

The EES - market making or market correcting?

Prospects for the development of social investment in the enlarged Union

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(All comments welcome)

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Abstract

Considerable attention has been given to the rise of a social investment paradigm in the EU, rendered concrete mainly through various soft law instruments, in particular, the European Employment Strategy (EES). There is evidence in the literature that policy aims of the EES have been institutionalized incrementally and variably in Member States, leading to varying degrees of Europeanisation at the level of discourse and policy development, and actor creation and/or empowerment. However, due to its political and malleable form, the EES can be used either as a comprehensive social investment strategy focusing on the development of human resources for the needs of the labour market, or alternatively, as a liberalization strategy with little or no social investment. This risk of using the EES as a liberalization strategy (exclusively market-making) is evident for all Member States, but it is particularly perilous for the new member states, which are under more pressure to stabilize their economies and finances, including the reduction of social expenditure. In this paper, we analyse how and to which extent the EES has been integrated in the EU member states (EU-27), taking account, first, from the domestic perspective, of institutional legacies (creating particular constellations of reform challenges), economic and financial situations and political priorities and agendas. Accordingly, we show that the response to and use of policy defined via the EES is channelled by these factors, but also by diverse and even contradictory pressures for reform from the EU level (on the one hand, to curb public expenditure and on the other to make social investments), by the relative stability and strength of actors and by the extent of co-funding available for implementing reform objectives. Based on this assessment, we draw conclusions on the prospect of the EES as a social investment strategy in the enlarged Union. We argue that if the EES is to be sustainable in the long-run, then it is imperative that its objectives are consistent over time, coherent (internally but also with economic policies) and clear (i.e. not open to interpretation across the political divide), but also that funding is allocated for the achievement of aims decided under the EES.

Introduction

Following the full commitment to market-making in the EU in 1992 in the Single Market project and Economic and Monetary Union, a complementary social investment strategy was initiated in 1997 by the development of a comprehensive but soft European Employment Strategy (EES) (Goetschy, 1999) which was fully transformed into a broader social investment strategy in 2000 at the Lisbon European Summit.

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The proclaimed aim of the EU heads of state and government at this summit was that the EU should *“become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”* (European Council, 2000). This paper assesses the employment policy dimension of the social investment strategy through an analysis of whether and if so how it has contributed to Europeanization in EU member states. It also highlights the clear strengths of the strategy, its risks, and how to make it sustainable and effective in the future. While the EU has the competence to develop binding legislation in areas directly related to the market-making project, such as labor mobility, health and safety, and gender equality and non-discrimination, the EU has to respect the member state competence in core employment and labor market policies and institutions, where it uses soft policy instruments to recommend market-correcting actions (Borrás & Jacobsson 2004; de la Porte et al., 2001). The EES, a core aspect of the Lisbon agenda, attempts to develop a ‘positive’ and comprehensive reform agenda (not only as a side-effect of the market-building project). It consists of common EU objectives and benchmarks as well as country specific recommendations (to respond to challenges of economic and social sustainability of welfare states), towards which member states must show progress in regular national reports that should present policy implementation and policy planning.

In our analysis, we distinguish between the EU-15 and the EU-12, since the EES was formulated exclusively to respond to challenges of the EU-15, with sticky and deeply rooted institutional legacies (creating particular constellations of reform challenges), economic and financial situations as well as political priorities and agendas. The EU-12, on the other hand, have re-organised their institutions during the last 15 years, where market-making has been the key priority, and where social investments could at best be limited. Furthermore, in the post-1989 period, the empowerment of non-governmental actors, even social partners, has not been actively pursued or desired. The short-term political priorities and growth strategy based on attracting Foreign Direct Investment (FDI) has been guiding the political agenda in welfare state reform in most of the EU-12 (Offe, 2009). The incentive structure for developing social investment in the new and old member states is therefore radically different, which is why we will make a distinction between the EU-15 and the EU-12 in our analysis of Europeanisation via the EES.

The conceptual framework of Europeanization, nested in the new institutionalist analysis (Hall and Taylor, 1993), is used to analyse how and the extent to which the EES has contributed to the development of social investment policies across the EU. Europeanization is a very broad concept that refers to the effect of Europe on the Member States but is not synonymous with convergence, harmonization or political integration. The range of objects that can be Europeanized is broad - institutions, public administration, intergovernmental relations, legal structures, structures of representation and public policy (Radaelli, 2000). It is therefore important to identify what (potentially) Europeanizes, what is Europeanized and how this is expected to take place. In our case, it is the EES that (potentially) Europeanizes ideas, policies, institutions and paradigms. More specifically, we aim to analyse how and the extent to which the EES has contributed downwards - via ‘downloading Europeanization’ (Börzel and Risse, 2000; 2003) - to ideational change (adoption of EU concepts, discourses and frames of reference), institutional change (creation or empowerment of actors in the domestic context), policy change (development of new policies which are clearly in line with the intended effect of the EES) and perhaps even paradigmatic change (adoption of a new normative framework that structures ideational, policy and institutional development). Here it may be instructive to take into account the initial ‘goodness of fit’ between the European ideas, policies and institutions and the domestic policy context. Börzel and Risse have argued that the fit/misfit determines the adaptational pressure on the country in question but that there are also a number of mediating factors in each national context that ultimately determine whether European pressures will result in domestic structural change. We will analyse whether there is evidence that the EES does work according to this logic, or whether other factors, such as domestic political priorities (as suggested by Kaeding and Mastenbroek, 2005), and (exogenous) financial and economic crises, are more determinant.

The rest of this paper is organised as follows. In section two, we identify the core elements of the EES and explain why it can be considered to be a social investment strategy. In section three, we will carry out the empirical analysis itself for the EU-15 (differentiated according to welfare state regime), where institutions are more sticky than in the EU-12. We present some basic outcome indicators as well as the evolution of the ratio of active to passive labor market expenditure for this group of countries, to assess whether the countries seem to be moving in the direction of the desired outcome of the EES. This is followed by an analysis of the ideational, institutional and policy impact of the EES. To assess ideational change, based on the processes of policy learning and socialization, we seek to understand the extent to which the EES as a policy frame has been used and if so, how. To assess institutional change, we analyse the way that the EES has been used as leverage for actors, in particular governmental actors and social partners. Finally, to assess policy change in core areas of the EES – active labour market policies, policies to integrate different categories of people in labour market (ESF supported), public employment services, education, training - we assess whether the EES has contributed to the development of a comprehensive human investment strategy (active labour market policy), protection (passive labour market policy), or recommodification, following the distinction by Bonoli (in this volume). Fourth, we reflect upon whether the EES has contributed to a paradigmatic shift in the EU-15 that redefines ideas, policies and institutions. In section four, we undertake the empirical analysis for the EU-12, where institutions are not so sticky and where short-term political priorities, persistent economic difficulties and financial crises render the impact of EES more difficult. Like for the EU-15, the analysis begins with a presentation of outcome indicators (employment rates and ratio of active: passive expenditure on labour market policy), followed by an assessment of the ideational, institutional and policy impact of the EES. In section five, we draw conclusions on the prospects of the development and implementation a social investment strategy for the EU-15 and the EU-12 and whether it is at all feasible to uphold one social investment strategy via the EES for the EU-27.

II. The Lisbon strategy as a social investment strategy

The 1990ies saw the rise of a novel paradigm of economic, employment and social policy has emerged among the EU-15, to respond to low growth, increased global competitiveness and the challenges of ageing, and new family patterns in the EU. At the heart of this paradigm is the aim to achieve competitiveness, to be sustained by a re-defined full employment model, consisting of including as many citizens as possible in employment, and by re-directing expenditure from passive to active labour market policy. This perspective differs from both the traditional Social Democratic approach of income or job protection and the neo-liberal strategy of deregulation and (re-)commodification (see Bonoli, in this volume). There have been a variety of creative labels for this new paradigmatic ideology, including the 'third way' (Giddens, year), a 'new welfare state' (Esping-Anderson et al 2002), 'inclusive liberalism' (Craig & Porter 2004; Mahon 2008), 'the active welfare state' (Vandenbroucke, 2002) and last but not least, a 'social investment' perspective (see Jenson, this volume). These policy labels refer to the same combination of factors to make welfare states economically and socially sustainable. Employment policy, which is our concern here, should focus on encouraging employment participation among all categories of citizens through an active approach to labour force participation. The envisaged outcome was a high rate of labour market participation among all categories of citizens, in line with the traditions in the Liberal, Social-democratic and socialist welfare state traditions, but challenging the male-breadwinner-female career model of the conservative and mediterranean welfare state regimes. But the policy differs from traditional Social Democratic politics, which stresses security as well as equality of income and redistribution policies, and which actively ensure that the individual is placed actively in employment. In the EES, the role of the state is to support the adjustment process of individuals ('the enabling state') rather than protecting from social risks directly. The aim is to increase social inclusion as well as ensuring that the population is well prepared for the likely employment conditions (with higher educational requirements as well as less job security) (see Jenson, this volume).

This approach has been diffused since mid-1990s by the OECD (Jacobsson, 2010; Jacobsson and Noaksson, 2010) and came to be fully embraced by the EU in its employment strategy in 1997, re-enforced at the Lisbon strategy, crystallized in 2000. The EES is more than some loose policy ideas: it is a comprehensive policy frame, to address low growth and high unemployment in the EU. On the basis of Rein and Schön (1993), a policy frame is understood as the specific way to conceive of a public policy issue, following which a particular course of action is prescribed. In the words of Rein and Schön (1993: 153, in Fischer, 2003: 144), a frame "provides conceptual coherence, a direction for action, a basis for persuasion, and a framework for the collection and analysis of data – order, action, rhetoric, and action". The important aspect of policy frames is that they determine what the actors consider 'facts' (here, low growth, unemployment, population ageing), thereby narrowing down the possible courses of action.

The main aim of the EES, i.e. the prescribed course of action, from the outset was to increase the employment rate of the European Union and its Member States, in order to support the economic growth aim of Economic and Monetary Union (EMU). In the Employment Title of the Amsterdam Treaty (articles 125 EC – 130 EC) the stated objective is to achieve a 'high' level of employment. This aim was accompanied by quantitative benchmarks, to achieve a 70% employment rate overall, a 60% female employment rate (European Council, 2000) and a 50% employment rate of older workers (55-64) (European Council, 2001). At the beginning, in 1997, special attention was paid to increasing the employment of youth and the unemployed, after which in 2000, the 'inactive' were included as a target group. After 2001, there was a special focus on increasing the employment rate of older workers, and after 2004, immigrants and disadvantaged groups were added as a target group for enhancing labour market participation. The core means identified to achieve high employment was by shifting expenditure from passive (and curative) labour market strategies to preventive and 'active' labour market policies. Along the lines of the notion of

'social investment', the EES has advocated that public spending should be made in the form of investment rather than compensation, i.e. be designed as to 'pay off' later on (see also Jenson in this volume).

An important means through which to achieve this was the modernization of the Public Employment System (PES), which should remain or become the main actor responsible for placing individuals in various types of employment schemes. The development of the PES as a core actor responsible for activating individuals and for ensuring their transition to the mainstream labour market has from the beginning been a key aspect of the EES. Then, to support competitiveness, the labour force should constantly be up-skilled, in line with the needs of the knowledge economy. Indeed, from the very beginning, the EES involved a human investment strategy, aiming to achieve '...a skilled, trained and adaptable workforce and labour markets responsive to economic change' (article 125 EC). The PES has an important role in enhancing skills of workers through activation schemes, but the EES also encourages social partners to take up responsibility for the development and delivery of training, traineeships and other forms of activation that are implemented in the work place. The education systems should also be reformed in order to ensure that all pupils would be trained in competencies related to the development of new technologies. The aim to achieve a high rate of labour market participation, and a (highly trained) workforce that was 'employable' for the needs of the economy has been a key aim of the strategy throughout its lifetime. 'Employability' is the term in the EES which refers to the broad aim of increasing labour market participation and facilitating take-up of employment for individuals. This is broadly synonymous to 'activation' used by the OECD, although the OECD definition is more narrow, referring only to policies to activate citizens in paid employment. In the EES, 'employability' is set out as a policy solution to tackle problems of (un)employment through the development of a preventative (rather than curative) and an active (rather than passive) approach. Nevertheless, as a policy frame, the focus on employability entails a shift in problem description from 'lack of employment' to 'lack of employability', i.e. a shift to a more individualizing perspective on unemployment, as well as other reinterpretations such as 'from job security to security through employability' or 'security through skills' rather than security from job protection legislation, and moreover, the redefinition of equality into 'dynamic equality' or 'equality through mobility' (see Jacobsson, 2004).

Various issues have been grafted over time to the EES policy architecture, including quality in work that is foremost assessed by the appropriateness of the wage level for the job carried out. It is an aspect which is particularly important for the new member states, where wages are low, when compared with the EU-15. From 2005 onwards, 'flexicurity', consisting of flexible work contracts, together with appropriate social security, became a central objective in the EES. 'Flexicurity' has been defined within the EES as including 'flexible and reliable' contractual arrangements through modern labour laws, collective agreements and work organisation; comprehensive life-long learning strategies to ensure that skills are upgraded and that workers remain employable; effective active labour market policies (ALMP) that help people cope with rapid change and reduce unemployment, and modern social security systems (European Commission, 2007). The implication for countries with heavily regulated labour markets (mostly old rather than new EU member states) is that labour markets should be rendered more flexible, while in other countries (notably many of the new member states), the implication is that stronger labour market institutions should be developed (Interview Commission Official 2, July 2009; Vielle, 2007). In other words, the EES embodies a comprehensive strategy for the development of human resources, via the PES, but also involving social partners, as well as education and training institutions, in order to achieve full employment. Various policies – all under the broad heading of employability and flexicurity – should be implemented with the involvement of these institutions (Annex 1 provides more details on the EU employment policy frame).

The EES, then, is a comprehensive policy frame. It also includes a funding programme, to support initiatives developed on the basis of the EES policy objectives. The European Social Fund (ESF), developed initially to support the development of regions that were lagging behind in terms of competitiveness, has been an

important contributor to the EES. While the two initiatives were initially separate, their integration has increased over time, after periodic revisions and adaptations (Hartwig 2007). What is crucial for successful implementation of the EES, as a 'social investment' strategy, is the need for long-term planning, to channel investment (supported by the ESF) effectively into human resource development to support the needs of the labor market. This is a crucial aspect of policy planning, which is hard to marry with the recent economic crises and financial instability, where short-term priorities about regaining financial stability and growth dominate the political agenda. An obvious complication is that the EES, requiring considerable investments, is to be implemented in the context of EMU, with its requirements on governments to control public expenditure and to reduce public deficits. For the EU-15, 'social investment' has implied the re-direction of expenditure (without increases), but the new Member States have such a low level of expenditure that there is barely any expenditure to re-direct. In addition to that, the problem in the new Member States is not institutional adaptation, but institutional development and stabilization. In the following, we pursue the analysis, by successively analyzing the achievements of the EES in the EU-15 and then in the EU-12.

III: Old Member States: Limits and achievements of the EES

As discussed above, we present the analysis of the impact of the EES for the EU-15 according to welfare state and labour market configurations, with particular legacies and institutions which are deeply rooted (Esping-Anderson, 1990; Ferrera, 1996). In addition to that, we will take account of economic and financial crises, as more severe crises are expected to lead to more thorough reforms (Pierson, xxxx). First, we present some outcome indicators (employment rates, ration of active:passive expenditure on labour market policy as a proportion of GDP), which reflect the underlying institutional logics of different labour market configurations, as well as how these have evolved in recent years. This provides the necessary background information against which the impact of the EES (ideational, institutional, policy) will be assessed.

Table 1: Employment rates and ratio of Active:passive expenditure on LMP in the EU-15

Welfare State configuration/country	Employment rate 2000	Employment rate 2005	Active:Passive Expenditure on LMP 2000	Active:Passive Expenditure on LMP 2005
Social Democratic Welfare State				
Denmark	76,2%	71,9%	0,70	0,58
Sweden	74%	72,5%	1,13	0,92
Finland	61,8%	63,1%	0,36	0,37
Anglo-Saxon Welfare State				
United Kingdom			0,13	0,30
Ireland			0,98	0,58
Conservative Welfare State				
Austria			0,33	0,30
Belgium			0,17	0,46
France			0,74	0,42
Germany			0,52	0,27
Luxembourg			0,42	0,62
The Netherlands			0,53	0,42

Mediterranean Rim Welfare State				
Greece			0,60	0,14
Spain			0,49	0,40
Italy			0,91	0,58
Portugal			0,43	0,40

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A. The Nordic Model

In the Nordic model the welfare state is universal, in the sense that it aims to provide a high level of quality services and benefits for all citizens, independently of their status on the labour market. The countries that are part of the Nordic Welfare State model have a high rate of labour market participation. The welfare state model was built upon the expectation that all citizens of working age would be in employment, and if they were temporarily excluded from the labour market, then the PES would play an important role in educating and up-skilling them and in reintegrating them into the labour market via active labour market policies. It is also relevant to note that these countries also have a comparatively high level of passive expenditure. For Sweden, Denmark and Finland, the EES has meant little new on the ideational level. However, all three countries have repeatedly received recommendations that gender segregation together with major wage gaps represent a major structural problem. No initiatives have derived from the EES in these countries to respond to this problem (interviews, add ref). Sweden has received a recommendation pointing to the fact that it is not very successful in integrating immigrants into the labour market. In Sweden, activation has been maintained, but in less costly forms. In Denmark, activation has decreased only slightly and there has been an increase in expenditure on passive labour market policies, which is the opposite of what the EES prescribes. What is similar in the reform of labour market policies in Denmark and Sweden is that there is more targeting of activation on specific groups, particularly immigrants and the disabled (an important aim of the EES activation objectives). The core reform dynamic that has been driven by government programmes – in Sweden aiming to cut costs and in Denmark aiming to preserve both the active and passive components of the welfare state – has been carried out successfully. These reform programmes were designed on the basis of electoral pledges and short-term preference driven action of powerful domestic actors, as well as a highly developed policy legacy (developed in the 1970s) of labour market policies in both countries. In Sweden the EES has been used by actors at lower levels of government to increase their power, and social partners have used it to resolve conflict (Jacobsson, 2005). In Denmark, likewise, the EES has led to some institutional reform, where governmental actors use the EES as a political opportunity structure (Poulsen, 2009; Kvist, 2007).

Of the three countries, Finland was the country that was the worst hit by the economic crisis in the 1990s. Policies to increase growth, to decrease unemployment and to increase the employment rate were major cornerstones in the programmes of the governments which have been in office since then (the Lipponen government 1, from 1996 to 1999 and the Lipponen government 2 from 1999 to 2003, and the Vanhanen government from 2003-2007). Concerning more specific policies, Finland has focused on integrating particular groups in the labour market (older workers, for which it has received successive Council recommendations and the long-term unemployed; younger workers; the long-term unemployed) (van gerven, 2008: 178-179; saari, 2005). This has also entailed reform of the pension system, to extend working lives and decrease the overall replacement rate and the unemployment insurance has also been reformed. In addition to that, major steps were taken to shift expenditure from passive dependency to activation as Finland has a very high structural unemployment rate. As part of these reforms, the Public Employment Service (PES) was modernised in 1998, in order to improve the employment service via job-seeking plans of

the interviewees, to increase the obligations of the unemployed (activation), to balance rights and obligations of the unemployed. All these reforms are in line with the aims of the EES, but the reform was located in a much broader reform of employment services in Finland, that started during the 1980s and where the aim was to decentralize the PES (municipal). In the 1990s, the reform aimed at further strengthening the regional level, and making the services attractive to clients (i.e. extended use of internet and individual career paths). In that sense, the modernisation goes beyond the general guidelines in the EES and was clearly not incited by the EES. However, the EES and its policy priorities have incrementally been institutionalised in Finland, where governmental actors analyse how it can be used effectively to implement reform. After the revision of the EES in 2005, where the development of flexibility combined with security for the workers was prioritized, a governmental working group was set up around this particular issue and to assess its adaptability to the Finnish context. Social partners in Finland have not used the EES as an opportunity structure as they have other means to influence the domestic agenda. In the countries from the Nordic welfare state configuration, then, the EES has not led to major changes. It supports the main logic of the existing systems, but the governments in the Nordic welfare states are increasingly recommodifying their systems, due to domestic reforms. Where structural issues – gender segregation, wage gap – are addressed through the EES, the recommendations do not percolate to any major reforms. The EES, then, has had a weak discursive effect, little or no policy change. However, it has been used, in some cases, as leverage for policy development by governmental actors at different levels of government, and to resolve (a domestic) conflict. The main value of the EES for this group of countries is as leverage in the process of bargaining policy priorities.

B. Anglo-Saxon

In the United Kingdom, the system related to employment and labour market policies was inspired by Beveridge in the post-WWII period. The system mainly focused on health care and education, in order to develop an able workforce. The aim from the outset was to have a high overall employment rate. Thus, the concept of activity on the labour market was built into the system, albeit with a less comprehensive system of social protection than the Nordic countries. The Irish welfare state model has been a late-comer to the Anglo-Saxon model, although female labour market participation has until the 1980s been lower than in the UK. Since the 1980s, the Irish model has a particular feature – the involvement of civil society actors in the development of the policy agenda and implementation of policy

The ideational change UK

Policy change

Paradigmatic change?

C. Conservative.

Ideational change

Policy change

Paradigmatic change?

D. Mediterranean Rim.

E. Overall assessment: the EES in the EU-15

The evidence about the influence of the EES suggests that policy legacies and major domestic reform programmes determined employment and labour market policies, where most countries implemented policies that resulted in re-commodification. Employment policies have been at the top of the reform

agendas in Member States during the period when the EES was implemented, and the evidence suggests that activation as conceived in the EES was not influential, but that the final aim of the EES – to reach full employment, has been embraced (only in some cases marginally to do with the EES itself). It has been used in some cases to extend key notions of (full) employment and/or activation, but it has only marginally been used as a resource through which to develop comprehensive reform programmes. Our analysis has shown that it is because policy legacies are the basis on which the reform agendas are built and because governments are under pressure to curb public expenditure. Where economic crises were not so acute, then reforms in labour market and employment policy have been incremental. In countries that had acute crises – the Netherlands, Finland, Ireland, Spain – reform programmes were more comprehensive, affecting labour market policy (recommodification) and employment rates (major increases). Unemployment insurance has been reformed in most member states, increasing conditionality, decreasing the replacement rate, and decreasing the length of reception of benefit. ‘Activation’ schemes are hardly comprehensive and individually tailored, but are instead workfarist, which was not the intention of the EES. The UK has received recommendations about the excessive workfarism of its schemes, without any action to respond to that, but instead a response by the UK government to the Commission. The EES as a social investment strategy has variably been embraced by the EU-15, but when sensitive issues are brought forward in the recommendations, these are not addressed unless there is political consensus on this. However, the normative full employment model (and shifts to ‘activation’) that the EES embodies has become a reference point in the domestic debates on employment policy, even if the EES did not bring about that debate. The goodness of fit can not sufficiently account for which countries implemented change and which did not. Where substantive change has occurred to the EES, it is because policy entrepreneurs used it to advocate, to develop or to implement policy reform. Aside from the role of policy entrepreneurs, the most significant impact of the EES has been to strengthen (especially governmental) actors involved in the EES (in the EU policy community and in the domestic policy-making context). For all countries, but especially those with weak institutional structures, the ESF has been an important contributor to development of regional competitiveness. But variable effectiveness.

IV. New Member States: Labour market challenges and achievements of the EES

The Communist system left an important institutional heritage in labour market policies and institutions in the CEE in their transition to democratic capitalism. Under communism, the countries were officially full employment societies, with no unemployment problems (eg. Aidukaite 2006). The systems were paternalist and all individuals had rights to comprehensive social protection (education, health care, housing) via their job status (Offe 2009). The post-1989 development has involved (sometimes very extensive) re-calibration of the former social and labour market policies and institutions, driven by the new elites in these countries, but in a context where external actors, including international organisations and the European Union (EU), have had an important impact on institutional change and policy development (Offe 2009; Ornestein 2008). The World Bank (WB) and other international organisations have been effective in directing pension reform in the CEE, promoting liberal policies based on individually funded solutions (World Bank 1994; Deacon *et al.* 1997; Deacon 2007). Ornestein (2008) argues that it was due to liberal pre-disposition in the CEE during the 1990s, that the WB and other international actors were able to persuade many of the CEE to adopt liberal policy solutions (Ornestein 2008). Ornestein (2008: 911) also claims that the governments in the CEE wanted to “out-liberalise” the EU and to become policy leaders in economic liberalisation.

The EU has been influential in the CEE through membership conditionality (Grabbe 2006) across a wide array of policy areas governed by the hard *acquis communautaire*, including the development of the Single Market. Strikingly, the new member states show a better track-record than the old member states in compliance with EU law (Sedelmeier 2008). Apart from the strong accession conditionality this has been explained by the fact that the political and economic transition reduced institutional inertia and increased openness for external influences (Schimmelfennig & Sedelmeier 2005). On the other hand, compliance with

convergence criteria of the Maastricht Treaty for full membership of the Economic and Monetary Union (EMU) has been partial and is still lagging behind (Johnson 2008).

Against this background, we analyse the influence of the EES in new member states, which has up to now been given little scholarly attention (Jacobsson & West 2009; Jacobsson & West 2010; Mailand 2009; de la Porte, 2009; Fun 2009) but is in our view key in assessing the prospect of a social investment strategy in the EU. If we begin with the tip of the ice-berg, what are the trends in employment rates in the new member states? Overall, the increases of employment rates themselves are not the major challenge, as there were high levels of labour market participation under communism (Interview Commission official 1 (to check), July 2009). Table 2 below provides an overview of the evolution of employment rates in the CEE countries since 2000, as well as the national targets which have been set in the most recent national reports.

To add the ratio of active to passive expenditure

Table 2: Labour market participation in the new member states and national targets

	2000 (%)	2005 (%)	2007 (%)	Per cent Δ	National target % (2010)
Bulgaria	50,4	55,8	61,7	10,3	61 (2009)
Czech Republic	65	64,8	66,1	1,1	66,4 (2008)
Estonia	60,4	64,4	69,4	9,0	70,0
Latvia	57,7	63,3	68,3	10,6	67,0
Lithuania	59,1	62,6	64,9	5,8	68,8
Hungary	56,3	56,9	57,3	1,0	58,7
Poland	55,0	52,8	57,0	2,0	-
Romania	63,0	57,6	58,8	- 4,2	63,0
Slovenia	62,8	66,0	67,8	5,0	67,0 (2008)
Slovakia	56,8	57,7	60,7	3,9	62,7 (2011)

Source: European Commission, 2008

Per cent Δ : Change in per cent of employment rates between 2000 and 2007

In 2000 all countries had employment rates above 50%, which is due to the fact that there were high employment rates in these countries prior to EU membership. But still, the initial employment rates (2000) and the degree of change between 2000 and 2007 among the CEE member states varies considerably. In Bulgaria, Estonia and Latvia, there has been an increase in employment rates of approximately 10 per cent. In Bulgaria, this can partially be explained as it was the country with the lowest initial employment rate, while in Estonia and Latvia, it can be explained by the successful transition to a market economy. In Lithuania, Slovenia and Slovakia, the increases have been more moderate, while in the Czech Republic, Hungary and Poland the increases have been minimal. In the case of the Czech Republic, this is because the initial employment rate in 2000 was the highest among the CEE. In Hungary and Poland, the minimal increases are due to major economic and structural problems that were faced in the transition to market economies. Overall, the variations are due first, to diverging starting points in terms of institutional configurations, where more substantial changes are likely in countries with lower employment rates. Secondly, outcome in employment rates is strongly affected by economic changes and third, to public policy approaches by the governments, which may include support of policy decisions within the Lisbon strategy. In terms of outcome, the new CEE member states converge towards a full employment model, but since it is a very general outcome indicator, mainly reflecting economic growth, the contribution of the Lisbon strategy to changes in employment rates is difficult to assess. Nevertheless, the employment rates serve as a policy frame for the national administrations, most of which have set national targets for labour market participation in their national reports. As can be seen from table 1 above, the national targets have

in some cases already been reached (Bulgaria, Latvia and Slovenia), while in others enormous policy efforts would be required, rendering the targets virtually obsolete (Lithuania, Romania). Some countries set targets that seemed realistic, which would imply considerable policy effort, together with forecasts for positive economic growth (Czech Republic, Estonia, Hungary, Slovakia). The variation among the countries with regard to setting national targets is but one marker of the varied degree of commitment among the CEE to the Lisbon strategy.

While economic growth and employment rates have increased in the CEE member states, this has been accompanied by higher income inequalities (greater per capita GDP gap), lower share of income in GDP, and persistently high poverty rates (employment committee, 2009; Mourre, 2009). The main problem is that the structural features of employment and labour market institutions, as well as educational and child-care institutions which support them, are rudimentary or inadequate compared to most of the EU-15. As a complement to the statistical analyses, which serve mainly to highlight outcome, rather than policy development, the policy recommendations and on-going dialogue between Commission experts and the new member states point to more precise policy “solutions” for the different member states. Table XX below summarizes the content of the employment policy recommendations of the Lisbon strategy and indicates the “tone” of the Commission recommendation, which can be “positive”, “medium” and “critical”. A positive assessment points only to one to two specific measures that should be initiated or pursued within a broader reform agenda; a medium assessment implies that major reforms should be initiated in three to four areas; a critical assessment implies that substantive reform should be initiated in five to six policy areas.

Table xxx: Employment policy recommendations for the new member states (2008-2011)

Country	Tone	Content of employment policy recommendation
Bulgaria	Critical	increase the quality of the labour supply and the employment rate by improving ALMP, by modernising education and by combating early school leaving to raise skills that match the labour market needs
Czech Republic	Medium	Modernise employment protection, improve education and training and invest in training for older workers and the low-skilled
Estonia	Positive	Speed up the implementation of the new labour law package and increase the efficiency of the public employment services, in particular ALMP aimed at facilitating labour market transition
Latvia	Critical	Intensify efforts to increase labour supply and productivity by strengthening activation measures, by enhancing the responsiveness of education and training systems to labour market needs and by implementing a coherent Lifelong-learning strategy.
Lithuania	Medium	Intensify efforts to reform education and training systems to ensure their quality and relevance to the labour market needs and promote lifelong learning, especially for older workers
Hungary	Critical	Strengthen and better target ALMP to improve the labour market situation, especially of disadvantaged groups and geographical areas; continue improvement of skills levels and increase adult participation in lifelong learning; improve responsiveness of education and training systems to labour market needs and ensure access to high quality education and training for all
Poland	Critical	Implement active ageing strategy, improve ALMP, especially for disadvantaged groups, review benefit systems to improve incentives to work and putting in place the lifelong learning strategy
Romania	Intense	Improve the quality and relevance of education and training systems, including lifelong learning, reduce early school leaving and facilitate the transition of young people into employment, including through work-based training
Slovenia	Positive	Counter labour market segmentation by reviewing employment protection for permanent contracts and conditions for student work
Slovakia	Medium	Make progress in the implementation of the lifelong learning strategy and continue the reform of education and training system to address skills mismatch, develop and active ageing strategy and enhance access to employment for the long-term unemployed and disadvantaged groups

The recommendations highlight policy solutions to the gaps in the achievement of the Lisbon strategy. They are presented in a rather soft way, however, which decreases their potential for impact. As expressed by a Commission official, “[in] a sense, recommendations can be considered to set priorities for each member state...The instruments do not focus on economic or other policy issues in neutral ground, but involve political actors. From a political perspective, it is not possible to issue 8 to 9 recommendations for Bulgaria, Poland or other new member states and then to issue fewer recommendations to some of the more successful old member states. The governments simply would not accept that. That is why we have a few broad-ranging recommendations within which there may be some sub-recommendations” (Interview Commission official 3, August 2009). Regarding the content of these recommendations, first, they broadly confirm the main policy challenge highlighted by the Commission for the new member states, which is the need to improve the productivity of the labour force. Indeed, seven out of ten CEE received recommendations to improve their education and training systems and/or life-long learning, which has been identified by the EU as the main instrument with which to address low labour productivity. Worker

skills are often outdated, partly because vocational education systems are in need of reform, resulting in a mismatch between labor supply and demand. The low level of entrepreneurship and individual initiative, particularly among older workers, is also a problem. Investments in high quality education and vocational training are needed. It is expected that an investment in human resources would effectively create a labour force that is responsive to the needs of the market. Second, all recommendations contain policy advice to “activate” one or more groups in the active population – older workers and/or youth, and/or the long-term unemployed and disadvantaged groups. The risk is that other dimensions which require considerable investments, such as the creation of affordable child care institutions to be able to reconcile work and family life, may be underemphasised. Third, regarding flexicurity, which has been a major policy issue since 2005, some countries have received recommendations to improve labour law and or employment security for the workers. An interviewed Commission official found the Lisbon paradigm less appropriate for the new MS: ‘The (Lisbon) paradigm is made for mature economies and well functioning systems with strong institutions, but with major structural rigidities in the system’ (interview, 2009). That is, while the EU-15 is expected to enhance flexibility by addressing structural rigidities, the challenge for the EU-12 is to improve security to reach a security-flexibility balance.

Overall, the national reports reveal that there is a change in discourse, in that the new member states recognize the need to invest in human resources. However, our interviews suggest that this is merely symbolic, as the EES is not considered a genuine reform agenda. Most countries in the EU-12 have embraced flexicurity, but emphasizing flexibility rather than security. At least, the EES has, particularly through the recommendations, led to an increased focus on active labour market policies; reform of vocational education and systems of lifelong learning; as well as moves to decentralize at least some elements of employment policy making.

In most CEE, the EU has (co-)funded and supported the modernization of the public employment services (PES). Actually, the PES has been developed in most of the new member states since the early 1990s to cover significant parts of the population for placement. In the Czech Republic, the PES has been established as the key agent in the management of unemployment vacancies, the monitoring of compliance of employers with employment legislation and activation. Regarding unemployment vacancies, employers are required to notify job vacancies to the PES, and since 2006, employers can be fined if they fail to comply with this requirement (0.5 million CZK – 19,369.77 euros). Indeed, the role of the PES has developed considerably following EU membership, which the EU, sees as a positive development. Furthermore, in line with EU anti-discriminatory legislation, employers are required to indicate whether the job is suitable for school leavers or people with disabilities. In addition, if requested by a labour office, employers should identify vacancies suitable for disadvantaged jobseekers. In this sense, all jobs are announced in the PES. The role of the PES in placement, however, has been decreasing over time. Concerning activation, there has been a change from virtually no systematic planning about how to organise and to implement activation schemes in 2002, to detailed yearly planning about how to target ALMP in 2007. The planning component is implemented at municipal level and is part of a general policy of evaluating performance of the individual labour offices according to their activities, including how they fare in activation and how successful they are in the management of the ESF. The ESF has made a significant contribution to the development of services by the PES: almost 80% of the ESF Funds earmarked for skills improvement were used by the PES for this purpose (Kaluzna 2008: 20). The ESF has especially been used for the development and implementation of counselling services to advise jobseekers in their search for employment. In its National reform programme, the Czech Republic notes that some initiatives have been developed, notably a programme to activate older people and to integrate Roma on the labour market (National Reform Programme of the Czech Republic 2008). However, the EU has stated that ALMP are still small scale and not sufficiently targeted towards disadvantaged groups (European Commission 2009). Indeed, the overall expenditure on employment services (running the PES and activation measures) is still low, and has not increased

substantially over time (de la Porte, 2009). Unemployment benefits – amount decreased, conditionality increased: workfarism. Such policies implemented on the basis of short-term political priorities.

While candidate countries, there was a chronic underfunding of labour market programs, which was been a priority of policy-makers. Public resources to spend have been – and still are – limited. Access to the ESF and other EU funds has been a watershed for the new member states, and has increased the amount spent on active labour market policy. Nevertheless the active spending is still very low in many countries (TO COMPLETE WITH EUROSTAT DATA). It is due to the ESF that at least some of the new MS, such as the Visegrad countries and the Baltic States, have introduced active spending at all, but still these states are not very willing or able to go beyond what is needed to co-finance the ESF means. The new MS are characterized by very low levels of social expenditure (average for the EU-12 compared to average EU-15?), and they are under pressure to meet the convergence criteria of the Stability and Growth Pact (Johnson, 2008). Very low benefit levels of unemployment benefits discourage individuals from registering at public employment offices, contributing to the persistence of a shadow economy, which in turn reduces state revenues, which in turns make it hard to increase social spending, i.e. a vicious circle.

Moreover, in the new member states the EES has to be implemented in a very different context than in the EU-15, where much of the 'infrastructure' that the EES somehow presumes is weak. However, the impact of the EES in the new member states is visible at the level of public administration. Especially the prospect of full membership, and with it the opportunity of funding through the ESF, provided with the motivation to build-up the institutional capacity necessary to implement the EES (Jacobsson & West 2010). Although struggling with lack of experience in the policy field, under-staffing, staff retention etc, administrative competence has gradually been built-up. There is, as a consequence of the EES, an increased emphasis on monitoring, policy evaluation, and implementation, including the use of indicators and targets. Although there have been programs against unemployment since mid-1990s in for instance the Baltic states, Poland, Hungary and the Czech Republic these were mostly declarations of intent, with measures poorly developed and underfinanced (Jacobsson & West 2009; Mailand 2009). Decisions were often based on political priorities, with little focus on implementation and follow-up.

However, when comparing with the EU-15, governments from new member states mostly appoint members that know many languages, but who are often younger and not such experienced experts. The delegates of new member states thus mainly have an important role to provide information about the EU level deliberations to their ministries, and indeed, they tend to respond more positively to the policies deriving from the OMC but without necessarily following through on them. One of the problems is still that there is a high turnover among the representatives of new member states, due to lack of resources within the new member states (Horvath, 2008). Moreover, the NAPs/NRPs mostly do not play a strategic role in policy-making nationally but are reports for an international audience produced by a few civil servants (see eg. Jacobsson & West 2009, 2010; Mailand). Inter-ministerial coordination in the new MS generally seem more superficial than real (REF interview, Commission official). In addition, coordination between NAPs/NRPS and budgetary allocations is limited. These problems, however, have been pointed out in research on the EU-15 as well.

Another constraining factor for the EES to have an impact in the new MS is the centralized structure of policy-making in many of those countries. Municipalities and local authorities, which are strategic actors in the work against unemployment and social exclusion, are little involved in implementing the EES and are not well equipped for the task. The build-up of administrative competence has mainly been done at the central level although there have also been initiatives to increase local administrative capacity, no least in

order to prepare local agencies for ESF funding. In general, local authorities lack time and necessary resources to participate actively in the EES. Most efforts are focused on day-to-day tasks (including basic education, social services, primary health care, housing, utilities such as water supply and sewage, public transport, and road maintenance). As a consequence, vertical coordination in relation to the EES is very limited. There are examples, though, of the production of local and regional employment plans.

Moreover, a major problem is the weakness of industrial relations. In the pre-accession period, in collaboration with trade unions from the West and with the support from Phare, there were efforts to strengthen structures for social partnerships in CEEs. These efforts have been encouraged further since full membership to the EU. While the legislative framework and tripartite structures for social dialogue are in place, the social partners' weak organizational capabilities are a factor constraining the development of real social dialogue. In particular, bi-partite dialogue is very weak. Social dialogue is particularly weak on sectoral and workplace levels. The trade unions lack the ability to actively negotiate, both due to lack of resources and to the fact that they represent a minority of workers, partly due to the illegitimacy of the trade unions from the state socialist time. For instance, the level of trade union membership in the Baltic States is 10-15% of workers and collective bargains cover at best half the workforce. In the Czech republic, the development of wage structures and wage-setting, social partners are very weak. Collective bargains apply to half the total number of employees. Furthermore, obligatory sectoral and regional tariff agreements are absent (National Reform Programme of the Czech Republic 2008). It is notable that the social partners in the Czech Republic did not approve of the National Reform Programme that outlines economic and employment policy, because worker security was not addressed (National Reform Programme of the Czech Republic 2008). Employers practise independent wage policy within the framework of existing legal regulations. The EU model calls for EU social partner involvement, but no country specific recommendations have been made to the new member states on this point. The social partners in the new member states are weak and hardly 'fit' or likely to play an active role in implementing the EES agenda, for instance concerning lifelong learning/vocational training (Woolfson 2008). The general imbalance of power between trade unions and employers in the new member states just adds to this. Moreover, the social partners have other priorities than being engaged in the EES. The trade unions are mainly concerned with salaries. The employers tend to have a short-term perspective or feel that their interests are already taken care of by the governments. Contrary to the EU-15, the social partners in the new member states have mostly not used the EES as a bargaining chip to gain more say in labour market affairs. All in all, social partner commitment to and involvement in the EES has been weak and superficial, and the EU does not seem determined to change this. Our interviews in the Commission reveal that the European Commission has not monitored the involvement of social partners in the CEEs 'so closely'. When it comes to social partnership, 'the Commission is quite helpless' (interviews, 2009), and does not prioritize their further involvement.

Moreover, the political context in which a social investment strategy would be implemented differ too as compared to EU-15. Political parties in many of the new member states represent a different cleavage structure than parties in Western Europe, and are not as likely to actively pursue the social investment agenda (i.e. are organized around other dimensions than class and the left-right distinction, such as rural-urban, religious-secular, nationalism-internationalism, i.e. the ethnic cleavage.) It is hard to fulfill European objectives if domestic actors are not prepared to make active use of the European strategy in the national context. Woolfson (2006) points to a lack of policy 'reform fit' between a 'European social model' and the domestic agendas dominated by 'business friendly' free market considerations in many of the new member states. He draws the conclusion that even the support for health and safety and a good working environment among political elites is limited. Moreover, the challenges are in some areas overwhelming.

The new member states for instance suffer from poor working conditions, low wages, regional disparities (between urban and rural areas) and income inequalities.

All in all, the model inherent in the EES, where social partners and also local authorities are expected to play an important role in implementation, does not fit well with the situation in the new member states, due to the weakness of the social partners and the lack of resources at the local level. Add to this political elites that do not prioritize 'social investments', or feel the need to handle short-term issues rather than making long-term investments. As candidate countries the membership conditionality guaranteed some attention given to implementing the social *acquis*. This pressure is no longer there. Given the low political support and the weakness of industrial relations, pressure from the EU, coupled with financial incentives, is probably necessary for any substantive change to come about. With the financial crisis of 2008-9, there are reverse tendencies with cuts in social spending, for most of the new member states. This has even been encouraged and in some cases actively supported by IMF and foreign governments. Market-making is the core priority of governments in the new member states, and this is typically what is pulled out of the EES. However, the ESF has contributed to social investment in the EES, but the development of human resources and the reform of education and training systems on which this is hinged remains a major challenge.

Conclusion

In this paper we have sought to analyse the 'Europeanization' effect of the EES as a social investment strategy in the EU-27. Our analysis has shown that in all member states, it is first and foremost institutional legacies, creating particular constellations of reform challenges, and the predominance of economic and financial ministers over social affairs and labour ministers at EU and national levels, which shape economic and employment reform programmes. As we have shown, reform challenges differ between (and within) the EU-15 and the EU-12, as does the economic and political context in which reform is to be implemented. While the main challenge for EU-15 is to de-regulate very inflexible labor markets where trade unions are strong veto players, the main challenge for EU-12 is to improve the security of workers and citizens, to develop protection against the market-making which is well underway in these countries, with no strong trade unions as veto players. In terms of policy discourse, the full employment model as developed in the EES has been embraced by all Member States. It mirrors, but hardly contributes to the variations of 'new' political ideologies within the Member States, from the Third Way in the UK to active liberalism in many countries, particularly the new member states. However, in terms of reform outcome, activation policies and complementary reform of unemployment insurance systems have clearly contributed to recommodification in the EU-15 and the EU-12. Public employment services have been developed and decentralised, organising the vacancy announcements, training and upskilling as well as rights to benefits in periods of unemployment for most member states. While the institutional fit with the PES model in the EES is comprehensive, the quality of activation services (and benefit levels) does not live up to the social investment approach inherent to the EES, particularly for the new member states. Policies targeted at particular groups have been developed in order to increase the employment rate overall. But, the reform of education, activation and training institutions, which is costly, but a key to sustainable and competitive economies for the future, has not been deep. Furthermore, conditionality has increased and benefit levels (of unemployment insurance) have decreased, ultimately decreasing the security level of individual citizens. Ultimately, the human resources strategy is not linked to the needs of the labour market, particularly for the new member states, where dual labour markets persist.

Concerning institutional integration of the EES, i.e. use of the EES as a strategic resource by actors in government and social partners, there have been very different outcomes for the old and new member states. It is a pre-condition for the genuine leverage that the EES policy priorities can have in any given Member State. In the EU-15, policy coordination (horizontal policy coordination among various

governmental departments, but also vertical policy coordination) has been enhanced incrementally, with many examples of how it has been used for agenda-setting, policy prioritization and bargaining. Where the EES has genuinely set the policy agenda or led to reform, it is because policy entrepreneurs were able to use it as a political opportunity structure. There is evidence for this in various member states. However, where actors are weaker, and resources are scarce, in the new member states, then this effect is at best partial. In most cases, the EES is not considered as a strategic resource by actors which themselves are weak. Social partners have been identified as key players for effective impact of the EES. However, in the EU-15, they typically have other institutionalized means to influence the political agenda, while in the EU-12 they are simply too weak. Even if they disagree with the NAP or NRP, policy is adopted by government. The social partners, in other words, can (unfortunately) not act as real veto players.

There is clear evidence that the availability of co-funding for implementing reform objectives does contribute to the implementation of social investment, especially in the new Member States where resources are scarce. The ESF, then, should be used strategically to be implemented in the East and the South, to meet Lisbon targets, particularly reform in education and training systems, but also the development of child-care institutions, a pre-condition for the long-term integration of women on the labour market. The current crisis may also cast doubt that governments really see social spending as productive, relative to other investments. This is the key challenge for the Lisbon strategy.

Moreover, there are a number of inherent tensions and ambiguities in the OMC approach. 1) A tension between the OMC as a trans-governmental process, with governments as the relevant actors and gate-keepers in relation to other interests, *and* the OMC as a wider mobilization process. 2) A tension between employment and social policy as a matter of national concern *and* the perceived need to develop a joint and coordinated strategy. 3) A tension between market-making (deregulation) vs social investment, and between competitiveness-enhancing actions vs social rights. (While the market can provide chances it does not guarantee effective opportunities or rights.) 4) A tension between a top-down type of learning *and* a voluntary lesson-drawing type of learning, and the related tension between the striving for convergence vs acknowledgement of diversity and an acceptance of national differences and priorities (this is sometimes framed as decontextualised vs contextualised learning). 5) A tension between the OMC as a technocratic top-down strategy, where policy is made at European level and supposed to be implemented by actors in the member states *and* the OMC as a process of political opinion-formation, where support must be built up from within the member states. Related to this is the role of other actors: constructive contributors to, or mere implementers of, EU policy? National competence as well as the autonomy of the social partners, and sometimes autonomy of local and regional levels of governance, set limits for a top-down strategy. The OMC cannot force but have to mobilize domestic actors.

Annex 1: Features of EU employment policy frame and institutional structure of EU's Lisbon strategy defined in 2005

Dimension of the employment policy frame	Content of the employment policy frame
Problem perception	Low economic growth, Low employment rates, high unemployment rates
Policy solution	To Achieve "full employment"; To improve quality and productivity at work; to strengthen social and territorial cohesion
Supportive policy solution	To promote a life-cycle approach to work; to ensure inclusive labour markets; to improve the matching of labour market needs; to ensure employment-friendly labour cost developments and wage-setting mechanisms; to expand and improve investment in human capital; to adapt education and training systems in response to new competence requirements; to promote "flexicurity" (flexibility and employment security)
Overall Outcome benchmark	Overall employment rates 70%, female employment rate 60%, older worker employment rate 50%
Supportive policy benchmarks	To provide every unemployed person a job, training or other employability measure within 4 months for young people and 12 months for adults; to activate 25% of the long-term unemployed by 2010; to postpone the exit age of the labour force by an average 5 years by 2010 compared to 2001; to secure coverage of childcare for at least 90% of children between 3 years old and the mandatory school age and at least 33% of children under the age of 3 years by 2010; to have an EU average rate of no more than 10% of early school leavers; to ensure that at least 85% of 22 year olds in the EU should have completed upper secondary education by 2010; to obtain 12,5% of the adult working population in lifelong learning schemes (Employment Committee, 2009).
Institutional structure: EU level	EU Council setting main policy direction, sectoral council formations and committees setting specific policy aims; "desk-officers" work with national civil servants to focus on national policy priorities within EU employment policy framework
EU Instruments	Policy coordination, funding programmes (esp. Community action programme and structural funds), legislation, partnership between EU institutions and member states
Institutional structure: national level	civil servants in employment, social and labour market ministries to report national policy to EU level and to include EU policy in national planning; National Lisbon coordinator to ensure integration of EU policy aims in national policy;

Source: European Commission, 2005; European Commission, 2007a