Europe, Globalization and the Lisbon Agenda

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Sponsored by the Calouste Gulbenkian Foundation

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

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Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2008939768

ISBN 978 1 84844 196 5 (cased)
978 1 84844 199 6 (paperback)

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

Contents

<i>List of contributors</i>	ix
<i>Preface</i>	xi
<i>List of abbreviations</i>	xiv
 Europe, globalization and the Lisbon Agenda: an introduction <i>Maria João Rodrigues</i>	 1
 PART I DEVELOPING THE LISBON AGENDA AT THE EUROPEAN LEVEL	
1 On the European innovation policy: key issues for policy-making <i>Maria João Rodrigues</i>	23
2 Some reflections on innovation policy <i>Luc Soete</i>	38
3 Towards a sustainable European social model: key issues for policy-making <i>Maria João Rodrigues</i>	50
4 The Lisbon Strategy and social Europe: two closely linked destinies <i>Janine Goetschy</i>	74
5 The economic governance of the Union and the quality of public finances: key issues for policy-making <i>Maria João Rodrigues</i>	91
6 Some reflections on the macroeconomic dimension of the Lisbon Agenda <i>Pier Carlo Padoan</i>	102
7 Developing the Lisbon Agenda at the European level: conclusions of the debate <i>Maria João Rodrigues</i>	123

PART II THE EUROPEAN LISBON AGENDA AND NATIONAL DIVERSITY

8	The European Lisbon Agenda and national diversity: key issues for policy-making
<i>Maria João Rodrigues</i>	133
9	The Lisbon Strategy: merits, difficulties and possible reforms
<i>Robert Boyer</i>	149
10	The Lisbon Agenda on social policy: revitalizing the European social model
<i>Jos Berghman</i>	165
11	In-depth comment on the varieties of capitalism in the new Member States
<i>Ádám Török</i>	177
12	The Lisbon Agenda and the key reforms at national level: conclusions of the debate
<i>Maria João Rodrigues</i>	184

PART III THE EXTERNAL DIMENSION OF THE LISBON AGENDA

13	On the external dimension of the Lisbon Agenda: key issues for policy-making
<i>Maria João Rodrigues</i>	201
14	The external implications of the Lisbon Agenda
<i>Bengt-Åke Lundvall</i>	209
15	Between China and the USA: which future and strategies for EU-based enterprises?
<i>Benjamin Coriat</i>	223
16	The Lisbon Strategy as a global EU strategy
<i>Mario Telò</i>	234
17	The Lisbon Agenda and the external action of the European Union: conclusions of the debate
<i>Maria João Rodrigues</i>	246

PART IV THE LISBON AGENDA AND EUROPEAN GOVERNANCE

18	The Lisbon Agenda and European governance: key issues for policy-making
<i>Maria João Rodrigues</i>	253
19	Assessing the implications of the Lisbon Treaty for the Lisbon Agenda
<i>Mario Telò</i>	272
20	Paving the way for a strategy of sustainable development
<i>Iain Begg</i>	283
21	The Lisbon Agenda and public administration
<i>Wolfgang Drechsler</i>	294
22	Improving governance of the Lisbon Agenda: conclusions of the debate
<i>Maria João Rodrigues</i>	310
	Conclusion
<i>Maria João Rodrigues</i>	315
	<i>Appendix 1: Integrated Guidelines for Growth and Jobs (2008–2010), December 2007</i>	325
	<i>Appendix 2: Conclusions of the Brussels European Council, March 2008</i>	358
	<i>Appendix 3: European Union Declaration on Globalisation, December 2007</i>	380
	<i>Appendix 4: Official documents on the Lisbon Agenda: selected bibliography</i>	383
	<i>Index</i>	397

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10. The Lisbon Agenda on social policy: revitalizing the European social model

Jos Berghman

In a seminal policy paper written on the occasion of a conference on 'The European Identity in a Global Economy', held in Sintra, Portugal, in February 2000 in preparation for the Lisbon Summit under the Portuguese presidency, Manuel Castells argued that there is a need for 'a common European identity on whose behalf citizens around Europe could be ready to share problems and build common solutions' (Castells, 2002: 234). He wondered, though, how such an identity could either be found or built. Since religion, a common language, or a shared history are not obvious candidates for a quest of this kind, he explored other possibilities. It was only in the realm of values that Castells could identify a cluster of elements that looked promising. This cluster refers to the welfare state and explicitly embraces social protection. It consists of:

shared feelings concerning the need for universal social protection of living conditions, social solidarity, stable employment, workers' rights, universal human rights, concern about poor people around the world, extension of democracy to regional and local levels, with a renewed emphasis in citizen participation, the defence of historically rooted cultures, often expressed in linguistic terms. If European institutions would be able to promote these values, and to accord life with these promises for all Europeans, probably the 'project identity' would grow (Castells, 2002: 234-5)

Castells is aware that some of these elements are being rethought, the welfare state among them. Yet, in identifying the latter as a common value carrier, he pointed to the possibly crucial role of social protection for the EU itself.

First, the need for a common European identity may be even greater now than it was in 2000. Second, given that social cohesion (including social policy and the fight against social exclusion) represented one of the angles of the Lisbon Agenda triangle, a critical assessment of the state of the art on this issue is very important. Third, as posited by M.J. Rodrigues in

Chapter 8 in this book, the central idea of the original Lisbon Strategy was 'the recognition that to sustain the European social model it is necessary to renew its economic foundations by focusing on knowledge and innovation'. But we have yet to clarify the specific nature of the European social model.

In this chapter, therefore, I deal first with the European social model, on the basis of which I then address three further points: the implementation of the Lisbon Strategy through the open method of coordination (OMC); and the actual shift of the social policy framework and the meta-type of the European welfare state in the Lisbon Agenda era. I conclude with some policy suggestions for the renewed Lisbon Strategy.

10.1 THE EUROPEAN SOCIAL MODEL

In my view, the European social model is not a monolithic reality, but rather a dynamic and possibly even dialectic process that combines two elements: on the one hand, diverse national welfare regimes that are nevertheless part of a shared heritage, and on the other hand, a shared EU social policy profile that is gradually gaining shape (Berghman and Sakellariopoulos, 2004: 242). The question then arises as to whether the shared social policy profile can become part of the shared heritage. Thus far, the common EU social policy profile refers mainly to initiatives that deal with the 'spillover' problems arising from European market integration. But one cannot deny the existence of the normative principles on promoting employment and social protection that figure in the Treaty, existing social regulations and directives, the recent practice of the OMC and its national action programmes (NAP), and even the relatively autonomous social policy network and institutions through which it is gaining shape (Hemerijck and Berghman, 2004: 24–5). But this shared profile remains fragile and needs support from the Member States and the principles they adhere to in EU decision-making by the Council. Let us see, then, if such a foundation can be provided by the common heritage underpinning the European social model.

Underlying the normative, cognitive and institutional commonalities among European welfare states, lie the crucial collective decisions on the labour-income nexus that underpin the welfare systems. Some basic indicators help to make this point, starting with a comparison between productivity in the European Union (EU-15) and the United States (Table 10.1). For the sake of clarity I take figures from the 1990s when the EU had had only 15 Member States, and a long-established approach.

Gross domestic product (GDP) per capita is 30 percentage points higher in the US than in the EU-15. Per employed person, however, this difference

Table 10.1 Productivity indicators – % differences (EU = 100)

	US	EU
GDP/capita	130	100
GDP/employed person	108	100
Number of hours worked/capita	144	100
GDP/hour worked	89	100
Remuneration/hour	101	100
Productivity/remuneration	87	100

Source: Cichon (1997).

is much smaller. The difference in the number of hours worked per capita provides the explanation: not because the hours worked by individual workers is higher in the US, but because more Americans are allowed to work, yielding a higher aggregate number of hours worked per capita. By contrast, GDP per hour worked in the US is lower than in the EU, suggesting that the lower-skilled workers that are nonetheless given access to the labour market are decreasing the average hourly productivity level. In fact, while average remuneration per hour is at a similar level, productivity per unit of remuneration is lower in the US than in the EU (Berghman, 1997). Implicitly, therefore, the EU has 'chosen' a strategy of high productivity by giving only the most productive workers access to the labour market.

Yet, while implicitly and collectively deciding to be very productive, the Member States of the EU also opted to guarantee adequate living conditions to those who cannot be productively inserted into the labour market because they do not yet, or no longer, have the required capacity to work. According to Adema (2001) and as shown in Figure 10.1, EU countries typically spend between 20 per cent and 26 per cent of their GDP on gross social expenditure, whereas the figure for Japan and the US is only 15 per cent. (In net terms, these figures are somewhat lower to the extent that part of this expenditure returns through direct taxes and social contributions. The latter have a considerable impact on social expenditure levels, in countries like the Netherlands and in the Nordic countries.)

When we add tax expenditure and private expenditure on the same 'social' contingencies, however, the picture changes fundamentally. It then appears that all countries spend at least a quarter of their GDP on social expenditure. Hence, the Member States of the EU and the US spend more or less the same share of GDP to provide various social services and benefits, the difference being that in the EU this is done more through obligatory and statutory schemes. In so doing, EU countries find it easier to

Source: Adema (2001).

Figure 10.1 Extended net social expenditure indicators, 1997

counter adverse selection mechanisms and thus to reduce poverty more effectively than the US. So, Europe's common patrimony seems to reside in the combination of productivity and solidarity, the latter leading to broad, obligatory, solidarity-oriented welfare institutions.

However, the institutions deployed by EU countries differ. This can be explained by reference to the basic social policy logic and to the relationship of the different European welfare state sub-models to that logic (Berghman, 1997). The social policy logic holds that we educate and train people to ensure that they are able to enter the (paid) labour market, and thereby have the opportunity to gain a primary income. Social protection, then, basically operates as a bypass mechanism in those cases where insertion in the labour force is no longer possible or desirable. In such cases, the aim is to resolve the problem by guaranteeing the availability of (replacement) income in order to safeguard social integration. But social protection policies cannot confine themselves to the mere provision of income protection, be it at a minimum or at an earnings-related level. Income schemes have to be complemented by reintegrative action like retraining, work mediation and rehabilitation schemes. Thus, the location of social protection within the broader socio-political context makes us aware of the intrinsic connections that exist between social protection, labour demand and labour supply. For society, social protection is a productive factor to the extent that it upholds the basic logic, and that it does so in an efficient way.

Social protection, and more broadly speaking the European welfare state, can then be seen as having three explicit objectives: guaranteeing minimum protection (the Beveridge legacy of the Anglo-Saxon sub-model), providing earnings-related income protection (the Bismarck legacy of the Continental sub-model), and to do so in ways that do not counter-act reintegration (the Scandinavian legacy of the Nordic sub-model). In this context a fourth, Southern European sub-model can be viewed as a less elaborate variant of the Continental model, which still relies more on family solidarity.

It is very important to be aware that these four sub-models also refer to four different policy-making settings: in the Anglo-Saxon tradition, responsibility for policy-making on the fundamental income-labour nexus resides with the democratic political majority; in the Continental countries, it is the prime responsibility of the social partners whose commitments should be confirmed by the polity; the Nordic model has its tradition of close cooperation between social partners and polity; and the Southern sub-model also relies on social partners, albeit less starkly. This difference in policy-making traditions can largely explain the levels of difficulty that Member States encounter when trying to recalibrate their welfare states. The Continental and Southern European Member States in particular,

which depend heavily on the social contract between autonomous social partners, need time to make fundamental policy shifts.

10.2 THE OMC IN SOCIAL POLICY

The Lisbon Summit was not only ground-breaking in terms of its conceptualization of the EU ambition to modernize itself by becoming a social knowledge-based society; it was also ground-breaking because it introduced a new method of decision-making, the so-called OMC. This points to the midway position that the EU had to adopt in the social policy field: confronted by the new challenges of globalization, population ageing and technological change, concerted action was thought to be necessary, but formal competences were to remain with the national authorities. As an intergovernmental device the OMC tried to reconcile both elements. Its success, then, should be assessed both in terms of its getting national authorities to deploy the needed policy initiatives, and in terms of its contribution to turn national initiatives into actions that safeguard, bolster or recalibrate the 'common heritage'.

In retrospect, it must be admitted that the original enthusiasm generated by the OMC in different social policy fields gradually lost its momentum. This is partly because of the heavy administrative and consultative process that was necessary to elaborate valid NAPs (National Action Programmes), and guarantee a reliable and feasible monitoring system. But social policy actors were more depressed by the overriding influence of the Economic and Financial Affairs Council (Ecofin), by the diminishing commitment of the Council to social objectives, and by the decision of the Commission to downplay the social angle of the Lisbon triangle.

Meanwhile, it was recently decided that the strategy for growth and jobs should be renewed within a mutually reinforcing economic, employment and social policy framework, to bring the social OMCs on social inclusion, pensions and health and long-term care together, and reinforce their mainstreaming at the EU level. But there are strong doubts among social policy actors about the awareness and commitment of the EU to social cohesion and the European social model and, above all, about the ability of the EU to promote a renewed and appealing vision of how to combine productivity and solidarity, and thus about the possibility of revitalizing the European social model.

It is by now clear that the operationalization of social policies should remain a national competence, to which the subsidiarity principle rightly applies. Building on this, there is a felt need to involve national competence levels explicitly in the preparation of the national action programmes.

Thus, there are pleas to submit the NAP explicitly to prior national governmental and parliamentary approval. At the same time, however, it is also clear that there needs to be a strong EU-level vision of how to safeguard the common social heritage of Europe. This calls for a clear commitment from the Commission and its administrators, as well as from the Council.

10.3 TOWARDS AN ADEQUATE SOCIAL POLICY FRAMEWORK

What should be the substance of the endeavour to revitalize the European social model in terms of the Lisbon Strategy, taking into account the challenges that triggered it, and to have the broader lines of this revitalization defined and voiced at the EU level? Tables 8.1 and 8.2 in Chapter 8 distinguish different institutional and policy areas that have a bearing on the revitalization. From the above, it is obvious that it is not only the social protection area but also the wage-labour nexus that are traditionally at stake when dealing with the European social model. From the actual discourse on social policy it becomes clear, however, that the education and the competence and skills areas must also be taken into account (Allmendinger and Leibfried, 2003).

The transition from an industrial to a post-industrial, reflexive, information society has produced important shifts in the conceptual and policy framework on social protection and the welfare state. The attention traditionally paid to curative transfer systems was challenged by the high unemployment rates of the late 1970 and 1980s. This has refocused attention on reintegrative policy initiatives. But the success of initiatives that focus on labour supply quickly reached its limits because of the lack of labour demand. So, the next policy phase has witnessed initiatives to enlarge labour demand. The latter may help to mitigate labour market problems in the short and medium term, but they are not a final solution. On the contrary, in the longer term, attention must shift to capabilities, capacity-building and transitional labour market, human resources and career management (Estevez-Abe et al., 2001). So, we need a convincing EU and national-level commitment to operationalize reliable flexicurity formulas.

In doing so, the scope of the redistribution which the social protection and welfare state systems are meant to generate is broadened. In fact, the horizontal redistribution that original social insurances hoped to ensure was later complemented by the vertical redistributive objectives of the social protection systems. But the high training and expertise needs of highly developed knowledge-based societies make investments in training of the younger cohorts and in retraining schemes for those of active age an

additional priority. In the first place, this calls for much greater attention to and investment in children. Gösta Esping-Andersen comments that:

current policy fashion advocates activation, retraining and life-long learning as a way to combat entrapment, but it is well documented that remedial programmes are very ineffective unless participants come with strong and motivational abilities to begin with. Mobility is a realistic possibility only for those who already possess skills from youth. (Esping-Andersen, 2005: 147)

So, both education and training programmes, as well as income protection during periods of retraining and parental leave and kindergarten, become crucial for a European social strategy.

All this leads to a more pronounced intergenerational redistribution, whereby the actual generation has to invest in the new cohorts, not only to make them fit for insertion into the production process and uphold economic growth in Europe, but also to guarantee that the coming generation of Europeans will be able to sustain the horizontal and vertical redistribution devices that are part of their respective welfare state traditions, or at least to renew the operationalization of the productivity–solidarity nexus that represents their common heritage.

10.4 THE META-TYPE EUROPEAN SOCIAL MODEL IN THE LISBON ERA

Is there then a meta-type of capitalism that underpins, or should underlie, the Lisbon Agenda? From a social policy point of view, two elements come to the fore. The first relates to the European social model and the social policy framework it currently requires. Both call for a meta-type that liberates the welfare state from its traditional curative focus, but manages to incorporate reintegrating and activating policy initiatives. In this sense the Lisbon Agenda still holds. The weaker point, however, is that the social aspect of the Lisbon triangle must be more reliable, a fully recognized part of the triangle, and not just the 'runt' of the litter. If employment policies and the welfare state are the second and third elements of the Lisbon triptych, which allow the first to flourish and make it possible to revitalize the productivity–solidarity nexus of the European social model, then they should receive due attention and be materialized. We clearly need a longer-term, and clear and reliable vision that pays attention to intergenerational and flexicurity perspectives.

The second element that comes to the fore is the actual development of national welfare states. The meta-type envisaged in the Lisbon Strategy is

most in line with the traditional Nordic welfare state sub-model, with its emphasis on universal coverage, reintegrative drive and high labour market participation (including of women with facilitated childcare facilities). This is not to say that all Member States should copy the Nordic sub-model, which is itself evolving. But many elements of the Lisbon Strategy are reminiscent of the Nordic tradition. Yet, what is promising is that many Member States are aware of this challenge and are fully engaged in adopting initiatives to meet it (Debels, 2008). As regards the conservative Continental sub-model which may be harder to reform, research by Koen Vleminckx on the conservative Northern welfare states could convincingly corroborate this trend (Vleminckx, 2006). Further, Johansson and Hvinden, who scrutinize social policy development in the Nordic, so-called social democratic welfare states, found some trends that converge with developments in other welfare state sub-models (Johansson and Hvinden, 2004).

10.5 SUGGESTIONS FOR THE RENEWED LISBON STRATEGY

Incremental convergence towards a common active welfare state regime appears to be under way. Of course, differences remain and further justify subsidiarity; but the common vision and commitment, the European social model, all that which unites Member States remains underdeveloped, under-voiced and lacks support. So Member States should deploy whatever resources they must to face the challenges ahead, respecting path-dependencies; but let there be full EU-level responsibility for the overall project. Manuel Castells may be right: there are not many things that Europeans can be proud of which also serve to bind them together, but the European social model may be one of them, and the Lisbon Agenda may be the opportunity to make it so. The EU president and rotating presidencies can promote varying initiatives, with quite differing scope in this regard.

Thus far, the European social model is the expression of a productivity drive combined with publicly organized solidarity. Following on from this, the introduction of a European minimum wage system could be decisive, especially for the Central and Eastern European countries (CEECs). This does not mean that there should be a single EU-wide minimum wage; on the contrary, one can look to poverty research for inspiration, and define country-specific poverty lines that are nonetheless based on a shared methodology.¹

A second line of action might consist of shifting the focus of European social policy from social inclusion to an activating, capability-building

approach. Almost by sheer accident, the EU had come to focus on poverty and, later, on social exclusion and inclusion. Competence and legitimacy constraints and political arguments may explain this (Marlier et al., 2007). Even so, until the 2000 Lisbon Summit this focus was only a minute part of the fight against poverty and social exclusion, and it hardly made sense in the light of the subsidiarity principle. Since then, the OMC on social inclusion may have had a more indirect impact through the monitoring of social inclusion via the National Action Programmes social inclusion (NAP-incls). It is astonishing, nonetheless, that the most outspoken discretionary, local and multifaceted part of social policy figures highest on the EU agenda. This is not to criticize the focus on social inclusion, but to advocate a EU-level complementary focus on the policy realm that is at the heart of the Lisbon Agenda, favouring activation, a capabilities approach and knowledge-building. Part of this field is covered by employment policy in a rather fragmented way, but substantial and crucial parts on the major social security schemes, on education and training, and on monitoring labour supply and organization are left out. In this way, the situation of the poor is addressed by the EU, but the bulk of citizens and of the working population are not. As regards the latter, the EU is not really providing for the major social correction devices that are necessary to address the dysfunctional effects of economic development and of the common market in a globalizing world. Yet, when the major institutions in the social field are taken care of, the lower end of these, which deal with social exclusion, will automatically be taken on board. The reverse is not automatically the case, however. The fight against social exclusion provides no guarantee that major social protection instruments will be safeguarded.

In line with the previous points, the EU could promote the Lisbon Agenda by launching a proper EU-initiative. A credit scheme to underpin lifelong learning would be an obvious move. It visualizes the productivity drive of the EU model, gives shape to the knowledge and innovation focus of the Lisbon Agenda, and could therefore convince European citizens that they are worth the investment. Part of the budget and most of the policy competence that is necessary may be found in existing European funds. However, restructuring them as a lifelong learning scheme may operationalize a timely new vision of social Europe.

Finally, there could be an integrated OMC for total social protection. Thus far, we have individual and separate OMCs for employment, social inclusion, pensions and parts of healthcare, which were later more or less integrated into more encompassing OMCs. However, they integrate only a selection of the relevant social policy sub-fields, so the call for an OMC that covers the totality of social protection makes sense. This may also generate a new vision of the European social model by showing that the EU is eager

to complement its common market policy with a common social correction system. If social protection is an important mediator and productive factor that allows the economy to flourish, we should give it the opportunity to play its part in dealing with globalization, and in the Lisbon Agenda as well. Let the EU show, with an integrated social protection OMC, that its social dimension is not just some footnote to its common economic union policy, but rather a full social complement. We should not be afraid to discover how we can, once again, make social policy functional in the new economic context and to show this to the world.

NOTE

1. The starting point here is the country-specific amount of 60 per cent of median net disposable equivalized income, to which an equivalence scale of 1.0/0.5/0.3 is applied.

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11. In-depth comment on the varieties of capitalism in the new Member States

Ádám Török

The varieties of capitalism in the old Member States of the EU can be described correctly using the Amable typology, with its Anglo-Saxon ('market-based economies'), Central European (the German-speaking part of Europe foremost), Southern European and Nordic types of capitalism. Maria João Rodrigues (see Chapter 8) rightly shows that the Eastern European transition countries are likely to embody a fifth type of capitalist development even though their recent experience in this respect is only a decade and a half old.

It is also true, however, that some of these countries, especially the Visegrad states (Poland, the Czech and Slovak republics and Hungary) as well as Slovenia had some experience with the Central European type of capitalist development prior to the Second World War. Due to more than 40 years of socialism in these countries, however, in most instances the reconstruction of market economy institutions had to start from scratch. Only the modestly liberal and more or less open Hungarian economy and the favourably located and also not centrally planned Slovenian economy were partial exceptions to this rule. By contrast, with them, most former Soviet republics (except for the three Baltic countries) did not have any real experience with capitalism, which is also reflected by their current economic and social models. In what follows, I focus on the Central European experience with 'Eastern European capitalism'.

The matrix-type scheme of types of capitalism makes it possible to define the social and economic models of the former transition countries, the recent new member countries (NMCs) of the EU, and compare them to other EU countries. In my view, the three Baltic republics (BRs) represent a sub-type of this model for several reasons. Without trying to be exhaustive, these include, first, the fact that the BRs were, with the limited exception of Estonia, extremely isolated from the West between 1945 and 1990. This made it possible for their post-1990 governments to launch the transition process