switch towards more private provision thereby exaggerating rather than reducing differentiation among the workforce.



as both the means to modernise production systems for enhanced comparative advantage and the means to provide a more inclusive and more efficient welfare and social protection system.

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