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EU Reality of Embedded Neo-liberalism

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Peo Hansen

Linköping University and The National Institute for Working Life

Carl-Ulrik Schierup

The National Institute for Working Life and Linköping University

Contact Address:

Peo Hansen (PhD, Associate Professor)  
Department of Ethnic Studies, ITUF  
Linköping University, Campus Norrköping  
SE-601 74 Norrköping  
Sweden  
Phone: +46 11 218936  
Fax: +46 11 218920  
E-mail: [peo.hansen@niwl.se](mailto:peo.hansen@niwl.se)

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## **Still a *European* Social Model? From a Vision of a ‘Social Europe’ to the EU Reality of Embedded Neo-liberalism**

*Peo Hansen*

*In co-operation with Carl-Ulrik Schierup<sup>1</sup>*

The Treaty of Rome has been dubbed ‘a manifesto for capital’ (Williams 1994: 181; see also Cocks 1980; Moschonas 1996; Carchedi 2001; Mandel 1970). The founding treaty of today’s European Union was geared towards the rehabilitation of western Europe’s economic strength and gave priority to measures promoting growth, competition, and economies of scale. The role of labour and its stake in the integration process were basically treated as non-issues in the Treaty and in the negotiations that preceded it (Williams 1994: 181). In this sense a still unsettled relationship between supranational policy and the welfare state was to some important extent conditioned by the EU’s original set-up. This is not to say, however, that social policy or the future of the welfare state have constituted non-issues on the EU agenda. The Treaty of Rome also emphasized the importance of ameliorating gross inequalities within the Community; it included the goals of enhancing employment and living and working conditions, and it established a European Social Fund (see Hix 1999: 226-7). As a consequence, there has been no lack of political conflict between the two goals of social welfare and promoting capital accumulation.

As I discuss in more detail elsewhere (Hansen 2000), the 1970s would see a few notable attempts at the Community level to address and amend this conflict of

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<sup>1</sup> Carl-Ulrik Schierup has written the bulk of the account under the subheading ‘The Politics on Combating “Social Exclusion”’. Peo Hansen has written the rest of the paper. The paper (completed in February 2005) forms part of the preparatory research for the forthcoming book (monograph) *Migration, Citizenship and the European Welfare State: A European Dilemma* (Oxford University Press, spring 2006), written by Carl-Ulrik Schierup, Peo Hansen and Stephen Castles.

objectives. Such sporadic initiatives called for a supranational regime that would protect the achievements of the welfare state and advance rights of citizenship and industrial democracy, so anticipating some of the scholarly and political debates that were to well up in the 1990s about both the social and political consequences of ‘globalization’ and the role of the EU in the crisis of the welfare state. However, proposals at the Community level to promote the welfare state were resisted by industry and governments (Rhodes 1991: 259; Meehan 1993: 71-2; Springer 1994: 60), and fared badly in the new ideological climate of neo-liberalism that gained the ascendancy in western Europe from the late 1970s.

This paper begins with a discussion of the impact of neo-liberalism on changes that European integration was to undergo from the mid-1980s. The Single European Act (SEA, ratified in 1987) and the Single Market Programme (1985) are of immense importance in this context, symbolizing the beginning of a new era for European integration and reconfiguring western Europe’s political and ideological landscape. The SEA constituted the first sizeable revision of the Community’s founding Treaties. It laid the foundation for Economic and Monetary Union (EMU) and strengthened and expanded the Community’s competence in many important ways. Most of all, the SEA was instrumental in establishing the institutional, decision-making and legal framework for the completion of the Single Market Programme. Its most important provision was for qualified majority voting in the Council on matters pertaining to the objectives set forth in the Single Market Programme.

In so doing, the SEA ‘institutionalized a double shift of decision-making away from national states—to the market and to the European level’ (Hooghe and Marks 1999: 71). In order to grasp the consequences of this ‘double shift’, we need to

introduce the concept and working of ‘negative integration’. This paper demonstrates that the concept of negative integration not only offers essential guidance to understanding the Single Market reconfigurations in broad terms but that it also provides an illuminating analytical framework with which the uneven relationship between the EU of advanced market integration and the EU of limited welfare integration can be analysed.

Negative integration refers to ‘measures increasing market integration (by eliminating restraints on trade and distortions on competition)’, whereas positive integration implies the establishment of ‘common European policies to shape the conditions under which markets operate’ (Scharpf 1998: 157). Undoubtedly, negative integration has had the upper hand and, historically speaking, has stood to gain from the legal and institutional arrangements of European integration from the outset. As Scharpf (1998: 157) elucidates, the logic of negative integration was in many ways inscribed in the Rome Treaties’ ‘primary law’, and from here ‘liberalization could be extended, without much political attention, through the interventions of the European Commission against infringements of Treaty obligations, and through the decisions and preliminary rulings of the European Court of Justice’ (see also Ross 1992). The latitude for positive integration, by contrast, lacked anything resembling these auspicious conditions, and was left at the mercy of the concurrence between national governments in the Council (Scharpf 1998: 157).

Moreover, even if we can identify ways in which the EU could give rise to certain forms of positive integration, it is important to show why and how the realization of such positive integration, which is indispensable for the safeguarding of the welfare state, continues to face a number of significant obstacles. Perhaps the most important obstacle has to do with the ‘fundamental institutional difference’ (Scharpf 1999: 51)

or ‘asymmetry’ (Scharpf 1998: 159) between negative and positive integration. Again, the roots of this difference are to be found in the Treaty of Rome and its clearly stated pledge to eliminate tariffs and other trade barriers, ‘as well as the rudimentary principles of a European law of free and undistorted market competition’ (Scharpf 1999: 50). Under the auspices of Treaty and European law, and with the Commission and the European Court of Justice as effective overseers, liberalization has thus been able to proceed and advance without much inhibition, implying, as it does, a ‘”constitutionalization” of competition law’ along neo-liberal lines (Scharpf 1999: 54; see also Jessop 2002: 209-10). As for positive integration, or policies which would re-install at the EU level what liberalization detracts from democratic political bodies at the national level, practically none of these institutional and legal structures applies. Instead, such positive integration has remained in the hands of national governments in the Council of Ministers, where it readily falls prey to the principle of unanimity and consensual decision-making (Scharpf 1999: 50-1, 72; see also Streeck 1995: 395). Given that negative integration has been endowed with such institutional and legal privileges, this is also why Scharpf (1998: 172) goes as far as to speak of ‘the imperialism of negative integration’.

In Paul Kapteyn’s account (1996), coincidentally, this exact problematic is construed as being so great that it deserves to be designated as a ‘European dilemma’ in its own right. For Kapteyn, the dilemma revolves around the member states’ continuous vacillation between cooperation and sovereignty; that is to say, whereas integration in the 1950s partly took off as response to the signatories’ uneasiness about going it alone economically—about being vulnerable on the world market—the very same uneasiness would also prevent them from jointly surrendering their

national sovereignty in the political and social realms (Kapteyn 1996: 59-60). Put differently, if the dilemma allowed for a 'negative integration of the market', it concurrently put a brake on a 'positive integration of the state' (Kapteyn 1996: 4).

In many ways this line of reasoning corresponds neatly with Streeck's argument (1995) that neo-liberalism and nationalism in fact would make up two mutually reinforcing developments, both being augmented by the transformations set in motion in the Community during the 1980s (see also Crouch and Streeck 1997; Hooghe and Marks 1999). As a result of the logic of the policies and the institutional and legal framework established under the SEA and the Single Market, Streeck (1995: 395) argues, 'the act of defending a country's sovereignty in the councils of Europe and the act of defending the freedom of "market forces" in the integrated European economy thus came to be one and the same, with the objectives of liberal deregulation, or nonregulation, and of nationalist defence of sovereignty inextricably intertwined'. In this sense, Streeck (1995: 395-6) speaks of a 'historical convergence of nationalism and economic liberalism' as sitting at the heart of the political agreement that was to restart the process of integration in Europe in the mid-1980s (see also Gray 1998).

This point is also brought out by Crouch's (1998: 241) line of reasoning whereby, in a nutshell, the European Union is perceived as 'experiencing simultaneously a globalization of economic processes but a reassertion of the nation state (against supranational political entities) at the political level', resulting in 'a growing divorce between the level at which political action needs to be taken and that at which it can be taken'. But, as Crouch is quick to add, one must keep in mind that there is one crucial pursuit that has been exempted from this development, namely, 'policy to deregulate markets':

The deregulatory part of the European integration project, the pursuit of the European Single Market, has met with universal applause, no government being more supportive than the Conservative, neo-liberal British one which in all other respects was fully opposed to further integration. This is because deregulation is a form of integration that immobilizes the scope for further political action. (Crouch 1998: 241)

As will be discussed below, an ill-fated attempt of the European Commission to link firmly a ‘social dimension’ to the accomplishment of the European Single Market by the late 1980s is the most pungent illustration of Crouch’ succinct point on the ‘immobilizing’ dynamics of deregulation.

Against this background I track the general context for the Commission’s strategy of taking advantage of market-driven integration as a motor for transposing essential features of the national welfare state to the supra-national level, and I discuss the contingencies of the serious debacle it would suffer. Taking the discussion into the 1990s and beyond, I continue by scrutinizing the transforming perspective of the EU’s ‘Social Dimension’ that emerged in the post-Maastricht era: a development that would go hand in hand with a marked shift in the EU’s understanding of the concept of *social exclusion*. This transformation is discussed in the context of the sustained neo-liberalization of the EU project and the ideological realignment of Europe’s social democracy.

Finally, the paper explores some of the most recent developments in the manoeuvring and governance strategies at the EU level in the areas of welfare, employment and economic policy. This pertains in particular to the EU’s attempt to develop employment and social policies through the so-called Open Method of Coordination. I relate this novel form of EU governance to the overarching

objectives and structural embeddedness of the Union's economic policy. Above all, I inquire into the EU's current Lisbon Strategy and reform agenda, which was launched in 2000, and attend to the Strategy's endeavour to 'modernize' the 'European Social Model'.

### **The Single Market and the Malaise of 'Social Europe'**

A revival of the European integration project towards the mid-1980s was contingent on the changing political and ideological climate that surrounded a variety of developments during the 1980s. Such changes were to revolve around what McNamara (1998) identifies as the formation of a 'neoliberal European policy consensus' (see also Rhodes 1991; Holman and Pijl 1996). The European Community of the 1980s came to constitute both an arena offering new opportunities for political and ideological restructuring and an organ which itself took advantage of the new neo-liberal atmosphere (see Goodman 1997: 173, 195). In sum, what spurred the resurgence of European integration in this period owed much to western Europe's emerging embrace of American deregulatory policies, the budding partnership between the Commission and Europe's chief manufacturers, and the mounting support for the Single Market amongst capital interests in general<sup>2</sup> (Dinan 1999: 82; see also Bornschier and Ziltener 1999; Carchedi 2001; Garrett and Weingast 1993; Kapteyn 1996: 63; Streeck and Schmitter 1996).

One of the most important factors that contributed to the deregulatory nucleus of the SEA was 'a new ideological compromise' between Britain and France, which took shape in the middle of the 1980s (Hix 1999: 232). In brief, the compromise coalesced around Britain's belief that the Single Market constituted an opportunity to

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<sup>2</sup> For an in-depth account of the European Commission's cooperation with transnational corporations and other capital interests, see Bornschier and Ziltener (1999) and Holman and Pijl (1996).

impart Thatcherite neo-liberalism to the other member states, whereas France—after the reversal of Mitterrand’s Keynesian reflationary project in 1981 and 1982—approached it as holding out the prospect of enhancing the Community’s competitiveness vis-à-vis Japan and the United States (Hix 1999: 232; see Delors 1992: 30). This compromise also took the German government’s fancy, since its potential result was seen to offer great advantages for German capital (Garrett and Weingast 1993: 190).<sup>3</sup>

Closely resembling the Anglo-French compromise, the Single Market project was also made possible by the combination of large corporations’ aspirations for competitive advantages vis-à-vis American and Japanese capital on the one hand, and elites at the state level intent on regaining the political authority they had lost as a result of intensifying international interdependence on the other. What seems to have made it possible for these two groupings to join forces was the willingness of corporate capital to concede national industrial protection schemes in exchange for nation-state elites’ commitment to phasing out market regulations imposed by political bodies in the member states, as well as to ensuring that these were not to be restored at the EU level in the future (Streeck and Schmitter 1996: 184-5; see also Ross 1992). On this account, the Single Market project was predicated on an ability to deliver watertight guarantees to capital that the new supranational powers would be used solely for ‘the *external reassertion of*, as opposed to *internal intervention in*, the European economy’ (Streeck and Schmitter 1996: 185, italics in original). In turn, this not only meant that European integration became ‘bound up with a deregulatory project’ but also implied that the EC had settled for the particular type of integration which, as explained above, often goes under the name of negative

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<sup>3</sup> For a thorough enquiry into the French, British, and German governments’ pivotal roles in enabling the SEA through their concurrent convergence on least-common-denominator preferences of (neo-liberal) deregulation and market liberalization, see Moravcsik (1991).

integration—what in this context constitutes the deregulatory project’s institutional and legal facilitator (Streeck and Schmitter 1996: 185).

In this context it is of the utmost importance to remember that the mid- to late 1980s also would witness a reborn activity in the area of supranational social policy. To a large extent, calls for a ‘Social Dimension’ and a ‘Social Europe’ resulted from concern within the Commission and elsewhere that a one-sided focus on market liberalization could have some negative consequences for labour and social welfare (Hix 1999: 227; Lange 1992). As well, it needs to be kept in mind that the most influential architect behind the Single Market and the SEA, Commission President Jacques Delors, cannot accurately be described as a ‘rabid neoliberal’ (Ross 1992: 61). On the contrary, Delors had a different plan for and outlook on the end product of all of that which was set in motion in the mid-1980s. For Delors, a champion of ‘regulated capitalism’<sup>4</sup> whose background was in the French Socialist party and trade union movement, the SEA and the Single Market constituted merely the first steps towards a set of ‘“state-building” policies’ whereby the EC level would attain more authority in such areas as social policy, the macroeconomy, industry, the environment, and regional policy (Ross 1992: 61-2). For Delors and his allies the ‘goal was to create “organized space” at the European level, regulating European capitalism in line with European Social-Democratic and Christian-Democratic traditions’ (Hooghe and Marks 1999: 79). Or, as Delors (1992: 39) put it himself referring to the Single Market: ‘It would make no sense if competition were to develop at the expense of the social protection and working conditions which are the basis of the European model. Europe will not be created if the workers do not feel involved in it, and if it does not have social progress as its ultimate aim.’

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<sup>4</sup> For elaboration on the concept of ‘regulated capitalism’ in the context of the Delors plan and beyond, see Hooghe and Marks (1999).

As the Delorist plan gained some political momentum in the late 1980s, it also created what many took to be a new window of opportunity for social policy at the EC level (Dinan 1999: 424-6). This was soon to result in the adoption by all the member states, except Britain, of the Community Charter of the Fundamental Social Rights for Workers (or Social Charter) in 1989. Although the twelve categories included in the Charter offered much on paper, its actual impact would be meagre indeed. This had much to do with its lack of binding legal force, and once the Commission sought to amend this its efforts were often stalled by the Council failure to achieve unanimity. This could be seen too in the adoption of the Protocol on Social Policy—expanding on the provisions in the Social Charter—at the Maastricht summit in 1991, which, due to British opposition, was attached to rather than incorporated in the Maastricht Treaty. Although the Protocol opened up for majority voting in such policy areas as working conditions, health and safety in the workplace, and information and consultations of workers, it kept the rule of unanimity in those areas particularly sensitive to the interests of capital (Carchedi 2001: 241-2; see also Bornschier and Ziltener 1999: 46).

This provided, it soon became apparent that, whereas agreement could be reached on the deregulatory provisions of the Single Market Programme, ‘Social Europe’ and Delors’ larger ambitions had clearly failed to draw sufficient support. In trying to piece together an explanation for this predicament, Bornschier and Ziltener (1999) argue that, even though the social dimension was the ‘weakest part’ of the collection of measures incorporated into the SEA and the Single Market, it must be said to have constituted one of the cornerstones of the project. In this sense Bornschier and Ziltener (1999) go against the common belief that ‘the social dimension of 1992 came as an afterthought to legitimate the *fait accompli* of market liberalization’

(Lehning 1997: 2, italics in original). Rather, the failure of the social dimension, Bornschier and Ziltener emphasize, had less to do with Delors' basic position than with the particular method or strategy applied in the launching of the Single Market. Hence, if deregulation and neo-liberal principles clearly were for Delors the means and 'the sole undisputed core of the new thrust towards integration' (Bornschier and Ziltener 1999: 40), they were by no means, as they were for so many of the other actors and forces involved, ends in themselves. Instead, they constituted what was perceived as the necessary first phase in Delors' "'step by step" strategy'. A strong social dimension was downplayed at this juncture because of the Commission's firm belief that this was the only way to secure a swift agreement on an equally swift launching of the SEA and the 1992 programme. To insist at this stage on linking the Single Market to binding supranational social policies would thus have put the Single Market at risk. To put it differently, such linking would have clashed with one of the Single Market's enabling consensual sentiments among actors in Brussels and member states' governments, who were calling for 'as much deregulation as possible at the national level coupled with as little reregulation as necessary at the Community level' (Dinan 1999: 96; Bornschier and Ziltener 1999: 42). Instead of first endeavouring to amend 'the structural weakness of the sociopolitically progressive actors at the European level' (Bornschier and Ziltener 1999: 42), Delors settled for what turned out to be counter-productive pragmatism. Powerful neo-liberal forces both outside and inside the Commission, were, of course, vehemently opposed to Delors' larger plan, and played an important part in ensuring that once the first *market-making* steps had been achieved no matching *welfare-making* steps were to be taken.

However, the ditching of Delors' plan cannot be attributed solely to resistance from the neo-liberal camp. Strong opposition also came from the confederalists (particularly of the French sort) who, even if they might have favoured more decision-making at the EU level, much preferred striking intergovernmental agreements (based on unanimity) to Delors' supranational solution (Ross 1992: 62). In addition, potential allies to Delors' agenda, such as Continental social democrats and labour unions, failed to rise to the occasion, bogged down as they were in trying to deal with problems brought about by social fragmentation and economic transformation at the national level. As Ross (1992: 64) goes on to argue, '[u]nion movements, representing the constituencies that the new flexibilizing Europe threatened the most, had lost their footing', and, from a position of weakness, 'union movements virtually everywhere concentrated their dwindling resources on defending themselves within their national contexts' (see further Streeck and Schmitter 1996).

### **Social Europe after Maastricht**

A consequence of the many aforementioned obstacles that were to challenge, and contribute to the eventual undermining of, Delors' and others' more far-reaching (social dimension) objectives, the impetus for a supranational 'social dimension' waned in the period after the Maastricht Treaty, experiencing an even greater setback than its counterpart of the 1970s (Bornschieer and Ziltener 1999: 46). Those who hoped that the 1990s—starting with the Maastricht Treaty—would break with the neo-liberal pattern established in the 1980s and embrace a serious attempt to make economic objectives compatible with social welfare were thus quickly disabused (Ebbinghaus and Visser 1997: 198). In this context the adoption of the austere convergence criteria tied to the EMU project proved to be a major source of

disappointment, since these severely limited the scope of social policy provisions in the member states, including measures against a mounting unemployment problem (Meulders and Plasman 1997; Coates 1998; Woollacott 1996). Moreover, the criteria were unaccompanied by any mitigating measures at the supranational level. If, as shown above, the Delors Commission in the 1980s had demoted the ‘social dimension’ in favour of the Single Market Programme, Delors’ stalwart promotion of EMU in the 1990s would yet again put the prospects for positive integration in welfare policy on the backburner (Bornschier and Ziltener 1999: 46).

Nevertheless, these developments in no way implied a corresponding flagging of supranational activity *as such* in the area of social policy. On the contrary, Brussels would continue to engage in it with unabated energy. But, as signalled earlier, the social policy regime promoted in the 1990s would differ in many significant respects from its predecessors.

Based less on traditional welfare entitlements and more attuned to the alleged requirements of economic globalization, this new and ambitious social policy regime could also be interpreted as designed to make the EU’s twin goals of simultaneously enhancing capital accumulation and social protection more mutually compatible. As is sometimes said in EU policy discourse the Union needs to find a middle course or a ‘compromise’ between the ‘extremes’ of neo-liberalism and the tradition of welfare state policies (CEC<sup>5</sup> 1996: 2; see also CEC 1994). Accordingly, the Commission writes (1999: 3), welfare systems in the EU ‘need to be modernised in order to continue to play their traditional and valued role’. If not relegation, then, it is rather adaptation or ‘modernization’ that has characterized supranational social policy since

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<sup>5</sup> CEC is the abbreviation for Commission of the European Communities and will be used henceforth.

the mid-1990s. In this process of ‘modernization’, ‘the fight against social exclusion’ soon emerged as the favourite catchphrase.

### **The Politics on Combating ‘Social Exclusion’**

‘Social exclusion is a slippery and contested concept’, argues Mike Geddes (2000: 783), ‘capable of a wide range of analytical and political perspectives’ (see also Chamberlayne 1997). But social exclusion is also a very powerful notion, maintains Ruth Levitas (1998: 178) in her lucid analysis of British New Labour and its Third Way; this is not, however, ‘because of its analytical clarity which is conspicuously lacking, but because of its flexibility’. This was obvious already when the notion of *social exclusion* was adopted in the French political vocabulary by the mid 1970s (Silver 1994) where, all since, it has been a contested concept, exposed to competing Catholic and Socialist/Social democratic understandings (Chamberlayne 1997). A similar situation came to prevail when, in the 1980s, discourses on *social exclusion* came to penetrate the wider EU political scene and the notion eventually became elevated to a hegemonic status, guiding political strategy as well as scientific enquiry across Europe.<sup>6</sup> Its original strategic advantage can be seen to emerge from its inclusiveness as a concept providing a common language of ‘solidarity’ merging the concerns of two main European political traditions, even though they would attach substantially variable meanings to the concept. One was the Christian Democratic, traditionally prevailing in central and southern Europe, stressing *moral integration and social order*. The other was the social democratic, concerned with poverty and broad issues of *social justice and democratic participation*. It was traditionally

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<sup>6</sup> Chamberlayne (1997: 3ff) provides an illuminating review of the ways in which ‘social exclusion’ was adopted and debated by social science in different member states. This is indeed a matter, as argued by Chamberlayne (1989: 3 ff), depending on national traditions and current directions of social science analysis. But given social exclusion’s inherent character as a *moral-political term* any preference for analytical premises and definitions will indeed be forced to state its value premises.

dominant in Scandinavia and, partially, in Pre-Thatcherist Britain (Mann 1987), but influential among the social democratic left across the European Union.

In accordance with Jacques Delors' stress on forging a powerful *social dimension* from the mid-1980s, social exclusion became a term of key importance in EU political parlance on poverty and social inequality. A focus on tackling a broad range of social disadvantages is articulated in the *Background Report* to the European Poverty Programme in 1991. Here the poor are defined as 'persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live' (CEC 1991: 1).<sup>7</sup> This echoes T.H. Marshall's (1950) conception of social inclusiveness in *Citizenship and Social Class*, when he describes social citizenship as that 'whole range [of rights of citizenship] from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society'. Marshall's concept of social citizenship was explicitly adopted as the basis for the work of the *Observatory on National Policies to Combat Social Exclusion*, which was founded by the European Commission in 1990 (Room 1992). The Observatory defined social exclusion 'first and foremost in relation to the social rights of citizens', to be analysed 'in terms of the denial—or non-realisation—of social rights' (Room 1992:13 15).

Accordingly, when turning to the development during the 1990s, it is evident that 'social exclusion' by no means constituted a novel concept and policy heading. But, if prior to Maastricht, the Delors' Commission had espoused a conception of it as exclusion from citizenship in the broad sense of the blocking of opportunities for individuals to exercise substantial and fundamental social, political, or civil rights in

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<sup>7</sup> This is, in effect, an approach to poverty that echoes the so-called *relative deprivation theory* of poverty, widely publicised through the influential writings of the sociologist Peter Townsend (e.g. Townsend 1987).

a democratic welfare society, post-Maastricht this focus was soon superseded by an alternative notion of social exclusion which stressed labour market integration as a precondition for ‘social cohesion’. Hereby the wider implications of poverty and inequality moved into the background (see Levitas 1998). The core concern now was to reconcile ‘social cohesion’ with ‘economic efficiency’. Moreover, an economic discussion was phrased in terms of deregulation and the demand for economic growth, while a parallel social concern counterpoised ‘solidarity, integration and cohesion’ to ‘unemployment, poverty and social exclusion’. But in spite of the many references to solidarity, the emphasis is here one-sidedly on exclusion from paid work or on the issue of ‘unemployment’. Already in the European Commission’s *Green Paper* on social policy from 1993 this change of tone was made apparent:

There is a consensus in Europe that all citizens should have a guarantee of resources but social policies now have to take on the more ambitious objective of helping people to find a place in society. The main route, but not the only one, is paid work—and that is why employment policies and social policies should be more closely linked. (CEC 1993a: 21)

What is at play here, however, is not any unequivocal enthusiasm for the market, which is seen to need ‘management’ through collective solidarity mechanisms. At the same time, Levitas (1998: 23ff) argues, it is crucial to note that the type of ‘solidarity’ in question is far from being synonymous with that of a redistributive welfare state. Since welfare state expenditures are deemed too costly to sustain, solidarity is instead invoked as a form of restraint in order to reduce the costs of social provision. At stake, therefore, is no longer the duty of the whole community to face up to the universal rights of citizenship, but rather a moral commitment of individual citizens, corporations, and social groups to safeguard ‘social cohesion’.

The Commission's commanding White Paper on 'Growth, Competitiveness, Employment' (1993b) illustrates this to the point. Thus, while the White Paper was not wanting in statements supportive of '[a]n economy characterized by solidarity', 'the fight against social exclusion', unemployment and poverty (CEC 1993b: 15-6), it also firmly established that these aims in no way complicated the White Paper's overarching neo-liberal stance. Prepared in close collaboration with the European Roundtable of Industrialists (Hines 1997), the White Paper comprised calls for a flexible labour market, a set of 'more enterprise-friendly' regulations, reduced labour costs and unemployment benefits, lower taxes, cutbacks in welfare systems and overall public expenditures, and increased privatization (CEC 1993b; see also Levitas 1998; Leibfried and Pierson 1995: 49-50). This outlook would also find expression in the Commission's subsequent White Paper on social policy (CEC 1994). Moreover, the post-Maastricht turning away from *redistribution* became ingrained in the practices of the whole range of projects initiated by the EU's structural funds, designed to integrate marginal groups into the labour market or to promote equal opportunities. These were now exclusively set to finance projects targeted directly on the labour market, and their rules became designed so as to 'reinforce the understanding of social participation as labour market activity' (Levitas 1998: 25). Arguably, this represented a nascent hegemonic shift at the EU level, a movement from one type of European political discourse and coalition to another: that is, from a traditional *redistributive* discourse (*RED*) and a conservative/social democratic coalition attempting to merge differential political concerns with 'social order' and 'equality', sliding towards a *social integrationist*

*discourse (SID)* of a neo-liberal/conservative consensus concerned with reconciling the need for ‘market expediency’ with the exigency of ‘social cohesion’.<sup>8</sup>

Understanding the transition from *RED* to *SID* in the EU goes, by necessity, through an understanding of the formation of the British Labour Party’s so-called Third Way in the 1990s and its subsequent adoption by other member states, including the European Commission (Levitas 1998).

Prior to the Third Way’s canonization in the UK with Tony Blair’s ascent to government in 1997, Amitai Etzioni (1995 [1993]), who served as a councillor to the US Clinton administration, was the most distinguished champion for the concept. In 2000 his book *The Third Way to a Good Society*, reflecting on the bearings of Third Way politics for a communitarian revival of British economy and society, was published for the UK left think tank, *Demos*. Yet, there are important differences between Etzioni’s recipe for the Third Way, not so far from Friedrich A. Hayek’s (1944) classical neo-liberal merger of fundamentals of free market rationality with a conservative morality (see critical review in O’Brien and Penna 1998: 78ff), and the ideas of Anthony Giddens (1998), who served as a councillor to Tony Blair and stands out as the Third Way’s most well known intellectual sponsor in the UK. By contrast Giddens endeavoured to mark out a new Third Way for British labour that would meet the challenges of globalization by transcending both ‘old style social democracy and neoliberalism’ (Giddens 1998: 26) with an extension of direct participatory democracy as a central means for enhancing efficiency and competitiveness and for strengthening social integration.

Basic to the Third Way’s endeavour to revitalize and deepen democracy is a revival of civil society in ‘partnership’ with government and enterprises, together

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<sup>8</sup> *RED* and *SID* are concepts and acronyms borrowed from Levitas (1998).

with a strengthened focus on the local community, bottom up democratic decision-making and a stress on entrepreneurship. In Giddens' version of the Third Way there is, indeed, still a concern with equality. However, rather than through measures of redistribution (*RED*) this should be obtained through the development of a 'social investment state' encouraging individuals to invest in career strategies through educational achievement and entrepreneurship. This is supposed to reconcile a new 'individualism' with a progressive and integrationist new communitarianism, and efficiency with social cohesion. But Giddens also emphasizes that to force people into low wage occupations through the stigmatization of the poor and cutting down on welfare benefits is no way forward. Yet, this is exactly what has tended to happen in Britain, argues Levitas (1998) and other critics (Jones and Novak 1999; King 1999), but even to a growing degree in other EU member states. This may indeed, eventually, bring the European Union closer to the neo-American models of Etzioni and Hayek than to Giddens' idea of the Third Way.

### **The Politicisation of European Integration**

Before we anticipate too much, we should remember that from the mid-1990s a number of equally significant political changes in terms of both electoral realignments and social movement activity were about to unfold in the EU-area. To a certain extent, this was prompted by the 'French winter of discontent' in 1995–6 (Singer 1999), when the massive turn-out of French strikers and protesters was to set a new tone for political and social agency in the European Union. Subsequently different forms of popular manifestations against what the late Pierre Bourdieu (1998: 129) called the 'social costs of economic violence' became commonplace in several member states. New and challenging debates on the social consequences of globalization came to the fore, together with new types of social movements, such as

Attac, organizing among the unemployed (Bourdieu, Lebaron and Mauger 1998; Singer 1998), and the plethora of movements, often originating in the Third World, raising the global and highly EU-related issues of trade, the burden of debt, social welfare, foreign investment, and environmental destruction. But the (old) labour movement in the European Union also began to step up its efforts and activities around this time, something that could be seen unfolding both within individual member states and in an increasing number of coordinated trade union initiatives at trans- and supranational levels. Finally, with the global shock waves spreading out from the Asian and Russian crises generating an increasing scepticism towards neo-liberal austerity and free market orthodoxy, and with social democrats having established themselves as parties of government in all but a few EU countries by the autumn of 1998, all these events provided additional testimony to a destabilization of neo-liberal hegemony in the EU and the wider world.

Antagonisms and controversies around what constituted ‘realistic’ and ‘sound’ economic policy and its bearings on the social were thus slowly re-emerging as the millennium drew to a close. As one commentator put it in seeking to capture the sentiment in the EU at the time: ‘A spectre is haunting Europe—the spectre of John Maynard Keynes’ (Hedström 1998, my translation from Swedish). To be sure, from within the ranks of the EU’s newly elected social democratic governments proposals and discussions now emerged which indicated that the long reign of a neo-liberal policy consensus perhaps was on the verge of coming apart. Oskar Lafontaine, Germany’s minister of finance, immediately took the European Central Bank (ECB) to task, challenging the rigidities imposed by the Maastricht convergence criterion of price stability, as well as calling for lower interest rates in order to stimulate the economy and reduce unemployment in the EU area. Italian Prime Minister Massimo

d'Alema made a similar intervention, pleading for a relaxation of the restraints imposed on member states' budgetary policy. He thereby called into question yet another convergence criterion laid down in Maastricht and the Stability Pact (Wahl 2002: 46-7). Aiming to stave off the problems of wage and overall social dumping in the Union, Lafontaine also made a case for coordinating economic policy and for harmonizing social policy and taxation in the EU, trying to safeguard political space to manoeuvre that otherwise would be lost to the market and a monetarist ECB (Wahl 2002: 47; Svenning 2000: 124-7). 'We Social Democrats', Lafontaine (1998: 74) contended,

insist on the mistaken nature of neoliberalism's response to the increasing world-wide integration of trade—making nations participate in a competition to sink costs even lower. At root it signifies a farewell to politics, leaving it all up to the market.

But Social Democrats insist that politics must be put back in its rightful place. Wage dumping, tax dumping and welfare dumping are not our response to the globalization of markets!

By and large, Lafontaine had an ally in the French Prime Minister Lionel Jospin, whose platform, promising as it did to tackle head-on *la fracture sociale*, even resonated with some of the sentiments embraced by the movements behind the 'winter of discontent'. Taking up the Polanyian dictum of condoning a market economy while firmly opposing the development of a market society, Jospin too presented himself as being convinced that neo-liberalism had been a mistake and that the political space at both national and EU levels had to be expanded at the expense of the market and the orthodoxy of inflation control. For the purpose of better regulating and controlling the whims of global capitalism politically, Jospin tabled

the idea of establishing an economic government for the EU, which, among other things, should be in charge of the harmonization of taxation and social policy in the Union (Svenning 2000: 20; Jospin 2000).

On the whole, however, it was the effective tackling of the member states' common problem of unemployment that the EU's incoming social democrats took on as their prime task and responsibility. These indications of a joint inclination to launch a concerted effort to confront joblessness in the Union, together with the fact that social democracy for the first time ever was able to style itself as 'the party of Europe' (Moschonas 2002: 262), were soon to create a widespread sense that the prospects for a Social Europe had once again been invigorated with fresh blood. In addition, the social democrats had potential popular allies among the advancing social movements, including many labour unions, which since the mid-1990s had increasingly been gravitating towards the EU project as such, manifesting their discontent with neo-liberal policies and calling for an EU with a strong social dimension.

### **Undoing the Challenge**

But hopes, as well as apprehensions, that the social democrats of the EU actually were prepared to challenge the neo-liberal orthodoxy and set the Union on to a more socially progressive course were quickly dashed. Rhetoric apart, it is arguably questionable whether there were any real grounds for such hopes to start with. When the EU's confident social democratic leadership gathered in Malmö, Sweden, in 1997, for instance, many expectations could in fact be seen to have been nipped in the bud when Tony Blair decided to parade his neo-liberal credentials, expressing an unconditional espousal of capitalist globalization and calling for further liberalization of labour markets in the EU (Panitch and Leys 2001: 275). According to Blair, it was

now high time for social democracy to adapt to the ‘corporate culture’, to realize that the ‘European Social Model’ had failed the cause of ‘social cohesion’, and, not least, to look to the American example for inspiration and guidance (Svenning 2000: 19, my translation from Swedish). At about the same time, in one of his first motions as Prime Minister, and despite campaign promises to the contrary, Jospin for his part went ahead and upheld, more or less unconditionally, the EU’s Stability and Growth Pact (Moschonas 2002: 196-197). As *Business Week* reported jubilantly, it was not long before Jospin ‘began injecting the concept of “modernizing France” into his speeches’ (Edmondson 1998), a change of tone which soon was translated into multiple privatization schemes and policy reshufflings favourable to business (see further Budgen 2002).

During the Brussels meeting of the Council of Ministers of Finance in 1998, moreover, Lafontaine and other dissenting social democrats received a firm telling-off from the ECB and the Commission over their attempt to tamper with the stipulations laid down in Maastricht and the Stability Pact (Wahl 2002: 47). ‘Globalization’, the Council declared, ‘requires economic reforms with the aim of creating a just and socially acceptable system’, to which it added: ‘To achieve this, the economy must be made more effective, the market must rule, and the obstacles for free trade must be removed’ (cited in Wahl 2002: 48). Lafontaine’s (coerced) resignation in 1999 (Moschonas 2002: 269n21; Callinicos 1999: 93), which was warmly greeted in stock markets and Downing Street, as well as occasioning a surge in the euro (Wahl 2002; Ali 2000), not only underscored ‘the left’s powerlessness to construct a social democratic Europe’ in general, but also buried the prospects for ‘the neo-Keynesian project conclusively’ (Moschonas 2002:197). As Wahl (2002: 48) puts it, referring to Lafontaine’s resignation: ‘The balance of power in Europe

was made crystal clear. The social democratic project of creating a “social Europe” from above had run aground.’ As such, the ‘Lafontaine affair’ constituted ‘a moment of great symbolic import’ (Moschonas 2002: 268n21). However, the import should not be seen as stemming from the shunning of any alleged radicalism on the part of Lafontaine. In fact, it was exactly the other way around. The significance of the moment, therefore, rather lay in the fact that Lafontaine could be framed as a political liability among his own for merely sticking with a set of very traditional social democratic policies and values. ‘In this sense’, Moschonas (Moschonas 2002: 268n21) argues, ‘the “Lafontaine affair” is a moment of assertion and confirmation of the identity of the new social democracy: Oskar Lafontaine was a potential destabilizing factor in a political family that has made macroeconomic stability its standard-bearer.’

As far as relations with grass-roots movements were concerned, the message from the social democratic establishment was equally unambiguous. Hence, and despite initial signs of some receptiveness (Svenning 2000: 48-9; Swardson 1998), the conspicuous resurgence of activism from a motley crowd of old and new movements was soon to become a thorn in the side of the EU’s (social democrats and) political establishment. Choosing the summits of the European Council as one of their main sites at which to voice criticism against a number of EU and member state policies, these gatherings soon degenerated into de facto police states in miniature. Here the EU’s political leaderships barricaded themselves behind an unprecedented muster of police, while simultaneously unleashing some of the harshest and most extensive crackdowns ever witnessed in post-war western Europe (see Busch 1998; Panitch 2002). Taking advantage of the possibilities for incursions on civil liberties engendered by September 11, the Council of the EU decided in the spring of 2002 to

incorporate future surveillance activity and crackdowns at EU summits and similar gatherings into ‘the Framework Decision on combating terrorism’ (Council of the EU 2002).

### **The European Commission Follows Suit**

All in all, it was the ‘modernized’ social democracy of the Third Way that emerged victorious from the late 1990s (neo-Keynesian) episode. This was, of course, also facilitated by the fact that the Commissions under Jacques Santer and, subsequently, Romano Prodi had positioned themselves firmly within the camp of the ‘modernizers’ (see Prodi 1999a, 1999b, 2000a, 2000b).

This is reflected in the Commission’s statements and policy recommendations in which, from the late 1990s, the neo-liberal and Third Way-leaning message was to become ever more pronounced. In the 1998 *Commission Recommendation for the Broad Guidelines of the Economic Policies of the Member States and the Community*, for instance, the Commission argues energetically for ‘a reduction in the overall tax burden’, claiming that ‘[h]igh taxes hamper economic efficiency, growth and, eventually, job creation’ (CEC 1998a: 8, 18; see also CEC 2000a). The document favours privatization of public corporations and also increased wage differentials in order to ‘promote the employability and the adaptability of the labour force’ (CEC 1998a: 12). The Commission also argues for a ‘Welfare reform’ by way of ‘tightening eligibility criteria, job search requirements and, in some cases, revising the time profile of benefits’ (CEC 1998a: 18, 19; see also 1998b; 1998c: 11-2).

The *Commission Recommendation for the 2002 Broad Guidelines of the Economic Policies of the Member States and the Community* provides further ample illustration of the Commission’s more recent stance on many of the issues discussed in this

paper. Permeated with proclamations derived from Third Way rhetoric—emphasizing yet again the necessity to retain and nurture ‘a culture of entrepreneurship’, ‘a culture of stability’, and ‘a culture of enterprise’ (CEC 2002a: 6, 19)—the document does its utmost to establish ‘paid work’ as a panacea for a number of social and economic ills in the Union (CEC 2002a: 9). In line with this, the Commission calls upon the member states to do more to ‘make work pay and encourage the search for jobs’. Member states are advised to devote further attention to ‘incentive effects of benefit schemes, including conditionality of benefits, eligibility, duration’ and the like; all for the purpose of making ‘the systems more employment friendly’ (CEC 2002a: 20, 16; see also 2003b). In this context Sweden is reprimanded by the Commission for its ‘very high tax burden combined with relatively generous benefit schemes’, since these are said to ‘reduce the incentives to work’, while Britain receives praise for having established one of the ‘best-performing’ labour markets in the EU (CEC 2002a: 63, 65). With reference to the labour market in the EU, moreover, the Commission lauds the fact that recent years have seen ‘a greater use of temporary and part-time contracts’: a development that ‘has contributed to making labour markets more flexible and inclusive’ (CEC 2002a: 14). This mantra is repeated in the following year’s *Commission Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community (for the 2003-2005 period)*. As proclaimed in the *Recommendation*, Europe needs a ‘more flexible economy’, which means that Europeans partly have to adapt to US standards and work more hours, retire later, and receive ‘greater opportunities for part-time work and flexible working hours’ (CEC 2003b: 3, 6).

It is important to note, finally, that these formulas in large part also apply to the ten new member states. While this had already been made apparent during the accession

negotiations, it was to be further underscored in the updated version of the *Commission Recommendation on the Broad Guidelines of the Economic Policies* (CEC 2004a), in which, for the first time, the new members were incorporated into the section on ‘Country-specific economic policy guidelines’ (see also CEC 2004b). Although the Commission (2004a: 6) acknowledges that ‘the specific circumstances of most acceding countries are such that a longer adjustment period could be warranted’, its battery of neo-liberal recommendations effectively rules out any deviation from the only road to the Internal Market, to competitiveness, and to ‘sound’ macroeconomic policies. The trite insistence on price stability, tax cuts, fiscal restraint, ‘a more service oriented economy’, and wage policies that are conducive to ‘external competitiveness’ and foreign direct investment thus remain the undisputed core of the Commission’s recommendations to the new members (CEC 2004a; see also 2004b). ‘Increased competition’, the Commission goes on to argue, ‘requires more rapid progress with privatization, cutbacks in the use of administered prices, a reduction in the regulatory burden on business and greater support for entrepreneurship’ (CEC 2004a: 9). That the Czech Republic, for instance, had decided to increase its spending on health care and social security is, accordingly, something that causes the Commission to hoist a flag of warning, designating such spending increases as ‘reasons for major concern’ (2004a: 23). And so it continues more or less on these lines, with each new member receiving its fair share of instructions and rebukes.

### **The Lisbon Strategy and the Open Method of Coordination**

In reconnecting with my earlier discussion, it is important also to account for the fact that the afore-mentioned developments would walk hand in hand with an ever-growing accent on the need to combat unemployment and social exclusion in the EU.

The Amsterdam Treaty made this plain by incorporating a new title on employment, heralding the subsequent European Employment Strategy, which promised to ‘place employment and citizens’ rights at the heart of the Union’ (CEC 1997: 1; Council of the EU 1997). In addition, with the new British Labour government assuming office just prior to the Amsterdam summit, this resulted in the incorporation of the Social Protocol into the Amsterdam Treaty. Yet despite these and other new provisions in the social field, their actual substance showed few signs of altering the post-Maastricht trend of growing scepticism towards *thoroughgoing* and *harmonized* social policy measures at the EU level. As such, Dinan (1999: 429) argued at the time, the Amsterdam Treaty provided additional testimony to a continued ‘toning down of EU social policy’. Introduced alongside the title on EMU rather than social policy, moreover, Amsterdam’s title on employment effectively steered clear of traditional social democratic methods of fighting joblessness. This provided, Dinan wrote (1999: 429), ‘the [British] Labour government’s acceptance of the social protocol was an easy way to repudiate the previous government’s EU policy without endorsing a radical social policy agenda’.

Although the post-Amsterdam EU has not witnessed the emergence of a ‘radical social policy agenda’, Dinan’s assessment would, nonetheless, soon prove to have been somewhat premature. As it turned out, the years around the turn of the millennium in fact marked the beginning of new and unprecedented EU activity in the social field. With the Employment Title, the Employment Strategy, the Social Protocol, and Amsterdam’s stated goal of combating ‘social exclusion’ on board, then, it would not be long before the EU also launched a Social Policy Agenda (SPA). The Agenda, drawn up by the Commission and adopted at the Nice European

Council in 2000, was set to cover the time period 2000–5, whereupon a new one was to be adopted for the period 2006–10.

Most importantly, the SPA forms an integral part of the Lisbon Strategy that was agreed upon at the Lisbon European Council in 2000 and which aims to transform the EU into ‘the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion’. Adapted to a Union of twenty-five members and comprising a ten-year scheme, the Lisbon Strategy, the Lisbon process, or the Lisbon reform agenda stands out as the boldest move made by the EU since it embarked on monetary union in the early 1990s. Given its overarching objective of putting the EU at the top of the world economy, and as seen in the immense flurry of activity that has followed in its wake, the Lisbon Strategy is unprecedentedly comprehensive and has left few policy areas unaffected. However, and notwithstanding its comprehensiveness, the Lisbon Strategy is also characterized by simplicity and straightforwardness, and so does its utmost to benefit from a set of clear goals and courses of action. Coalescing around economic, employment, and social policies, and subsequently adding an environmental dimension, the Lisbon Strategy is set to operate in accordance with what we may term a three-stage rocket philosophy, whereby a growth-friendly economic policy—characterized by macroeconomic stability, competition promotion, wage restraints, and further liberalization—is said to generate more and better jobs which, in turn, will spawn social inclusion, increase social cohesion, and combat social exclusion (see CEC 2003b: 12).

On many occasions, however, this more or less linear causality or chain reaction is exchanged for, or complemented by, a vigorous emphasis on the need to set in motion a dynamic interaction, streamlining and coordination between economic,

employment, and social policies; this in order to engender innovative ‘policy mixes’ and ‘virtuous circles’. Of this the much-discussed Open Method of Coordination (OMC) forms an integral part, being instituted to provide the means to guide and move the ‘dynamic’ policy process forward. Limited, at first, to EU employment policy (as a result of the Amsterdam Treaty), the OMC was later officialized, revised, and generalized at the Lisbon European Council, and from then on was set to cover a range of other policy areas, including social policy and immigration.

The OMC constitutes ‘a method of policy delivery’, ‘an instrument improving EU governance’ (CEC 2003a: 6) in politically tricky areas where supranational competence and harmonization have not been forthcoming. More specifically, the Open Method has ‘its core domain ... in precisely those areas of employment and social policy in which the European Union has not traditionally proven able to legislate under the Community method’ (Wincott 2003: 296). Rather than through binding legislation and harmonization, then, which was the goal during much of the Delors era, policy delivery under the OMC is to be procured through an intricate ensemble of jointly agreed commitments, objectives, policy guidelines, targets, and indicators, which, in turn, are to be continuously developed and refined in a process of mutual learning, benchmarking, peer group evaluation, exchange of good practices, partnerships, and so on. In this ‘iterative’ procedure of “soft law” governance’ (Trubek and Mosher 2003), the European Council occupies a principal position (Chalmers and Lodge 2003), while the Commission assumes the function of overseer, hence performing ‘a key coordinating and monitoring role’ (Wincott 2003: 296). The Commission keeps track of the activities of the various ‘stakeholders’; it monitors measures adopted by the member states with regard to the Lisbon goals, points to progress made and objectives not met concerning implementation; it

provides updates on the economic, employment, and social situation in the EU and from there goes on to address new challenges and necessary action. The Commission then brings this together in a massive number of recurrent recommendations, general as well as country-specific policy guidelines, annual reports, reviews, and scoreboards on implementation.

In trying to assess the merits of the OMC, Zeitlin (2003: 5) argues that '[b]y systematically and continuously obliging the Member States to pool information, compare themselves to one another, and reassess current policies in light of their relative performance, the OMC appears to be a highly promising mechanism for promoting crossnational deliberation and experimental learning across the European Union'. While this enthusiastic view largely tallies with the one nurtured by the Commission and other participant actors, Zeitlin (2003: 6) adds a proviso as to how the OMC will operate, more precisely, and how effective it really can be short of any powers of enforcement. This problematic is also taken up by Wincott (2003: 297), who argues that since 'the OMC does not impose substantial sanctions on states that fail to achieve the targets set by the common policy, this might mean that the OMC amounts to little more than a "merely" symbolic policy or sloganeering'. But instead of leaving things there, and getting bogged down in meticulous descriptions of the procedures surrounding the OMC, or, for that matter, in attempts at figuring out methods to make the OMC function as intended—which preoccupy so many of the scholarly interventions in the field—Wincott also touches on some of the broad political and ideological implications of the OMC. In a general assessment, he argues that 'the OMC could once again move "Europe" in the direction of an "Anglo-Saxon" policy regime' and thus 'be part of a process of Americanization, facilitating US style workfare' (2003: 297, 299). This is not to exclude the possibility that the

OMC could engender alternative policy paths or, for that matter, simply not engender very much to speak of at all. Most importantly, however, and as the significance that the British government attributes to the OMC and its considerable influence on the shaping of the Lisbon Strategy serve to underscore, Wincott's account demonstrates that the OMC's impact upon employment and welfare policies in the EU cannot be reduced to a question primarily about technocratic efficacy but needs to be analysed as contingent on the political and ideological context in which it is set to operate.

In an edifying piece on the Open Method of Coordination, Chalmers and Lodge (2003) pick up on this critical yet infrequently undertaken task. When viewed 'as a strategy for reincarnation of the European Welfare State', they argue, the 'OMC is subservient to the ideologies, path-dependencies and structures of Economic and Monetary Union, as institutionalised in the Broad Economic Policy Guidelines (BEPG)'. This provided, the Open Method 'is not a coherent strategy, for all its rhetoric, but a tactical response with limited manoeuvre to the new political economy of the Euro-zone' (Chalmers and Lodge 2003: 2). Such an appraisal corresponds quite well to the unequivocal (neo-liberal) content of the string of Broad Economic Policy Guidelines that was surveyed in the previous section. By way of elucidating the pre-eminence of the BEPG, Chalmers and Lodge (2003: 5) also point to the fact that, although these emanate from a process that share features with the OMC, they are not grounded, as is largely the case with the social objectives and employment guidelines, in the OMC and Lisbon, but rather in Maastricht and the Growth and Stability Pact. This imbalance is also reflected in the fact that the EU's employment policy and the accompanying employment guidelines—that is, the European Employment Strategy (EES)—'are required to be compatible with the BEPG' (Chalmers and Lodge 2003: 6). In a 2003 Council decision 'on guidelines for the

employment policies of the Member States', this stipulation is repeated time and again. 'In addition to the employment guidelines', the Council (2003: 16) underlines, 'Member States should fully implement the broad economic policy guidelines and ensure that action is fully consistent with the maintenance of sound public finances and macroeconomic stability'. Since the EES is explicitly prevented from intervening in key areas for employment, such as monetary, fiscal, and wage policy, it has developed 'largely as a supply-side strategy focusing on altering structural impediments to unemployment' (Trubek and Mosher 2003: 41). For the most part, this supply-side strategy has been preoccupied with reforms that would make social and welfare policies in the EU more 'employment-friendly' and conducive to job creation. Although I have already discussed the strong tendency to subordinate social policy to employment policy, more needs to be said about how this is manifested in the Lisbon equation in general and in the new Social Policy Agenda in particular.

### **The 'Modernization of the European Social Model'**

To begin with, and reflecting the afore-mentioned supply-side strategy on employment, when one surveys the SPA one can be in no doubt that it is largely modelled on the EU's Employment Strategy. When the Commission (2000b: 2) first outlined the SPA's three main fields of action in 2000, employment, not social policy, was at the top of the list. Characteristically enough, moreover, it is the goals of the EES that head the SPA's catalogue of 'Objectives and actions'; thus, they call for macroeconomic stability, highlight the need to 'remov[e] all remaining barriers to the development of the services sector', and attach great weight to the promotion of 'employability', 'adaptability', 'entrepreneurship', and 'equal opportunities' (CEC 2000b: 15-6). Likewise, in its *Mid-term Review of the Social Policy Agenda*, the Commission (2003a: 3) defines the SPA as 'the roadmap for employment and social

policy'. The almost undivided attention given to employment and the next to magical qualities assigned to 'paid work' recur in the Commission's OMC-driven *Social inclusion strategy*, which makes up a key component of the SPA. Here, the Commission (2002b) defines the OMC on *Social Inclusion* as a complement to the Employment Strategy and whose primary challenges and objectives are 'participation in employment' and 'employability'. Similarly, in a Communication with the illuminating title *Modernising Social Protection for More and Better Jobs: a comprehensive approach contributing to making work pay*, the Commission declares that '[i]ncreasing participation in employment, particularly among most disadvantaged people, is also seen as the main safeguard against drifting into poverty and social exclusion' and, further, that 'the best safeguard against social exclusion is a job as it was stated in the Lisbon conclusions' (CEC 2003c: 3).

But if the SPA is a 'roadmap' for employment, the Commission (CEC 2004c: 3) also points out that '[t]he social policy agenda is the EU's roadmap for modernising and improving the European social model'. Indeed, '[a]t the heart of the Agenda is the modernisation of the European social model' (CEC 2000b: 2). Since the launching of the Lisbon reform agenda, the called-for 'modernization' of the European Social Model (ESM) stands out as one of *the* most prominent watchwords in EU policy discourse. As spelled out in the Lisbon Strategy, the modernization of the ESM is set to facilitate the 'dynamic interaction of economic, employment and social policy'. Moreover, since it is alleged that '[m]ore and better employment in a dynamic and competitive economy strengthens social cohesion', the modernization of the ESM 'is required to underpin economic dynamism and pursue employment generating reforms' (CEC 2000b: 2, 7; see CEC 2004e).

It is also important to note that the modernization of the ESM taking place within the SPA does not entail an attempt to harmonize the welfare systems of the member states. Given the widespread reluctance to contemplate it, the insufficient EU competence, and, not least, the significant (institutional) differences that exist between the various social systems in the EU—differences that have widened even further with eastern enlargement (see CEC 2004d: 21-2)—such harmonization is deemed unfeasible for the foreseeable future. Rather than harmonization, a modernized ESM is to emerge from a set of commonly agreed upon objectives, benchmarks, scoreboards, and indicators prepared within the framework of the Open Method of Coordination. Put differently, ‘it is no longer necessary to seek to harmonize the “black box” of internal institutional arrangements, but instead, to articulate several main objectives at the European level, to be reached by each Member State’ (de la Porte 2002: 290). What this means is that the EU’s social model will thereby be embodied in and defined ‘by its performance rather than by its intrinsic qualities’ (de la Porte 2002: 290). From the perspective of the Commission, then, social policy needs to be approached, first and foremost, as ‘a productive factor’, its objectives firmly anchored ‘in the context of the internal market and the single currency’, and always ‘sufficiently flexible’ to face up to new challenges (CEC 2004c: 22; 2000b: 7).

Given its close reliance on performance, productivity, and flexibility, thereby subjecting the ESM to an ongoing process of modification, the modernized ESM now emerging in the EU is not easily identified. But even if it proves difficult to present a lucid picture of what the ESM amounts to today, we can still provide an assessment based on what it *does not*, indeed *cannot*, amount to under present circumstances. Thus, while EU policy documents abound with general statements

embracing a modernized ESM that is conducive to ‘a high level of social protection’ and ‘an appropriate balance between flexibility and security’, they appear rather non-committal when juxtaposed to out-and-out concurrence of the modernization process with the all-pervading economic policy guidelines that have been surveyed here. In the light of such acquiescence, there is little gainsaying de la Porte and Pochet’s (2002: 292, italics in original) contention that the EU’s social model is taking shape ‘in the shadow of an economic and monetary model that continues to constitute the *idée-force* of European integration’. Due to these obvious limitations, ‘[c]ertain options in welfare politics are simply not open’ (Chalmers and Lodge 2003: 10).

In all, the Lisbon reform agenda represents a further alteration of the approach to the welfare state on the part of the EU, one that is almost exclusively preoccupied with growth and competitiveness while effectively steering clear of any serious attention to social citizenship. Here, economic policy encroaches upon social policy by way of seeking to extricate, or immunize, itself from those aspects of welfare policy that are deemed to impinge on growth, competitiveness, employability, and so on. To borrow from Chalmers and Lodge (2003: 10), this encroachment/extrication nexus now operating in the EU could also be likened to ‘a colonisation of the Welfare State by the economic policy-making process’.

### **Embedded Neo-liberalism and the EU’s Competitive Welfare**

Despite such ‘colonization’ and the patently neo-liberal nucleus of the Lisbon process, a number of crucial qualifications remain to be spelled out. To begin with, I should like to note that the present account is not to be read as implying that the road now lies open for the smooth liquidation of the welfare states in the EU, or, for that matter, that the wholesale importation of the American model is just around the corner. Suffice it to say that the Lisbon process has been afflicted by much

protraction, direct as well as indirect popular resistance, but also by a piecemeal alteration and lingering criticism (from Germany, France, and other member states) of one of its cornerstones, namely, the Growth and Stability Pact, which at one point was even designated as ‘stupid’ by the President of the Commission himself. If this raises questions about the sustainability of the Lisbon reform agenda, it also points to a continual divergence of opinion over the actual meaning and scope of the endeavour to ‘modernize the European Social Model’.

At the EU level such contestation, albeit *sotto voce* and hardly ever made explicit, can also be discerned between, for instance, the different Directorates General, and it shines out from various reports commissioned by the EU. A good illustration of the latter is to be found by juxtaposing the recent reports drawn up by the Employment Taskforce (2003) and the High Level Group (on the future of social policy in an enlarged European Union) (2004). While both reports represent a line of policy that is neo-liberal at its core, they nonetheless emphasize quite different problems and potential hazards on the Union’s journey to growth, competitiveness, employment, and social inclusion. While the Employment Taskforce, whose report was candidly titled *Jobs, Jobs, Jobs*, launches a campaign for far-reaching flexibility, sizeable reductions of labour costs, hiring and firing, and emulation of the US, the High Level Group, although committed to ‘the concept that individual workers should show more responsibility’ (2004: 29), proceeds more cautiously, recommending, *inter alia* that social inclusion ‘must be developed as policy in itself’ (2004: 28). Dissatisfied with the notion that employment somehow constitutes a universal remedy against social exclusion and poverty, the High Level Group also highlights the problem of the ‘working poor’.

Notwithstanding the Employment Taskforce's aggressive neo-liberal approach, it is important to note that its report, which has been warmly praised by the Commission, also assigns a highly central role to governments, to public authorities, and, in particular, to the 'social partners':

Governments need to ensure that educational attainment levels are improved and, as a matter of priority, all stakeholders must be mobilised to make lifelong learning a reality. The Taskforce urges each Member State to devise ambitious policies to raise educational levels and ensure greater participation in training throughout working life. (2003: 10)

It is also noteworthy that the Taskforce, for all its enthusiastically neo-liberal counselling, still clings to a vague notion of social security, said to consist of 'decent pay, access to lifelong learning, working conditions, protection against discrimination or unfair dismissal, support in case of job loss and the right to transfer acquired social rights when moving jobs' (2003: 28). Indeed, such wavering between concrete neo-liberal prescriptions and saving clauses on the importance of 'protection' has made up one of the main threads in EU policy discourse since the early 1990s. And as we enter the new millennium and the era of the Lisbon process, this wavering can also be said to constitute the quintessential modernization of the European Social Model.

This provided, I can now go on to qualify my reasoning a little more. The wavering disposition on the part of the Lisbon process could be seen as symptomatic of the difficulties inherent in the attempt to persuade a European public of the unmistakable merits of neo-liberalism. The retention of rhetoric in defence of social protection, social cohesion, and the ESM may then be construed as a strategy of appeasement—particularly directed towards labour—and a necessary move to

generate enough consent around the Lisbon reforms. This seems, at least in part, to be borne out when considered in the light of Lisbon's heavy emphasis on the need to rally all 'stakeholders' (and the 'social partners' are often held up as tipping the scale) and to persuade European citizens that the necessary reforms are in line with their best interests.

This is not to suggest that the matter is reducible to Potemkin villages and empty rhetoric, although that is definitely part of it. But if that was all there was to it, one must ask, why then the felt need to engage in such formidable activity in the social policy field? Indeed, if the ESM was simply a rhetorical device—a bait—why invest such Herculean labour in its modernization? Why burden the already time-consuming and complex OMC with the arduous task of reforming and steering social policy in twenty-five countries? Put simply, why all the hoop-la about a specific *European Social Model* if it was just a cover-up for a neo-liberal onslaught on the welfare state pure and simple, for American-style workfare, and for an attempt to subdue organized labour?

In the light of these qualifications, there seems, then, to be a case for arguing that the currently unfolding Lisbon process, rather than simply neo-liberal, might be better construed as representative of an *embedded neo-liberalism*. According to van Apeldoorn (2003: 156, italics in original),

[e]mbedded neo-liberalism is neo-liberal inasmuch as it emphasizes the primacy of global market forces and the freedom of transnational capital. Yet, as a result of such processes, markets become increasingly *disconnected* from their post-war national social institutions. Embedded neo-liberalism is thus 'embedded' to the extent that it recognises the limits to laissez-faire, and thus to the disembedding

process, and accepts that certain compromises need to be made; hence at least a limited form of ‘embeddedness’ is preserved.

It was, van Apeldoorn (2003) argues, embedded neo-liberalism that emerged as the dominant ideological force in the shaping of the EU’s trajectory from Maastricht onwards. This was contingent on the collapse of the Delors Plan and the failure of ‘transnational social-democratic forces’ to set in motion a positive integration and supranational harmonization of welfare policy in the EU, and so put social policy on a par with the Single Market and the EMU (van Apeldoorn 2003).

Many features of the Lisbon reform agenda are indeed captured quite well by the concept of embedded neo-liberalism. The emphasis on a the crucial role played by the ‘social partners’ testifies to this, as do the repeated calls for apt policies on cohesion, lifelong learning, training, education, R&D, anti-discrimination, gender equality, integration of immigrants, ‘active labour market measures’, regional development, and so on. Another case in point is the Commission’s promotion of ‘corporate social responsibility’, whereby corporations are encouraged to ‘integrate social and environmental concerns into their business operations’ (CEC 2002c: 5). The embedded character of Lisbon’s neo-liberalism is also observable in its forthrightness about the key role to be played by the state, governments, and public authorities; something that clarifies the limits of what markets and corporations can do on their own. From the standpoint of the afore-mentioned Employment Taskforce, and regardless of its aggressive neo-liberal advocacy, there is thus no compromise involved in its calls upon governments to invest heavily in human capital, education, training, and the updating of skills. Rather, and in order to remedy such problems as ‘[t]he vicious circle of low investment by business in training’ (Employment

Taskforce 2003: 10), competitiveness and growth are said to depend on such state intervention (see also CEC 2004e).

On one reading, then, the Lisbon reform agenda could be interpreted as based on an understanding that neo-liberal restructuring in the EU should not be allowed to progress beyond certain limits. Here, a drive to remake the EU in the image of the US would be out of bounds, not only because it is deemed politically unfeasible—or socially unacceptable?—but also, and perhaps more important, because such a transformation might be seen as unnecessary and even to be detrimental to growth and competitiveness in the EU area. Rather than being reducible to vague moral commitments motivated by nostalgia for the *European Social Model*, Lisbon envisages retaining some facets of welfare policy as a structural precondition for enhancing the EU's global competitiveness. A certain amount of welfare policy is thus to be maintained, indeed needs to be maintained, provided that the most of it serves the competitive advantage of European capital, subsequently producing a virtuous circle of more jobs and enhanced social inclusion. In a nutshell, arguably, this is how the Lisbon agenda endeavours to convert welfare policy into 'a productive factor': one that upholds budgetary discipline, meets capital's demand for flexibility, and, not least, ensures a steady flow of (re)skilled labour through investment in publicly subsidized training and education programmes. This seems to be how a modernized yet 'uniquely' *European Social Model* is set to provide the EU with an equally unique competitive edge in its quest to emerge as 'the most competitive and dynamic knowledge-based economy in the world'. In this sense, when Lisbon calls on the state, governments, public authorities, the 'social partners', and welfare policy to perform certain tasks and duties, these are framed as indispensable primarily to the extent that they are targeted at growth and

competitiveness. That the state and governments should (also) serve as guarantors of rights of social citizenship and welfare—for example, in the Marshallian sense—is thus at best but a memory in the context of the Lisbon strategy.

Interpreted as such, the development that culminates in the Lisbon process can now be further qualified as representing a *limited form* of embedded neo-liberalism (van Apeldoorn 2003: 160). As seen above, this means, simply, that while Lisbon necessitates (welfare) state intervention, the active participation of labour, and a certain degree of social consensus, these elements are, in the final analysis, nonetheless ‘subordinated to the overriding objective of neoliberal competitiveness’ (van Apeldoorn 2003: 160). Again, this reflects the consequence of the structural imbalances in the strategy process’: the imbalance between ‘a relatively incoherent set of welfare targets and a strong neoliberal policy dynamic’ (Chalmers and Lodge 2003: 11).

Now, while it seems reasonable to argue that the Lisbon agenda to a large extent runs errands for those forces sympathetic to a limited form of embedded neo-liberalism, this is not to suggest that Lisbon is reducible to a set of irrevocable objectives and policy paths. Characterized by much uncertainty and unrealized objectives, and even considered a failure by some high-ranking officials, Lisbon has proved to be anything but a smooth journey. Moreover, that the Lisbon reform agenda, as an agenda, is heavily tilted in one direction does not mean that the ongoing endeavour to ‘modernize’ or neo-liberalize the different welfare systems of the member states has somehow ceased to appear a highly contentious and politicized matter. The massive opposition to Gerard Schröder’s modernization plan, Agenda 2010, that rocked Germany in 2004, and Sweden’s emphatic ‘no’ to EMU in a referendum dominated by issues directly related to the welfare state, are just two

examples testifying to the enormous difficulties that governments can face when trying to adjust national systems to the ‘neo-liberal policy dynamic’ they have helped put in place and committed themselves to at the EU level.

It is important to dare to assess the ideological underpinnings of the current development of European integration and the relative strengths of different interests and hegemonic projects in relation to the EU’s broader agenda, and from there to go on to broach the types of possibilities and restraints that these impose on the future trajectory of the EU. At the same time, we should not let such assessments conjure up an image of European integration as fettered by an unalterable logic. As borne out by my previous discussion concerning the increasingly conspicuous public discontent with neo-liberal austerity that emerged in the EU during the 1990s, ‘[s]omething new has been added to the struggle between ideological projects concerning the European political economy: a contest for endorsement by the public’ (Hooghe and Marks 1999: 97). As far as the Lisbon process is concerned, the significance of this novel public fact cannot be overstated. In illustrating this problematic the assessment by the Employment Taskforce—whose ‘policy messages are shared by the Commission and the Council’ (CEC 2004b: 3)—is symptomatic:

To succeed [with the Lisbon reform agenda], it is essential that governments build up reform partnerships, by mobilising the support and participation of the various stakeholders, and securing public conviction in the need for reforms. Also, more efforts should be made to demonstrate to the general public why reform is necessary and why it is in the interest and advantage of all. (2003: 10)

## **Conclusion**

With the preceding sections serving as a synopsis of my analysis of the Lisbon process, we can now relate these more current developments to what was canvassed in the foregoing. To restate one of my principal arguments, this paper has tried to show that, once the Single Market and the Single European Act set out to restrain regulatory powers at national levels, the prospects, scope, and relative strength of policies tied to the welfare state would, from the mid-1980s, *increasingly* come to hinge on the compensatory capacities and regulatory competencies at the supranational level. But as has also been shown in the foregoing, mainly because of the prevalent political disinclination at the time—that is, ‘the neoliberal European policy consensus’ (McNamara 1998)—the supranational level was never invested with such compensatory authorities. To the detriment of the EU’s welfare states, it was, rather, negative integration that prevailed, hence endowing the EU with an institutional, decision-making, and legal framework and dynamic that would come to work in aid of a deregulating *market integration* but at the expense of a protecting and positive *welfare integration*. This provided, the political and social consequences of the Single Market transformations were to become both extensive and lasting. These conversions continue to cast their shadow on today’s developments and, as such, they remain essential when we seek to comprehend the current situation. This is nowhere more evident than in the present Lisbon reform agenda. Thus, the conspicuous structural imbalance inherent in Lisbon between soft and disjointed welfare goals on the one hand, and an imperative ‘neo-liberal policy dynamic’ on the other, needs to be placed on a continuum with the Single Market reforms. Simply put, the structural imbalance in Lisbon could be likened to a magnified mirror image of the imbalance or asymmetry that the Single Market erected between market integration and integration of welfare policy. This magnifying imbalance between

market requirements and welfare protection has made the Union's welfare states 'constitutionally constrained by the "supremacy" of all European rules of economic integration, liberalization and competition law' (Scharpf 2002: 666).

But, as I have also gone to some lengths to explain, the consecutive failed attempts to modify this imbalance for the benefit of a 'Social Europe' cannot be reduced to the restraints inherent in 'negative integration' and the 'constitutionalized' market-making logic that was set in train by the Single Market reforms in the mid-1980s. Notwithstanding their (in many respects) compelling and indeed self-propelling force, these structural, institutional, and legal restraints must also be approached as indissolubly bound up with the political transformations that have taken place in the EU over recent decades. In order to grasp how neo-liberal market-making has been allowed to advance relatively unimpeded, and thus to dominate the course of European integration for the past twenty years, I have demonstrated that this must also be attributed to the political and ideological realignments within Europe's social democracy: what we may now designate as the *former* mainstay of the European welfare state, or—why not?—the 'European Social Model'.

Instead of taking up the gauntlet thrown down by the various structural imbalances between 'Market Europe' and 'Social Europe', social democratic establishments in the Union have increasingly come to embrace an embedded form of neo-liberalism. Owing to this shift, today's modernized social democracy discerns less and less of a contradiction in the enterprise of pledging to uphold the 'European Social Model' while simultaneously undermining the welfare state piecemeal through a steadfast neo-liberal *realpolitik*. Unlike previous social democratic leaderships and the Delors Commission, for which the contradiction still was real and therefore framed as a problem in need of resolution, social democracy of the Third Way, including

successive European Commissions, has in many respects ridded itself of such quandaries. However, as shown above, this is not to imply that the Third Way establishment evinces any less concern with social welfare, cohesion, and exclusion. But since these matters are now said to hinge less on structural means geared towards universal social entitlements, redistribution, and decommodification, and more on supply-side measures of flexible labour markets, employability in paid work, and budgetary discipline, as well as on individual and corporate social responsibility, the advocacy on the part of social democracy of neo-liberal policies and the steady extension of market relations into previously protected areas are no longer construed as contradictory measures. Rather, and although sometimes referred to as a necessary acid test, policies of privatization, expanding market relations, shrinking social benefits, and flexible labour markets have come to be presented as forming parts of the one and only solution to the problems of unemployment and social exclusion in the EU.

However, as the late 1990s neo-Keynesian episode and the continuing widespread public discontent with neo-liberalism clearly indicate, the perception that a European integration that predominantly caters to the interest of capital indeed works to the detriment of social welfare is a sentiment that refuses to die. As this paper has shown, moreover, it is a sentiment that periodically manages to meddle even with elite contentions over the future direction of European integration. In this sense, there is reason to believe that it will crop up again, that dust will be removed from contradictions, and that fresh life will be infused into what now, as seen in the Lisbon strategy, are being framed as antiquated conflicts between labour and capital.

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