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The Open Method of Coordination - Effectively preventing welfare state retrenchment?*

Milena Büchs
University of Southampton, United Kingdom
E-Mail: m.buechs@soton.ac.uk

Abstract: This article re-examines the division between "optimists" and "pessimists" within the literature on the Open Method of Coordination's (OMC) effectiveness. Each of those "camps" tends to focus on a different question. "Optimists" are more concerned with the question of whether the OMC exerts an influence on the national level and through which mechanisms, whilst "pessimists" concentrate on the question of whether the OMC can "strengthen" EU social policy and therefore European welfare states. This article combines these two perspectives and argues that the OMC is indeed capable of influencing national policies through the dissemination of ideas and "learning" as the "optimists" stress. However, policy "learning" at the member state level is shaped and constrained by a variety of internal and external pressures. Against the hopes of most of the OMC "optimists", this makes the OMC largely ineffective in preventing welfare state retrenchment.

Keywords: soft law; Europeanisation; single market; stability and growth pact; welfare state; positive integration; negative integration; political science

Table of Contents:

- 1. Introduction
- 2. OMC effectiveness: "optimists" and "pessimists"
  - 2.1. The "optimists"
    - 2.1.1. Operation of the OMC
    - 2.1.2. The OMC and social Europe
  - 2.2. The "pessimists"
    - 2.2.1. Operation of the OMC
    - 2.2.2. The OMC and social Europe
- 3. What welfare state does the OMC promote?
- 4. Welfare state performance
- 5. Conclusion
- References

1. Introduction

This article argues that the debate about the Open Method of Coordination's (OMC) effectiveness is somewhat confounded because "optimists" and "pessimists" tend to focus on different questions. For a better understanding of how the OMC operates and what it can achieve, it is important to make these underlying questions more explicit. In short, "optimists" focus on the question of whether the OMC can exert an influence on the national level and if so, through which mechanisms. Here, they focus on the OMC's role for the dissemination of ideas, deliberation and "policy learning", all of which are seen as new and potentially powerful mechanisms of supranational influence on member states (Jacobsson 2004; Trubek and Trubek 2005; Visser 2009; Zeitlin 2009; see Kröger, this issue, for a critical account). In contrast, "pessimists" are, even though sometimes implicitly, more interested in the question of whether the OMC can "strengthen" EU social policy and, consequently, help to prevent European welfare state retrenchment. They regard the introduction of the OMC as a political compromise that aims to strengthen EU social policy against the EU's economic objectives but has to rely on soft coordination due to a range of barriers to the adoption of legally binding social policy frameworks at the EU level. To them, the OMC is only a second best solution which is too weak to influence national social policies as market integration is still prevalent at the EU level, exerting pressures on national welfare states (e.g. Chalmers and Lodge 2003; Kröger 2008; Scharpf 2002).

This article will argue that both sides within this debate make valuable points which can potentially be combined. Essentially, it can be argued that the OMC is indeed capable of influencing national policies through the dissemination of ideas and legitimatory discourses whilst the ways in which these ideas are interpreted and implemented at the national level are shaped and limited by a range of internal and external pressures on welfare states. This makes the OMC largely ineffective in preventing welfare state retrenchment; in fact, it may even contribute to it – particularly in the more developed and generous welfare states within the EU. This article understands welfare state retrenchment as a cut in social expenditure, decreasing generosity of provision, limitation of social rights or a deterioration of outcomes that the welfare state aims to improve such as poverty and social inequality (1). In contrast, "strengthening" "social Europe" is a more comprehensive term used by the European Union itself (European Council 2000). It can be broadly understood as a combination of a stronger focus on social policy (against economic objectives) at the EU level with a subsequent improvement of social outcomes at member state level, in particular in relation to poverty reduction and social inclusion (European Council 1997; European Council 2000) (2). "Strengthening" can therefore refer to either the EU or the member state level, or both in combination. I will distinguish these different meanings by using "strengthening" "the social dimension" for the EU level, "welfare states" for the national level and "social Europe" for both in combination.

To re-examine the debate between OMC "optimists" and "pessimists", this article will proceed as follows. Section two will compare the arguments of OMC "optimists" and "pessimists". This comprises their views on, first, whether – and if so through which mechanisms – the OMC can exert an influence at the national level and, second, the OMC's potential to strengthen "social Europe".

Sections three and four seek to assemble empirical evidence for the argument that the OMC is unlikely to effectively prevent welfare state retrenchment. Section three will focus on an analysis of the OMC's policy content in order to establish whether it is more likely to strengthen social Europe or promote welfare state retrenchment. Section four will analyse social policy outcomes of the last 15 years within the EU-15, using OECD and Eurostat data, to review the question of whether Europe's welfare states have been strengthened during this time.

Critical readers might question the appropriateness of this approach in analysing the OMC's potential role in preventing or promoting welfare state retrenchment. They will argue that several steps lie between the promotion of ideas and eventual policy outcomes such as social spending, poverty and inequality. Indeed, to reconstruct how the OMC is operating, one needs to analyse how national policy actors interpret the ideas promoted through the OMC, how these ideas are then translated into concrete national policies and how those policies influence policy outcomes, dependent on a variety of other factors such as political situation and institutions, policy implementation "on the ground" (including behavioural choices of potential benefit or service recipients), economic growth and employment, demographic trends, etc.

Whilst such a micro-level qualitative approach is a necessary and useful tool to provide insights into the ways in which the OMC operates, it has not been chosen in this article for several reasons. First, a range of in-depth studies has already been undertaken examining the ways in which the OMC is used by national policy actors and how it might have influenced concrete policies (e.g. Büchs 2007; De la Porte 2008; Heidenreich and Zeitlin 2009; Kröger 2008; Zeitlin, Pochet, and Magnusson 2005). The main insight arising from those studies is that if the OMC plays a role for national policy making, it mainly exerts an influence on policy frameworks and justifications (e.g. Büchs 2007; De la Porte 2008; Heidenreich and Zeitlin 2009; Zeitlin 2009). Some authors also observed an impact on governance processes or even, in a few cases, on concrete policies (ibid.). In addition, empirical evidence on welfare state development in Europe demonstrates that there has been a shift during the last decade towards a greater emphasis on activation, particularly in labour market and social assistance policy, but also in other areas of the welfare state (e.g. Barbier and Ludwig-Mayerhofer 2004; Serrano Pascual and Magnusson 2007; Van Berkel and Nornemann Møller 2002). Several authors within the activation literature assume that whilst a variety of factors has influenced this development, the OMC may have played a role in disseminating the activation concept (ibid.). This article can build upon the insights of the OMC and activation literatures instead of re-examining these processes in detail. Second, as these in-depth examinations of micro-processes are very time-consuming, they are usually confined to a few case studies the results of which cannot easily be generalised to the whole EU. In addition, micro- and macro processes simply focus on different questions: Qualitative case studies examine the ways in which the OMC operates whilst the macro-approach chosen here is interested in potential links between the OMC and policy outcomes which cannot be examined at the micro-level. Finally, this article does not claim that it can prove the existence of a link between the OMC and policy outcomes on the basis of the chosen macro-perspective. This article merely maintains that if we can assume that the OMC has the potential to influence national policy frameworks – a conclusion that results from twelve years of previous research on the OMC – then there is the possibility that the OMC further translated into policies and policy outcomes. In other words, if poverty rates and levels of inequality declined, the OMC might have contributed to strengthening social Europe. However, if policy outcomes deteriorated, we can conclude that the OMC either did not have the capacity to prevent welfare state retrenchment, i.e. other factors must have been more powerful, limiting any opposite influence by the OMC, or the OMC might even have contributed to these outcomes, for example by providing justifications for benefit cuts, greater benefit conditionality, etc. The word "might" needs to be emphasised here, this article does not claim that it can demonstrate these links; in addition, it always assumes that a range of other factors play a role within the "black boxes" between ideas, policy formulation, policy implementation and outcomes. Rather, the empirical evidence serves as thought-provoking impetus to review the arguments provided by OMC "optimists" and "pessimists" and consider ways in which these arguments could fruitfully be re-assembled.

2. OMC effectiveness: "optimists" and "pessimists"

This section compares the positions of OMC "optimists" and "pessimists", in relation to, first, the ways in which the OMC operates and, second, possible links between the OMC, EU social policy and national welfare states. These two aspects need to be more clearly distinguished as they are sometimes confounded in debates about the OMC's effectiveness.

2.1. The "optimists"

2.1.1. Operation of the OMC

The conceptualisation of the ways in which the OMC operates is at the heart of OMC "optimists" interest. Important aspects within this area are the debates about "soft law" and "policy learning".

As OMC instruments such as objectives, guidelines and targets are not legally binding, they can be regarded as “soft law”, defined as non-legally binding rules “which nevertheless may have practical effects” (Snyder 1993: 198). OMC “optimists” have argued that “soft law” may be effective despite its non-bindingness because it allows for policy experimentation and better problem definition on the ground as it facilitates decentralised policy-making and the involvement of a range of policy actors in policy-making (Cohen and Sabel 1997; Dorf and Sabel 1998; Trubek and Trubek 2005). “Optimists” therefore regard soft law as more suitable than hard law for operating within a context of diversity in which different policy solutions are required in different member states. In addition, OMC optimists have argued that soft law may be more effective than hard law and induce long-lasting policy learning (instead of just superficial behaviour change) because it has the potential to influence deep-seated values and attitudes (Jacobsson 2004; Trubek and Trubek 2005).

“Policy learning” has been identified by OMC “optimists” as one of the main mechanisms through which the OMC operates and gains influence at the national level. “Policy learning” refers to the cognitive basis of policy-change. According to Hall (1993), policy change is most thorough if it includes a change of underlying paradigms (third order change) (ibid.: 279). Such paradigm change occurs through policy learning, based on voluntary and rational assessment of past experience and new information (ibid.: 278). “Optimists” believe that the OMC facilitates “policy learning” through the regular exchange of ideas, deliberation, peer reviews, diffusion of discourses, “socialisation”, and bottom-up experimentation (Eberlein and Kerwer 2004; Heidenreich 2009; Jacobsson 2004; Trubek and Trubek 2005; Visser 2009; Zeitlin 2009; but also Kröger and Hartlapp, this issue, for an overview of critical accounts of learning).

2.1.2. The OMC and social Europe

Even though “optimists” focus less on this question, they generally believe that the OMC can strengthen “social Europe”. This refers both to the status of social policy at the EU level as well as the performance of national welfare states. For example, authors such as Ferrera and Rhodes stated that “(t)he European Union, acting as a ‘semi-sovereign’ policy system, seems slowly but surely to be carving out a distinct ‘policy space’ regarding social policy – a space which may gradually work to rebalance ‘softly’ and ‘from below’ the current structural asymmetry between negative and positive integration” (Ferrera and Rhodes 2000: 278). In addition, OMC “optimists” believe that the OMC can strengthen national welfare states and their performance by promoting their necessary “modernisation” or “recalibration”. For example, de la Porte and Pochet (2002a) regarded the OMC as a potential means to “building social Europe” and Trubek and Trubek (2005: 353) state that the OMC can help member states to “fend off any ‘race to the bottom’ pressures without the need for a centralised straightjacket” (also see Heidenreich 2009: 32).

2.2. The “pessimists”

2.2.1. Operation of the OMC

“Pessimists” criticise the assumption that the OMC is able to influence national policy-making through the diffusion and exchange of ideas. Here, they mainly stress the fact that the OMC objectives and guidelines are not legally binding and that there are no “hard” sanctions if member state governments do not follow the EU’s advice (e.g. Chalmers and Lodge 2003; Idema and Kelemen 2006; Kröger 2009; Scharpf 2002; see also Kröger, this issue, for further points of criticism). In addition, “pessimists” sometimes refer to the importance of national institutions and path dependency, stressing that OMC recommendations and targets are unlikely to have a significant influence on national policies if large “misfits” exist between them and national institutions (e.g. Chalmers and Lodge 2003; Kröger 2009: 206).

2.2.2. The OMC and social Europe

The “pessimists’” sceptical response to the “optimists’” “policy learning” approach is mainly due to their different stance regarding the question of whether the OMC can "strengthen social Europe". "Pessimists" doubt that the OMC is powerful enough to balance "negative" and "positive integration" (Scharpf 2002) and improve national welfare state performance. Here, they stress that the OMC is subordinated to the legally binding framework of negative integration, the Economic and Monetary Union and economic policy coordination (Büchs 2007; Chalmers and Lodge 2003; Kröger 2008; Offe 2003; Scharpf 2002; Kröger this issue; Schäfer and Leiber this issue). "Pessimists" therefore assume that European integration continues to be a potential challenge for national welfare states because the creation of the single market increases competitive pressures that might lead to a downward adjustment of social standards. Furthermore, through the creation of the European Monetary Union, governments within the Eurozone lost the power to set exchange and interest rates as instruments of economic policy which may put additional direct pressure on welfare systems. Prices, including wages and social security contributions, also became more transparent. Critics therefore fear that this increases competition among economic sectors across Europe, including wage levels. Furthermore, the limits for overall and annual state deficits defined by the Stability and Growth Pact potentially restrict government expenditure and discourage anti-cyclical government spending (Martin and Ross 2004; see Niechoj this issue) (3).

However, the "pessimistic" literature on the OMC and social Europe so far does not refer to the wider literature on welfare state retrenchment (Castles 2007; Green-Pedersen 2004; Korpi 2003; Scruggs 2006; Starke 2006; Swank 2005). Many authors within the welfare state retrenchment debate emphasise that globalisation and Europeanisation are not the only, and perhaps not the most important, factors that exert pressures on welfare states but that post-industrialism and demographic and family change may present equally significant challenges (e.g. Pierson 2001b). In my view, it is important to take these arguments into account to gain a more comprehensive understanding of the context within which the OMC is operating. Structural economic change is regarded as additional pressure because the expansion of the services sector decelerates economic growth as this sector provides less scope for increasing productivity. Declining economic growth implies less employment growth and potentially increasing unemployment which subsequently adds to budgetary pressures (ibid.; Bonoli 2005; Esping-Andersen et al. 2002; Tayler-Gooby 2004).

In addition, demographic change or "ageing societies", due to declining population growth in developed countries and higher life expectancy, are thought to exert further pressure on welfare states because the size of the working age population that contributes to state revenues and social security funds is decreasing whilst the demand and need for pension, health and long-term care expenditure is continually increasing (Esping-Andersen et al. 2002; Pierson 2001a; Pierson 2001b).

Overall, the debate between "optimists" and "pessimists" appears to be clear-cut – even though they tend to concentrate on different aspects of OMC effectiveness. Why should this orderly configuration be challenged? If national welfare state performance is improving/deteriorating should we not simply assume that the "optimists"/"pessimists" are right respectively? There are two reasons why this article seeks to question this view. First, we need to establish what types of policies the OMC promotes. If its policy contents are open enough to be interpreted and used by national policy actors in order to legitimise welfare state retrenchment, it is possible that it exerts an influence through "policy learning" as suggested by the "optimists". However, this may happen in ways that are shaped and limited by existing pressures on welfare states so that the OMC fails to prevent retrenchment as feared by the pessimists. Second, a range of empirical, in-depth studies has already been published demonstrating an influence of the OMC on national policy frames or even concrete policies (e.g. Büchs 2007; De la Porte 2008; Heidenreich and Zeitlin 2009; Zeitlin, Pochet, and Magnusson 2005). In some of these cases, national governments have used the OMC to legitimise unpopular welfare state reforms that had considerable retrenching effects. For example, the radical labour market policy reform in Germany (commonly called "Hartz" reform) that resulted in a cut of benefits for long-term unemployed, greater conditionality and generally decreasing passive and active labour market policy spending per unemployed population has been justified by the government with references to the European Employment Strategy and examples from other member states that had already introduced similar reforms (Büchs 2007; Seeleib-Kaiser and

Fleckenstein 2007). If an evaluation of welfare state performance of the last 15 years demonstrates a deterioration of welfare state performance it is not impossible that the OMC has facilitated retrenching policy reforms by providing necessary legitimatory discourses. However, before evaluating welfare state performance across the whole EU-15, we need to analyse the OMC's policy content to establish whether it has the potential to promote "strengthening" or "retrenchment" of social policy frameworks.

3. What welfare state does the OMC promote?

The first question that needs to be discussed when analysing the OMC's policy orientation is whether the OMC has been designed to be a subordinated tool that helps the EU becoming the most competitive economy in the world or an instrument to balance positive and negative integration. A first indication can be derived from the ways in which the OMC, the European Employment Strategy (EES) and the EU's strategy to coordinate economic policies relate to each other. Here it can be argued that the EU's economic objectives and policies still take priority over the EES and particularly the OMC on Social Protection and Social Inclusion (SPSI) (De la Porte and Pochet 2002b; Dieckhoff and Gallie 2007; Radaelli 2003). For example, the EES is required to be 'consistent with the broad guidelines of the economic policies of the Member States and of the Community' (Art. 126, Treaty of the European Communities) through which the member states are generally obliged to pursue economic policies coherent with "the principle of an open market economy with free competition (…), stable prices, sound public finances and monetary conditions and a sustainable balance of payments" (Art. 4, Treaty of the European Communities). The mechanism for economic policy coordination and the EES have been linked even more closely to each other as the set of guidelines for both mechanisms is now published in just one document, the "Integrated Guidelines". This integration was adopted through the Lisbon Strategy revision in 2005 which put a new emphasis on growth and jobs, de-emphasising the OMC SPSI. The strategy for economic policy coordination focuses on the promotion of "sustainable" growth and finances, a "dynamic and well-functioning European Monetary Union", wage levels that promote growth, investment in research and development, enhanced competitiveness, as well as the completion of the Single Market (CEC 2007).

Whilst several authors have criticised this asymmetry between EU economic and social policies (e.g. Scharpf 2002), it is arguable to what extent the OMC SPSI was ever meant to be a counter-weight to the EU's economic objectives. When it was launched in 2000 as part of the Lisbon Strategy, the OMC SPSI was only part of a package that set the new strategic goal for the EU to become the "most competitive and dynamic knowledge-based economy in the world" (European Council 2000, see Dawson this issue; Flear this issue).

However, a closer scrutiny of the ways in which the EU portrays the OMC is required. Here, two main themes can be identified, the first of which focuses on "strengthening", the second on "modernising" or "adapting" the European Social Model. Whilst these two themes are not necessarily mutually exclusive, they potentially provide different frames of interpretation and expectations as to what the EU should achieve in the area of social policy.

The theme of "strengthening" social Europe relates to two different aspects. The first emphasises the need to "reinforce", "improve" (European Council 2000) and "preserve" (CEC 1994: 7) the "European Social Model". This narrative also stresses that the EES and OMC strengthen the EU's role in social policy, implying that this improves the balance between the EU's economic and social objectives (European Council 2000: paragraph 12). The second refers to improving the outcomes of European social policy, for example in terms of "strengthening social cohesion", "eradicating poverty" (European Council 2000) and strengthening the dialogue between the social partners (European Council 1997: paragraph 18).

The theme of "modernising" European welfare states highlights the need to adapt existing systems of social protection to structural economic changes, globalisation and ageing societies through an “active” and “sustainable” welfare state.

What concrete approaches does the OMC promote to “modernise” the “European Social Model”? Are those approaches potentially protecting from or contributing to welfare state retrenchment?

The EES and the OMC SPSI seek to tackle the problems of unemployment and social exclusion through the “modernisation of social protection systems” (EES GL 17 2008), elsewhere characterised as “activation” (Barbier and Ludwig-Mayerhofer 2004; Van Berkel and Nornemann Møller 2002). Accordingly, the EES and OMC SPSI aim to increase labour market participation, “make work pay” and thereby prevent unemployment and social exclusion. The philosophy behind this approach is that a job is the best “safeguard” against poverty and social exclusion (European Council 2000) and that only “full employment” can contribute to economic growth (CEC 2007). The EES emphasises that greater work incentives should be created particularly for“disadvantaged people and the inactive” (CEC 2007: GL 19) to enhance social inclusion. In addition, the OMC SPSI emphasises equal opportunities, the fight against discrimination, and “access for all to the resources, rights and services needed for participation in society” (European Council 2006).

In relation to the goal of “full employment”, the EES promotes a “lifecycle approach to work” with a particular focus on increasing employment rates of younger and older people (CEC 2007: GL 17, 18) as well as a better re-conciliation of work and family life, for example through improved parental leave schemes and childcare provision (see Weishaupt this issue). In addition, the EES promotes “flexicurity” (that is more flexible labour markets combined with employment security), wage levels that do not exceed productivity growth and “reflect the labour market situation”, as well as the reduction of non-wage labour costs (CEC 2007: GL 21).

Is this approach able to “strengthen” European welfare states? This very brief review of the key EES and OMC SPSI objectives demonstrates that whilst both eventually aim to strengthen the EU’s competitiveness and growth, there is also a strong emphasis on social inclusion, the fight against poverty and equal opportunities. An additional difficulty in characterising the OMC’s policy content is based on the fact that “activation” policies can be differently interpreted. The academic discussion about activation is divided. First there are those who regard it as a promising approach to “modernise” or “recalibrate” welfare states, helping them to survive the challenges that they are faced with (Esping-Andersen et al. 2002; Ferrera and Rhodes 2000). Indeed, activation has the potential to create better access to labour markets as well as training opportunities for previously long-term unemployed people and “hard to reach” groups, some of which may previously not have been eligible for such measures.

However, and particularly if activation is understood in a wider sense as an “activation of the whole systems of social protection” (Barbier and Ludwig-Mayerhofer 2004), it can, second, also be understood as a means of “re-commodification” and restriction of social citizenship rights (Handler 2003; Serrano Pascual 2007). This is because “activation” is often linked to a transformation of guaranteed social rights into “social contracts” according to which the social right needs to be “earned”, for example through the acceptance of training or work opportunities which do not necessarily have to match the citizen’s previous level of qualification or area of residence (Handler 2003; Serrano Pascual 2007). More generally, activation policies are frequently linked to discourses mentioned above which locate the cause of unemployment or social exclusion within the individual, e.g. based on the deterioration of skills, lack of self-motivation and confidence, “benefit dependency”, or laziness (“deservingness”), rather than economic or structural circumstances (Serrano Pascual 2007: 14f.). Therefore, the policy solutions focus on changing individuals’ attitudes, behaviour and skills rather than fostering demand for labour or a more general redistribution of wealth (ibid.). Whether or not “activation” policies have a retrenching effect therefore also depends on how they are interpreted and designed.

An additional major problem that the OMC identifies is the impact that ageing societies and decreasing population growth are likely to have on the "financial sustainability" of social protection systems, in particular pension, health and long-term care systems. The OMC SPSI therefore recommends measures designed to achieve pension levels that are both "adequate" and "financially sustainable" (European Council 2006). Also in relation to health care the OMC stresses "access for all to adequate health and long-term care" which shall remain both affordable and financially sustainable (ibid.).

Again, the OMC SPSI seeks to strike a balance between two objectives that bear a tension. The first has potentially "preserving" effects as it recommends "adequate" pension levels "which allow people to maintain, to a reasonable degree, their living standard after retirement" (European Council 2006: d). The second, emphasising the "financial sustainability" of European pension systems, bears more of a retrenchment potential as the looming "cost explosion" of pension systems is likely to be addressed by cutting the generosity of pension payments, expanding the private and occupational pillars of pension systems and prolonging working lives.

Overall, whilst the OMC is structurally sub-ordinated to the EU's economic goals and policies, its various objectives and guidelines contain different and sometimes conflicting elements, some of which are more likely to be interpreted in ways that promote welfare state "strengthening" whilst others are more likely to support "retrenchment". Key concepts disseminated through the OMC, for instance activation, are inherently open to interpretation and can be implemented in ways that either lead to an expansion of active labour market policies and greater inclusion or to benefit cuts and stricter eligibility and conditionality. How national policy actors interpret OMC objectives and translate them (implicitly or explicitly) into national policies, will depend on a wide range of factors, including the existing welfare regime, financial capacities, political leadership and power constellations, public opinion, economic situation, etc.

4. Welfare state performance

This section will analyse welfare state performance within the EU-15 since the early or mid-1990s, depending on data availability, to establish whether or not the OMC could have had a strengthening effect on the EU-15 member states. The main criteria examined here are social expenditure, particularly in the areas of labour market and pension policy, as well as developments in relation to poverty and social inequality.

Before analysing social expenditure and welfare state performance it needs to be emphasised that, based on un/employment rates, the labour market performance has on average improved during the last decade within the EU. The employment rate of the working age population in the EU-15 has continually risen from 60.3 per cent in 2006 to 67.3 per cent in 2008. Even more pronounced was the increase of the employment rate of those aged 55-64 as well as the female employment rate both of which rose by more than ten percentage points between 1996 and 2008. Conversely, the unemployment rate decreased from 10.1 per cent in 1996 to 7.1 per cent 2008 whilst the rate of working-age (15-64) economic inactivity also shrank from 32.5 per cent in 1996 to 27.5 per cent in 2008. It is not unlikely that the EES and OMC played a role for these developments as they emphasised "activation" policies and a "life cycle approach to work". However, it also needs to be born in mind that these developments are highly sensitive to economic growth and that unemployment has considerably risen within the EU-15 from 7.1 per cent in July 2008 to 9 per cent in June 2009 due to the current world-wide recession. In addition, we will see below that increasing employment rates have not contributed to reductions of poverty and social inequality, contrary to the ways in which the EU promoted this policy approach.

Welfare state development is often measured by an examination of social expenditure.

Table 1

Data on overall social expenditure as a proportion of GDP confirm a range of studies on welfare state retrenchment that there have not been any major cutbacks (Castles 2007; Green-Pedersen 2004; Pierson 2001a; Starke 2006) (4). However, social expenditure within the EU-15 has decreased from 27.8 per cent of GDP in 1996 to 26.8 per cent in 2000. Whilst it went up again to 27.5 per cent in 2006, this level is still below that of the mid-1990s. In addition, this general picture conceals that the decrease of social expenditure has been more pronounced with a decline of 3.2 percentage points in Scandinavian countries whilst expenditure has still risen by 2.7 percentage points in Southern Europe (see Table 1).

In addition, there are interesting differences in different policy fields. Whilst expenditure on sickness and disability benefits has increased from 9.3 per cent of GDP in 1996 to 9.7 per cent in 2006, expenditure on unemployment has decreased from 2.1 per cent of GDP in 1996 to 1.5 per cent in 2006 and on pensions from 12.7 per cent of GDP to 12.1 per cent respectively.

As the EES promotes "activation", including active labour market policies such as training and job opportunities, it is an interesting question whether the overall decline of labour market policy (LMP) expenditure conceals an increase in active labour market policy (ALMP) expenditure. However, measured in per cent of GDP, ALMP expenditure decreased from 1.06 in 1996 to 0.88 per cent in 2006 (without Greece and Italy due to missing data, source: OECD). In line with the philosophy to minimise "benefit dependency", the decrease of PLMP expenditure was even more significant, with a fall from 1.95 per cent in 1996 to 1.25 per cent in 2006 (all EU-15 countries).

However, measuring LMP expenditure change in per cent of GDP is problematic because a decrease in spending might simply be due to decreasing unemployment whilst GDP remained stable or rose. It has therefore been suggested by the OECD (2003: 193f.) and authors such as Armingeon (2007: 915f.) that LMP spending data should be controlled for the level of unemployment by dividing the spending figures as per cent of GDP by the respective unemployment rates. As unemployment has continually decreased during the last one and a half decades it might therefore well be that absolute spending figures have actually increased.

However, even if spending on LMP is standardised by unemployment rates, total labour market policy expenditure has not changed between 1996 and 2006 and decreased by 0.09 points or 19 per cent between 1990 and 2006. Again, the decrease has been particularly pronounced in Scandinavian countries with an average decrease of 0.4 points within that period (Table 2).

Table 2

Standardised ALMP spending has on average increased by 0.03 points between 1996 and 2006, however, it decreased on average in Scandinavian countries by 0.21 points within the same period. Between 1990 and 2006, standardised ALMP expenditure declined within the EU-13 (excluding Italy and Greece due to missing data) by 0.04 points. However, this measure includes placement activities and administration cost. Expenditure on the sub-category of training measures decreased from 0.32 per cent of GDP in 1996 to 0.21 per cent in 2007. Even if standardised by unemployment rates, expenditure on training did not change between 1996 and 2006 and went down by 0.02 points between 1990 and 2006 within the whole EU-15. It went down according to the standardised measure in both periods within Sweden, Denmark, Ireland and the UK.

Standardised expenditure on unemployment benefits and early retirement (PLMP) has decreased in both periods within the EU-15, by 0.02 points between 1996 and 2006 and by 0.05 points between 1990 and 2006. These figures appear to be very small, but this is due to dividing the figure of expenditure in per cent of GDP by the unemployment rate. In actual terms these figures demonstrate that there have been considerable cut backs in the area of unemployment policy, not just as proportion of GDP but also per unemployed population. Whilst the ratio of ALMP to total LMP expenditure has increased by almost 9 percentage points between 1996 and 2006, this is mainly due to cut backs in passive benefits, rather than to a significant increase in ALMP expenditure. If benefit administration and placement activities are not included, this ratio only increased by almost 4 percentage points between 1996 and 2001 and even decreased slightly by 0.1 percentage point between 1990 and 2006.

Another interesting area of investigation is related to the "flexicurity" approach. As explained above, "flexicurity" aims at rendering labour markets more flexible, for example by making employment protection law less strict, offering more part-time and temporary work and enabling employees to change position through "life long learning" whilst unemployment benefits and ALMP should be in place to (temporarily) help those who lost their job.

There are several indications that labour markets have indeed become more flexible during the last decade. According to the OECD's indicator for employment protection which measures the strictness of labour market regulation in terms of "hiring and firing" employees, the level of protection has decreased within the EU-15 (excluding Luxembourg due to missing data) from 2.54 in 1996 to 2.08 in 2008. Another sign of increased labour market flexibility is that the share of temporary jobs within the labour market has increased from 12 per cent in 1996 to 14.4 per cent in 2008. In addition, the proportion of part-time work rose from 16.3 per cent in 1996 to 21.0 per cent in 2008, however part of that will also be due to increased female employment. Whilst according to those indicators labour market flexibility has increased, it is less clear whether the levels of "security" have remained the same or even improved as the previous section demonstrated that during the last one and a half decades standardised measures of support for unemployed people in form of ALMP has only slightly increased (but decreased as a proportion of GDP) whilst the provision of "passive" benefits has significantly declined.

Another area that is addressed within the OMC SP is pension policy, promoting "sustainable and adequate" pensions. An analysis of spending figures demonstrates that expenditure on pensions has fallen from 12.7 per cent of GDP in 1996 to 12.1 in 2006. However, these figures do not take into account the proportion of the population aged 65 and over which increased from 15.1 to 16.4 per cent within the same period of time. In other words, if the increasing share of the population on which these pensions are spent is taken into account, the drop in expenditure is even more significant. If pension expenditure is standardised by the proportion of the population aged 65 and over it decreased within the EU-15 by 0.05 points between 2000 and 2006 and by 0.1 point between 1996 and 2006. The drop of expenditure is strongest in the continental member states with a decrease of 0.13 (0.05) between 1996 (2000) and 2006. This decrease in public pension expenditure corresponds to the fact that the ratio of the relative median income of people aged 65+ in comparison to those under 65 years of age has decreased from 0.87 in 1996 to 0.83 in 2006 within the EU-15 and that poverty (60 per cent of median income threshold) amongst those aged 65 and over has increased from 20 to 21 per cent between 1996 and 2006, and even from 17 to 21 per cent between 2000 and 2006.

An examination of more general developments regarding poverty (here measured by the 60 per cent below median income threshold) and social inequality also reveals that the situation has deteriorated rather than improved during the last decade.

Table 3

The poverty rate has increased from 15 per cent in 2000 when the OMC SPSI was introduced (or 16 per cent in 1996) to 17 per cent in 2007 in the EU-15. The increase has been particularly strong within the Scandinavian countries, Luxembourg and Germany.

Whilst joblessness is indeed a major risk-factor for poverty, the spread of activation policies during recent years has not helped to reduce the proportion of the "working poor" which stood at 8 percent in both 1996 and 2007 within the EU-15.

Income inequality, measured by the gini coefficient, has also risen in the EU-15 from 29 in 1997 to 30 in 2007. Again, inequality is rising particularly strongly in countries with greater income equality in the mid-1990s such as the Scandinavian countries (see Table 4). A similar picture is emerging when analysing the ratio of the highest income quintile to that of the lowest income quintile. In 1997, the highest income quintile received a total income that was 4.7 times higher than that of the lowest income quintile. This ratio had fallen to 4.5 in 2000 but rose again to 4.9 in 2007.

Table 4

In summary, whilst some of these developments in policy outcomes, particularly the cutbacks of "passive" unemployment benefits and more flexible labour markets, are in line with conservative or neo-liberal interpretations of "activation policies", other trends such as decreasing levels of ALMP in comparison to the early 1990s as well as increasing poverty and social inequality are not in line with the OMC's ambitions.

5. Conclusion

This article aimed to review and combine arguments from OMC "optimists" and "pessimists", particularly in relation to the question of whether the OMC is able to strengthen European welfare states within a context of rising external and internal pressures such as globalisation, European integration, structural economic and demographic change. The analysis of the EES and OMC SPSI policy content concluded that whilst both strategies are still subordinated to the EU's goal to become the most competitive economy in the world and contain a range of measures that have potentially retrenching effects, the OMC SPSI in particular also emphasises the fight against poverty, social inclusion, skills and equal opportunities which might have consolidating or even expansionary effects if interpreted and applied accordingly.

"Optimists" within the OMC literature have argued that whilst the OMC is less likely to have a direct effect on programmes, there are two ways in which it could have an impact on national policies. The first is an influence on policy frames and discourses through the dissemination of ideas, peer reviews and policy learning which, subsequently, might inform policy-making and translate into policy outcomes. The second is the mobilisation and integration of previously marginalised policy actors into policy-making processes who can then lobby for improved social policies (Heidenreich and Zeitlin 2009; Jacobsson 2004; Visser 2009; Zeitlin 2009).

However, the examination of developments within social spending, passive and active LMP and pension expenditure as well as levels of poverty and inequality demonstrated that on average there are no signs of improvement or even clear trends of retrenchment in those areas, particularly within the Scandinavian and continental European countries. As discussed in the introduction, the approach chosen in this article did not provide an insight into the "black boxes" that lie between different factors for national policy-making (of which the OMC is only one potential factor), policy change at the national level and policy outcomes. However, on the basis of existing qualitative accounts of how the OMC has or has not operated as a catalyst within national policy-making, there is only a relatively small range of possibilities of how these outcomes can be interpreted. As this article sought to re-examine the arguments put forward by OMC "pessimists" and "optimists", the remainder of the conclusion will elaborate how both camps would interpret these results and propose an alternative interpretation that combines aspects of both perspectives.

1. OMC "pessimists" would regard these results as an indicator that the OMC did not have any influence on the policy developments that led to those outcomes, neither through an influence on policy frames nor the mobilisation of marginalised actors. They would interpret non-growing or even decreasing social expenditure, stagnating poverty and increasing social inequality as a quasi-automatic, un-coordinated response by EU member states to rising external and internal pressures on welfare states. However, this contradicts findings from a range of OMC and "activation" policy scholars claiming that the activation discourse has spread across Europe and that the OMC may have helped promoting this approach (amongst many authors: Barbier and Ludwig-Mayerhofer 2004; De la Porte 2008; Heidenreich and Zeitlin 2009; Serrano Pascual and Magnusson

2007; Van Berkel and Nornemann Møller 2002; Zeitlin, Pochet, and Magnusson 2005).

2. OMC "optimists" would still argue that the OMC has influenced policy frames and discourses in ways that promote a "modernisation" or "strengthening" of welfare states and therefore potentially strengthen "social Europe". However, they would struggle to explain the empirical evidence demonstrating that actual spending patterns and welfare state performance did not improve or even deteriorated during the last decade as they would not concede that these OMC-informed discourses did not subsequently translate into policies and remained "symbolic" politics or "window dressing", unable to counter-balance pressures arising from "negative integration" as well as other external and internal pressures on welfare states.
3. This article argues that a combination of some of the arguments put forward by OMC "optimists" and "pessimists" can result in a more fruitful way of interpreting the presented evidence on welfare state performance. From this perspective, it is possible that the OMC has contributed to the promotion of social policy concepts such as "activation" and the "sustainability" of social protection systems whilst the interpretation, policy translation and implementation of these concepts has been shaped and limited by external and internal pressures on welfare states, including not only "negative integration" and globalisation, but also demographic change and the transition to post-industrialism (e.g. Bonoli 2005; Pierson 2001b; Starke 2006; Taylor-Gooby 2009). In other words, whilst "policy learning" may have taken place, it occurred in less voluntary and more confined ways than assumed by the "optimists". This perspective would stress that whilst the OMC does not openly promote welfare state retrenchment, many of the policy approaches it endorses are contradictory or at least open to interpretations and ways of implementation that are compatible with welfare state retrenchment. The activation discourse is a prime example in this context. The OMC presents "activation" as a "positive" discourse, aiming to strengthen social inclusion by helping more people into work and reducing poverty. However, activation policies are implemented in a context of significant constraints on government budgets, a European single market and competitive pressures from further abroad. Budgetary pressures act as barriers to expanding investments into active labour market and other social inclusion policies. Competitive pressures make more progressive taxation reforms difficult which could help to increase public revenues and have redistributive effects (5). If we can assume in line with various OMC and "activation" policy scholars that the OMC contributed to a consolidation or even spread of the activation concept across Europe, it is therefore likely that "activation" has been implemented in ways that emphasise the need to "end welfare dependency" (leading to benefit cuts and restrictions of social rights) without investing into appropriate alternative ways of increasing social inclusion. The OMC may have provided discourses and justifications rendering policy reforms acceptable to a range of policy actors and the public. If it is true that the OMC encouraged the inclusion of marginalised political actors into policy-making processes (e.g. Zeitlin 2009), this would have contributed to convincing them of these new policy frameworks, thus preventing potential opposition or even transforming it into political support. However, here it must be stressed that the ways in which "activation" and other OMC-supported concepts are translated into concrete policies will depend on a variety of factors related to the concrete political and institutional settings in the different member states. It is therefore not impossible that OMC-supported "activation" led to improvements in welfare state performance in individual countries. However, the empirical data presented in section four suggest that if the OMC played a role in policy-making, and be it just at the level of providing general policy frames, national policy actors seem on average to have interpreted and implemented the OMC and "activation" frameworks in ways that did not improve or even deteriorate welfare state performance. If that interpretation holds, the OMC has not been powerful enough to prevent welfare state retrenchment against a variety of external and internal pressures or may even have contributed to it. However, further comparative qualitative research is required to examine the ways in which the OMC is or is not translated into concrete policies and what other factors have influenced recent policy changes and policy outcomes.

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Endnotes

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(1) This definition combines elements of competing definitions and measurements of welfare state retrenchment (see amongst many Castles 2007; for quantitative approaches, Scruggs 2006 and Korpi 2003 for the welfare rights/generosity approach and Esping-Andersen 1990 as "father" of the outcome-based approach), because the evaluation in section three includes both spending and outcomes.

(2) In this context, "strengthening" social Europe therefore only partly overlaps with "welfare state expansion". "Strengthening" social Europe relates both to the EU and member state levels whilst "welfare state expansion" only refers to the national level. "Welfare state expansion" also focuses more on an increase in welfare state expenditure and expansion of welfare rights, something that the OMC arguably never explicitly supported whilst it focussed more on improved policy outcomes such as reduced poverty and greater social inclusion.

(3) Public debt within the EU-15 has indeed fallen from 69.9 per cent of GDP in 1997 to 60.4 per cent in 2007.

(4) This might partly be due to methodological problems as, amongst other problems, social expenditure as per cent of GDP is sensitive to economic growth rates (see Castles 2007; Green-Pedersen 2004 and Scruggs 2006 for details).

(5) A recent review of taxation policy in the EU demonstrates that the rates on corporate and high level personal income have decreased considerably during the last decade whilst indirect taxes (e.g. VAT, excise duties) which have regressive effects have increased (see European Commission 2009).

List of Tables

Table 1: Total social expenditure, per cent of GDP (changes in italics)

	1996	2000	2006	*2000-2006*	*1996-2006*
Austria	28.9	28.4	28.5	*0.1*	*-0.4*
Germany	29.4	29.3	28.7	*-0.6*	*-0.7*
France	30.6	29.5	31.1	*1.6*	*0.5*
Belgium	28	26.5	30.1	*3.6*	*2.1*
Luxembourg	21.2	19.6	20.4	*0.8*	*-0.8*
Netherlands	29.6	26.4	29.3	*2.9*	*-0.3*
Mean	*28*	*26.6*	*28*	*1.4*	*0*
Denmark	31.2	28.9	29.1	*0.2*	*-2.1*
Sweden	33.1	30.1	30.7	*0.6*	*-2.4*
Finland	31.4	25.1	26.2	*1.1*	*-5.2*
Mean	*31.9*	*28*	*28.7*	*0.7*	*-3.2*
Italy	24.3	24.7	26.6	*1.9*	*2.3*
Spain	21.5	20.3	20.9	*0.6*	*-0.6*
Greece	20.5	23.5	24.2	*0.7*	*3.7*
Portugal	20.2	21.7	25.4	*3.7*	*5.2*
Mean	*21.6*	*22.6*	*24.3*	*1.7*	*2.7*
Ireland	17.6	13.9	18.2	*4.3*	*0.6*
UK	27.4	26.4	26.4	*0*	*-1*
Mean	*22.5*	*20.2*	*22.3*	*2.1*	*-0.2*
EU-15	**27.8**	**26.8**	**27.5**	***0.7***	***-0.3***

Source: Eurostat

Table 2: Total labour market policy expenditure, per cent of GDP/unemployment rate (changes in italics)

	1990	1996	2006	*1996-2006*	*1990-2006*
Austria	0.41	0.48	0.44	*-0.04*	*0.04*
Germany	0.37	0.42	0.28	*-0.14*	*-0.09*
France	0.25	0.25	0.25	*0.01*	*0*
Belgium	0.41	0.32	0.41	*0.09*	*0.01*
Luxembourg	0.65	0.35	0.35	*0*	*-0.3*
Netherlands	0.49	0.7	0.74	*0.04*	*0.25*
Mean	*0.43*	*0.42*	*0.41*	*-0.01*	*-0.01*
Denmark	0.65	0.79	0.82	*0.03*	*0.18*
Sweden	1.42	0.44	0.33	*-0.11*	*-1.09*
Finland	0.61	0.35	0.33	*-0.02*	*-0.28*
Mean	*0.89*	*0.53*	*0.5*	*-0.03*	*-0.4*
Spain	0.21	0.11	0.26	*0.15*	*0.05*
Portugal	0.18	0.19	0.24	*0.05*	*0.06*
Mean	*0.19*	*0.15*	*0.25*	*0.1*	*0.06*
Ireland	0.28	0.3	0.33	*0.03*	*0.06*
UK	0.18	0.13	0.09	*-0.04*	*-0.09*
Mean	*0.23*	*0.22*	*0.21*	*0*	*-0.02*
EU-13	**0.47**	**0.37**	**0.38**	***0***	***-0.09***

Source: OECD, Dataset Public Expenditure and Participant Stocks in LMP. Italy and Greece have been omitted from this set due to missing data.

Table 3: Poverty rate, 60 per cent of media income, in per cent (changes in italics)

	1997	2001	2007	*2001-2007*	*1997-2007*
Austria	13.0	12.0	12.0	*0.0*	*-1.0*
Germany	12.0	11.0	15.0	*4.0*	*3.0*
France	15.0	13.0	13.0	*0.0*	*-2.0*
Belguim	14.0	13.0	15.0	*2.0*	*1.0*
Luxembourg	11.0	12.0	14.0	*2.0*	*3.0*
Netherlands	10.0	11.0	10.0	*-1.0*	*0.0*
Mean	*12.5*	*12.0*	*13.2*	*1.2*	*0.7*
Denmark	10.0	10.0	12.0	*2.0*	*2.0*
Sweden	8.0	9.0	11.0	*2.0*	*3.0*
Finland	8.0	11.0	13.0	*2.0*	*5.0*
Mean	*8.7*	*10.0*	*12.0*	*2.0*	*3.3*
Italy	19.0	19.0	20.0	*1.0*	*1.0*
Spain	20.0	19.0	20.0	*1.0*	*0.0*
Greece	22.0	20.0	18.0	*-2.0*	*-4.0*
Portugal	21.0	20.0	20.0	*0.0*	*-1.0*
Mean	*20.5*	*19.5*	*19.5*	*0.0*	*-1.0*
Ireland	19.0	21.0	18.0	*-3.0*	*-1.0*
UK	18.0	18.0	19.0	*1.0*	*1.0*
Mean	*18.5*	*19.5*	*18.5*	*-1.0*	*0.0*
EU-15	**16.0**	**15.0**	**17.0**	***2.0***	***1.0***

Source: Eurostat

Table 4: Income inequality, Gini coefficient (changes in italics)

	1997	2001	2007	*2001-2007*	*1997-2007*
Austria	25.0	24.0	26.0	*2.0*	*1.0*
Germany	25.0	25.0	30.0	*5.0*	*5.0*
France	29.0	27.0	26.0	*-1.0*	*-3.0*
Belguim	27.0	28.0	26.0	*-2.0*	*-1.0*
Luxembourg	25.0	27.0	27.0	*0.0*	*2.0*
Netherlands	26.0	27.0	28.0	*1.0*	*2.0*
Mean	*26.2*	*26.3*	*27.2*	*0.8*	*1.0*
Denmark	20.0	22.0	25.0	*3.0*	*5.0*
Sweden	21.0	24.0	23.0	*-1.0*	*2.0*
Finland	22.0	27.0	26.0	*-1.0*	*4.0*
Mean	*21.0*	*24.3*	*24.7*	*0.3*	*3.7*
Italy	31.0	29.0	32.0	*3.0*	*1.0*
Spain	35.0	33.0	31.0	*-2.0*	*-4.0*
Greece	35.0	33.0	34.0	*1.0*	*-1.0*
Portugal	36.0	37.0	37.0	*0.0*	*1.0*
Mean	*34.3*	*33.0*	*33.5*	*0.5*	*-0.8*
Ireland	33.0	29.0	31.0	*2.0*	*-2.0*
UK	30.0	35.0	33.0	*-2.0*	*3.0*
Mean	*31.5*	*32.0*	*32.0*	*0.0*	*0.5*
EU-15	**29.0**	**29.0**	**30.0**	***1.0***	***1.0***

Source: Eurostat