

DYNAMO

Dynamics of national employment models

**Final Report No. 2:
The Influence of the EU on the Evolution of
National Employment Models**



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Project description

The institutional arrangements of today's capitalist societies differ quite considerably from each other. The expectation of difference applies especially to employment systems, in which it is human labour that is exchanged. Employment contracts are necessarily incomplete contracts, since the actual output required is constantly subject to new decisions after the contract has been concluded. To limit uncertainty, institutions, both formal and informal, influence not only the contractual conditions but also the rights of employees or their representatives to codetermination with regard to working conditions and the organisation of the work process. These inherently political and historical compromises inevitably give rise to varieties of employment arrangements and conditions. However, the sources of differences in the employment relationship extend beyond the industrial relations and production systems to include the societal institutions that produce and reproduce labour itself, the family and the education, training and social security systems.

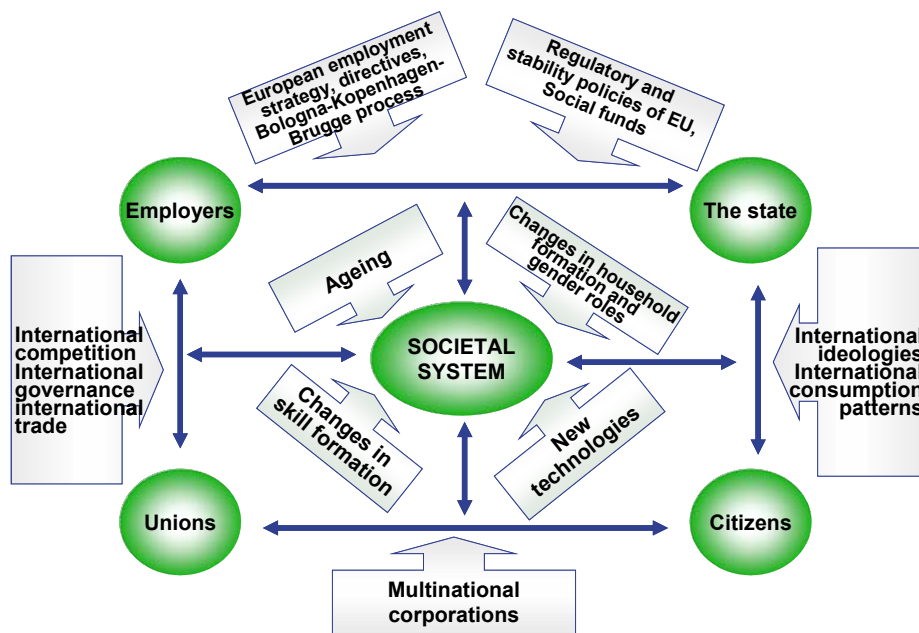
This multiplicity of institutions influencing the supply, utilisation and demand for labour in a given country constitute what we call *national employment models*. In contrast to the way it is frequently used in public debate, the term "model" as used in the context of the present project and report denotes neither a role model nor an ideal type. Rather, following Ebbinghaus (1999: 3), we use this term here "as a shorthand for the way in which specific combinations of institutions and social practices govern market society relations" in a particular national context.

From an institutionalist perspective there is no a priori reason to expect growth and productivity to be hindered by those employment systems that involve both relatively strong employee protection and welfare systems. Social conciliation can be potentially productive as well as beneficial in its own terms. In Europe such arrangements are often called the European social model but are better referred to as European social *models*. For much of the post-war period there has been a shared view in much of Europe that within the constraints of capitalism there is still scope for the development and maintenance of a public space and for the protection of employees' and citizens' rights and it is these shared beliefs that are the basis for the European social models (Wickham 2005). National employment models as understood by the present authors, i.e. the universe of interlocking institutions influencing the supply, utilisation and demand for labour in a given country, are to be considered as core institutions of

the respective social models. Both these institutions and the beliefs that underpinned their formation are now under challenge from both within and outside the nation states and the European Community.

Pressure to change stems from increased globalisation, the development of new technologies, new forms of governance, and the dominance of the service economy, all of which are said to be undermining the comparative advantages of distinctive national models that have their origin in outmoded or nationally specific production models. These challenges to established models coincide with internal pressures to reform welfare and employment regimes in line with long-term changes in demography and social attitudes, manifest in both the ageing and feminisation of the economically active population. These pressures to change are being articulated not only at the national level by national actors but also through the various policies of the European Union and other supranational organizations. The most significant pressures for change, and the policy areas in which they are articulated, are illustrated in Figure 1.1.

Figure 1.1: Pressures for change on EU National Employment Models



Source: own representation after Rubery/Grimshaw (2003: 47)

The pressure for change is emanating simultaneously from within and from without. However, the dividing line cannot be precisely drawn. It is not only that public discourse has become more international or that international consumption patterns and earnings expectations may replace or be superimposed on to national patterns and

expectations, but that the elites, who until now were closely associated with the well-being of nation states, have exit options (such as changing their place of residence or sending their children to private or foreign schools and universities), which might weaken internal cohesion. Furthermore, the decision-making bodies of international actors such as the OECD, the WTO or the European Commission consist largely of national actors and many decisions at national level are influenced by international demands. In particular, new configurations of actors are emerging. National actors can attempt, for example, to negotiate at international level arrangements that are binding on their country, thereby freeing themselves of the need to seek compromises at national level. The internationalisation of public discourse has become closely interlocked with a widely-shared belief in the superiority of market-led solutions, which has trickled into the strategies of national and international actors who have to take on various pressures for change depicted in the graph. In fact, as Streeck and Thelen (2005: 2) suggest, most observers take the view that there has been a “secular expansion of market relations inside and across the borders of national political-economic systems” which makes it justifiable “to characterize the prevailing trend in the advanced economies during the last two decades of the twentieth century and beyond as a broad process of *liberalization*.”

It is in this context that the present report takes as its theme the dynamics of national employment models in Europe. Our objective has not primarily been to analyse how employment models differ across countries. Rather it is the question of whether or not, and in what respects, they have continued to differ over the past few decades and possibly will continue to do so in the future that has been at the centre of the DYNAMO project. If there is actually something like a “broad process of liberalization” in Europe, it may indicate that national employment models are seized by a process of convergence towards an increasingly market-led way of organising the supply, demand and utilisation of labour. In fact, the question of whether such a process of convergence is actually taking place at all or whether national distinctiveness continues to be reproduced or renewed may be regarded as crucial for the future of a distinctive European social model, or as we would prefer to phrase it, of the different social models in Europe that contribute to the EU’s distinctiveness relative to other regions in the world.

For the sake of clarity and as noted briefly already, we differentiate ourselves from the widespread understanding of “models” as *role* models. Not only national but also European and international actors have developed an increasing interest in the sharing of examples of both good and bad experiences across national boundaries. As a result, awareness of the various national employment models and the scope they offer for dynamic and flexible development has increased considerably in recent years. However, the process of learning from so-called best practice often relies on very partial analyses of both performance and of the need for the development of complementary institutions.¹

The ambiguous use of the term “model” is reflected in the ups and downs of “models” in both political and academic debates. Wolf’s statement (1996, as quoted by Coates 2000: 233) that whenever they “embrace a particular exemplar, it turns out to be on the verge of collapse” applies to both right and left. Fulcher (2005: 190) notes that “model status can change rapidly as economic fortunes and international judgements shift”. He refers to the examples of Japan, which “went from model in the 1980s to basket-case in the 1990s”, and to the USA that “went from competitive failure in the 1980s to become the model of shareholder capitalism in the 1990s but now, post-Enro/Worldcom and hugely burdened with debt, is it still a model?” More recent, and European, examples of changing “model status” which will be addressed in the present report are the UK and Sweden. Rubery et al. (2007) put their analysis of the UK model under the headline “From basket case to success story?”, and Anxo et al. (2007) give a striking account of the ups and downs of the Swedish model, which to judge from the literature of the early 1990s was doomed to failure, whereas for many observers today it ranks amongst the best performing EU member states as far as the Lisbon targets are concerned. The most recent example of short-lived PR cycles experienced by national models is Germany, which was hailed by the Financial Times (11 December 2006) as Europe’s “sick man” now turned a picture of health’.

¹ A prime example here is the considerable interest in the Danish so-called flexicurity system; this system, which facilitates transfer job mobility between organisations, is heavily reliant on a high tax base and high levels of benefits, but these complementary institutions are not often stressed in the debate. The European Commission has taken up the call for flexicurity but stresses flexibility and security through employability, with little emphasis on the more conventional social protection that is available in the Danish model (Keune and Jepsen 2007).

The obvious question triggered by these examples is to what extent the Swedish model of today is the same as the one that was written off some 10 or 15 years ago, and if the German model of today is still the one that used to be the flagship of corporatism and strategic coordination in the literature of the 1980s or early 1990s. To answer this question we need to understand the character of change in each individual national employment model.

To this end, the participants in the DYNAMO project have analysed the dynamics of their respective national employment models from three different angles. The first, and basic, undertaking has been the analysis of institutional change in the employment models over the past decades. The reference periods for comparison differed across countries as the main target was to capture the most relevant period of institutional change in each country. As a second element, the perspective of analysis shifted from the traditional focus on institutions towards the individual life-cycle, i.e. to the question of the employment-related institutional support given to individuals over the life course, from the phase of education and preparation for the labour market until the end of their careers and the transition into the old-age pension system. As a third element, a range of three sectors per country were analysed with respect to their interaction with the national employment model. That is, we were interested in the effects of overall changes at the sector level and, conversely, in potential impacts on the national employment model emanating from individual sectors. The sectors were chosen in order to provide meaningful examples of the influence of particularly interesting challenges to national employment models: elderly care, as an example of how national models react to the challenge of ageing societies, the IT sector, as an example of how national models take on the challenge of new technologies and international business models, the construction industry, as an example of labour migration and EU regulations impacting on national labour markets, urban public transport, as an example of EU free-market policy impacting on an industry traditionally sheltered and run by local public authorities, the hotel and restaurant business, as one of the usual suspects for high shares of low-wage labour, and the motor industry as the arguably most prominent example of the international re-division of labour and re-organisation of value chains and their repercussions on industrial relations.

Based on these contributions from the DYNAMO project team, the present report focuses on the role of the European Union in promoting and shaping the direction of

change and reform of European social and employment models. The EU has taken on and developed a reform agenda for European social and 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). This reform agenda is interpreted in opposing and contradictory ways by political actors and social analysts. For some, it offers opportunities to undermine social protection and employment rights by promoting convergence around a liberal market model (Chapon and Euzby 2002); for others, particularly DG Employment of the European Commission, it is a means of securing the future for European social models by coordinating and promoting necessary reforms to fit with new challenges and developments; for yet others, it is an agenda for spreading European social models to existing liberal market models - such as may be found in the UK or in many of the new member states. In addition to these different interpretations of the intent of EU interventions, there are significant differences in interpretations of the impact of EU policies. These differences apply both to the effectiveness of the Lisbon agenda, based as it is on soft rather than hard law interventions, and to the importance of the social and employment agenda relative to the EU's role in both competition and macroeconomic policy.

The risk that European models will not prove to be sustainable under current social and economic conditions has been increased by the widespread national and international pressures for change and modernisation of the welfare and employment arrangements, including pressures from the EU. All institutional configurations reflect specific social and economic conditions at the time of their founding or redevelopment. As such, it is far from surprising that there is pressure to reform some of the institutional arrangements that have dominated the second half of the twentieth century. However, change brings the risks of destabilisation and dismantling of protections; rebuilding and reinstitutionalising societies is more difficult and requires more imagination and stronger political will than processes of deregulation or simple erosion of existing arrangements. This is particularly the case if the macroeconomic or product market conditions create obstacles or difficulties for the rebuilding process. Thus while the focus of this analysis is on the EU's employment and social agenda, the impact of this agenda needs to be interpreted within the wider influences of the EU on the policy context.

1 The EU and the change agenda

Reform and modernisation of European employment and social models is being called for from a number of divergent perspectives. First there is the 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 and the dominance of the service economy. Here change is required to support both new behaviours and new needs of citizens and also to extend the scope of the social model to be more inclusive. Second there is the apparent need to respond to external threats or challenges (Hay, Watson and Wincott 1999). New economic and political 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 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 with incentives to change and to flexibility increased. 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 so that instead the orientation of the welfare state models 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 the ageing of European society on the one hand and the need to promote flexibility on the other mean that the age of decommodification of labour through generous and passive benefits- both unemployment benefits and early retirement pensions- is over. The agenda must now be to maximise the employment rate of the prime age population and indeed to extend prime age into old age as longevity increases.

It is in this context that the EU has engaged in promoting the reform of European social and economic models. From the EU's perspective, reform is required if Europe is to achieve its 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 social and economic models from pure market based models and to recognise the need to meet social as well as economic objectives². Even within the employment model there is a recognition 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 social and economic models. 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 rather than manufacturing based economies. This active role for the EU in promoting a vision for a reformed ESM³ emerged primarily in the mid 1990s with the development of the European Employment Strategy (EES) and the 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. The scope of the agenda has been increased with the 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

² Zeitlin (2007) points out that there are marked differences in interpretation of the Lisbon agenda; some see productivity and social cohesion as equal in status in the objectives, others see that productivity and competitiveness dominate the social agenda.

³ Jepsen and Serrano Pascual (2006) in fact argue that it is this vision of the ESM embodied in the Lisbon agenda that constitutes what is meant by the European social model; it is in fact a construct of the European project.

employment models. The first issue is the appropriateness of the particular model or models that the EU has adopted as implicit ‘best practice’ examples 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 under the influence of not only the EU’s employment and social model policy initiatives but also the more indirect but potentially important influences on employment and welfare stemming from macroeconomic and product market 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 social and employment models at the EU levels is likely to have some form of 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 social and employment models in Europe is 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, and that therefore do not attempt to shape or influence the production model, and those who see social models as a means of building com-

parative advantage within the capitalist system, through development of interlocking institutions that in turn create distinctive strengths and capacities that have in the past enabled European economies to compete successfully on the world stage. For the former group the issues 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; under these conditions, far from promoting decent work conditions, social welfare should only compensate for poor work conditions where these are dictated by market conditions. 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. The 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 neo-classical 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 this debate between the espousers of universal markets and those who see the potential for varieties of capitalism is now well established, the ever growing importance of services within national economies has posed a new dilemma for the varieties of capitalism school. Historical experience has provided extensive evidence of the importance of institutional arrangements to 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, the evidence that this success is related to specific aspects of employment organisation or workforce capacities is much less developed. The continuing focus on manufacturing

within 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, the focus has turned to education as the main way to provide flexible general skills. However, 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 reflects 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 even 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 issue of workplace organisation from the direct responsibility of national governments or the EU. The focus thus was on the employ-

ment/ welfare state and not on the employment/ production interface. As such it linked to the varieties of welfare states debates (Esping-Andersen 2002) not to varieties of production systems and this focus increased in the second phase of the EES when the Employment Taskforce chaired by Kok (2003) argued for a refocus on growth and competitiveness, with social objectives to be subordinated to a second tier objective.

The Lisbon strategy only has 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. Issues of developing either Rand D or skills and capacities in the service economy have not been directly addressed. 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 delinking of national models with comparative and long term institutional advantage is that the focus on economic issues within 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 the policy or 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 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 identified as 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 employment⁴ and not primarily 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, to link back to the ILO policy agenda, is to implant the notion of decent work firmly within the objectives of reformed European employment and social models. The overriding agenda of modernisation and change has focused attention on employment security and employment maximisation in contradiction to both job protection and passive welfare payments, seen as the hallmarks of traditional but now outdated European employment and social models. However this dynamic approach has been adopted, we will argue, at the expense of attention to the building blocks needed to sustain social welfare and protection, that is the development of labour markets that offer sufficient decent work opportunities that most of the prime age population does not need continuous and active support from the social welfare

⁴ 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)

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 burdens placed on the social welfare system as the entry to employment may not provide the hoped for route out of welfare dependency if there are no or only limited policies to promote the quality of work opportunities.

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

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 provide very different approaches, each of which not only has both advantages and disadvantages but also is 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 who are laid off or dismissed through high 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 approach however not only promotes the use of flexible contracts but also involves high levels of lifetime inequality between women and men due to very low levels of full-time working (Plantenga). Moreover its significance for the male labour market segment is dependent on the strong social norm favouring shorter working time in the Netherlands. 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) and access to , and the UK not only has one of the highest rates of part-time working but also the largest gender pay gap for part-time workers (CEC 2002) in contrast to, for example, part-time work in Sweden which does not incur high wage penalties as it is largely based on reduced hours working within standard employment and not on the development of specific part-time work at low wage rates.

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 and 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 hours⁵; Germany, Belgium and Finland that may have too high welfare benefits that disincentivise job seeking (Kok 2003: 35) but Greece and Italy that have limited development of activation policies (Kok 2003: 39); Germany, Italy and Spain have too little wage differentiation by region (Kok 2003:23); while

⁵ In the latest Joint employment report too short working hours in the Netherlands is now being identified as a problem which to some extent is at odds with the identification of its flexicurity policy as a best practice example.

France and Spain have too high tax wedges, including social security contributions that disincentivise 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 32⁶) ; and Austria, Belgium, Italy and France still allow too many to leave the labour market early due to early retirement provisions (Kok 2003: 15, 44).

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 nms)

Too much early retirement (Austria, Belgium, Italy and France and nms)

The argument can be made that this eclecticism in fact justifies the whole open method of coordination approach which provides for member states to approach 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

⁶ 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.

the implications of policy innovation in one area of policy and outcomes in another area. There is, therefore, no scope for the more holistic analysis of interlocking institutional arrangements which not only typifies the varieties of capitalisms approach (Hall and Soskice, Maurice and Sorge) 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. Such an analysis is also needed if the full costs as well as benefits of learning and borrowing from other examples are to be really understood. Moreover the open method of coordination appears to avoid the need to move from a national to a pan European employment and social model, by allowing for policies to reflect both levels of and path-specific patterns of development but thereby does not confront the tendencies in other elements of EU policy to place the different 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 that would have allowed for service workers operating in the same national services market to be paid according to the principle of different national employment models, with posted workers covered only by the minimum standards of the home not 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 equal 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 The leverage of the EU: rules, resources, rhetoric and recommendations

To clarify the potential role of the EU in reshaping national employment and social 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 unleashing access to structural funds or in the case of applicant member states be seen as the route to gaining membership of the EU in the first place.

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 enforceable once transposed. A very different approach applies with respect to product market regulations where the EU has and 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 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- and the creation of a single market for labour that with enlargement has reduced the scope for member states 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 Olympic games and even stronger efforts by the EU to enforce the rules further would probably not have been effective. This flexibility in enforcement has itself caused resentments, with countries such as Portugal making more efforts to come back into line than big countries such as Germany (Busemeyer 2004). 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 the European Social Models. This impact was particularly strong for those countries that had to demonstrate a change towards 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 ESM 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 placed particular constraints on new member states. Furthermore the focus on the public sector debt ratio has provided further impetus to forms of privatisation, again with implications for employment and welfare models.

The EU's role in redistributing resources across member states through structural and other funds can prove another extremely powerful lever in member states where expectations of redistribution are high (we will not consider agricultural policy here, the other main 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. The emphasis on reform is activation rather than on extending benefits to all groups, even if the latter is a more obvious immediate need on social justice grounds.

The influence of the European discourse, and its soft law aspects such as the provision of member state level recommendations, is much the most intangible, but not necessarily without impact. This impact, however, as we will discuss in the following section, depends clearly on responses at the member states level which vary not only across member states but also within member states, 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 at some stage, some actor or actors within the political arena of the member state will draw on the European dialogue to promote a particular policy or to demonstrate a willingness to change or modernise⁷. 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 support their position. Where an approach to policy was already deeply embedded in the national model prior to the development of the EES, the influence of Europe on this area of policy is hard to identify and indeed the influence may be more from member states 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

⁷ 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 .

states where the policy approach has been long established. Purely quantitative measures of outcomes therefore provide poor indications of underlying influence.

4 The EU and change in national employment and social 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 those to 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 strengthens or otherwise the impact of soft and hard law. We draw here for our examples on the experience in ten EU member states, that is on the ten member states represented within an EU framework 6 project on the dynamics of national employment models. Selective examples only will be provided⁸.

4.1 Hard law or EU regulation and change in national employment and social 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 the common interest rate is clearly enforced but public expenditure and deficit targets 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.

⁸ 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 but information may have also been drawn from other material not specifically cited, also on the dynamo website- <http://www.dynamoproject.eu>. In addition the paper draws on knowledge and information on the European Employment Strategy admits impact on national models 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://www.mbs.ac.uk/ewerc/eggsie>

i) Competition policy

It is through competition and product market regulation policy that the EU can be argued to have had and is continuing to have the most profound impact on the underlying EU employment models. However, until the recent controversy over the services directive (Bosch et al. forthcoming), the specific link between competition and product market regulation and the nature of European employment and social 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 and social models through its competition regulations. First by opening up the internal market it puts into more direct competition with each other the different employment and protection models, with particular implications for employment standards. It was this issue that sparked the controversy over the services directive as it would in its first form have allowed competition within national markets based on employment standards established in the home rather than the host country, thereby establishing similar forms of competition as have been common in manufactured commodities but with the difference that workers might be operating in adjacent locations serving the same market but covered by different minimum employment standards. The logic of such an approach, in contrast to the apparent approach of the open method of coordination would be to move more 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 ways in which employment standards have been protected. As has already been found with the posted workers directive and the opening up of utilities' markets 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 but Germany faces the most major difficulties of all as it no longer extends collective agreements but has yet to establish any national minimum wage. Even when regulations have been put in place to provide for establishing minimum standards in an industry- for example in the postal services post privatisation- these regulations have not been utilised because of the strong social norm that the state does not interfere in collective bargaining (Bosch et al. forthcoming).

The second influence is through its competition rules as applied to public ownership and procurement. Here the influence of the EU is clear 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 but the impetus here was both 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 with overprivileged insiders who benefit from protected markets 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 and that employment protection primarily acts to create divisions among the workforce and not to provide a basis for the development of decent work, even providing perhaps a good practice example for the private sector as Crouch has suggested (Crouch et al. 2001, Wickham 2005). The impact of these policies have had varying impacts on 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 in Austria, 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 (Flecker and Hermann 2007). Italy, Spain and Greece, while following the requirement to privatise- if with rather a lag- have to date mainly transferred public sector rents to the private sector and have not done a great deal to disestablish either monopolistic arrangements or change the protected position of the employees although again there has been at the macro level a redistribution towards the profit share (Simonazzi et al. 2007, Miguélez et al. 2007, Karamessini 2007). Sweden demonstrates, however, that even the policy of privatisation does not have fully predictable outcomes: not only did it pursue privatisation independently of and prior to joining the EU (Anxo and Niklassen 2006) but it has succeeded so far in maintaining high employment 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 sectoral 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, with increased contracting out of service activities, with consequences for employment 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 (DH 2007). The scope for further change in public sector employment within EU member states as a result of 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 both trade unions for lower skilled staff and for professional groups⁹ have limited the state's capacity to make changes to

⁹ 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 .

employment arrangements as the delivery of public services is highly dependent upon a specifically skilled workforce can the quality of public services remains a significant electoral issue in most European states. Wickham 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 is also the case 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 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 its 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 identified 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 in the case of Hungary applying to join the Eurozone. The survival of the European employment and social models is strongly bound up with whether or not they can deliver growth and employment; when unemployment is high or rising the pressure for reform of the underlying social institutions increases even if the unemployment is not directly linked to problems in institutional arrangements. It is undoubtedly the case that the high unemployment in Germany has increased pressure for reform of the labour market and the implementation of the Hartz reforms that reduced the length and level of unemployment benefits, as Germany came to be labelled as a failing model even at a time of very strong performance in manufacturing exports. It is not yet clear whether the labour market reforms will support or undermine its long term manufacturing strength¹⁰. The macroeconomic problems faced by Germany can in part be attributed to the Eurozone rules that require a deflationary stance but these rules were both to a large extent drawn up by Germany, thereby consigning itself in practice to major pressure to change some of the fundamentals of the very model that the rules were supposed to protect (Hay et al. 1999) but also assisted in the effective devaluation of German prices with the rest of Europe, through the application of strict wage controls, thereby boosting its export success. In contrast Italy, Greece and Spain report a loss of competitiveness due to overvalued currencies; Italy in particular had made regular use of devaluation to restore its external competitiveness and has yet to find an alternative mechanism for external adjustment (Simonazzi et al. 2007) For France the EMU is very much a continuation of the restrictive monetary policy started back in 1983 and maintained

¹⁰ The recent upturn in the German economy and its export strengths are leading commentators to regard the Hartz reforms as the basis for the renewed strength but the export success in high end industries is not likely to be related to policies aimed at getting 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.

under the franc fort policy (Berrebi-Hoffmann et al. 2007) but for Austria membership of the EU and the EMU in the 1990s meant an end to 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 the EU rules at least in the short term, as the 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). This change round came after a period before 2001 when Greece had to demonstrate extreme probity in its finances in order to gain entry to the EMU. Now post Olympics it is 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 policy, associated with attempts to develop a national model that followed more a Rheinisch than an Anglo-Saxon capitalist model but the deficit problems led to a major U turn in 2006 involving a reduction in public spending to bring the economy back in line with the EMU requirements (Neumann et al. 2007). Thus freedom to experiment with alternative development paths as under the OMC process, is in this case clearly constrained by the Eurozone requirements although the impact of the change of government on the U turn must also be taken into account.

Sweden and the UK, while clearly not 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 change 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. In contrast Sweden independently adopted a policy of stricter monetary policy since the early 1990s following a major financial crisis due in part to the adopting of accommodative monetary policy (Anxo and Niklassen 2006), while the UK had allowed its public services to run down during 17 years of macro policy tied to minimisation of public expenditure. However the EMU rules have had some influence on the form of expansion adopted by the UK, with much of the renewal of the capital infrastructure carried out through private finance initiatives in order to keep those outside the public sector funding requirements.

The importance of this macroeconomic environment for the development of national models is immense and impacts directly through affecting the overall level of em-

ployment and growth and indirectly through effects such as the funding and form of pension provision, the distribution of jobs between public and private sectors, the wage share in the economy and the ability of actors to resist further changes to the model in an effort- possibly vain- to use supply side measures to adjust to new macroeconomic conditions.

The focus on public sector deficits has also 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 a reform aimed at providing more inclusive and more equal cover the impact of the reform has been to exclude even more of the younger generations while reserving the rights of the current insiders (Simonazzi et al. 2007). Thus, 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 the higher share of female participation. Instead it is primarily motivated by a need to reduce the future costs which is often easiest achieved through 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, that is the raft of directives that member states are required to transpose into national law if they offer standards that 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 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 areas of equal opportunities in all three countries and rights for workers on non standard contracts in Greece where such rights were underdeveloped. 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 who have actively utilised the law to further collective bargaining agendas. They have been able to do this in part because of the existence of a relatively well used enforcement mechanism and 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 interests of equal opportunities. They also successfully mobilised the acquired rights directive to prevent the deterioration in 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. Nevertheless there has had to be 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 some changes in the responsibility for equal opportunities policies had to be introduced 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 more affected by the laws but have adopted policies of half hearted and delayed implementation as employment rights are still primarily limited to sectors covered by collective regulation. Nevertheless the series of labour law reforms in Italy (for example the Biagi laws) and Spain to introduce greater flexibility through reduced employment protection for standard contracts and reductions in

impediments to the use of non standard contracts have been motivated by a need to conform with EU legal principles, in particular the extension of minimum employment rights to non standard workers as part of the flexible labour markets agenda. Hard law is certainly thereby reinforcing pressures towards change in employment models embedded in soft law guidelines¹¹.

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 restrictions in fact imposed on mobility from new member states to old member states in all cases except for the UK and Sweden. However, while the UK has experienced very large flows of migrants, Sweden has only had rather modest flows, possibly due to the high costs 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, either within the formal sector by promoting flows of labour for low paid if formal employment or it is promoting the continuation or 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. However, in Germany the prospect of high migration once restrictions 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. At the least minima will be introduced in vulnerable sectors such as construction but there is a lively debate about a national minimum wage which might not have taken pace without the prospects of posted workers and migrants through enlargement.

¹¹ 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.

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

In this section we focus on the role of the EU in influencing employment and social models through its non binding interventions and the associated development of an EU dialogue or rhetoric on how European employment and welfare system should develop and operate. For some writers, as we have already noted, the notion of a European social model is in fact a construct of the EU and in particular the Commission's own rhetoric and agenda (Jepsen and Serrano Pascual 2006) to provide legitimacy to the role of the 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 the welfare and employment debates: in the 1980s the terms employability, activation, flexicurity and gender mainstreaming would hardly be recognised within employment policy debates¹². Even the term social partnership that has been diffused throughout the EU through documents and policies was not a known concept in either the English language or in parts of the EU including the UK and indeed 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 are 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 is based on both hard and soft law elements and by the embedding of the EES in the criteria for the structural funds assessments.

The European Employment Strategy is by design expected more to shape the policy agenda and orientation rather than to produce specific and common policies and outcomes. As such its influence is necessarily diffuse and unclear. The openness of the process also 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

¹² These terms were not all invented by the EU/EES but have been diffused through the EES and other EU activities

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 the downgrading of unemployment benefits from the UK, the notions 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 and its 1994 Jobs Study but nevertheless reinforced the international promotion of a change agenda for employment and welfare regulations. Recently there has been a further 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- for example in 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 the role of the EU in promoting non standard contracts has been sustained and has been actively resisted at national level by the trade unions over a long period. For Greece- and for other Southern and transition economies - it is the embedding of the EES within the criteria for access to the structural funds that has opened up all these policy areas. This influence of structural funds is related to their importance for the national or regional economies¹³. 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

¹³ Although even where the overall contribution is high, the impact may be limited if, as for example in Italy there is limited evidence of any process of learning between regions.

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 rather than filling in the gaps between the welfare systems in the less well off member states compared to those with more developed systems. However, where the EU policy is to introduce new areas of social infrastructure - such as childcare- in the interests of promoting more 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 reforms that reduced the length and size of income related unemployment benefits is not only in line with the focus in the EES 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 travel in many member states with respect to employment regulation even if the changes to laws and regulations are not directly attributed the EES or their timing fully in line with the EES. To further identify the influence of the EES principles in the reshaping of national models we will consider four main areas of European policy¹⁴ - 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.

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

¹⁴ 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.

from the Scandinavian and indeed the 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 in particular in Italy and Greece so the presumption of a public sector 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 formed 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 side¹⁵. 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 developments and 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 on the unemployed 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). 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

¹⁵ 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 the subsidies are in doubt in the absence of underlying labour demand.

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 has actually led to a reduction in the availability of vocational training for the unemployed so that Germany is moving more towards the UK than the Swedish approach and reducing the focus on matching people and their skills and qualification to job vacancies in preference to a work first policy (Bosch et al. forthcoming, 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, associated with the high use of means-tested benefits in the UK and 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 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 problems that this policy implies for the incentives for second income earners or women to enter employment. 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 and social protection- is facilitated by its income splitting household taxation system even though this arrangement has been criticised by the EU for being at odds both with gender equality objectives and indeed employment promotion objectives, except for mini jobs. 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. Austria has also developed in-work benefits combined with subsidies to lone parents and single earner households that effectively encourage the development of male breadwinner households with a spouse who at most works part-time. France, Greece and Hungary have also introduced some limited in work benefits but their impact on participation patterns is reported to be weak in France¹⁶ and as yet not evaluated in Hungary and Greece as they are recent policies.

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 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 system but has 'managed' the negative impacts on participation by promoting the growth of mini jobs.

¹⁶ France has also 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

The EES strategy of activation and make work pay also links to the policy of encouraging more older workers to stay in the labour market and not to retire¹⁷. 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 benefit 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 switching 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 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 are 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

¹⁷ The third route of increasing the employment of older people and that is improving the re-entry rates of women after childbirth has not been explicitly addressed within the active ageing policy which tends to focus on the behaviour of the typical male employee.

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, particularly of younger workers.

The size of the pension funding problem in many member states has meant that the issue of how to reform the social model to take into account the ageing population is an issue that would appear on national policy agendas irrespective of the EU's interventions. However, the EU has still played an important role in promoting these reforms in three respects through: i) the focus on public sector deficits under the EMU rules ii) the requirement to equalise male and female retirement ages which may have been a trigger for a wider debate on retirement ages and 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 may be more low provision 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 been under pressure over the long term to remove these obstacles to flexibility and have continued to come under pressure under the EES system. Greece in particular has been introducing legislation to regularise non standard work even though it has both been resisted by 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 in Italy through the Treu and Biagi laws and in 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 despite reductions in legal rights suggests that the notion that a permanent contract really is permanent still holds sway in Spain, despite changes to legal rights, and that employers therefore still prefer the explicitly flexible 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 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 outsiders without significant extensions of rights for the insiders. 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 is in Sweden¹⁸ where flexibility is conceived as providing opportunities to reconcile work and other the 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 states because of the re-

¹⁸ Measures have been to encourage the movement of work from the hidden to the formal economy, 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.

form to pensions those opting for more diverse working hours and contractual arrangements may be increasingly disadvantaged in lifetime income.

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). Further analysis of these claims tends to reveal that this is not because of the huge efforts being made to reduce gender equality but because of the likelihood of complete gender blindness in employment policy if the EES had not originally included equal opportunities as one of the four pillars of the strategy, then asked for all policies to be gender mainstreamed and finally set a female employment rate target of 60% for 2010, followed up with targets on the provision of childcare to facilitate achieving the target. Without these measures it is highly unlikely that most member states would 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. 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 acts¹⁹, 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 leave and recent expansion

¹⁹ 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)

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. .

The significance of the EU in promoting gender equality in part depends upon the development of gender equality principles 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 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 the development of a platform for action, but this stops short of compulsory action by employers such as 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. Germany has continued with its income splitting systems that creates similar incentives towards inactivity or short part-time work and the UK has introduced more extensive working tax credits that incentivise 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. This suggests that a 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 and social 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 that 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 both 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- but also as 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. The impact in, for example, the UK is likely to be much weaker where there is no domestic tradition of works councils.

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

On the basis of this review of the main EU policy levers and examples drawn from experiences in the ten member states, we can make the following observations on the evolution of the European social model or models. First - and this is relevant to the debate on whether European social models are outmoded or stagnant - there is significant change taking place within the models. Second, there are common directions of change - towards more activation policies, greater flexibility, the prolonging of working life through pension reform and the establishment of a form of dual-earner society. These common themes relate to common issues or problems that would, in many cases, have undoubtedly become part of the domestic agenda without any prompting from the EU: ageing populations, changing gender roles and high unemployment related to economic 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. It has, for example, introduced activation into countries where there was no such tradition, promoted more flexible forms of work by pressing for the removal of regulatory obstacles and encouraged the adoption of make-work-pay policies based on a mix of sticks (reduced benefits or entitlements) and carrots (in-work benefits) in order to persuade unemployed people to move off benefits, as well as incentives 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 as it has without EU support. The third observation is that there is still an evident commitment to social policy and welfare provision, such that there is no clear convergence with the US. Pensions have been reformed but not abolished. Social protection may be more

tioned to activation but is still more available than in the US and in some cases has been extended to new groups. In many instances, indeed, commitments to improving the work-life balance and childcare provision are actually extending the functions of the welfare state as families become less able or willing to provide care services. Social partnership and social dialogue are still key features of most European social and employment models, even if in the new member states they are often weak and, where present, largely dominated by the state (Lafoucriere and Green 2006).

So how do these observations relate to the key question of the potential for the survival, modernisation and strengthening of the European social model or 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 European citizens? Or are the changes taking place undermining the key characteristics of the European employment and social models, particularly their association with conditions of decent work? And are current developments helping Europe to achieve the Lisbon objectives - that is to combine the need for comparative advantage in the world economy with the development and maintenance of a cohesive society? And furthermore, are European social models converging or is there evidence of continued and even increased divergence?

If we turn to the last question first, our overview 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 rather than the level of social provision. In this respect, the EU may be a source of continuing divergence rather than convergence, since the rules of the EMU relate public expenditure and debt limits to percentages of 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, merely promoting such policies is hardly sufficient to bring about convergence towards a modernised welfare state, since member states do not have the capacity to undertake the major investments needed to move from, for example, a domestic or family system of service provision to 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 the orientation rather than the substance of policies fits with the view that the European project is concerned with the 'harmonisation of ideas, visions, norms of action, rather than of institutions and regulation' (Jepson and Serrano Pascual 2006: 35). However, unless there are long-term processes leading to some degree of harmonisation of the substantive systems, this convergence of political vision may in fact reinforce the current differences in levels of social protection and decent work. This is likely because such an approach actually reduces the scope for really innovative institution building in the area of employment and social policy in those member states where social policy is currently underdeveloped, while at the same time exposing them to the rigours of competition in the areas of product markets and macro policy.

Another factor in the lack of real convergence is that assessments of policy initiatives within the broad approved fields, such as activation, flexibility or gender equality, are not subject to detailed scrutiny; furthermore, they are not carried out with reference to some form of quality threshold that would measure the likelihood that the initiatives in question will contribute to modernisation of the employment model. Interactions and contradictions between policy areas 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 EU policy assessments. 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 on the grounds that, firstly, the EU has limited competence in social policy (Scharpf 2002) and, secondly, that the various historical paths and trajectories of development have their own intrinsic value, as demonstrated within the varieties of capitalism literature. However, this celebration of diversity does not in fact allow for criticism of any policies 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. However, new policies that encourage women to stay 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 lax approach to policy evaluation coupled with the very different traditions of social

policy and indeed degrees 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 it may enable those countries with already developed social policies to retain a higher than average level of social protection. However, the downside is that there is very limited evidence that application of the orientation promoted in the EES is leading to the development of coherent new social models; member states only have to point to some policy change that appears roughly in line with the orientation and do not have to provide a comprehensive analysis of the interactions between the various policy approaches.

This tolerance of diversity in fact reflects the trend away from regarding social policy as a major source of future productivity and development for European societies. In the early days of the EES, there was a belief - articulated by the then Director General of DG Employment - that social policy should be regarded as a productive factor. Accordingly, the development of an appropriate social policy should not only provide for social cohesion and inclusion but also help to achieve the goals of a productive and knowledge-based society (Herman 2006). However, after the review of the Lisbon strategy by Kok (2003), the objectives of the EES came to be defined more narrowly. Economic objectives were not only to be given priority but were also to be considered separately 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). Arguably, the EMU restrictions act as a barrier to member states embracing the notion of social policy as a productive factor, although outside DG Employment the argument has always met with some scepticism. Rather, the focus in those DGs dealing with competition is to promote the role of the market in creating comparative advantage. Privatisation and the 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 geared to facilitating 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 is 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 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 for 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 that would provide for 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, often full-time jobs earning 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. However, the Swedish model is based on highly developed institutional arrangements that shape the operation of the market in order to socialise risks across the life course and provide access to high levels of support as a back-up to policies designed to promote flexible labour markets. Moreover, in these 'exemplary' flexicurity models - which include Denmark as well as Sweden - the complementary institutional arrangements serve to shore up the quality of jobs and work experiences; in a context of high levels of low-quality work, flexibility would not be so widely accepted, even if social benefits were relatively generous. Flexible labour markets without these such institutional support structures, which cannot in fact be constructed due to restrictions on economic policy in the EU, will not provide a basis for both flexibil-

ity 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, while at the same time allowing and even encouraging women to accept flexible, short-hours part-time jobs, where neither employer nor employee makes significant contributions to social protection. The argument here is that, while the policy of promoting employability over the life course clearly has the merit of facilitating adjustment to sectoral, organisational and technological changes, employment protection should not be protected at the expense of policies to develop and maintain job quality- or to promote decent work. Employability and activation as policy measures intended to create inclusive labour markets need to be combined with attention to decent work characteristics - including wage levels, employment stability, skill and career development- if the outcome of the restructuring of models is not to place more burdens on social protection systems in order to compensate for the reduced protection from risk previously provided within the labour market. One of the motivations for promoting the flexicurity agenda is in part the previous concentration of benefits on insiders – in particular on male breadwinners in full-time employment. However, reforms undertaken in the name of greater inclusiveness may in fact lead to the second major contradiction in the policy approach. As welfare states evolve to become less exclusive by extending rights to non-standard workers and reducing the differentiation between insiders and outsiders, the result is often to extend but lower social protection, thereby creating more divisions through increased reliance on, for example, private provision for income in retirement. Lower general provision leaves more scope for private provision that is even more exclusive than public provision provided to core workforces²⁰.

The survival of the European social model as a means of promoting both a productive and a cohesive society is thus dependent on the rediscovery of two important linkages. Firstly, social policy, in so far as it develops capacities within the population of Europe, should be seen as a core element of the strategy to create a productive knowledge-based society. This being so, we need to refocus on the employment-production

²⁰ However often even the policy of extension is partial; the reform of models may be justified in the name of promoting rights for outsiders but fiscal restraint may lead in practice to policy agendas that have negative impacts on the outside or vulnerable groups: for example in many cases pension reforms have increased the relative costs of pursuing diversified employment careers involving part-time and temporary or self employed work.

nexus in developing Europe's comparative advantage. Secondly, we need to focus not only on how the reform of welfare systems can help people into work but also on how trends in the development of the quality as well as the quantity of jobs impact upon the ability to provide social protection. A more extensive and inclusive social protection system covering flexible and non-standard employment requires that the characteristics of high-quality jobs be extended to a wider range of employment forms and employees if the virtuous circles hoped for in the European employment strategy are to be achieved.

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