

**LEARNING TO WORK TOGETHER:
THE IMPACT OF THE EUROPEAN EMPLOYMENT STRATEGY ON EUROPEAN INTEGRATION***

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Abstract

Drawing on a recent set of elite interviews, this paper examines the relationship between European Union efforts at economic policy coordination and national level reforms to economic and social welfare systems. Contrary to conventional interest-based and institutional accounts, the role of ideas in framing the need for reform, the terms of the debate, and the available policy solutions emerges as a central explanatory factor in understanding the timing and nature of national policy reforms in Europe. The central influence of European Union institutions and discourses in both defining the nature of new social and economic challenges as well as legitimate solutions is highlighted through a detailed analysis of the politics and discourse of the national reform process in Germany.

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INTRODUCTION

How have the economic and social welfare systems of Western European states responded to the challenges of European integration, demographic change, increased competitive pressure, and persistent problems with high unemployment and low growth? What role has the European Union actually played in structuring national responses to economic and social crises? Customary accounts focus on the extent to which individual states have either retrenched or recalibrated social welfare systems and the degree to which watchwords such as neoliberalism, deregulation, and flexibility have governed into debates and decisions on economic policy; the EU is typically assumed to be only marginally influential in national policy debates and reforms.

In contrast, this paper argues that the EU has played an important, though indirect, role in shaping national responses by redefining a paradigm of economic and social cohesion that in turn provides a valuable institutional and rhetorical resource for national systems facing crisis and reform. The paper correspondingly develops a case for the causal power of ideas in defining both the challenges facing national systems and in developing appropriate solutions. In this manner, the EU has played an important role in encouraging the exchange of ideas and beliefs about economic and social welfare policy across the political economies of Europe, leading to a dynamic of learning and adaptation most visible by examining the politics and discourses of national reform processes, rather than devoting attention to the customary indicators of material and institutional changes.

The broader puzzle informing the paper is the diversity of national responses within the broad area of economic and social cohesion policy—a policy area that has been vigorously defended by the national governments of the EU member states in the past. In general, the changes observed neither conform to a universalizing logic of globalization (complete convergence or a race to the bottom), and are also not consistent with traditional institutional or interest-based explanations. To be sure, common trends in the reform of both labor market and social welfare policies are discernible in most EU member states, including in the reform and decentralization of public employment services, shifts towards active labor market policies over passive policies, the increased prominence of local-level policy coordination, and a general trend towards privatization of social welfare services. Yet differences in the timing, specific policy responses, and institutional contexts within which these reforms have taken place complicate efforts to identify common casual relationships. In distinction to familiar explanations focusing

on either domestic institutional contexts or power resource and interest explanations, this paper focuses on the interaction between the politics of economic and social policy reform—the debate of value-laden issues with high social salience among European populations—and the interplay of these political and ideational debates with the European level discourse on economic and social cohesion. Neither unique constellations of domestic institutions in the political economy of individual states nor entrenched sectoral interests and patterns of class conflict are sufficient to explain the patterns of change and reform, though both are important elements to a comprehensive explanation. Instead, the debates and discourses of policy reform among elites, and between elites and constituents – the “politics” of the process – are as important as the institutional, economic, or functional imperatives, if not more so.

Most centrally, the trends in policy and strategy observed all reflect a broader European discourse on economic and social cohesion that aims to balance economic competitiveness and growth with social protection, thereby representing an attempt to chart a course between the oft-invoked ideologies of neoliberalism and state-based welfare capitalism. First outlined in concrete form at the 2000 Lisbon Council, the notion of economic and social cohesion drew on prior European Union level efforts to coordinate economic policy among the member states that had been amalgamated through a series of EU Councils and Treaty steps and eventually institutionalized as the Employment Strategy (EES) together with the Open Method of Coordination (OMC) as a policymaking method. In general, the EES/OMC was established to tackle persistent challenges facing EU economies: lagging competitiveness, high rates of unemployment and long-term unemployment, demographic shifts, and the emergence of new challenges to social welfare states. While substantive progress thus far has been mixed, the core ideas underpinning the Lisbon Strategy as embodied in the notion of economic and social cohesion have exerted a subtle, diffuse, yet real influence on the political economies of the European Union member states.

The central argument of this paper thus encompasses three key themes: first, understanding how the EU-level institutions and discourse of economic and social cohesion are actually employed. Existing theoretical perspectives emphasize a unique dynamic of information exchange and learning within the EES/OMC process, but overlook the dimensions of political conflict and construction of reform discourses that are also important in explaining the varying impact of the EU across individual political economies. Second, the paper highlights the

changing nature of economic and social policy itself, which furthers our understanding of how the EU interacts with member states and of the challenges that both the EU and member states are facing. Finally, this refined understanding of the European Union role is used to develop to a more precise understanding of the timing and choices made in national reform processes, with particular attention to the causal power of new ideas within specific institutional contexts.

The key policy areas in which these dynamics are visible include economic coordination (best-practicing and cross-national learning), social welfare in “new” issue areas addressing the challenges of integration and demographic change across Europe, and the debate over deregulation and privatization. All these elements have been substantively linked through the process of European economic integration, and are also increasingly being treated as a comprehensive whole through the European concept of economic and social cohesion. In lieu of a comprehensive comparison across European states, the paper first re-evaluates the relationship between the EU and member state levels, and then concentrates on the German case as illustrative of the dynamics suggested by these refined theoretical expectations. In many ways, Germany is an ideal case to test the plausibility of new hypotheses in economic coordination and welfare state reform within the EES context. Germany did not reform at the same time as institutionally similar states, and did not take the pathways expected by traditional literature on welfare state reform, and thus is generally regarded as an outlier. Alternately, Germany constitutes an ideal case for exploring new theories and causal relationships. While institutional features explain some of the variation exhibited by Germany, attention to the (value-laden) politics of economic and welfare reform are critical to fully theorizing and explaining the observed outcomes.

Thus, the paper proceeds as follows, first specifying the dependent and independent variables and outlining the various theoretical approaches typically used to generate hypotheses concerning economic and social policy among the EU and its Member States. Second, these claims are evaluated against recent evidence collected through a series of elite interviews among individuals involved in various dimensions of the EU economic and social cohesion process as well as the national economic and social policy reforms in Germany. Finally, a brief review of empirical evidence and secondary literature on the German reform process and broader effects of the Lisbon Strategy serve to corroborate the interview evidence and strengthen support for the alternative hypotheses developed in the theoretical section. The paper concludes with an evaluation of the theoretical claims and empirical evidence on the causal mechanisms and

linking the EU economic and social cohesion discourse with national reform processes, together with a discussion of the implications for future research into economic and social welfare policy and politics in Europe.

THEORETICAL FRAMEWORK

The dependent variable under investigation is the manner in which European states have reformed economic and social cohesion policy. With specific reference to the German case, the timing and direction of policy reforms are of interest in that they vary from the expectations of the established explanations discussed below. In undertaking a qualitative analysis of the politics of reform, the paper seeks to uncover not just the presence or absence of policy change, but the precise nature of the reforms, thus picking up changes that are often overlooked by analyses that focus solely on spending levels or institutional characteristics. The key explanatory variable is can generally be conceived of as the construction of a discourse on economic and social cohesion policy (cf. Cox 2001, 2002) or the influence of new ideas on the politics and strategies of reform (cf. Blyth 2002). With specific reference to the EU dimension, the presence/absence of mechanisms linking national reform debates and political processes to EU level processes such as learning and information exchange are hypothesized to be central explanatory factors. Yet in lieu of specifying a specific set of IV-DV relationships, the paper seeks to examine a constellation of factors that may impact the timing and nature of reform strategies.¹ In this sense, the current study is an exercise in both process tracing and first step in generating a typological framework that captures the multitude of factors influencing economic and social cohesion policy (George and Bennet 2005, Ragin 1987). Before more fully developing the causal relationships and expectations that flow from this approach, it is necessary to discuss potential alternative approaches in justifying the theoretical and methodological framework chosen here. The main causal processes employed in analyzing outcomes in EU politics and national policy reform—rational-material or power-resources explanations, coalition politics accounts, and

¹ This paper presents a portion of a larger research project that employs typological analysis to understand the role and causal impact of a series of independent variables, both individually and in combination with one another. Though the larger project is still in design, variables under consideration for the typological analysis include extant welfare state structure (drawing on the “Varieties of Welfare Capitalism” approach, Esping-Andersen 1990), domestic political context, macroeconomic situation, receptivity and relationship to the European Union, specific policy area in question, environment for information exchange and learning, cost-benefit distributional and considerations. On typological analysis, see George and Bennett (2005).

institutional explanations—are briefly considered before introducing an alternative explanation centered on the ideational roots of discourse, learning, and political conflict hypothesized to be relevant to the economic and social cohesion policy field.²

A wide range of explanatory logics fall under the rational-material heading. At the level of EU and member state interaction, the behavior of actors can be assessed against cost-benefit matrices based on rational choice accounts of institutional and bureaucratic behavior, as the incentives for adopting new policies or modifying institutional structures (e.g. financial or reputational gains, organizational resources) are likely to induce actors to change policy and behavior (cf. Peters and Wright 1998, Hall and Taylor 1996). However, the empirical evidence on the impact of the EES/OMC on member states is mixed in this regard, in that in some cases actors may incur higher costs to avoid institutional redesign, and in others institutions are redesigned at an explicit cost, but understanding this “irrational” outcome requires attention to the manner in which crisis or the need for reform was constructed, justified, and implemented (DG Employment interview, Cox 2002).

At the national level, both the power resources and coalition politics arguments draw on rational-material logics in explaining the nature of institutional change and policy reform. Power resources explanations focus on the entrenched interests of various groups in support of economic and social welfare policies in explaining first their creation and then more recent patterns of retrenchment. However, as Cox (2001, drawing on Pierson 1996) has shown, the general expectation that pressures for welfare reform should align with the political strength of right-wing forces does not match the empirical record. Periods of welfare state expansion and retrenchment do not match the ideological stance of a government; indeed governments oriented towards both the right and left have acted *counter* to the expectations of this account over the course of reforms to economic and social welfare policies in Western European states, with social democratic governments actually initiating and implementing key reforms in several cases, including Germany (Cox 2001, 466-467). More centrally, though, the argument advanced below is grounded in empirical evidence that changes to economic and social cohesion policy are more complex than the simple dichotomy of expansion and retrenchment observed in traditional analyses (Taylor-Gooby 2004a, cf. Pierson 1996, 2001, Swank 2002).

² Because the Lisbon Process, and the EES/OMC in particular, are not part of the Community Method of policymaking, “typical” explanations such as principal-agent relationships or specific theories concerning policy implementation/transposition and compliance are not discussed here.

A related line of explanation, coalition politics, sees groups such as unions, business associations, and the middle class as independent actors, moving support to different policies and parties depending upon economic conditions and expected gain. Again, though, this material-rational approach tends to overlook the qualitative (and nuanced) policy changes actually underway; Cox (2001, 469) notes that coalition politics explanations does not differentiate between straightforward budget cuts (in the German case) and a fundamental shift in thinking on the purpose and politics of economic and social cohesion policy (as observed in the Netherlands and Denmark) that also incorporated budget cuts. The process of defining and articulating goals is thus overlooked, as is the qualitative difference in the “new risks” outside of traditional pension, unemployment, and health care questions that are increasingly the focus of economic and social welfare policy, within which traditional interest coalitions may break down (Taylor-Gooby, 2004a).

Finally, institutional explanations focus on the constraints and opportunities resulting from unique constellations of formal and informal institutions in a domestic setting to explain the presence/absence and direction of policy reform (e.g. the “Varieties of Capitalism” (VOC) perspective, Hall and Soskice 2001, and the “Worlds of Welfare Capitalism” approach, Esping-Andersen, 1990). Research on changes to economic and social welfare policy demonstrate that existing institutional configurations do, in fact, condition the type of reform, but do not wholly determine outcomes; the changing nature of salient issues in economic and social policy mean that existing institutional constellations are at least as likely to be challenged and modified as they are to determine the outcome of reform processes (Taylor-Gooby 2004, 224). Institutional explanations accounts do point to important elements in explaining policy change or stasis, such as the consensual nature of German corporatism and the multiple veto-points in the federalist structure as contributing to the slow pace of reform in Germany, yet such analyses are often highly specific to individual cases. As Cox (2001) points out, the institutional explanations invoked in explaining the differences in reforms among relatively similar states (the Dutch, Danish, and German cases), break down when these states are placed within a larger (EU) context.³ More importantly, institutional explanations may point towards general tendencies in

³ In addition, Cox notes a second dimension along which traditional institutional typologies break down when examining the cases of Germany, the Netherlands, and Denmark. Both Germany and the Netherlands are corporatist regimes, but only the Netherlands achieved substantive reform in the 1990s when both states were experiences

political processes, but are not able to specify the internal dynamic that yields a particular new policy course at a particular point in time (Cox 2001, 471).

The shortcomings of power-resources and coalition politics explanations in reconciling trends in policy change with short-term variation in either the ideological stance of governments or class-based interests suggests that a longer-term perspective is necessary to understand the full dynamic of reform in economic and social cohesion policy. Although institutional perspectives provide a valid starting point in analyzing the middle- to long-term changes in question, understanding the specific dynamics of change requires moving beyond the static VOC or Welfare Capitalism paradigms and devoting attention to how both institutions and the actors within them work to define new ideas and courses of action. Recent scholarship on the relationship between the politics of value-laden issues and particular historical institutionalist insights on the role that institutions may play in framing the terms of debate and available solutions offer a more promising pathway than interest-driven institutional accounts (Banchoff 2005). In this regard, the importance of unique institutional arrangements, path dependent dynamics, and attention to longer-term processes remain relevant, but increased emphasis is given to the political nature of policy change—namely role of key actors in employing ideational and rhetorical resources (in addition to institutional opportunities and constraints) in defining a crisis, setting the terms of debate, and identifying a new course of action.

Attention to the role of actors and the causal power of ideas is thus the final element to the analytical approach taken here in understanding institutional and policy change. In general terms, ideas are critical to defining a crisis or need for change, constructing alternative options, and choosing a course of action in times of economic crisis and change: “[w]ithout a set of ideas to diagnose the nature of uncertainty facing agents, institutional change—that is the deliberate replacement of one set of economic institutions with another—can only be understood theoretically as a random “shot in the dark” (Blyth 2002, 45).⁴ In emphasizing the role of ideas, and by extension the role of agency, in structuring specific political responses to economic challenges, the present account goes beyond institutional accounts that simply explain outcomes

similar pressure; conversely, as a Scandinavian model of welfare capitalism, Denmark is expected to be a reform laggard, but actually led both the Netherlands and Denmark in both temporal and substantive terms (Cox 2001, 471).

⁴ More specifically, Blyth notes that “Periods of institutional change thus follow a specific temporal sequence, with ideas having five different causal effects at different time points during periods of economic crisis: uncertainty reduction, coalition building, institutional contestation, institutional construction, and expectational coordination” (Blyth 2002, 45). The aim of this paper is not to test these individual hypotheses, but to understand in a general sense the relationship between ideas and patterns of policy change not explained by institutional analyses alone.

as a function of prior institutions, without specifying either a causal mechanism or accounting for variation and departures when they occur (Blyth 2002, 264). Complementing the attention to ideas is the emphasis on learning as a specific causal mechanism through which actors come to identify new options or potential solutions to present crises as actors are exposed to new information and experiences through interaction in a decentralized environment. This analysis draws on the “belief system” conception of learning that “characterizes learning as encompassing processes through which individual learning interacts with social and political dynamics to become an important input into the constitutive ideas of organizations, governments, and international systems” (Bennett 1999, 77).⁵ In a general sense, lessons from information and experience shape cognitive structures, and in turn cognitive structures and beliefs shape behavior (Bennett 1999, 36). Critically, learning emphasizes a change in belief structure of the *actor* that may or may not be reflected in specific outcome such as a policy; similarly, changed behavior through learning may or may not lead to improved performance or more efficient outcomes (Bennett 1999, 82, 99). Concretely, this means that although changes in policy as a response to new information may be an indicator of the learning mechanism, changes in language or justifications for extant policies and/or changes in behavior consistent with new information but not translated into new policies are also consistent with the learning argument.

The addition of ideas and learning focus greater attention on micro-level processes that provide the missing link of causal mechanisms explaining timing and nature of change not readily discernible from the constellation of institutions and actors alone. In this sense, the methodological approach taken is a first step towards detailed process tracing the interactions among numerous variables within a case to an observed effect (George and Bennett 2005, ch, 10). In short, tracing out the politics of economic and social cohesion policy—the actual interactions, debates, and discourses among actors—provides us with the final piece in the puzzle to understand why particular ideas and courses of action become salient over others, and why they do so at particular points in time.

This theoretical and analytical framework outlined above generates several expectations by which to evaluate the empirical evidence presented in the following sections. First, the system of institutions for governing economic and social cohesion policy in Europe may not

⁵ Bennett takes the term “belief system” learning from Tetlock. See Tetlock, Philip, “Learning in U.S. and Soviet Foreign Policy: In Search of an Elusive Concept” in George W. Breslauer and Philip E. Tetlock, *Learning in U.S. and Soviet Foreign Policy*, 22-44. Boulder: Westview Press, 1991.

reflect criteria of efficiency as suggested by materialist theories, nor the clear lines of delegation and authority reflected in principal-agent theory. Indeed, the Lisbon Strategy and the use of the EES/OMC was largely a compromise solution that circumvented the institutional features of the EU, so as to be able to address politically sensitive, value-laded topics while avoiding the pitfalls of top-down harmonization or complete surrender of national competency. Much as observed by Blyth in a different context, the actual economic or institutional efficacy of the ideas employed was not the key issue, but rather their ability to effect change (Blyth 2002, 258). Secondly, the politics of economic and social cohesion reform debates, involving the rhetoric and discourse used to construct key issues and the define the nature of the crisis, need for reform, and spell out reform solutions, is more central to understanding specific outcomes than power-resources, material, or strictly institutional arguments (cf. Blyth 2002, Cox 2001, Hall 1993). In this sense, the role of agents, or the need for ideational and “social entrepreneurs” to champion causes and interject themselves into the political process, emerges as key to change and continuity within a given institutional context (Evers & Strück 2002). Finally, the missing piece of the puzzle in domestically based accounts is the role that the EU has played. In this context, a fuller understanding of the specific mechanisms through which EU level institutions and rhetoric influence national strategies in turn facilitates a more comprehensive understanding of how institutional characteristics play a role (cf. Taylor-Gooby 2004*b* and Cox 2001, 2002).

To preview the conclusions, the role of constructing a reform discourse is essential to explaining diverse outcomes in the field of economic and social cohesion policy where institutional and power-resources explanations are indeterminate. Thus, Germany failed to reform the same time as institutionally similar states, and when reform processes were initiated, they took a fundamentally different direction despite similar constellations of entrenched interests and institutional arrangements. Going one step further, though, and understanding the particular ideational resources employed in constructing a reform discourse and new policies in Germany requires attention to the substance and institutional mechanisms of the EU discourse on economic and social cohesion as contained in the Lisbon Strategy. With regard to specific changes to social welfare policies and institutions, neither the traditional “welfare state retrenchment” argument nor the “globalization and race to the bottom” thesis accurately capture the type of change taking place at the EU level or in Germany (Evans and Strünck 2002, see also Pierson 2001, Swank 2000). Instead, a dynamic of cross-national information exchange and

learning, leading to “cognitive convergence” around general ideas concerning economic governance and specific policies and practices underpin the various political strategies adopted to justify and enact reforms (Dehousse 2002). As a result, fundamental tenants of the German economic and social policy system were rethought and redefined over the reform process.

The following sections trace out the mechanics and operation of the EU level processes on economic and social cohesion, with attention to the new nature of economic and social challenges facing the EU and its member states. These insights are then applied to the specific case of Germany, before returning to an overall evaluation of the theoretical framework discussed above.

THE LISBON STRATEGY – ROLE OF THE EES AND OMC⁶

The Lisbon Strategy, launched in 2000, merged existing EU efforts at economic policy coordination with related efforts to combat social exclusion and address social welfare policy. Coordinated reforms in national employment, education, training, and research and innovation policies formed the heart of the agenda, and as an overarching goal, member states aimed to make the EU “the most dynamic and competitive knowledge-based economy in the world” by 2010 (Lisbon Strategy, 2005). However, progress in improving long-term unemployment rates, economic growth, and female labor participation was sporadic at best, and it quickly became clear that the Union would fall short if its bold goals (Center for European Reform, 2005). At a 2005 review, the Lisbon Strategy was re-launched with a focus on “jobs, growth, the environment, and a proper social network” and a substantive focus more attuned to questions of social exclusion and new social risks, rather than traditional labor market, health care and pension concerns (Lisbon Strategy 2005, Centre for European Reform 2005). The growing emphasis at the EU level on the new challenges facing economic and social cohesion policies,

⁶ This section draws extensively on personal interviews with EU officials in DG Employment, Social Affairs, and Equal Opportunities (abbreviated “DG Employment” throughout), including the Employment Affairs Unit, Employment Strategy Unit, Employment Analysis Unit, Social Protection Unit, ESF Policy Coordination and Regional Development Unit, Mutual Learning Program Office, and Regional Unit for Austria, Germany and Slovenia; in addition, several national policymakers and academic experts were interviewed. Additional interviews were conducted at the Max Planck Institute for Social Research (Cologne, Germany), the Social Science Research Center (WZB, Berlin, Germany), the Università Commerciale Luigi Bocconi (Milan, Italy), and the Unità di Ricerca sulla Governance Europea (URGE, Moncalieri, Italy). All interviews were carried out in June and July of 2005.

rather than the traditional concerns of national welfare states, has allowed the EU provide important rhetorical and institutional resources for individual national reform processes, and is an important element in explaining the timing, justifications, and policy choices made within EU member states.

The roots of the Lisbon Strategy and EU attention to economic and social cohesion are found in the European Employment Strategy (EES), initially launched at the 1997 EU Jobs Summit and later institutionalized into the EU Treaty Basis in the Employment Chapter of the Amsterdam Treaty (Trubek and Mosher 2001, Larsen and Taylor-Gooby 2004). The EES itself was a product of both EU level concerns about lagging economic competitiveness and high unemployment, as expressed in the 1993 Commission White Paper on Employment, as well as member state concerns, expressed in the establishment of employment guidelines at the 1994 Essen Council (COM 1993, COM 2002, DG Employment interviews). Subsequently the EES was linked to EU level social policy efforts through both the Lisbon Strategy in 2000 and later through incorporation of the EES into the European Social Agenda at the Nice Council in 2002 (COM 2002). Over its history, the EES represents an effort to comprehensively address both old and new challenges facing the European economies by coordinating policy at the European level. Since its inception, the EES has embodied a specific economic and social vision for Europe, centered around an idea of economic and social cohesion that seeks to chart a course between Anglo-Saxon style neoliberalism and the nationally-based economic and social welfare systems that have dominated Europe since the 1950s (DG Employment interviews). Importantly, the emphasis on the social component of the EES has grown over time from an outgrowth of economic integration policy to a more comprehensive element that distinguishing the European strategy as a holistic conceptualization of economic and social issues (DG Employment interview, Falkner 1998)

At its core, the EES consists of a set of formal guidelines agreed upon by the member states that inform the development of individual National Action Plans (NAPs) for economic and social cohesion policy. The NAPs themselves are developed in conjunction with social partners and other interested parties, with the expectation that the planning and policy implementation process is transparent and open to access and criticism by all relevant actors, and are submitted to the Commission, Council and EU Employment Committee (EMCO) on an annual basis for review and comment. Implementation takes a “management by objectives” approach in which

multiple actors are involved (ideally), and an annual benchmarking process evaluates the actual achievements and policy changes in each state (COM 2002). At the end of each year, the Commission and member states together issue progress reports highlighting successes, failures, “best-practices” with the intention that policymakers and experts in other states might emulate or learn from successful policy initiatives (Overdevest 2002, Trubeck and Mosher 2001).⁷ Within the common framework of shared goals and processes, implementation of the EES varies from state to state, allowing for diverse national responses in light of the different institutional and political contexts that exist across Member States.

Furthermore, the EES employs a unique method of governance, the Open Method of Coordination (OMC) coordinate economic and social cohesion policy. Formally institutionalized together with the EES at the 2000 Lisbon Summit, the OMC is a form of horizontal, inclusive, transparent, and flexible policymaking process that draws on general principles of multilateral surveillance and “new management” such as benchmarking, best-practicing, peer review and learning, and a free exchange of ideas within the economic and social cohesion field.⁸ In general, the OMC, in conjunction with the EES process, “flattened” the decisionmaking process by removing the Commission from its position as policy initiator and instead introducing a more comprehensive system of consultations between national (and regional/local) ministries, social partners, EU-level institutions, and expert committees (Overdevest 2002, DG Employment interviews, Schäfer 2004).

A fundamental innovation contained within the OMC process is found in its explicit focus on information exchange and (hypothesized/desired) learning from best practices; these “learning effects” are expected to flow from the interaction of diverse groups of actors within the policymaking and benchmarking process. Although the learning process is presumed to be continually operating through the day-to-day interaction among actors, it also takes concrete institutional form through the Mutual Learning Process (MLP),⁹ which brings together national policymakers and outside experts in periodic formal assessments of best practices as identified

⁷ Until recently, the Commission also had the option of “naming and shaming” poor performers that did not meet their self-defined targets under the NAPs, though this process was discontinued in 2004 at the request of the member states, largely to avoid continued public embarrassment and combat already pessimistic views of the EU (DG Employment interview).

⁸ The OMC is not a singular process, but is used in varying forms to coordinate policy in diverse areas, including health, taxation, education, and social exclusion. The processes all vary slightly according to the substantive area, but share an emphasis on inclusiveness, transparency, learning, and benchmarking.

⁹ Formerly the Peer Review Process, and officially relaunched as the MLP in early 2005.

by the Commission and member states (DG Employment interviews, COM 2003, Mutual Learning Program 2005). The selected policies and strategies are critiqued and evaluated for their transferability to other national or institutional contexts, with the aim that participants bring back new ideas to generate policy innovation within their home state. At a broad level, the OMC and institutionalized information exchange such as the MLP are credited with a “cognitive convergence” around a set of ideas concerning economic and social cohesion policy that may ultimately lead to a change in thinking among policymakers, and agreement on common concepts, indicators, and measures (DG Employment interviews; the term is from Dehousse 2002). In practice the mechanics of policy transfer across states and contexts is less direct and immediate than was originally expected, yet the conceptual convergence around a set of ideas informing economic and social cohesion policy is central to the relevance of the EES/OMC process in practice.

A more complete understanding of the EES and OMC in practice, however, reveals several important disjunctures with the idealized conception discussed in much of the secondary literature. Central to the argument presented here, the EES/OMC in operation suggests different dynamics of interaction between the EU and the member states in the field of economic and social cohesion policy, and thus opens the door for a more complete analysis of the dynamics of policy and institutional reform within the member states themselves.

The Real Impact of the EU – Rhetorical and Institutional Resources

Without denying the importance of both institutional mechanisms and political language that underpin a common, comprehensive approach to economic and social cohesion policy (as will be discussed below), the actual operation of the EES/OMC process has been characterized by frequent changes in focus and mechanisms that have hampered attempts to implement a truly comprehensive, long-term strategy of structural change and policy reform.¹⁰ Constant tinkering with the process on the part of both member states and the commission has resulted in frequent changes to the number of guidelines and the nature of policy and planning procedures, resulting in confusion and frustration at the national level. The general effect of frequent changes to the

¹⁰ To illustrate, one interviewee pointed out that the EES has moved from a system of five guidelines with nineteen subsidiary guidelines in 2000, discarded in 2003 for three overarching goals and ten guidelines (plus a common statement on good governance); these in turn were scrapped in 2005 for a new system of “integrated guidelines” (though a parallel Council declaration maintained that the 2003 guidelines were still in effect).

process has been to distract the EES from discussion of substance; as one Commission official indicated, “if we’re after structural change, then [we need to] keep the guidelines without constant change” (DG Employment interviews). In general, the politics of coordinating economic and social cohesion policy among the EU and national levels often confounds the recognized necessity that coordinated action is necessary if the EU is to realize the full benefits of an integrated market and densely intertwined national economies. The necessity for far reaching structural change in labor market and social welfare policy in most states is also widely acknowledged, but only partially realized through EU-level coordination.

Short-term political imperatives often contradict the long-term strategies and reform processes that underpin the EES in principle, leading to “the paradox of the EES” which hampers its translation into practice. On the one hand, the EES requires the highest-level action (agreement in the Council), which means that “the presidency makes a bold statement or change every six months” to show initiative, and heads of state similarly need to “show off” a new agreement that indicates decisive action. On the other hand, stability and the gradual unfolding of long-term processes and plans are actually needed to enact the reforms embodied in the EES. Centrally, the EES “needs consistency and the political will to carry it out.” Reconciling long-term political will with short-term, high-visibility action remains a central sticking point in the EES (DG Employment interviews).

As far as the related OMC goes, the empirical record is also mixed. Most officials conclude that the process is not as open and transparent as hypothesized, and that policymaking in fields where the OMC is employed remains largely closed and elite-based.¹¹ Critically, the consultation process among national parliaments, ministries, and social partners amounts to little more than rubber-stamp procedures in many cases, with little meaningful debate among relevant actors. Although important examples of changes to consultation and policymaking patterns do exist, most states tend to keep economic and social cohesion policy within traditional national ministries (e.g. labor or social affairs) and separate from ministries dealing with EU affairs (DG Employment affairs interview).¹² At the same time, it is important to realize that in lieu of either

¹¹ One respondent went so far as to note “to call the OMC open is ideological” and another admitted that it is “not the view of the Commission that it is essential for other stakeholders to be involved” (DG Employment interviews).

¹² Among the states that exhibit change in this regard, one group of states has used the EES/OMC process to initiate or complement reforms in the relationship between central and regional/local governments (Spain, Ireland, France and the UK); there is another general pattern of “the south looking north” as Mediterranean states adopt models from northern Europe, such as Portugal’s use of the Belgian minimum income scheme and Irish anti-poverty

top down regulation through the Commission or complex and contentious interstate bargaining in the Council, the OMC is viewed as a “more constructive, less confrontational way of working together” that offers a compromise solution to both member states and the EU in treating sensitive policy areas; one official noted that “OMC is the best instrument we can have in this area with limited [EU] competencies” (DG Employment interviews). At the least, the political process under the OMC is more likely to be generally transparent (if not inclusive) and consensual when contrasted with the “wheeling-and-dealing” of intergovernmental processes where votes are traded and secured for favors and concessions behind the scenes, only to present a face of unanimity Council decisions (DG Employment interviews).

Despite remaining relatively closed and elite-based, the unique atmosphere of policy- and decisionmaking within the OMC does appear to contribute to a greater degree of information exchange and learning across national contexts. To be sure, initial expectations that best practice policies would be transferred from one national or sectoral context to others were unrealistic, but the OMC has been fundamental to a gradual diffusion of ideas across the EU and a cognitive convergence at both the broad conceptual level (e.g. the EES as a comprehensive economic and social cohesion approach) and at the level of specific policies or instruments (as tracked by the MLP). The key to the overall processes is a combination of “learning by doing” and “management by objectives” that Commission officials cite as giving national and EU officials a broad context for information exchange that is safe, in that it is not formally binding in the same sense as the decisions of a Council meeting. The result has not been direct policy transfer, but an “interrupted learning process” whereby the lessons learned from best practices are transferred and then interact with new (host) political and institutional factors in the process (DG Employment interviews). The result is often a longer than anticipated delay in policy change and a much more diffuse thread from idea to implementation. Describing the learning process in practice, a Commission official noted that the MLP process “could start some creative thinking, such as a note to a minister, leading to a study, then a green paper, then a white paper, and finally a decision” (DG Employment interviews).

National politics, institutional constraints, and a natural defensive reaction on the part of Member States when confronted with the prospect of adopting foreign models all influence (but

strategies as models. The counter-example is, of course, Germany, which seems “incapable of learning” in the words of one Commission official (DG Employment interviews).

do not always halt) the transposition of ideas across contexts. At the EU level, there is surprisingly little frustration at this national reticence and defensiveness; the common attitude is that it is not the part of the EU to overtake specific policies, but to “get people to think about how to achieve some of these outcomes” in their own context.¹³ In this sense, one of the biggest lessons learned from the learning process itself is that transferability may not be the main value-added from the OMC. Actors have realized that elements of policies cannot be decontextualized, and that any successful policy/idea is at least partially function of local characteristics. Concretely, it has proven difficult to systematically use the results from the numerous structured MLP sessions. Instead, the OMC process contributes to a more general process of “looking around and learning” that encourages information exchanges beyond the context of the OMC and EES, as bilateral exchanges among Member States (outside of any EU program or context) have become a more common way of addressing policy issues.

In sum, European level institutions and discourse have had limited but demonstrable effect on national debates, policy, and in some cases institutional configurations. The concrete impact and practical implementation of the EES/OMC has been complicated by the small number of individuals involved in the process at both the EU and national levels, and the fact that, at the national levels, the individuals dealing with the EU are not always those actors (or ministries) centrally involved in the development of national economic and social cohesion (DG Employment interviews). Moreover, since the EES envisions a comprehensive strategy spanning not just economic policy, but social cohesion, welfare, and other policy areas as well, the coordination among multiple national ministries presents an additional challenge.

At the same time, the direct influence of the European level on the institutional makeup of individual member states is emerging as one concrete impact of the EES/OMC process. Commenting on the social inclusion aspects of the EES, one Commission official noted that EU-level social affairs offices often work with national level social affairs and welfare ministries, but the final word on welfare policy actually in the treasury through key financial decisions. In this sense, one of the unstated objectives of the EES social inclusion process is to take less-powerful social ministries (traditionally limited to dispensing benefits) and empower them vis-à-vis other

¹³ One Commission official noted that defensiveness among national policymakers on the question of adopting foreign models “is in the nature of bureaucracy. You stand with your back towards the wall and fence off everything” and that “if one thing is the same across Europe, it’s the nature of bureaucrats” (DG Employment interviews).

ministries; comprehensive efforts to address economic and social cohesion require national level social affairs ministries “capable of acting as leaders, winning battles, [and] able to get the ear of the Prime Minister” (DG Employment interviews).¹⁴ In return for this EU intrusion in national affairs, the EES gives a platform and voice to ministries (such as social affairs) heretofore overlooked in economic policymaking. In a related example, EU regulations concerning thresholds on governmental contracts (a regulation originally concerned with government purchasing in general), above which contract bids must be solicited, has come to shape the manner in which national governments partner with social services as privatization becomes a popular method for reshaping social welfare policies and cutting costs (Ascoli and Ranci 2002, 231). The overall point is that the deliberately comprehensive approach to economic policymaking embodied in the EES appears to be gradually altering the institutional structure and weighting of individual ministries and government practices within the domestic policymaking structures of individual member states.

Beyond limited institutional changes, the politics of creating and disseminating a European discourse and common set of ideas concerning economic and social cohesion has shaped national debates and reform processes. In this regard, nearly all interviewees emphasized the importance of the rhetorical leverage gained from having a common EU-level discourse on economic and social cohesion. Although the group of actors working within the EES/OMC process is relatively small, these policymakers form a “community—they have an ethic and are passionate about employment; there is a hidden code, they understand each other’s problems, and know how each other are constrained” (DG Employment interviews). This alignment of the ideas held by key actors influencing economic and social cohesion policy is more gradual than the dynamics of direct policy transfer found in much of the secondary literature, but suggests a more comprehensive learning process based on the incorporation of new information and experience that ultimately alters actors’ worldview, or conception of how the world really works (Bennett 1999). Such complex learning can be contrasted against changes in policy, rhetoric, or justification as a function of short-term political imperatives or instrumental cost-benefit calculations. The fact that interviewees, whether critics or advocates of the EES/OMC process, cited ideational convergence and the rhetorical leverage it provides in encouraging

¹⁴ The interviewee drew a parallel to the way in which national finance ministries utilized the run-up to the EMU to effect changes in policy and enhance their own position within the institutional constellations of the member states.

national reforms (from both the EU level and within contentious domestic politics) indicates that the dynamic at work is more consistent with the expectations of learning theory, and suggests a fruitful course for future research. As one commission official summed up, “one of the virtues of the EES is that it creates a common language [which leads to a] drift into common understanding, and you get a common ideology” (DG Employment interviews). When viewed together with the lack of formal sanctions within the EES/OMC process, it becomes clear that changes in policy and strategy, to the extent they are present, are centrally linked to the power of ideas developed within the broad Lisbon Strategy and discussed and disseminated through the EES/OMC process. Indeed, as the next section will discuss, it is in the manner in which the EU-level institutions and discourse on economic and social cohesion have placed new items on national agendas, redefined the nature of relevant social risks and fields for action in economic and social cohesion policy, and offered tools to shape national reform processes that the EU has actually exerted the most concrete influence on the individual states.

Connecting the EU and National Levels: The Politics of New Risks

In distinguishing precisely where and how the EU has influenced national reform strategies, it is critical to recognize the distinction between the broad area of economic policy at the heart of the EU that has been focused on dismantling barriers to economic exchange, creating a common regulatory framework, and completing the Single Market project on the one hand, and the more recent emphasis on economic and social cohesion on the other, which differs markedly in its effort to *construct* policies of a specific nature. European Union social policy has largely proceeded out of economic integration and has been related to measures necessary to complement the Single Market initiative, such as fair competition, equal treatment of workers, and similar issues that can no longer be handed at the member state level alone due to the imperatives of economic integration (Larsen and Taylor-Gooby 2004, 181; Falkner 1998). However, the pressures of competitiveness, demographic change, and continued economic integration have created new issues and new types of social risks related to labor market flexibility, the mobilization of labor, gender equality, and the fight against social exclusion. Though the EU has attempted a measure of policy coordination in the area of “old social risks” such as pensions and health care, it is within the area of “new social risks” that the EU has most directly influence national reform processes through agenda setting and providing both rhetorical

and institutional resources for actors engaged in reform debates and decisionmaking (Larsen and Taylor-Gooby 2004, 182).

Taylor-Gooby (2004a) defines new social risks as “the risks that people now face in their lives as a result of the economic and social changes associated with the transition to a post-industrial economy;” these are relevant to four broad issue areas: the movement of women into the workforce and the challenge of reconciling family life and work, increases in elderly populations (the European demographic shift), labor market changes leading to higher demands for education and skills, and the expansion of private services into social services in an effort to contain state spending (Taylor-Gooby 2004a, 3-4). In contradistinction, old social risks such as pensions, health care, and unemployment insurance, were issues that sought to make up for areas of market failure over the life of an individual and were characterized by significant financial commitments on the part of the state. Nevertheless, old social risk policies are widely viewed as legitimate (and thus difficult to reverse), such that reforms have been characterized by the “retrenchment or recalibration” debate carried out by entrenched class, and party interests in the economy, leading to the “crisis of the welfare state” as demands rise while resources are increasingly restricted and interests block change in any direction (Taylor-Gooby 2004a, 8-10; Pierson 2001).

In contrast, new social risks tend to be transitory, generally affecting younger people or those transitioning life stages, and as such they do not map easily onto traditional political or class cleavages (Taylor-Gooby 2004, 8-10). More importantly, the policies to address new social risks are focused on encouraging behavioral changes rather than paying direct benefits, and are often cast in terms of enhancing opportunities and competitiveness, thus they do not carry the same financial implications for governments. In general, new social risk issues reflect a paradigm shift in the political economy of the EU from a “neo-Keynesian” model of government intervention to a “pragmatic monetarism” emphasizing flexibility, competition, and innovation while maintaining a measure of social support, as enshrined in the EU Single Market program and the Lisbon Strategy (Taylor-Gooby 2004a, 10-12; Employment Taskforce 2003; Lisbon Strategy 2005). As noted above, the general EU paradigm of economic and social cohesion shares certain elements with neoliberal economics, but has consistently placed an emphasis on social welfare issues as well, as the EU devoted attention to access to employment, mitigation of social exclusion, training and education; these issue areas are all focused on the new social risks

confronting EU states and individual citizens (Taylor-Gooby 2004a, 11). More generally, policies to address new social risks are associated with “active labor market policies” (ALMP) focused on training or retraining unemployed individuals, providing incentives to reenter the workforce rather than provide compensation such as transfer payments and social safety nets, and combating social exclusion by promoting paid work as the best route out of poverty (Taylor-Gooby 2004b, 198, 216-217).

The link between new social risks faced by member states and addressed in many ways by EU economic and social cohesion policy establishes an important link between the two levels of policymaking. Research into new social risks across the EU show that national policy responses are conditioned, but not entirely constrained, by extant institutional patterns and economic/welfare regimes. Indeed, the regime categorization itself is based exclusively on old social risks—the challenges to an industrial worker covered by social insurance, such as ageing, labor market shifts, unemployment and retirement, government austerity—and the nature of state and societal responses to these risks—class-based struggles, allocation of resources, and types of state intervention (Taylor-Gooby 2004, 13, also ch. 9). The fact that many of these dynamics do not apply, or are only tangentially relevant, to social debates concerning new social risks and new economic and social cohesion policies suggests that analyses centered on the EU influence over traditional economic and welfare state questions are misguided. To be sure, new risks and challenges have not entirely restructured national institutional patterns, but policy responses often represent departures from expected regime patterns, and are influenced more directly by EU employment and social cohesion policies (Taylor-Gooby 2004b, 210). Most relevant to the argument presented here, the political conflicts over new social risks will be most intense in corporatist (e.g. Germany) and Mediterranean countries “where new risk innovations imply the strongest challenges to the old social risk regime and where policy-making typically requires the lengthy negotiation of compromise” (Taylor-Gooby 2004b, 211). Because of this general need for political negotiation and compromise, as determined by existing institutional structures, the role for “social entrepreneurs” and political actors employing new ideas as weapons in the policy debates concerning the “right” and “wrong” approaches to economic and welfare policy become all the more relevant to understanding outcomes (Evers and Strünck 2002, the phrasing on ideas as weapons is from Blyth, 2002).

The insights concerning the operation of economic and social cohesion policy at the EU level, together with a more refined understanding of the salient challenges and issues within national reform processes, suggest that the mystery of Germany's initial failure to reform and subsequent reform process can be best explained with reference to EU economic and social cohesion policy in addition to the actors operating within the domestic institutional structure. The next section explores these relationships in focusing on the specific challenges and responses that new economic and social cohesion policies present for the corporatist German system.

GERMANY: RELUCTANT REFORMS

Germany's basic economic and social policy model developed around a "Bismarckian *Soziale Marktwirtschaft*" (social market economy) featuring strong social partners with the right to bargain without state intervention, a social insurance scheme focused on the single (male) breadwinner working in full-time, life-long industrial employment and supported by transfer payments rather than direct service provision, and a federalist structure that constrained central government decision- and policymaking in questions of labor market and social welfare policy (Manow and Seils 2000, 139). In particular, the issues highlighted as new social risks above are precisely those that form the core of the current debate on economic and social welfare policy in Germany. While old issues such as pension reform are relevant, they are not just discussed in terms of funding levels, but rather as part of the broader question on adaptation to the changing nature of the workforce—most centrally the movement away from the male breadwinner model that formed the core of labor market and social insurance policies in the postwar era. Similarly, reforms to unemployment benefits have a fiscal element to the debate, but are more fundamentally about differing ideas on whether and how to introduce labor market flexibility, and how to cope with rises in part-time, short-term, and low-wage employment. Child and family care, an area wholly neglected under traditional welfare state policies and left to informal or family-based support networks, has become a core element to the debate, as the economic ramifications of female labor force participation together with changing gender norms are brought together into a single debate.

Generally viewed as a typical corporatist system, Germany nonetheless exhibits several peculiarities important to understanding the politics of economic and social welfare policy

reform, most notably a tradition of “horizontal coordination” or “corporatism without the state” wherein industrial relations are typically been handled by business and union representatives alone, setting wage levels for entire sectors so as to protect the full-time, high-skill/high-wage production regime. In addition, social insurance entitlements have been financed from employee and employer social insurance contributions, again favoring full-time high-skill workers and primarily providing loss of income protection to industrial wage-earners (Seeleib-Kaiser 2002, 26, Manow and Seils 2000, 140). Over time, governments have tended to deflect the cost of economic downturns by increasing the share of social expenditures financed from social insurance contributions paid by employers and employees. This paradoxical pro-cyclical policy allowed compensation both the recessions of the 1970s and 1980s without downward pressure on wages, but ultimately placed the burden on labor itself through rising social insurance contributions as governments sought to both contain social spending and help firms by allowing them to lay off workers into state welfare programs. (Manow and Seils 2000, 146-148). The effect over time has been an expansion of social entitlements during economic expansions and subsequent cuts during recessions: “The business-cycle responsiveness of the German welfare state is thus skewed, asymmetric: economic downturns and the accompanying deficits provoke semi-successful program cutbacks, cost shifting as well as instant contribution rate increases. During booms the contribution rates remain high and stable” (Manow and Seils 2000, 150). Thus end result is a reduction in benefits when they are most needed and a gradual ratcheting-up in benefits that sets the stage for a subsequent crisis.

Despite the increasing fiscal pressure on the state and the growth of the tax wedge¹⁵ to one of the highest in the OECD in the 1980s, the center-right Kohl government expanded the unemployment insurance benefit (*Arbeitslosengeld*) as well as parental-leave schemes during the economic expansion of the late 1980s. It was not until the early 1990s that the pressures of high unemployment, rising social insurance costs, concerns over competitiveness, and pressures on public spending led to a shift of strategies towards ALMP, paralleled by a reduction in the rights of the unemployed, stricter requirements for receipt of benefits, and general spending cuts.¹⁶ At

¹⁵ The difference between gross labor costs and net wages; as the tax wedge increases, low-wage jobs in particular are put under pressure as labor costs threaten to eclipse wages paid.

¹⁶ In another paradox of the system, there is legal entitlement for job training and similar programs in Germany, meaning that pro-active ALMP strategies tended to be cut entirely during economic downturns precisely as measures for relocation, retraining, and reemployment were most needed, thereby creating another layer to the “reverse incentive structure” in Germany (quote from Manow and Seils 2000, 150).

the same time, there is no legal entitlement for job training and similar programs in Germany, so pro-active ALMP strategies tended to be cut entirely during economic downturns precisely when measures for relocation, retraining, and reemployment were most needed, thereby creating another layer to the “reverse incentive structure” in Germany (Aust and Bönker 2004, Taylor-Gooby 2004*b*, 228). Eventually, the cuts undertaken by the Kohl government reduced social spending by about 3% of GDP by 1997 and culminated in that year with the “Labor Promotion Reform Law” emphasizing ALMP principles and a greater reliance on the market rather than a government guarantee to secure a standard of living (*Lebensstandardsicherung*); similarly, old age insurance was also cut back in the 1999 pension reform law (*Rentenreformgesetz*) that lowered the income replacement rate from roughly 70% (the post-WWII standard) to around 64% (Seeleib-Kaiser 2002, 29-31).

The reforms undertaken by the Kohl government in the name of competitiveness were perceived as a direct attack on the highly-valued institution of the social welfare state in Germany, and were thus unpopular despite accompanying rhetoric emphasizing the need for cuts to maintain German competitiveness (Cox 2002). In actuality, the timing of the cuts was not due solely to domestic political or fiscal pressure, but were also motivated by additional budgetary pressures stemming from EU Stability and Growth Pact limits on deficit levels in preparation for the institution of the European Monetary Union. Similarly, the dialogue on economic and social cohesion at the EU level was just getting underway at about the same time (at the 1994 Essen Council). Nevertheless, there was a rhetorical disconnect, as the Kohl government portrayed welfare cuts and economic competitiveness as a necessary trade-off, rather than emphasizing the element of competitiveness as a component of a modern welfare state, as embodied in the embryonic EU approach economic and social cohesion.

The general thrust of the reforms undertaken was also in line with developing EU norms and institutions on economic and social cohesion, and this linkage to new social issues was more visible in the political rhetoric and ideas informing decisions at the time. Neither party dynamics nor institutional features fully explain the movement towards activation and new social issues at this time. On the one hand, many reforms began under the social-democratic Schmidt government, continued under Kohl’s center-right government, only to be further advanced under the social-democratic Schröder government. On the other hand, institutional features such as federalism, multiple veto points, or consensual corporatism have at times slowed the pace of

reform, but have not fundamentally impacted the direction (Seeleib-Kaiser 2002, Cox 2001). In short, “[t]he sum of the policy changes constitutes a substantial change in the normative aims and institutional design of the German welfare state” wherein the state no longer guarantees a standard of living in cases of old age, disability, or unemployment (Seeleib-Kaiser 2002, 34). But, critically, this is not simply a story of the state adopting neoliberal strategies; the German state still plays a substantial role in protecting wage earners against social risk, but the emphasis of economic and social policy has shifted towards the needs of the family and those active in the labor market—the very core of new social risks (Seeleib-Kaiser 2002, 35, Aust and Bönker 2004).

As the reform of economic and social policies in Germany continued, two key points of contact to the EU level emerged: the continued tendency to structure reforms around EU ideas and strategies for coping with new social risks and the more general discourse on the balance between privatization and state intervention in economic and social cohesion policy. The precise nature of the German reform program is tightly linked to the ideas and arguments employed in the debate on economic and welfare policy reform. Ideas, employed as blueprints and weapons (cf. Blyth 2002), or as interpretive patterns (cf. Seeleib-Kaiser 2002) are more central to the policy debate than institutional constraints, party platforms, or material interests. Seeleib-Kaiser (2002, 39) identifies two dominant interpretive patterns that emerged out of the early stages of policy change in Germany: “globalization limits social policy” and “cutting costs while caring for the family,” both of which help explain why welfare state reform debates were initially cast in terms of global competitiveness. While the CDU initially rejected the competitiveness justification, it eventually adopted it to justify policy changes (cutbacks) in the late 1980s and early 1990s. The rhetorical arguments later employed by the red-green coalition under Schröder, namely a focus on “equality among generations” firmly reflect the EU economic and social cohesion policy priorities focused on social risks within the lives of individuals and families rather than traditional family and wage-earner models that informed the Bismarckian social insurance model (Seeleib-Kaiser 2002, 39-40, Aust and Bönker 2004). Importantly, the shift to the family focus and questions of employment and competitiveness as complimentary to social welfare map directly onto key themes of the new social risks and the EU discourse merging economic and social cohesion policy.

Within Germany, the general framework for meeting care needs (including reconciling family and work life, child care, and elderly care) have undergone the most far-reaching change within the context of EU economic and social cohesion dialogue concerning new social risks. Characterized by weak infrastructure and little state support under the corporatist scheme due to traditional understandings of, and reliance on, family and informal care networks, the care needs area has been powerfully influenced by changing family and gender roles, themselves encouraged by a persistent EU role in promoting gender equality and female workforce participation (Aust and Bönker 2004, 30-32, Employment Taskforce 2003).¹⁷ A series of reform laws in the 1990s established a care needs regime that runs counter to both cultural and institutional histories in Germany, creating state-supported institutions in some cases and public-private partnerships in others. Among the landmark reforms, the 1994 care insurance law placed welfare associations (the nonprofit *Wohlfahrtsverbände* associated with churches and labor organizations) on equal footing with commercial providers (Aust and Bönker 2004). In 1995 elderly care became a socially insured risk in the same sense as pensions, accidents, and health care (Evers and Strünck 2002). The 1996 Child Care Act recognized the right of all children over the age of three years to care (Ascoli and Ranci 2004), and child care again became an issue in the 2002 federal election campaign, prompting the expansion of public child care facilities as a central tenant of the red-green coalition agreement (Aust and Bönker 2004, 30). Moreover, the 1999 family support and “women and profession” laws guaranteed kindergarten spots, increased support for single mothers, and encouraged female employment together with the reconciliation of work and family life for both sexes.

As the wide variety of personal social services traditionally provided by large nonprofit organizations were subjected to competition from commercial providers, the risk of “welfare markets” and a profit-driven race to the bottom surfaced. As individuals began to both pay contributions and receive benefits for services previously provided by family or charity, increased attention and legislation has been devoted to service quality as well as the nature of competition developing in partially deregulated social service fields (Aust and Bönker 2004, 47). Contrary to expectations on all sides, there has neither been a complete collapse in service

¹⁷ Within the economic and social cohesion dialogue the EU has consistently indicated increased female labor force participation as a concrete goal of the EES/OMC process, as well as maintaining norms of gender equality. Directives and regulations concerning gender equality in the workplace, parental leave, and working time have all contributed to the general trend described in this paper.

provision, nor has a competitive market flourished. Instead, a new regulatory framework has developed, drawing in part on EU regulations concerning service provision, and in many ways more structured than the previous system based on discretionary state grants and privileged trust relationships among service organizations and public authorities (Ascoli and Ranci 2002, 235). In lieu of either a race to the bottom or spontaneous competition, the partial privatization of care regimes has really been more of a “marketization” process introducing competitive, transparent rules and contract-bound criteria for service provision, efficiency, and evaluation (Ascoli and Ranci 2002, 230). As such the care needs regime both draws on and reflects the broader EU model for economic and social cohesion aimed emphasizing both economic competitiveness within a complementary framework for social protection; these institutional and rhetorical resources were used to construct a social care regime that represents a fundamental departure from the institutional arrangements of the German social welfare system (Larsen and Taylor-Gooby 2004, 204).

Parallel to the reform in the care needs area, the debate on labor market flexibility, pensions, and unemployment benefits has been brought into sharper relief through a debate that has recast the fundamental ideas underpinning this element of economic and social welfare policy. The weakened position of low-skill labor, increasing unemployment among low-skill individuals, and the rise of “atypical” employment (part-time and short-term work, self-employment) provided the catalyst for debate. Initial attempts to decouple social insurance contributions and benefits in the name of labor market flexibility were resisted as attacks on the traditional social insurance principle, and the Kohl government did relatively little to address the “de-standardization of labor” (Aust and Bönker 2004, 44, Employment Taskforce 2003). However, concerns over social exclusion due to inadequate pension and benefit entitlements among low-skill and atypical workers (drawing on the explicit focus on social exclusion within the EU economic and social cohesion strategy) led to a pension reforms in 2000 and 2001 under the red-green coalition that first introduced incentives for private savings and later created a state-subsidized private pillar (the 2002 *Riesterrente*) along with a warning declaration that the state was no longer able to secure the maintenance of pre-retirement living standards (Cox 2001, Aust and Bönker 2004). Similarly, the legal right to a part-time job was first recognized in 2000, later followed by legislation in 2002 on “mini-jobs” that are exempted from tax and social insurance contributions because they fall below a certain income threshold (Aust and Bönker

2004, 42-43). The efforts to adjust to changing labor market conditions continued with the 2003 *Agenda 2010* program instituted by the Schröder government, emphasizing job activation, reducing benefit payments for older unemployed individuals, integrating social insurance and unemployment benefits (probably the most far-reaching reform to date), and scaling back of unemployment benefits over time (Aust and Bönker 2004, 46). Although though these change have been resisted to a degree by unions and the leftmost wing of the SPD, as well as by local and regional governments concerned with rising fiscal burdens, they have also found a greater degree of societal resonance and support due to the successful linkage between social welfare reform and competitiveness crafted by the Schröder government (Cox 2002).

In the same vein, the connection between EU level institutions and discourse and the German reform process becomes most clear as reforms continue under the social-democratic Schröder government in efforts dedicated to labor market and social welfare reform, most notably the 2002 Hartz Commission. Convened in the spring of 2002 in the face of high (and rising) unemployment during the run-up to 2002 federal elections, the Hartz Commission issued its final report in August 2002. Consisting of a series of detailed and technically complex recommendations on improving the efficiency of public service agencies and increasing labor market flexibility, the reform proposals are also embedded in a social model that reflects the EU economic and social cohesion dialogue and agenda. As a deliberate creation by the Schröder government, the Hartz Commission did not spring directly from the Lisbon Strategy or EES/OMC process. Yet in operating on a parallel track and tackling the very same issues that form the core of EU economic and social cohesion policy, the Commission was not only aware of, but consciously drawing upon models and ideas from the EU level. As one Hartz Commission member noted, “we were bombarded with information” from the EU that was employed in looking to other states (in particular the Netherlands and Denmark) for applicable models (WZB interview, DG Employment interview). Similarly, an EU official noted that there was a “cross-fertilization of ideas” between the EES/OMC and the Hartz Commission in considering question of active labor market policy, social exclusion, and reform of the public employment services (DG Employment interviews). More generally, Schmid has noted the importance of guiding ideas (*regulativer Leitideen*) drawn from state and corporate best practices in both structuring debate and devising compromise solutions among the diverse group of actors participating in the Commission; the Dutch concept of “flexicurity,” the shift in thought from

repair-oriented policies to preventative labor market policies, the use of “management by objective guidelines” as first instituted at Volkswagen, and the adoption of “rights and responsibilities” language into policies concerning labor market benefits are all concrete examples cited in the Hartz process (Schmid 2003, 80).

The fact that many of the individual actors involved in the Hartz Commission were previously involved in various EU-related efforts to define the economic and social cohesion agenda and policy is also important to establishing not only a causal relationship between European-level ideas and national policy decisions, but also illustrating the causal mechanism at work. These actors employed a specific set of ideas and beliefs about the way the world works to effect policy change on the domestic level, through presentation of new information and processes of deliberation, debate, and persuasion, all of which added up to a reconstruction of the relationship between labor market policy and social welfare that drew heavily on EU-level ideas as well as models and practices from other states that were highlighted in the context of the EES/OMC process. The Hartz process thus concretely demonstrates the manner in which ideas are used to construct the imperative for reform and used to structure new solutions (Blyth 2002, Cox 200, Bennett 1999). In the German cases, these ideas were not just domestically conceived and employed, but rather crystallized through interaction with and use of the EU level institutions of economic and social cohesion as well as the general paradigm of new social risks and economic competitiveness.

Although the initial lack of a compelling legitimizing principle or *Leitbild* for economic and (especially) social welfare policy in Germany led to a lag in reforms relative to other states, the linkage of competitiveness for the sake of enhancing social welfare reform (echoing the EU paradigm) was critical in spurring reform efforts (Cox 2002, Evers and Strünck 2002, 167). Arguably, though, there is still no concrete definition of social purpose in Germany as the traditional corporatist/Bismarkian model is incrementally reconciled with broader EU conceptions of economic and social cohesion, thus explaining the halting implementation of the Hartz reforms and recent electoral backlash to the steps taken under Schröder’s red-green coalition. In part, this is because the competitiveness discourse in Germany has not been complemented by a discussion on stimulating domestic demand and consumer activity, which is another “brake” on economic development in Germany.¹⁸ Nevertheless, the redefinition of the

¹⁸ My thanks to Michael Glatzer for this insight.

necessity of social welfare reform as complementary to competitiveness and European norms, and as enhancing the security of the German worker, indicates how new ideas were employed to effect change among value-laden, socially salient issues (Cox 2002, Schmid 2003, Banchoff 2005). The confrontational reform attempts of prior governments were unsuccessful because they attacked welfare state, positing a zero-sum tradeoffs between competition and the welfare state as a valued social institution; later efforts of incremental reform and discourse linking competitiveness to the *survival* of the welfare state and security of the German worker (a traditional theme in the German welfare state discourse) has found resonance and given reforms a sense of social purpose (Cox 2002).

CONCLUSIONS

In sum, the timing and nature of economic and social welfare policy reforms undertaken in Germany are best understood through attention to the causal power of new ideas on economic policy and the role that information exchange and learning across contexts has played in introducing these ideas into the political debate. Although the institutional features of the German system influenced the speed and, to a lesser degree, the path of policy reform, the actual steps taken—in particular the construction of a wholly new field of social policy (care needs) and the redefinition of fundamental principles underpinning unemployment insurance and pensions—cannot be fully explained without examining the ideas employed to construct an imperative for reform, identify potential solutions from within and from abroad, and secure agreement through debate and persuasion on an eventual course of action. Institutional accounts provide an important starting point in understanding the dynamics of the long-term shifts and gradual changes witnessed in the economic and social cohesion field, but understanding the precise dynamics that result in new policies and institutions requires attention to the micro-level processes captured through analysis of learning and the use of ideas and language in debate.

Returning to the general causal logics outlined at the beginning, neither institutional nor interest based accounts alone possess sufficient explanatory power in explaining either the logic behind EU economic and social cohesion policies, nor the specific reform steps in Germany. Constellations of class, material, or political interests are revealed to be constantly shifting according to short-term priorities, and provide little leverage in explaining longer-term trends that persist despite the momentary interests of parties or economic interests. Moreover, domestic

institutions presumed to be stable are actually undergoing wide-ranging and, at times, counter-intuitive transformations. Thus the critical factors in explaining economic and social cohesion policy reform are twofold: the construction and dissemination of a set of institutions and ideas at the European level that redefined the relationship between economic activity and social welfare, and the linkage of these ideas to a compelling reform discourse in the specific German context that, in short, made unthinkable changes plausible.

Several important implications emerge from the foregoing analysis. First, the application of EU level principles on economic and social cohesion to a national context has long been feared as a back door introduction of neoliberal and deregulatory economic policies and a threat to social welfare in general. The concrete evidence from the German case indicates that no such race to the bottom has taken place, and in precisely those areas where private services and market-based elements were introduced (the general care regime) a new regulatory framework has emerged that is in many ways stronger than the prior informal care networks. In simple terms, this illustrates the difficulty of “willing” a market into existence in a specialized field where an adequate supply of services does not exist and where specific problems of infrastructure and information prevent the natural emergence of competition (Evers and Strünck 2002, 233). Importantly, though, the fact that older corporatist style trust networks have only been replaced partially by economic (business-minded) decision processes continues to create uncertainty in Germany, as the general debate over the purpose and proper role for modernization and marketization in social welfare has just begun (Evers and Strünck 2002).

More generally, it is clear that corporatist countries will likely be slower to initiate reform owing to the difficulty in achieving agreement among various actors; once initiated reform is likely to proceed in fits and starts as each new step is debated and negotiated. In Germany, this was seen in the fundamental lack of political debate and initial inability to construct an “imperative for reform” that was later overcome with additional ideational and institutional resources drawn from the EU level. Consequently, one might expect the dynamics of learning and ideational exchange to have a stronger impact in other states facing similar reform blockages—both in corporatist states and, as Taylor-Gooby (2004*b*) expects, in Mediterranean states. Importantly, the institutional characteristics of a given domestic system do naturally influence reform trajectories, but do not determine them.

Finally, the role of the European level, and specifically the EES/OMC process, has been gaining leverage among all EU member states as the nature of social risks and labor market challenges continue to change. Older arguments concerning retrenchment/recalibration of traditional labor and welfare policies are likely to remain primarily the competency of the individual member states, though they will be influenced by the new debates, as illustrated by the German pension reform. However, the new risks are changing the overall landscape of social welfare, involving individual national systems in the EU level to a greater degree, mobilizing new constituencies, creating political debates that cut across traditional cleavage patterns, and most importantly impacting individual EU citizens with direct contact to EU level debates and programs. Concretely, institutionalized EU institutions and norms concerning economic and social cohesion have created implicit citizenship rights to such provisions. The rights-based economic and social cohesion discourse of the EU has exerted powerful indirect influence in shifting national political debates and providing justification and legitimation for the institution of ALMP, gender mainstreaming, workplace safety, and family/child care measures. Such steps have been supported by the EU Court of Justice, which has begun to use the “soft law” declarations and OMC-based agreements of the EES process as binding legal precedent in advancing the economic and social cohesion agenda (Trubeck and Mosher 2001). Thus we should expect continued influence on national reform debates and policies from a multitude of directions and sources as new risks and new challenges become ever more pressing.

In sum, the foregoing analysis of both the construction of a European level paradigm on economic and social cohesion and of the German national reform process have significantly refined our understanding of both the individual institutional and political dynamics at each level as well as the mechanisms linking the international and national spheres. To further substantiate the claims made here, systematic comparative research across a range of states is, of course, needed. But moving beyond the old debates of retrenchment vs. recalibration and EU vs. national to understand the new dynamics and dimensions of economic and social cohesion policy in Europe is an important first step in this research program.

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