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***European Employment Strategy and Welfare State Regimes***

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**Resumen:**

La comunicación pretende analizar las vías de influencia de la Estrategia Europea de Empleo (EEE) sobre las políticas de empleo de los estados miembro. Para ello se estudia en primer lugar tanto el funcionamiento y contenido de la EEE como los mecanismos teóricos de influencia. Posteriormente, se describen las características de los diversos modelos de estado de bienestar, haciendo énfasis especial en el mercado laboral. Finalmente, se analizan cuatro casos concretos, representativos de los modelos.

Las principales conclusiones del trabajo son que la EEE parece tener una mayor influencia potencial sobre aquellos modelos más alejados de lo que preconiza y que son diversos los mecanismos reales de influencia de la EEE, tanto a nivel de medidas concretas como de cambio de perspectivas.

**Palabras clave:**

Estrategia Europea de Empleo; Método Abierto de Coordinación; políticas de empleo.

**1. Introduction**

Since 1997 the European Employment Strategy (EES) has transformed employment policies into a European issue. The Open Method of Coordination (OMC) has been used as a decision-taking device trying to reconcile common objectives with national autonomy in a very controversial topic.

Besides this the four European welfare state regimes (Anglo-Saxon, Continental, Nordic and Southern) show quite distinct characteristics in relation to their labour markets, with the two formers being quite close to the EU's model.

The paper aims to analyse the potential influence of the EES on the functioning of the labour markets of the different welfare state regimes. Ireland,

France, Sweden and Spain are going to be used as representative cases of each model.

For so doing the second part of the paper describes the historical evolution and economic content of the EES. The third one pays special attention to the OMC as a mechanism of soft law. The four existing welfare state regimes and the most important characteristics of their labour markets are depicted in the next two sections. The sixth part describes several examples of the implementation of the EES in different welfare state models. The last one presents the conclusions.

## **2. Evolution and economic content of the EES**

### **2.1 History of the EES**

The 1997's Treaty of Amsterdam and Luxembourg Jobs Summit launched the European Employment Strategy (EES). The employment strategy was originally built upon four "pillars" defined in the Employment Guidelines (EG): employability, entrepreneurship, adaptability and equal opportunities. Each pillar included several guidelines (up to a total of eighteen). The pillars reflected the chief perceived problems of the European labour markets, respectively: the skills gap (mismatching between supply and demand of labour); the job creation gap (barriers to the creation of new firms); the adjustment gap (restrictive regulation connected with contracts); and the gender gap (worse conditions in the labour market for women) (Watt, 2004). Moreover the 2000 Lisbon European Council set some strategic goals for the European Union, to increase its competitiveness and to achieve full employment. It also introduced some benchmarks for the employment rates, furthered later at the 2001 Stockholm

Council<sup>1</sup>. A first reform in 2003 linked the Employment Guidelines with the Broad Economic Policy Guidelines and changed the structure of the guidelines.

In March 2005, in the context of the renewal of the Lisbon Strategy, a new reform of the EES has been passed. It tries to further integration of employment with macroeconomic and microeconomic policies in a three-year base via a common document, the Integrated Guidelines for Growth and Jobs (IGs). From the EU's point of view, the new design is expected to maximise the synergies between the measures taken at the national level and Community actions, and to raise their efficiency (Commission, 2005a)<sup>2</sup>.

Hence, since 2003 changes introduced in the functioning of the EES seem to have produced an increase in the coherence of the strategy by deepening the links and synergies with the BEPG, by simplifying procedures (a single document is now written) and also by widening the temporal scope of the measures applied (three years formulation instead of one).

## **2.2 Economic content of the EES**

The European Employment Strategy has one important deficit when trying to solve the unemployment issue because it is not a clear and encompassing strategy to achieve full employment. It is only focused on the labour market, and the responsibility of co-ordination of macroeconomic policies is left to the Broad

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<sup>1</sup> The 2010 target for total employment rate is 70%; for female employment rate more than 60%; for older workers' employment rate is 50%. The intermediate benchmarks for 2005 were originally 67% for total employment and 57% for women.

<sup>2</sup> The Lisbon Strategy aims at boosting growth and employment as a way to maintain the European social model. The strategy is founded on increasing competitiveness of the European economy. Some concrete ideas contained in the strategy are: investing in human capital and infrastructures; opening of markets; cutting of red tape; maintain sound macroeconomic policies. The EU's duty is to complement the efforts of member states. In this field, the Commission has: established a benchmark of 3% of GDP devoted to R&D; announced a comprehensive reform of state aid policy; initiated measures to complete the internal market for services; made steps to regulatory reform (Commission 2005b). Hence, the EU follows a clear pro-market orientation when defining its growth policy.

Economic Policy Guidelines (Watt, 2004), while wage setting and monetary policies are also out of reach of the EES (Mosher and Trubek, 2003). It is also important to remark here that the employment guidelines are required to be compatible with the BEPG and this means a preponderance of the economic sphere over the social (De la Porte and Pochet, 2002; Watt, 2004). Furthermore the Lisbon process has deepened this trend, by defining an economic model based on competitiveness, with social policy being only a complement<sup>3</sup>.

What is more, macroeconomic policies of the EU since the inception of the euro have had a restrictive bias in a situation of economic downturn. This bias comes mainly due to the restrictive monetary policy of the European Central Bank; the limits to public deficit contained in the SGP; and the supply-side general orientation of the BEPG. Another important weakness of the EES comes from the tiny size of the European budget (Ballester, Busquets and Guillén, 2004). In other words, the EES can discuss about extending lifelong learning or improving public employment services but cannot recommend lowering ECB interest rates or relaxing the deficit rules included in the SGP.

The Employment Guidelines part of the 2005-08 Integrated Guidelines (Council, 2005a) states that member states of the EU shall foster (in a balanced manner) three objectives: full employment; improving quality and productivity at work; strengthening social and territorial cohesion. Moreover, the three priorities detailed in the EES are the three basic mechanisms of employment creation: to attract and retain more people in employment, increase labour supply and modernise social protection systems; to improve adaptability of workers and

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<sup>3</sup> The subordination of the EES to the BEPG was already specified in the Amsterdam Treaty. In fact, the EES was born and is still working in a “permanent state of tension” between “economic” (the Economic and Monetary Affairs section of the Commission and the employers’ organisation) and “social” agents (the social part of the Commission and trade unions).

enterprises; and to increase investment in human capital through better education and skills (Council, 2005a)<sup>4</sup>.

The first mechanism is based on the idea that the EU needs to increase its labour supply and demand as a way to generate economic growth and promote socially inclusive economies. At the same time, it stresses the need to focus investments on vulnerable groups. This priority includes three concrete guidelines (18 to 20): “promote a lifecycle approach to work”; “ensure inclusive markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive”; “improve matching of labour market needs”.

The second priority aims to increase and enhance the EU’s capacity to absorb change by improving the functioning of the labour market. This has to lead to an increase in the competitiveness of the European economy and hence to create more employment. It includes two guidelines (21 and 22): “promote flexibility combined with employment security and reducing labour market segmentation, having due the role of the social partners”; “ensure employment-friendly labour cost developments and wage-setting mechanisms”.

The third priority intends to increase productivity by improving qualifications of the labour force, as a way to regain competitiveness, create employment and avoid exclusion of the labour market. It includes two guidelines (23 and 24): “expand and improve investment in human capital”; “adapt education and training systems in response to new competence requirements”<sup>5</sup>.

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<sup>4</sup> These ideas can be also found in some previous documents, like the Wim Kok’s Report (Kok, 2003) or in Lisbon Strategy Renewal documents (European Commission, 2005c).

<sup>5</sup> The guidelines additionally include some quantitative benchmarks in very different fields: offering a new start for unemployed people, paying special attention to young people; participation of long-term unemployed in activation schemes; increase of effective retirement age; provision of childcare; rate of school-leavers; completion of upper secondary education; participation in lifelong learning programs (Council, 2005a).

A global analysis of the content of the current EES shows that it follows a clear pro-market trend. It is inspired by the pro-liberal BEPG, and driven by ideas like liberalisation, competitiveness or adaptability. But it also allows some important social measures and objectives to be found in the guidelines (e.g. enhance reconciliation of work and private life, improve working conditions, reduce gender gaps, or secure a better integration of immigrant workers). On the other hand a supply-side approach can be clearly checked by analysing the most important objectives and measures contained in the guidelines. The vast majority of policies are related to the supply side of the labour market (i.e. counselling; training and lifelong learning; increase of labour supply and promotion of active ageing; enhance work attractiveness; adapt contract and work arrangements).

In fact, the focus on employability involves a very important drive to pay attention to the individual characteristics of the unemployed person. Hence, from this perspective, the problem of unemployment becomes an individual one, not a social one. Workers ought to adapt to the changing conditions of the labour market just to remain in it.

### **3. The Open Method of Co-ordination**

#### **3.1. The OMC in motion: the EES case**

The Open Method of Co-ordination (OMC) appeared with the creation of the European Employment Strategy and is an example of “soft law”. Soft law is action rules to be influential in the behaviour of the member states, but without any binding rule. In this respect, the OMC has general guidelines to be followed by member states, but no sanctions can be imposed to non-compliant states. It

is opposed to the Community Method, a case of “hard law”, with the Commission and the Council of Ministries passing uniform rules for all member states, with sanctions to non-compliant states and with the chance of bringing them to the European Court of Justice.

The OMC seems to be justified in very sensitive areas characterised by institutional heterogeneity and clear member state competences. It represents an effort to promote greater convergence in some controversial fields while maintaining national autonomy (De la Porte and Pochet, 2002; Goetschy, 2003; Watt, 2004)<sup>6</sup>. The EES allows for an important room for manoeuvre for member states: the annual guidelines are concretised by individual member states; they are also encouraged to establish their own targets; the EU assessment is made on the basis on relative progress of the state (is a positive mechanism of evaluation); there is an absence of real sanctions; member states maintain employment as a domestic issue (this legitimises and reinforce the existing diversity of models) (Goetschy, 2003).

The new 2005 EES procedure begun with the proposal of Integrated Guidelines made by the Commission. It was finally approved by the Council by June 2005. The member states presented then their respective National Reform Programs. In addition, the Commission prepared its Community Lisbon Program. At the end of January 2006, the Commission presented its Annual Progress report and the proposals for updating guidelines. Then, the Council

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<sup>6</sup> Scharpf (2002) introduces one interesting reflection when he analyses the current configuration of the European social policy. He states the need of deepening social Europe but also checks that legislation cannot be uniform, due to the existence of different welfare systems. He proposes the setting of different minimum standards for employment and social affairs. They can be broadly formulated, allowing adaptation for the distinct welfare realities, and taking into special account the political legacies and the level of development. In other words, allowing for stricter rules for richer countries and/or with a more developed welfare state. Member state countries could create clusters to negotiate those standards. The OMC can play an important role here, being an appropriate framework of negotiation for the distinct groups of member countries.

should approve the Joint Employment Report<sup>7</sup>. The process should finish in March 2006, with the Spring European Council. The progress made by member states is going to be scrutinised each year, while in 2008 a new Strategic Report is going to be prepared, with a potential deep revision of the guidelines.

### **3.2 How can the EES influence national policies?**

When examining the European Employment Strategy one obvious question immediately arises: how can the European Employment Strategy affect national employment policies? If so, what are the main channels? When trying to do this analysis one has to bear in mind one important caveat introduced by Goetschy (2003): the assessment of the EES on the functioning national policies and the analysis of its results has to be really cautious, because the process is still a recent one, and it is quite difficult to ascertain what is coming from the EES itself and what from the former national policies. Moreover, it is also difficult to define very precise pathways of influence because the way they are interconnected. In spite of this, six significant elements can be defined.

The first channel is through “shaming”. It means that member states not implementing the guidelines face the threat of receiving recommendations from the Commission and the Council (pointing at poor performance) or peer reviews criticisms. It is supposed that governments would try to avoid this kind of negative publicity, implementing the needed reforms (Trubek and Trubek, 2005).

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<sup>7</sup> The Commission has decided, for year 2006, not to propose specific recommendations to National Reforms Programmes (NRP). It prefers to give more room to member states to adapt to having NRP integrated into national policies (Commission, 2006). So, there is a “missed element” in my explanation of the functioning of the new employment strategy.



The second way is diffusion of best practices. The diffusion channel can be divided into two variants: mimesis and transformation of discourse (Trubek and Trubek, 2005). In the first case, member states need to analyse experiences of others and to talk about them, facilitating a process of adoption of foreign practices.

In the second case, the EES creates a new language and a new cognitive framework (i.e. prevention, lifelong learning, and active ageing) to understand what is happening in the labour market. Member states tend to adopt those new concepts and to shift labour market policies, but with elements of domestic interpretation. It is a two-direction interaction provided that the OMC is previously determined by member states<sup>8</sup> (Jacobsson, 2004 and 2005; Pochet, 2004).

The third way is mutual learning (Pochet, 2004). It includes the identification of common challenges and promising policy approaches, the enhanced awareness of what is happening in others member states (problems and policies) or the fact that member states are forced to rethink existing approaches.

A fourth path is the creation of new policy networks (Trubek and Trubek, 2005). The EES creates networks at different levels. For example, it connects distinct ministries at member state levels, it enhances the participation of social

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<sup>8</sup> One interesting question connected with the EES and its influence on member states is the importance given by them to the National Action Plans (NAPs). The EES is viewed as a bureaucratic and opaque process. It is a process mainly dominated by officials of both EU and national levels, with limited chances for participation for subnational and non-state agents. It shows very low levels of coverage by national press and negligible public awareness too. The NAPs are, in fact, a document of national activities in the labour market trying to accommodate to the employment guidelines, rather than a strategic plan Pochet (2004). Moreover, participation of social agents was very heterogeneous for years 2002 to 2004. Whilst Ireland and Sweden showed significant levels of consultation in the defining phase and of involvement in the implementation phase, France and Spain registered poorest levels. Anyway, Irish trade unions found the process frustrating and ineffective, focused only on existing policies (Eiro, 2005; ETUC et al, 2005; Homs et al., 2005)

partners and it also links officials of the member states with officials of the Commission and the Council. These networks improve the dissemination, interchange and adoption of ideas. This means also that, in fact, the potential benefits of implementing the OMC come from the willingness of national actors, especially governments, to get involved in this process of coordination at the European level (Scharpf, 2002).

The fifth element is the “leverage effect” (Pochet, 2004). It means that “pull from below” induces to change in domestic policies. National governments use the EES as a selective amplifier, as a source of legitimisation for domestic reforms. It is a good example of a blame-avoidance practice. But this practice can also be used by others actors, like trade unions or opposition parties. In fact, as Jacobsson (2004 and 2005) points out, the Commission tries to implement alliances with and fosters the participation of some agents like unions and municipalities to pass its proposals. The increase of transparency of national policies (Goetschy, 2003) is another element to be included here. This means that the EES makes the national policies more clear putting pressure to governments (their policies can now be compared).

The sixth component is described by Goetschy (2003) as the development of a monitoring and evaluation culture. It works both at the EU and the member state levels through the use of instruments like indicators, benchmarks or peer review.

#### **4. Welfare states regimes in Western Europe**

Four welfare systems coexist in the European Union: three defined by Esping-Andersen (1990) (Liberal or Anglo-Saxon; Conservative or Corporatist; and

Social-democratic or Scandinavian) and another one by Ferrera (the Southern or Mediterranean) (1996)<sup>9</sup>. Table 1 describes the main features of the regimes.

**Table 1: the four welfare regimes in the European Union**

<b>Regime type</b>	<b>Countries</b>	<b>Main general features of the welfare regime</b>
Liberal	UK and Ireland	<ul style="list-style-type: none"> <li>• Shows high levels of income disparity (Gini=36.0)</li> <li>• Low levels of social expenditure (22.8% GDP in 2003), especially Ireland. Low levels of tax requirements (37.3% of GDP) and of social contributions (18.7% of total receipts)</li> <li>• Market efficiency leads orientation of welfare state. State intervention only to solve acute market failures</li> <li>• Redistribution based on means-tested assistance (only for needed people), accompanied by modest universal transfers or modest social-insurance plans. Entitlements associated with stigma. Dualism</li> <li>• Importance of private provision for work-based and earnings-related social insurance</li> </ul>
Conservative	Austria, Belgium, Germany, France, and Netherlands	<ul style="list-style-type: none"> <li>• Shows moderate levels of income disparity (Gini=29.4)</li> <li>• High levels of social expenditure (30.1% GDP in 2003). High levels of social contributions (35.6% of total receipts). Problems of competitiveness</li> <li>• High levels of intervention in the labour market; generosity of minimum wage</li> <li>• Income maintenance system based on occupational status. Dualism</li> </ul>
Social-democratic	Sweden, Finland and Denmark	<ul style="list-style-type: none"> <li>• Shows low levels of income disparity (Gini=25.5)</li> <li>• High levels of social expenditure (35.6% GDP in 2003). Heavy tax requirements (public receipts are 56.1% of GDP) not based on social contributions (17.7% of total receipts)</li> <li>• Problems of financial and political sustainability of welfare state</li> <li>• Income maintenance systems based on universal inclusion</li> <li>• Importance of public provision of high quality services</li> <li>• Egalitarian gender and status effect</li> <li>• High levels of decommodification</li> </ul>
Southern	Spain, Portugal, Italy and Greece	<ul style="list-style-type: none"> <li>• Shows high levels of income disparity (Gini=35.6)</li> <li>• Low to moderate (and rising) levels of social expenditure (25.6% GDP in 2003). High levels of social contributions (31.6% of total receipts)</li> <li>• Low degree of state penetration in welfare</li> <li>• Ineffective income maintenance system based on occupational status, highly</li> </ul>

<sup>9</sup> Scharpf (2002) remarks that the diversity of welfare state regimes has increased in the European Union since its creation in 1957: the original six were all Bismarckian countries (Italy included here), whereas the next four enlargements have brought countries belonging to the four models: liberal (United Kingdom and Ireland); Scandinavian (Denmark, Finland and Sweden); Southern (Greece, Portugal and Spain) and also one new continental (Austria).

		fragmented <ul style="list-style-type: none"> <li>• Existence of a clientelistic component</li> <li>• Importance of family as a welfare provider</li> </ul>
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Source: Bertola et al. (2001); Esping-Andersen (1990, 2002); Ferrera (1996); Scharpf (2002). Data Gini: own calculations based on UN (2005). Data on social expenditure: own calculations for year 2003 based on European Commission (2005d).

## 5. Welfare state regimes and labour market dynamics

The last section has shown that there is no single social Europe that several models of welfare state coexist, even if there is no pure model. The same can be said related to the labour markets. In other words, the different systems of welfare state face their own problems and have their own potentialities. The most important characteristics and deficits of the labour markets of the four welfare state models are summarised in table 2.

**Table 2: The four welfare regimes in the European Union: labour market features**

Regime type	Countries	Chief features of the welfare regime related to labour market
Liberal	UK and Ireland	<ul style="list-style-type: none"> <li>• Labour market intervention confined only to ensure fair contracts</li> <li>• No commitment to full employment. Low level of public employment</li> <li>• Problems of quality in labour market (39.7% low skilled or elementary, whereas mean is 35.4%)</li> <li>• Moderate to high levels of wage differentiation</li> <li>• High levels of employment (69.0%). Very low levels of long-term unemployment (1.5%)</li> <li>• Low levels of temporality (5.1%). Average levels of part-time contracts (21.0)</li> <li>• High comparative importance of active policies (1.14)</li> <li>• Extreme disparity in levels of active labour market intensity; but with very high in Ireland, very low in United Kingdom</li> </ul>
Conservative	Austria, Belgium, Germany, France, and Netherlands (*)	<ul style="list-style-type: none"> <li>• High level of intervention in the labour market to maintain social order</li> <li>• No commitment to full employment as there is a gender bias (male breadwinner model)</li> <li>• Moderate to high levels of wage differentiation</li> <li>• Moderate levels of employment (65.9%). Problems for low-skilled workers coming from high social contributions. Moderate levels of long-term unemployment (3.2%), high in Germany, Belgium and France</li> <li>• Moderate levels of temporality (11.8%). Moderate to very high levels of part-time contracts (25.2) except Austria, with Netherlands leading the way</li> <li>• Moderate comparative importance of active</li> </ul>

		policies (0.78). High levels of active labour market intensity (63.7 for 1999-2001); Netherlands leading the path
Social-democratic	Sweden, Finland and Denmark	<ul style="list-style-type: none"> <li>• Moderately regulated labour market</li> <li>• Commitment to full employment. Importance of public employment filling market failures</li> <li>• Very low levels of wage differentiation</li> <li>• High levels of employment (71.8%). Very low levels of long-term unemployment (1.5%)</li> <li>• Moderate levels of temporality (13.7%), low in Denmark. Average levels of part-time contracts (20.2)</li> <li>• Moderate comparative importance of active policies (0.72). Average levels of active labour market intensity (45.6 for 1999-2001), very high in Denmark</li> </ul>
Southern	Spain, Portugal, Italy and Greece	<ul style="list-style-type: none"> <li>• Strong labour market regulation protecting the male breadwinner</li> <li>• No commitment to full employment</li> <li>• Problems of employment rates (61.5%), especially on women. Average to high levels of long-term unemployment (4.0%), especially in Greece</li> <li>• Moderate to high levels of temporality (18.6%), especially in Spain. Very low levels of part-time contracts (9.4), especially in Greece and Spain</li> <li>• Moderate comparative importance of active policies (0.82). Low levels of active labour market intensity (23.0), higher in Portugal</li> </ul>

Note: For active policies, intensity is defined as = (expenditure in ALMP/total expenditure) \* (1/unemployment rate) \* 100. Comparative importance of active policies is the ratio active intensity to passive intensity. All data for labour market rates are for year 2004 except for part-time employment (4<sup>th</sup> quarter 2004). (\*) Some authors like Begg consider the Netherlands as a social-democratic country regarding labour market policies

Source: Begg et al (2001); Bertola et al. (2001); Esping-Andersen (1990, 2002); Ferrera (1996); Kiander (2003). Data on labour market conditions, own elaboration based on: Jouhette and Romans (2005) and Romans and Hardarson (2005). Data on active labour market expenditure from Ballester (2005) it does not include Austria, Belgium and Greece

## 6. Implementation of the EES in different welfare state regimes

This part of the paper intends to describe the way that the EES is modifying the previously existing national schemes<sup>10</sup>. The analysis is based on an empirical survey of what has happened in four EU countries (Ireland, France, Sweden and Spain), representing the four welfare state systems (Liberal, Conservative, Social-democratic, and Southern respectively). The economic evolution, the

<sup>10</sup> An important element to think about here regarding the potential influence of the European Employment Strategy on member states labour market policies is the virtual non-existence of EU funds for labour market policies. It is a problem strictly connected with the tiny size of the European budget. This is quite problematical for poorer countries, facing lower levels of income and high levels of unemployment, which are obliged by the Stability and Growth Pact and the Broad Economic Policy Guidelines to control public expenditure. All this can turn into a contradiction, since real measures for labour market integration require in fact an increase in public expenditure (Serrano Pascual, 2004)

welfare state model and the labour market policies of each country are depicted here, trying to investigate, in the last case, their relationship with the EES (and with the OECD proposals too). It is worth to remember here that the EES tries to introduce some degree of common employment policy while preserving the autonomy of each member state to implement a specific policy.

## **6.1. Ireland**

### **6.1.1 *General background***

The economic performance of Ireland during the last fifteen years is really impressive. The average rate of growth was 3.6% for 1981-90, 7.2% for 1991-2000 and 5.6% for 2001-04; unemployment rate has fallen from a peak of 16.8% in 1985 to 4.5% in 2004, while employment rate has risen from an average of 51.6% for 1986-90 to 66.3% in 2004; public deficit has fallen from 10.8% in 1985 to 1.3% in 2004 (European Commission -2005e-). The Irish miracle can be partly explained by an industrial policy aimed at promoting exports and attracting foreign investment (in high-tech sectors); the EU membership that enlarged “Irish” market; tax reductions that fostered investment and allowed wage restraint; and an effort to improve labour skills (NESC, 2003).

Ireland has deeply transformed its welfare state during the last two decades. It is still a liberal welfare state, but with corporatist components. The pension system is a good example, with a three-tier system (means-tested, contributory and private or occupational). One important part of the reforms has been based on taxes, meaning a reduction of tax take out of low earnings; the introduction of incentives to labour market re-entry (i.e. Back To Work

Allowance); the extension of social insurance coverage; the increase of welfare payments in real terms (insurance and assistance; pensions; and unemployment); or the introduction of a minimum income (nowadays is 7.65 euros per hour). There is also worth to note the improvement of the welfare treatment of children and the move to non-discrimination (Ó Cinnéide and Ryan, 2004; O'Donnell and Moss, 2005).

### **6.1.2 Ireland and the EES**

Since 1987, economic and social policy in Ireland has been driven in a context of social partnership between government, employers and workers. There has been wide consensus on macroeconomic (stability), distributional (negotiated determination of incomes), and structural policies, accompanying wage restraint (Ó Cinnéide and Ryan, 2004; O'Donnell and Moss, 2005). The 2003-05 social partnership agreement is called Sustaining Progress.

There is wide consensus that the relationship between the European Employment Strategy and the Irish labour market policies can be summarised in three points: there has been a high level of concordance between them; the most significant impact of the EES has been the preventative strategy; and the EES has intensified domestic debate in another two areas, namely gender and lifelong learning (O'Donnell and Moss, 2005).

The policies contained in the EES are quite close to that developed in Ireland. But it is also true that, when analysing the points of view of the stakeholders, some important issues appear: the EES has been a secondary element to the domestic policy and to the dynamics created by European structural funds; the Irish National Action Plan is more a report of things being

made that a planning instrument; the European peer-review process has been of limited use; Non Governmental Organisations seem to be disappointed about their role in the NAP; and the EES seem to have only limited results regarding cooperation at ministerial level.

Looking at concrete actions, the preventative strategy was introduced in 1998 as a response to the first guideline of the EES. It is based on the department responsible of welfare payments (the Department of Social and Family Affairs –DSFCA-) sending persons to the national training institution (the *Foras Áiseanna Saothair* –FAS-); the FAS then advises them about existing opportunities. The gender debate has been focused on childcare, while a strategy to improve training for young people and the unemployed has been gradually put in place, whereas social partners are still disappointed with the latter issue. Hence, the EES seems to have had a positive influence on the labour market policies in Ireland (O'Donnell and Moss, 2005).

The Irish 2005/08 National Reform Programme was coordinated by the Ministry of Presidency (*Department of the Taoiseach*), with an active participation of the Departments of Finance and Enterprise, and of Trade and Employment. The action is based on: maintaining macroeconomic stability, whilst prioritising investment in infrastructures; encourage R&D; continue to roll out regulatory reform; focus on education and training; ensure and adequate labour supply. The chief labour market measures are: continue with range and scale of intervention in prevention and activation schemes; ensure that people earning the minimum wage are out of the tax net; keep on facilitating childcare services for parents; further facilitate the employment of older workers; continue to develop the various in-company training measures. The Reform Programme



seems to be quite optimistic about current policies and in fact is mainly an extension and deepening of them (NRP). The 2006 Commission's assessment underlines some points worth to improve: ensure that policies and investments on R&D and information technologies are enough to cope with the ambitious objectives set; more specific measures to address pensions coverage (Commission, 2006)<sup>11</sup>.

Finally, and in spite of a potential spurious use of recommendation made by the Commission (it can keep a tight rein on some countries when trying to bargain something in a different field) this tool can still be a useful indicator to assess the degree of compliance with the EES, as well as the problems detected by this institution in the labour market. The mean for 14 EU countries (the EU-15 except Luxembourg) for the period 2000-04 was 21.3 recommendations. Southern countries showed the worst results (26.8), whereas Scandinavian (16.3) and Anglo-Saxon (17) countries were the best placed. The degree of implementation in 2004 was pretty limited: from a total amount of 134 recommendations, 0% were completed; 41.8% were in appropriate progress; 52.2% in limited response; and 6% in insufficient progress. Scandinavian countries showed the best figures, with only 36.4% in limited or insufficient categories, whereas Southern and Continental had the worst results (66.7% and 61.5% respectively) (own calculations based on Council; Council 2005b).

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<sup>11</sup> The Commission has detected some common trends in the implementation of the programmes: budgetary discipline as the most important objective in macroeconomic policies; spending cuts as a tool preferred for achieving fiscal consolidation; R&D programmes as an important priority; focusing of efforts on the labour markets in integration of problematical groups; neglecting adaptability of workers and enterprises; investing in skills, specially in formal education. As conclusions, the Commission detects an important convergence of both diagnoses of the problems and of views of how to solve them; there are significant differences between programmes (countries face different realities); the integration of the three elements of the strategy (macro, micro and employment) has to be improved; role of social partners needs to be strengthened. The Commission also proposes to organise meetings with member states to interchange experiences in the most promising fields (Commission, 2006).

When looking at the case of Ireland, this country has received only 14 recommendations. The main problems detected are training (with problems located on lifelong training) and childcare (this second element linked to the extremely low participation of Irish women in the labour market). For 2004, only 3 recommendations were issued, 1 in progress and 2 with limited results.

## **6.2 France**

### **6.2.1 General background**

The evolution of the French economy has not been very remarkable during the last twenty five years. The average rate of growth was 2.5% for 1981-90, 1.9% for 1991-2000 and 1.6% for 2001-04; unemployment rate has risen from 7.1% in 1981 to 9.4% in 2004; employment rate has only slightly increased from 60.3% in 1986-90 to 63.8% in 2004, while public deficit has been exceeding the SGP limits since 2002 (European Commission, 2005d).

The French welfare state is a continental or Bismarkian one: more benefits are earning-related, entitlement is conditional upon previous contributions, and social contributions are the main source of financing. The French system is highly fragmented, with an important role of trade unions (Serré and Palier, 2004).

### **6.2.2 EES in France**

The recent active labour market policies show a supply-side approach. For example, in 2001 a modest negative income tax (*Prime Pour l'Emploi* –PPE-) was created to complement incomes of low-wage earners. In 2003 a welfare-to-work scheme (*Revenu Minimum d'Activité* –RMA-) was introduced too. Both

programs are in line with the perspective (promoted by the OECD and the EU) that sees rigidities and disincentives as the main problems of the French labour market. Besides this, the preventative approach has been launched through the *Nouveau Départ* and *Plan d'Aide et de Retour a l'Emploi* –PARE- programs. This approach is considered another innovation connected with the EES.

The domestic public employment services (*Agence Nationale pour l'Emploi* –ANPE-) have been also influenced by guideline demanding more decentralisation of this service. The effect remains more limited in another two topics: older workers and lifelong training, whereas in other fields like social contributions the French initiative (to reduce them) preceded the EES (Seré and Palier, 2004; Erhel, Mandin and Palier, 2005).

The chief channel of influence of the EES on French labour market policies is the provision of arguments and ideas to domestic actors. They allow for rationalise policies, develop programs of action, increase collaboration of a formerly disconnected ministerial structure (i.e. Ministries of Employment and of Finance), increase legitimacy of national actors when they use in the domestic debate notions and strategies designed in the EES or implemented by others member states (Erhel, Mandin and Palier, 2005).

The 2005/08 French National Reform Program focuses on the notion of social growth. The action is based on four axes: increase employment; improve competitiveness of firms; active role of the state on industrial and R+D affairs; implement sound macroeconomic policies. The French NRP does not follow explicitly the European guidelines. The labour market related policies are focused on several measures (some of them are currently being put in practice). The most important are: implement the 2003 reform of retirement benefits (it

increases the contributory period and gives incentives to not to retire before the normal age); extend abatement on firms' social contributions for low wage earners; give incentives for creation of employment in some services (i.e. care); improve the PPE; end the monopoly of the public employment service; monitor employment's search of unemployed people (NRP). The Commission's assessment stresses some points to improve: cutback of public deficit; improve the measures devoted to the opening of markets; reinforce instruments devoted to reduce segmentation in the labour market and to improve adaptability of firms and workers (Commission, 2006).

The generic problems of the French labour market detected by the EU have mainly been: low level of employment; high level of long term unemployment; inequality in the distribution of unemployment (gender and regional bias); increase in job insecurity. The 26 recommendations made to France from 2000 to 2004 have focused on several issues: increase work attractiveness for older workers; improve early intervention schemes and a personalised approach for unemployed; strengthen social partnership to introduce changes in work organisation and training (the tax burden aspect has disappeared from the last proposals). For 2004, 8 recommendations were issued, 2 in progress and 6 with limited results.

## **6.3 Sweden**

### ***6.3.1 General background***

Sweden faced a very important economic recession at the beginning of the 90s. The crisis was characterised by a dramatic fall in the rates of growth of GDP (1991: 7.8%; 1992: -0.2%; 1993: 1.0%); a sharp increase in unemployment

(1991: 3.1%; 1992: 5.6%; 1993: 9.1%); a downfall of employment rates from 80.6% for 1986-90 to 73.5% in 1991-95, whilst public deficit rocketed to 11.4% of GDP in 1993. The main causes of the crisis were economic policy and financial mistakes. The Swedish economy recovered quite well from this period and nowadays shows acceptable economic results (for year 2004, rate of growth 4.2%; unemployment rate 6.3%; employment rate 72.1%; public deficit: -1,2%) (European Commission 2005d; Kiander, 2003; Kuhnle, 2001; Timonen, 2001).

There have been several reforms in the Swedish welfare state system, mainly derived from financial constraints. For example, the 1998 pension reform restricted the former universal basic pension only to “needy” people (with low or not employment-derived pension); this meant a move to a contributory system. The qualifying conditions for the sickness insurance have been tightened. The income replacement rate for unemployment benefits has fallen, the waiting period was reintroduced and employee contributions rose. Cuts in means-tested assistance have not been so important (Kuhnle, 2001; Timonen, 2001). As a conclusion, in the Swedish case a partial move from the universalistic to the liberal mode has occurred, but no clear retrenchment has happened. This can partly be explained by having a large part of the population working for the public sector and/or supported by large schemes; people accept changes only when there is an economic need of them. The current system is universalistic for social services and work-related for social insurance (Lindborn and Rothstein, 2004).

### **6.3.2 EES in Sweden**

In Sweden labour market policy is a responsibility of the state, while the design of the National Action Plan is shared between the Ministry of Industry, Employment and Communication and the Ministry of Finance. There is not so much interaction between officials working at domestic level and the small number of officials preparing the NAP. The government has been clearly supporting the idea of the European Employment Strategy but, at the same time, has tried to maintain the control of the process. Social partners are really interested in the EES and play an active role. Both trade union and employers' organisations use the EES contents to support their own pleas (Jacobsson, 2005).

The impact of the Employment Guidelines on labour market policies in Sweden is quite limited. They fit with the traditional Social-democratic labour policy. This is especially true of guidelines connected with former pillars one, two and four (employability, adaptability, equal opportunities). What is more, there has been a wide consensus regarding welfare state reforms in Sweden (Kuhnle, 2001).

In 2000 the government initiated a tax reform, mainly focused on low and medium-wage earners, compensating them for public pension payments and increasing the threshold that determines when income earners have to pay income taxes. Since 2001 it has increased green indirect taxes. Gift and inheritance tax was abolished in 2005. The governments' view is that those changes should also be implemented without the EES (NRP, Jacobsson, 2005).

The incentives to labour have been augmented by reforming in 2001 the unemployment insurance (increasing requisites); incentives have also been increased by the tax and the pension reforms and a maximum fee for childcare has been established. Here again, it is not clear if those changes are coming from pressures derived from the EES. For example, Kuhnle (2001) underlines the fact that the political debate on Scandinavian countries over welfare state has been won by proponents of expanding incentives to work. There have been some measures trying to combat gender and long-term unemployed problems; the EES seem to have had here a clear influence by increasing attention to these issues (Jacobsson, 2005).

The Swedish Reform Programme focus on the notions of sustainable growth and full employment. It is based on macroeconomic stability (with strict limits for public deficit and inflation); wage setting in line with productivity; huge investments in R&D, diffusion of information technologies, and education; very ambitious benchmarks for employment and unemployment rates; active policies as the main tool to improve the situation of problematical groups (specially immigrants); reduce the gender gap; improve the quality of the education system (NRP). The Commission's 2006 assessment of the Swedish Program criticised competition in services and the mechanisms to increase labour supply, including tax and benefits systems (Commission, 2006).

The 17 Commission recommendations for Sweden from 2000 to 2004 have usually focused on reducing taxation on labour, improving labour incentives by reviewing tax and benefit systems, and reducing the gender gap and long-term unemployment. For 2004, 5 recommendations were issued, 2 in progress and 3 with limited results.

## 6.4 Spain

### 6.4.1 *General background*

The transition process in Spain initiated in 1975 after the death of Franco has meant a modernisation of the country, and a modest welfare state has been built<sup>12</sup>. Its chief characteristics are universal education and health services, but it has some important problems of provision in fields like childcare and there is an important role of the private sector in the provision of these services. The pension system is a typical example of a contributory pay-as-you go system (with assistance payments for the needed), whilst the unemployment benefits are relatively generous but with significant problems of coverage. The family still plays a significant function as a welfare provider and income stabiliser (Moreno, 2001). The autonomous communities play an important role in managing the welfare state (Aragón and Rocha, 2003). Nowadays, social expenditure in Spain (22.6% of GDP in 2003) is still far away of the mean (29.0%) of our sample (European Commission, 2005c).

The evolution of the Spanish economy has registered several periods, from the deep oil crises of 1975-85 (with unemployment rates rocketing to 19.8% in 1984) to a period of important growth since 1996, with growth rates above the EU-15 average, public deficit virtually in balance since 2001, and with unemployment falling to 10.8% and employment rate rising to 58.8% in 2004 (European Commission, 2005d).

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<sup>12</sup> The welfare system inherited from Francoism was a very underdeveloped one. It has 80 per cent of Spanish population having access to public health care, but the system was facing problems in some areas, like unemployment benefits, non-contributory benefits and care services. The male breadwinner model was the dominant one, and women were only taking care of the domestic issues. The taxations system was underdeveloped too (Álvarez and Guillén, 2004).



The pre-democratic labour system was characterised by the prohibition of trade unions; the setting of basic wages at a very low level; and the establishment of a quasi-tenured employment system (Muñoz de Bustillo, 2002; Segura, 2004). The Spanish labour market policy since 1975 has been based mainly on deregulation and flexibilisation, and also on a reduction of labour costs. In fact, four of the five most important labour market reforms (those of 1984, 1994, 2001 and 2002) have gone on this way, using some of these instruments: the expansion of temporary contracts; the flexibilisation of the internal organisation of firms; and the tightening of unemployment benefits requisites, whilst control of wages has been a constant (Ballester, 2005). Nowadays passive policies are not viewed positively, while activation has only been recently developed. Moreover, employment objectives have been subordinated to macroeconomic stability and governments have followed the neo-liberal rules of privatisation and deregulation (González-Calvet, 2002; Muñoz de Bustillo, 2002).

#### **6.4.2 The EES in Spain<sup>13</sup>**

The way that the EES has influenced employment policies in Spain can first be analysed by looking at the NAPs presented by the Spanish government since 1998. The NAPs seem to reflect that the Spanish government has concentrated its efforts on a group of policies devoted to three main fields. Firstly, improving the functioning of the Public Employment Services which has meant decentralisation of this service; focusing on problematical groups; using a centralised system of information and the personalisation of the service (through individual interviews and counselling). It is worth noting that the vast

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<sup>13</sup> This part is based on Ballester (2005)

majority of these measures seem to have been adopted as a direct influence of EU guidelines.

Secondly, there has been an improvement on the running of the vocational training system. Several projects have been introduced: providing distinct services for people under 25 (for whom training is the most appropriate option) and for people over 25 (access to work and vocational training combined); the introduction of the *Talleres de Empleo*; the creation of the National System of Qualifications and Vocational Training; the inception of the *Renta activa de inserción* (Active Job Seeker's Benefit); and the extension of continuing training to new groups (self-employed and partners in co-operatives). The Spanish governments have been adapting here its policy to the European framework too.

Thirdly, the Spanish governments have increased the number and types of subsidies. This appears to be the least correlated element. The Spanish government have used some guidelines (i.e. reducing taxes on labour) to implement its particular policy in this field. The plethora of incentives being progressively introduced are more related to problems of the Spanish labour market (high level of temporality, low level of part-time jobs, and existence of problematical groups) than to the implementation of the EES.

The Spanish National Reform Program 2005/08 marks seven lines of work: macroeconomic stability; investment in infrastructures; increase and improvement in human capital; investment in R&D; improvement in regulation; labour market measures; and promotion of entrepreneurship. The most important labour market measures are: improve childcare facilities; give positive and negative incentives to remain in the labour market until legal retirement

age; new program of minimum income scheme for people more than 45 years; modernisation of the public employment service; reform of fixed term contracts; reform of the ETT (temporary work agencies) (NRP). Amongst the negative issues detected by the 2006 Commission assessment two are stressed: competition, in particular retail and electricity sectors, and the segmentation of the labour market and the need to raise female participation (Commission, 2006).

Spain, with 26 recommendations is situated in the upper part of the ranking. For the Spanish case, the type of recommendations associated with activation have usually been focused on the efficiency of the public employment services, the need to improve vocational and continuing training, and the necessity to reduce early school leaving. There seems to be an unambiguous link between those elements listed as problematical by the EU and those considered as a priority by the Spanish government. For 2004, 8 recommendations were issued, 3 in progress, 4 with limited results, and 1 insufficient. Progress is concentrated on incentives for women's participation in the labour market; improvement of the public employment system; and strengthening of incentives for lifelong learning.

Álvarez and Guillén (2004) underlines the existence of some kind of "admiration" felt by Spanish people to the more advanced countries that makes feel recommendations coming from the OECD or the EU as "fashionable", changing then the national discourse. In addition, they remark the fact that measures have been implemented sometimes with years of delay, showing that ideas are only used when they are desirable or appropriate in domestic terms. They also remind that politicians can use external recommendations as a

blame-avoidance strategy, and that unpopular measures are really difficult to implement.

## **7. Conclusions**

The paper has investigated the way that the European Employment Strategy has been influencing domestic labour market policies in the different welfare state systems.

The EES emerged in 1997 as the first case of the Open Method of Coordination, as a mechanism to make compatible European orientations and member states autonomy in a very controversial issue. When studying the economic content of the EES, three important characteristics arise: its pro-market perspective, its supply-side orientation, and the existing problems of coordination with macroeconomic policies.

The paper has also summarised the theoretical ways that the OMC can influence domestic policies. It has found six much interconnected mechanisms: shaming; diffusion of best practices; mutual learning; creation of policy networks; leverage or legitimisation; and development of a monitoring and evaluation culture.

The work has also depicted the four existing welfare state regimes (Liberal, Corporatist, Social-democrat and Southern). It has shown that they have their own characteristics, problems and potentialities, both at a general level and at the labour market sphere. Hence, from a theoretical point of view, the influence of a common strategy (the EES) has to be different for each distinct model.

Here, the paper has used the amount of recommendations made by the Commission to member states from 2000 to 2004 as a first proxy of the potential influence of the EES. This has revealed that countries with a model closer to the ideal one (Ireland and Sweden, Liberal and Scandinavian) had received a smaller quantity of recommendations than countries with a “problematical” model, like France and Spain (Continental and Southern). Hence, the influence has to be potentially greater in the latter case. A closer evaluation of the real implementation of the recommendations is needed to complete this analysis.

The study has also summarised the evolution of social and labour policies in the four countries. It allows illustrating several features of the relationship between the EES and domestic employment policies. First of all, the NAP seems to be in some cases more a report than a planning document, and sometimes does not follow the EES structure.

Second, it has provoked some changes of policies. Some examples of them are: Ireland with the introduction of the preventative strategy; France with the reform of unemployment benefits and the public employment services and the inception of the preventative strategy; and Spain with the improvement of the public employment system and of training.

Third, it has spurred debate in new fields. For example: Ireland with the gender and lifelong learning debates; Sweden with the problems connected with gender and long-term unemployed. Finally, it has provided social agents with new arguments and ideas (France). Hence, several of the theoretical mechanisms of influence seem to be working.

To complete this analysis two elements are needed. First, implement a closer study of the evolution of the domestic economies. Second, obtain in more detail the points of view of both governments and social agents.

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