Beyond the Community Method: Why the Open Method of Coordination Was Introduced to EU Policy-making

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European Integration online Papers (EIoP) Vol. 8 (2004) N° 13;
http://eiop.or.at/eiop/texte/2004-013a.htm

Date of publication in the EIoP: 23.9.2004

| Full text | Back to homepage | PDF |
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Keywords

institutionalism, open coordination, social democracy, EMU, employment policy, Maastricht Treaty, Amsterdam Treaty, political parties, political science

Abstract

This paper looks at the introduction of the Open Method of Coordination (OMC) to EU policy-making. This new mode of governance has been developed over the last decade and has received considerable attention in the literature. However, much of this writing fails to put the OMC into the broader context of EMU; in contrast, this paper links the Amsterdam employment title to the prior Maastricht decision to form a monetary union. It seeks to contribute to the literature on European integration in two ways: First, this paper offers three refinements to Pierson's historical institutionalist account of European integration. Second, it thus provides an alternative to functional explanations of the OMC. In brief the argument is that a conservative-liberal coalition at Maastricht created hard law in fiscal and monetary policy to constrain its successors, while the social democratic majority at Amsterdam relied on soft law to promote its goals in employment and social policy. While the former effectively limited later policy-choices, the latter largely avoids sovereignty losses for national governments. The contents of the Employment Title were determined by EMU, its form – the OMC – by social democratic reluctance to transfer power to the EU.

Kurzfassung

Das Papier untersucht die Einführung der Offenen Methode der Koordinierung (OMK) in der Europäischen Union. Dieses neue Politikinstrument ist in den letzten zehn Jahren als Alternative zur Gemeinschaftsmethode entstanden und hat in der wissenschaftlichen Literatur viel Aufmerksamkeit auf sich gezogen. Allerdings wird der Zusammenhang seiner Einführung mit der Europäischen Währungsunion oft nur kursorisch bemerkt, ohne ihm ausführlich nachzugehen. Dieses Papier möchte im Gegensatz dazu genau auf diesen Zusammenhang aufmerksam machen, um auf zwei Arten zum Forschungsstand beizutragen: Ersten fügt der theoretische Teil drei Elemente zu Piersons historisch-institutionalistischer Analyse der Europäischen Integration hinzu. Zweitens soll mit Hilfe des modifizierten historisch-institutionalistischen Ansatzes eine Alternative zu funktionalistischen Erklärungen der OMK dargestellt werden. Dabei lautet das Argument, dass die Mitte-Rechts-Koalition in Maastricht Regeln für die Haushalts- und Geldpolitik verabschiedete, die nachfolgende Regierungen binden würden. Die sozialdemokratische Mehrheit in Amsterdam einigte sich hingegen auf weiche Regeln in der Beschäftigungs- und Sozialpolitik, um den eigenen Handlungsspielraum nicht unnötig einzuengen. Während die Inhalte des Amsterdamer Beschäftigungstitels durch die Währungsunion bestimmt wurden, schuldet es seine Form – die OMK – dem Unwillen sozialdemokratischer Regierungen, Befugnisse an die EU abzugeben.

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| Abstract | Back to homepage | PDF |
| This paper's comments page | Send your comment! to this paper |

Contents:

- 1. Introduction
- 2. Conceptualizing Integration and Europeanization
- 3. From EMU to OMC: A Historical Institutionalist Account
  - 3.1. European Monetary Union
  - 3.2. The Origins of the Open Method of Coordination
- 4. Conclusion
- References

1

1. Introduction

Over the last decade, a new policy-instrument has emerged within the European Union. Since the European Council summit at Lisbon, this new soft law procedure has been called the Open Method of Coordination (OMC). It differs from the Community Method as it is more intergovernmentalist and neo-voluntaristic. What accounts for the European Union selecting less integrationist soft law in employment and social policy while relying on hard law in monetary and fiscal policy? Why has integration been uneven? This paper traces the paradox of the EU becoming a state in monetary policy while remaining an international organization in economic policy at large. More narrowly, it seeks to answer the question of why OMC was introduced to EU policy-making.

This paper analyzes how European integration influences the subsequent policy-choices of national actors. To do so, I will rely on the historical institutionalist framework developed by Pierson (1996). He has argued that even though member states (in fact, governments) design European institutions in their own interests, these will thereafter not always conform to their expectations. Instead, 'gaps in control' emerge due to the partial autonomy of supranational institutions, restricted time horizons of political decision makers, unanticipated consequences, and shifts in governments' preferences. Supranational actors use these gaps in control to further their own interest and advance integration. In sum, there will be a ratchet-up effect of integration despite the efforts of national decision-makers to avoid sovereignty losses.

While this account offers valuable insights to European integration, I nonetheless suggest a number of refinements that allow for a broader range of outcomes. First, governments can choose between different policy-instruments for cooperation. Not all of them lead to gaps in control. Instead, some of them - most notably the newly created Open Method of Coordination – are mainly built around intergovernmental cooperation. Second, governments know that some modes of governance are more likely to produce 'agency losses' than others.

In particular, they learn to restrict the autonomy of supranational actors as a result of past experiences. Third, changing political majorities in the (European) Council can influence the choice of policies and policy-instruments. Hence, we have to look at how national governments align along party political lines. Overall, these amendments seem suited to explain how the decision for European Monetary Union influenced later policy-choices. To illustrate this argument, this paper provides a case study that reconstructs the sequence from Maastricht to Lisbon to demonstrate how prior integration in conjuncture with an altered political majority led to the choice of a soft law approach in employment policy – subsequently dubbed Open Method of Coordination.

In the existing literature, the politics of choosing policy-instruments is oftentimes neglected. Most of the writing on the OMC focuses instead on its presumed effects. It is argued that soft law was selected as a problem-solving device that facilitates mutual learning and a diffusion of best practices (de la Porte/Pochet 2002: 12; Radaelli 2003: 52). Implicitly, it is assumed that policy-instruments are chosen on a functional logic. A historical institutionalist approach, in contrast, stresses how decisions are mediated and constrained by the already existing institutional setting (cf. Thelen/Steinmo 1992: 2). Prior decisions have an impact on later ones. Hence, this paper contributes to the literature on the origins and the development of the OMC. It puts into question functional explanations and provides a historical institutionalist account instead.

2. Conceptualizing Integration and Europeanization

From a historical institutionalist view, there is a sequential relationship between integration and Europeanization where they impact on each other in the following way: At t1 a favorable actor constellation decides to push for integration, that is, to create "at the European level distinct structures of governance" (Risse/Cowles/Caporaso 2001: 3). The kind of institutions created and the mode of governance selected depend on the compromises struck between the actors involved. Once created, institutions are sticky because altering them depends on unanimous consent. Subsequently, at t2 the mode of governance impacts on national policy-making and restrict certain policies while enabling others (i.e., Europeanization). At t3 a new actor constellation might have emerged; however, in most cases, it cannot reverse the steps taken before and the room for maneuver decreases. Accordingly, the range of policy choices or available instruments becomes more limited at the end of the sequence. This three-step model was spelled out most forcefully by Pierson (1996). (1) He sought to provide more realistic a framework for analyzing European integration than either intergovernmentalism or neo-functionalism. Taking into account the intergovernmentalist premise that in negotiations governments do not accept any compromise running counter to their interests, he then moved on to show why, over time, gaps between their institutional preferences and the actual functioning of institutions emerge nonetheless (ibid: 131). There are, according to Pierson, four reasons why they do: autonomous actions by supranational actors, restricted time horizons of decision makers, unintended consequences, and actors with different preferences taking office.

Equally intriguing is the question why these control gaps cannot be undone by governments. If actors face unwanted consequences to prior decisions, why are they not able to alter them? There are three main reasons: the resistance of supranational actors, institutional obstacles to reform, and sunk costs (Pierson 1996: 142-145). European integration in particular empowers supranational actors. Over the years, the Commission has used its right of initiative to increase Community competencies.(2) The European Court of Justice (ECJ) has also interpreted its mandate extensively. Supranational actors can make use of their powers to further expand their competencies. This phenomenon is known as 'agency loss' in the literature on delegation: The principal always has difficulties in fully controlling the agent's actions (cf. Pollack 1997).

In brief, this analysis suggests a ratchet-up effect of European integration. Once decisions are taken, moves towards integration cannot easily be reversed. Consequently, at a later point in time, the options available become more limited. Pierson (1996: 147-148) believes that this account offers a better explanation for "task expansion" (Pollack 1994: 96) and ongoing integration than neo-functionalism because it offers sound micro-foundations. His approach to historical institutionalism is both actor-centered and rationalist.(3)

While I accept the thrust of Pierson's argument, I nevertheless propose some amendments to it. In particular three points deserve attention:

1. not all policy-choices lead to a ratchet-up effect of integration;
2. governments can choose forms of cooperation that limit agency losses;
3. there is a political dimension to the choice of policy-instruments.

While the next few paragraphs elaborate on these points, section three provides an empirical demonstration of the extended model in a case study.

Three amendments

First, the consequences – unintended or not – that follow from a decision for integration depend on the policy-instrument chosen. There is no need to assume they all have the same effects. Especially since different policy-instruments in varying degrees transfer power to supranational actors and can be more or less precise as well as binding. Abbott et al. (2000: 401) use delegation, precision, and obligation to analyze differences between soft and hard law. The loss of control for national governments depends on the specification of these three dimensions. Notably, delegation can trigger agency losses:

> "Legalized delegation, especially in its harder forms, introduces new actors and new forms of politics into interstate relations. […] actors with delegated legal authority have their own interests, the pursuit of which may be more or less successfully constrained by conditions on the grant of authority and concomitant surveillance by member states. Transnational coalitions of nonstate actors also pursue their interests through influence or direct participation at the supranational level, often producing greater divergence from member state concerns. Deciding disputes, adapting or developing new rules, implementing agreed norms, and responding to rule violations all engender their own type of politics, which helps to restructure traditional interstate politics" (Abbott et al. 2000: 417).

Obviously, the Community Method delegates considerable power to the Commission and the ECJ and offers ample opportunity to act independently of their principals. This mode of governance is characterized by the Commission monopoly of the right of initiative; a widespread use of qualified majority voting in the Council; an active role for the European Parliament; and the uniform interpretation of Community law by the European Court of Justice (Wallace 2000: 28-29). However, already the second and third pillars of the EU-Treaties circumscribe supranational actors' competencies. These pillars are based on an intergovernmental logic of cooperation in which the Commission's right of initiative is shared with the member states or limited to specific areas of activity; the Council generally acts unanimously; the European Parliament is confined to a purely consultative role; and the Court of Justice, if at all, plays only a minor role. Furthermore, and more importantly for this paper, the Open Method of Coordination also refrains from delegating authority. Its low degree of legalization makes it a soft law approach (Kenner 1999). Hence, there are alternatives to the Community Method that limit agency losses.

More generally, governments can choose between a range of different modes of coordination that differ with regard to delegation and, accordingly, the degree of legalization. Table 1 gives a number of examples of how modes of governance differ in terms of delegation and legalization. The choice of a 'softer' policy-instrument limits losses of control for national governments. The two extremes are pure competition on the one hand and complete integration (or supra-nationalization) on the other.

Table 1

A second point of departure from Pierson's model concerns the impact of unintended consequences on future decisions about policy-instruments. While it is true that the reversal of past decisions can be very difficult under unanimity rule, governments learn that certain instruments make unwanted consequences more likely than others. Once they have realized this, they might well opt for more intergovernmental forms of cooperation. Later sections of this paper will show that this has happened in the field of employment policy. More abstractly, this means that a sequence can be much longer than merely three steps which, in turn, necessitates studying longer periods of time – thus calling for an extended historical institutionalist account. If we prolong the time period under observation, we might realize that Pierson's three step model in fact is but a subsection of a longer sequence. Hence, there will be various lock-in, feedback, and learning effects that need examination. (4) Not all of them will work in the same direction; in fact, they can conflict with and contradict each other. Obviously, Pierson is aware of this, yet his analysis primarily aims at explaining moves towards more integration.

Thirdly, the kind of policy-instrument chosen depends on the beliefs and preferences of salient actors and, therefore, on actor constellations. That is to say, the choice of policy-instruments depends on politics. Even though Pierson refers to the British Conservative government's opt-out of the Social Protocol at Maastricht (for more details Lange 1993) and goes on to stress that a single Labour victory could reverse this decision, he fails to more generally consider the impact of the partisan composition of the European Council on policy-choices. However, had more governments shared the Conservative's position on social policy the Social Agreement would not have been possible. Instead, Christian democratic parties strongly influenced the IGC that strove for flanking market-making with some – limited – social policy (see Johansson 2002). Similarly, had the 1980s been dominated by center-left governments rather than the New Right, the Single European Act would either have not occurred or looked differently. In general, it seems important to take the party affiliation of negotiating governments into account.

This last point is particularly important if Hix and Lord's (1997: 4) assertion holds that

> "key players rush to form agreements while there is a favorable conjuncture in the domestic politics of member states. They may also seek to neutralize future uncertainties in national party politics by locking successor governments into EU-level agreements."

In this case, the partisan composition of the European Council matters a great deal and deserves attention. The next section shows that a center-right coalition opted for hard law in monetary and fiscal policy at Maastricht, while a center-left coalition relied on soft law for employment policy at Amsterdam. Both timing and politics matter in the choice of policy-instruments.

3. From EMU to OMC: A Historical Institutionalist Account

This section provides a case study that uses the amended Pierson model to explain a specific feature of the EU's political economy: Why Maastricht created hard law for monetary and fiscal policy, while Amsterdam relied on soft law for employment policy. I would argue that we cannot understand these different degrees of integration and Europeanization without looking at over time changing actor constellations, learning, and politics. To show how actor constellations vary, this paper uses a data-set on the party composition of government in all member states. We observe a large variation in the number of center-right and center-left governments between 1991 and 2003. Based on this observation, the case study reveals this sequence: A market enhancing actor constellation (t1) fostered integration following a macroeconomic design demanding 'hard coordination' for monetary and fiscal policy (t2), which on the one hand had strong effects on national policy-making (t3) and on the other limited subsequent policy choices. Accordingly, between 1997 and 2001, the social democratic majority in place merely created a subsidiary employment policy, supplementing market integration. Today, the main focus of social policy and social inclusion is 'commodification,' i.e., including as many people as possible into the labor market.(5) As an illustration, we can depict the relation between integration and Europeanization in the following way:

Table 2

3.1. European Monetary Union

This section deals with the first part of the sequence shown in table 2. It seeks to show how the conservative-liberal coalition facilitated an agreement on EMU. Governments in Maastricht agreed upon 'integration' as the mode of governance for monetary policy. By transferring the decision-making power to the European Central Bank, they chose to even surpass the Community Method. Therefore, not only the impact on national policy-making has been strong but also the room for maneuver for later actors has severely been limited.

This paper does not claim, however, that party politics was the only factor bringing about EMU. The Maastricht Treaty came at a time when the political landscape of Europe was rapidly changing due to the end of the Cold War. It could also build on a relatively high degree of economic convergence between the member states and pre-established forms of monetary cooperation. Yet, the conclusions actors draw from such developments depend on who these actors are. The dominance of market-oriented governments clearly had an impact first on the integration project chosen and second on its institutional design.

Therefore, to understand the peculiar political economy of the European Union, we have to begin with the Maastricht decision to form a Monetary Union. It entails the creation of an independent central bank and a set of rules for fiscal policy. Owing to this, EMU is strong on delegation, obligation, and precision and strongly influences national policies. Why was it possible after more than 20 years of discussions to agree on EMU? Two aspects in particular seem important. First, an expert consensus about the design of a monetary union existed at the time of the negotiations. Second, a favorable actor constellation built up supporting these expert's ideas. Ideational convergence met with political power to create EMU.(6)

An expert consensus was possible because a small circle of Ministers of Finance and Central Bankers negotiated the framework for EMU. This took place in the Committee of Central Bankers, the Monetary Committee and the Delors' Committee. The participants formed an "epistemic community" (Haas 1992) that mainly concentrated on the problem of how to secure price stability in a monetary union. This narrow focus also led to a narrow definition of the institutional requirements. Members of the Committees came to share the view that an independent central bank built on the German example would ensure sound money. As the German Bundesbank was involved in these discussions, its later approval was facilitated. This, in turn, helped the government to domestically justify giving up the D-Mark (Moravcsik 1998: 395).

The evolving monetarist consensus meant abandoning earlier proposals for a monetary union. Both the Werner Plan (1970) and the MacDougall Report (1977) had stressed the need for centralizing decisions on fiscal policy and increasing the Community budget (Tsoukalis 1993: 275); centralizing monetary policy without centralizing economic policy decisions was inconceivable at that time. Once Keynesian thinking had been abandoned, stabilizing aggregate demand for the entire Community became less salient. Instead, fiscal policy came to be seen mainly as a means supporting price stability. Accordingly, the Delors' Committee suggested defining a limit to national budgets. EMU could only work if national deficits and debts were controlled by a clear set of binding rules. In contrast, the overall policy-mix was to be achieved by a soft coordination of national policies. *Gouvernement économique* – i.e., centralized economic policy-making – did not seem necessary any longer.

Limiting transfers of sovereignty exclusively to monetary policy not only made for an institutionally lean concept of EMU but also facilitated agreement (Schröder 1998: 186). During the 1980s, due to the European Monetary System most governments had already lost their monetary autonomy as they followed the low inflation policy of the Bundesbank. Thus, they could even hope to gain influence by transferring monetary authority to a joint central bank (cf. Sandholtz 1993: 37-38). Germany, on the other hand, was the one state that had to abdicate power. This strengthened its bargaining position. All other governments had to agree to a version of EMU that could find the support of the German government as well as the Bundesbank. Modeling the new European central bank on its German predecessor eased that problem. As Radaelli (2000: 30) points out, the provisions on EMU are a case in point of "institutional isomorphism."

Exactly how important German unification in this process was is disputed. Moravcsik (1998: 428) denies that the fall of the Berlin Wall made any difference since the German negotiation position did not change between 1988 and the Maastricht summit. Dyson and Featherstone (1999: 757), in contrast, argue that German unification gave a sense of urgency primarily to French policy-makers to conclude the negotiations on EMU. It seems fair to say that the changed geopolitical situation speeded up negotiations that otherwise might have been inconclusive (see Sandholtz 1993: 31-34). (7)

In sum, an expert consensus on monetary union, the demand for only limited transfers of sovereignty along with German unification gave impetus to creating EMU. These were necessary conditions, though; by themselves, they did not suffice. Only the overwhelming majority of center-right governments paved the way to EMU. In 1991, only two out of twelve member states were governed by the left. One of them was France that actively supported further steps in European integration. In the other countries, center-right parties were in government that followed a program of liberalization and fiscal austerity. In particular Christian democratic parties supportive of further integration decisively shaped the negotiations (Johansson 2002). For center-right parties, EMU was a way to permanently enshrine price stability in a European framework.

They also saw the opportunity to discipline their successors (much in Hix and Lord's sense) and to add legitimacy to their national course of action: "Pivotal to the process of using EMU to 'bind Leviathan' was the structural power of Germany over European monetary policy and the political ascendancy of a Christian-democratic-liberal coalition under Chancellor Helmut Kohl dedicated to a strict version of 'ordo-liberal' theory" (Dyson 1999: 200). In short, at t1 of the sequence, center-right governments seized the opportunity to adopt hard law to bolster EMU and created an autonomous central bank committed to price stability. They turned their policy-preference into hard law that subsequently could not easily be undone.

What does this mean for the concept of integration and Europeanization presented earlier?

Monetary policy is quite exceptional to EU policy-making in precluding any influence of the member states' governments and parliaments. In contrast, even the Community Method does not work without the cooperation of national authorities. Moreover, with the ECB an independent actor was created whose mandate can only be changed by unanimous consent. Even if governments wanted to pursue a different course of action, they would be inhibited by the institutional framework created in Maastricht.(8) The European Central Bank has the power to retaliate against any attempt to instigate growth by a less restrictive fiscal policy. Due to the priority given to price stability, monetary policy cannot be employed to strengthen growth. In fact, insolating the ECB from demands for a growth-inducing policy-mix signals that it pursues a "dominant strategy" (cf. Bernhard/Broz/Clark 2002: 706). There is no need for an ex ante coordination of policies because it is assumed that all other actors will have to adapt to the central bank's strategy. Hence, Issing (2002: 348) points out that the Maastricht Treaty provides an 'efficient initial assignment' rendering other forms of coordination superfluous. In contrast, von Hagen and Mundschenk (2001) are more critical of whether this institutional setting in itself produces positive outcomes. Be that as it may, the critical point is that in monetary policy there is strong legalization and accordingly economic policy is locked-in to a monetarist path.

The resulting impact (i.e., Europeanization) of EMU on national policy-making is also strong. It forestalls the use of exchange rate changes or fiscal stimuli during crises and, in combination with the single market, considerably increases competition; member states have few instruments at their disposal to react to asymmetrical shocks or low growth; as labor mobility across borders remains marginal, the need for domestic labor market flexibility mounts; price competition is heightened and there is a strong pressure to reduce 'slack,' i.e., subsidized or sheltered unproductive jobs. As a result, the options for a European employment policy have been markedly reduced by EMU and the SGP's rules for fiscal policy. As Scharpf (2002: 11) stresses, a number of traditionally available strategies are beyond the scope of such an initiative:

> "Thus if unemployment rise in the Euro Zone generally, Luxembourg EES guidelines could not recommend lower ECB interest rates; if unemployment rates rises nationally, EES recommendations could neither relax the deficit rules of the Stability Pact nor the competition rules on state aids to depressed regions or industries. Similarly if expenditures on health care are rising, OMC could not recommend controls or "positive lists" for pharmaceuticals; and if social services are being eroded by fiscal constraints, there is no chance for guidelines promoting either a concerted increase of taxes on capital incomes of failing that, the re-introduction of effective capital exchange controls."

Prior integration explains why the European employment strategy is limited in its *contents*. It was both a supplement and subordinated to EMU. Any more ambitious, employment-creating initiatives were circumscribed by the importance attached to sound money and the credibility of maintaining price stability. Therefore, employment policy was residual in character. On this account, Pierson's three-step historical institutionalist model holds for the first part of the sequence of table 2. Yet, employment was not only limited to supply-side measures but also confined to *soft law*. Why was a non-binding, soft mode of coordination chosen? The next section addresses this question. It deals with the second part of the sequence in table 2.

3.2. The Origins of the Open Method of Coordination

In the aftermath of the Maastricht summit, European integration faced a legitimacy crisis. Danish voters in 1992 rejected the Treaty amendments in a referendum while the French accepted them only by a tiny majority. At the same time, the European economy turned sore and unemployment rose again. There was a widespread notion that integration was too exclusively focused on market integration, disregarding unemployment as the most pressing problem (cf. Deppe/Felder 1993). The permissive consensus supporting integration was at risk. In this moment of crisis action had to be taken to prove that governments cared for unemployment without, however, granting more power to distant 'Brussels bureaucrats.'

At the Copenhagen summit in 1993, the European Council instructed the Commission to produce a White Paper. It was asked to spell out a strategy for higher growth, competitiveness and employment. The Commission's report became known as the 'Delors' White Book.' However, the first real step towards a European employment initiative came with the Essen summit in 1994.(9) Heads of state and government agreed on a number of objectives to fight unemployment (European Council 1994). These included investing in human capital (up-skilling of the workforce), increasing the employment-intensiveness of growth, reducing non-wage labor costs, improving the effectiveness of employment policy by moving from passive to active labor market policy as well as supporting groups particularly hard hit by unemployment. An important role was also conferred to social partner dialogue. (10)

Crucially, however, none of these objectives was legally binding or enforceable. Those governments most skeptical of a European employment policy knew that a binding agreement would make for unduly Commission interference in domestic policy-making. Accordingly, they fought for a soft law approach. As a result, member states were merely urged "to transpose these recommendations in their individual policies into a multi-annual program having regard to the specific features of their economic and social situation" (European Council 1994). The European Commission and the Labor and Social Affairs as well as Economic Financial Affairs Council were asked to monitor national developments and report annually to the European Council about their progress. Hence, the core elements of the Open Method of Coordination – common objectives, national implementation and surveillance by the Commission and member states – were in place already in 1994. Content and form followed from a disagreement in substance and a consensus to limit obligation. A soft coordination padded with mutual monitoring served both.

Another parent of the OMC was the convergence process introduced with the Maastricht Treaty (Pochet/de la Porte/Room 2001: 295). Member states drew up a set of criteria defining eligibility for entering monetary union. Again, it was up to each individual government to determine by which means it wanted to meet these goals. There was a yearly assessment of the achievements in so-called convergence reports. The convergence process did not depend on any (negative) sanctions because compliance promised club membership. It was a soft coordination mechanism in that compliance could not be enforced, though it entailed strong incentives to meet the terms. Even though no one doubted that several states had taken great pains to meet the Maastricht criteria and that a fair level of convergence had been achieved, the decision of which member states were eligible for monetary union was a political one.

During the Intergovernmental Conference leading to the Amsterdam Treaty those governments supporting a chapter on employment could point towards already agreed upon principles for employment policy as well as a successful method. Especially those countries that had joined the Union only in 1995 – Sweden, Finland, Austria – supported a higher EU profile in tackling unemployment as long as it did not jeopardize subsidiarity. Still, until early 1997 chances that the negotiations would lead to an agreement were slim as conservative governments in Great Britain, France, and Germany opposed even this limited approach. Only after the elections in the first two countries, which brought New Labour and the French socialists to power, an agreement became possible (Szyszczak 2000: 204). Finally not even the Kohl government was keen on blocking treaty reform for an issue considered of minor relevance. It wanted to make sure, though, that any transfer of power to the European Commission would be strictly limited. In the end, employment became part of the Amsterdam Treaty.(11) Without the leftward electoral swing in Europe this would not have happened (Jenson/Pochet 2002: 8).

In an article on the genesis and the development of the European Employment Strategy, Goetschy (1999: 125) offers a similar conclusion:

> "Consensus in the [Amsterdam] IGC over employment was only possible on two conditions: national employment policies should continue to play the principal role, and major and costly programmes at EU level should be avoided. Some parties (ETUC, the EP and some national delegations) would have preferred the Treaty to have formally specified the relationship between economic and employment policies. Instead the desire to bring the two into balance was declared in a formal Council resolution (albeit without binding effect) on growth and employment. The inequality of status between the mandatory Stability and Growth Pact agreed at the December 1996 Dublin summit and the resolution on employment illustrates the continuing imbalance between monetary and political integration."

Since the amended Treaty would only be ratified in 1999, governments decided to have a special summit on employment in 1997. Because it took place in Luxembourg, the European Employment Strategy was baptized 'Luxembourg process.' Consciously modeled on the Maastricht convergence process, the employment chapter of the Amsterdam Treaty introduced the following cycle:

1. every year, members states would agree on Employment Guidelines specifying common objectives;
2. each governments would draw up a National Employment Action Plan (NAP) detailing the strategy of how it would seek to achieve these goals;
3. based on a Commission draft, the Council and the Commission would publish the Joint Employment Report which would assess and evaluate member states' NAPs as well as their

policies;
4. the European Council would annually review this reports and, if appropriate, modify the Guidelines.

While this procedure mimicked the convergence program, it refrained from introducing sanctions (de la Porte/Pochet 2001: 295). The Luxembourg process tried to compensate for its limited legal weight by putting a stronger emphasis on the commitment made by governments. They were asked to draw up a NAP to detail their approach to fighting unemployment. This document could be used thereafter to compare word and action. This Commission hoped to gain influence on national policies by reminding reluctant governments on their prior commitment.

At the Luxembourg summit, no consensus could be reached on defining a target for unemployment as a counterpart to those concerning public deficits, inflation, and debts (Rodrigues 2001: 4). The Commission proposed a more rigorous set of employment guidelines and urged the member states to accept clearly specified quantitative targets but could not overcome their resistance (Biagi 2000: 57). That they affected a compromise at all was largely due to the negotiation skills and personality of Jean-Claude Juncker, Luxembourg's prime minister.(12) Juncker, a Christian Democrat, convinced his colleagues that some action was necessary. Reducing employment policies to a voluntary opportunity for learning without obligatory targets facilitated support for it (Trubek/Mosher 2003: 38). In the end, such diverse governments as those led by Jospin, Blair, Aznar and Kohl were able to accede to the thus conceived European Employment Strategy (EES).

There are two reasons why the EES did not turn out to be a stillborn child. The European Commission and the newly created Employment Committee used their influence to upgrade the process to push for quantitative indicators, rigorous benchmarking and made increasing use of 'naming and shaming' by implicitly ranking member states' performances. During 1999 and 2000 two cycles of the Luxembourg Process were completed. National governments and administrations got used to drawing up Action Plans and even learned to accept yearly recommendations. Moreover, in 2000 the economic outlook was favorable. The Commission's forecast predicted GDP growth of about three per cent for 2001 and 2002 and a decline in unemployment to a twenty-year low of under eight per cent in 2002 (European Commission 2000: 33-37). Hence, the EES had gained credit for being a smoothly working policy tool.

Second, and more importantly, since Maastricht the actor constellation had changed. Europe was now governed by social democrats (see Figure 1 and 2). In 1997, for the first time in the 1990s, a majority of governments were led by the left, a development that peaked in 1999 when eleven out of fifteen governments were headed by social democrats. Since then, this number has declined considerably to currently only four out of EU-15. Thus, between 1998 and 2001 a supportive coalition for the EES existed, not only solidifying but even strengthening it. These governments were – at least principally – committed to welfare state reform, turning "vices into virtues" (Levy 1999). The European Employment Strategy gave them a common vocabulary as well as a European complement to their national endeavors. Yet, the "magical return of Social Democracy" (Cuperus/Kandel 1998) brought the New Left to power, most prominently, New Labour in Britain. These modernized social democrats were far less interventionist than their predecessors and had come to accept the market. Hence, the EES of the Amsterdam Treaty "most closely reflects the new centre-left programme of Tony Blair, which seems likely to dominate the Union's social agenda in the years to come" (Pollack 2000: 269). When the Left faced the opportunity – though, within limits – to transform the EU-agenda, it had itself been transformed.

Figure 1

Figure 2

Under the Portuguese presidency, the soft method of coordination used in employment became generally accepted as combining Community action with subsidiarity, thus reconciling effectiveness and legitimacy. The Portuguese government, led by the Social Democrat Antonio Guterres, advocated transforming the procedures probed with the Employment Strategy – European guidelines, NAPs, peer review, and peer pressure – into a policy-making tool of its own right (Hodson/Maher 2001: 724). At the Lisbon summit in March 2000, the EES-approach, dubbed the Open Method of Coordination, was defined by:

- "fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organized as mutual learning processes" (European Council 2000: §37).

At the same summit, heads of state and government created the 'Lisbon strategy.' They agreed to a new strategic goal for the next decade: "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (European Council 2000: §5). The strategy aimed at full employment and thereby strengthening social cohesion. The Council suggested that the overall goal should be raising the EU employment rate to 70% and to increase the number of women in employment to more than 60% by 2010. Today, after four years the European Union falls far short of the Lisbon goals and is in danger of missing them altogether. At its latest summit, the European Council concluded that "the pace of reform needs to be significantly stepped up if the 2010 goals targets are to be achieved" (European Council 2004: §7). Somewhat schizophrenically, the member states demanded improved implementation and a speedier translation of the goals into concrete measures (ibid: §10) - as if someone else was responsible for their own inaction.

This gap between solemn declarations and real actions points towards an explanation of OMC's attractiveness for governments. It is a neo-voluntarist, soft mode of governance that:(13)

- allows for flexibility (policy initiatives can be adapted to the diverse institutional arrangements, legal regimes and national circumstances in the member states);
- minimizes sovereignty losses (member-states compliance remains essentially voluntary. Compliance is not enforceable
- helps superseding political resistance (flexible agreements may overcome member states' opposition to EU mandates considered too disruptive or too alien to national arrangements);
- permits shifting blame (it enables domestic actors to blame the EU for unpopular decisions);
- offers symbolic politics (new initiatives foster the impression of determination. European governments jointly take action against unemployment, social exclusion, and for economic growth);
- avoids agency losses (member states stay firmly in control of politics. Rather than enabling supranational actors to follow their own agenda [principal-agent problem], member states use the Open Method to shield them from outside interference – unless it turns out to be useful for their own domestic aims. An internationalization of domestic decisions strengthens executive

actors [Wolf 1999; Moravcsik 1997]).

Whereas EMU and prior integration largely explain the limits in substance of the Open Method of Coordination, its form is due to these general features of soft law. Although developed incrementally, it has proved a useful tool for intergovernmental cooperation beyond the Community Method. Governments have willingly applied it to new fields.(14) The OMC has not replaced the Community Method but it has widened the menu member states can choose from. Governments rely on it when they favor common action though remain anxious not to lose control (Dehousse 2002). Arguably, governments have learned to avoid instruments which threaten to incur lasting agency losses.

If we look at the origins of the OMC, four points deserve attention.

First, neither EES nor OMC call into question the predominance of the European Monetary Union. They are not meant to challenge the logic put forward in the Maastricht Treaty but instead to supplement it. Lisbon cannot be considered "Europe's Maastricht for welfare" (Rhodes 2000) as the institutionalization remains much weaker. Both delegation and obligation are extremely low for various OMC-procedures.

Second, since it was inaugurated in 1994, employment policy has relied on a voluntarist and intergovernmental coordination procedure. There has never been as strong a coalition in favor of internationalizing employment policy as there was in Maastricht for monetary policy. Whereas center-right governments accepted to impose strict rules for fiscal policy also on themselves to lock-in their successors, social democratic governments were reluctant to transfer power and, thus, to create equally binding rules for employment policy. They instead favored more intergovernmental modes of cooperation. As demonstrated elsewhere, the level of support for European integration – enhanced supranational competencies – systematically co-varies with shifting political majorities. While the Christian democrat-liberal coalition at Maastricht scored high on integration-mindedness, support for further transfers of power subsequently plummeted with the ascending social democratic majority (Manow/Schäfer/Zorn 2004). Moreover, the left was afraid that the credit for fighting unemployment – an electoral asset for center-left parties – would then go to the EU (Ladrech 2003: 119).

Third, the European Employment Strategy was created during the run-up to EMU. Any radical departure from the Maastricht framework would have jeopardized successfully launching monetary union – a goal that most center-left parties shared. Moreover, the institutions created earlier, most notably the European Central Bank and the SGP, enshrined a macroeconomic logic that precluded utilizing monetary policy or fiscal policy for fostering growth. The 'initial assignment' puts pressure on labor market liberalization and wage policy as the way towards accelerated growth (cf. Begg 2002: 6-7). Monetary and fiscal policies, on the other hand, respectively have to secure price stability and signal a clear commitment to responsible government action.

Fourth, across sectors, integration does not automatically lead towards further integration. Quite contrary to the neo-functionalist logic of spillover, the far-reaching integration in monetary policy might have prevented a stronger form of economic coordination or a more meaningful employment policy. We only detect this kind of feedback mechanism by looking at the longer sequence since Maastricht.

While the preponderance of EMU explains the contents of the EES, governments' reluctance to transferring power accounts for its form, that is, for why soft law was chosen. The OMC was selected to limit both integration and Europeanization; it was the attempt of social democratic governments – who inherited institutions built by their center-right predecessors – to craft a social policy onto the exiting framework without unduly restricting their own room for maneuver.

4. Conclusion

This paper has argued that taking into account a longer time-sequence helps to better understand both form and content of the European Employment Strategy. To explain the origins of the Open Method of Coordination it thus seems promising to go back to earlier decisions taken at Maastricht. Converging economic ideas and a supportive actor constellation rendered possible an agreement on EMU. Restricting transfers of sovereignty to monetary policy facilitated this agreement. Moreover, the decision to model the ECB on the Bundesbank secured German consent. The Maastricht Treaty led to far-reaching albeit narrow integration built on hard law. Whereas monetary policy was centralized and a set of rules devised for fiscal policy, all other fields of economic policy-making rested with the national level (Cameron 1998: 213). However, multilateral surveillance – a soft coordination procedure – was introduced for aligning national decisions. As EMU was based on the monetarist paradigm, the institutional framework created with Maastricht firmly entrenched supply-side policies.

From the mid-1990s onwards, center-left governments came to office pushing to advance employment policy at the European level. However, due to prior integration available options were limited. Without putting EMU into question, employment policy could only focus on labor market reform. Furthermore, the Employment Title of the Amsterdam Treaty was only acceptable to all governments because it refrained from delegating decision-making competencies. Reluctant governments made sure that there would not be any strong outside interference with national decisions. Soft law was a means to reconcile a common approach with the national prerogative for action. Yet, contrary to harder – legally binding – modes of governance, the OMC does not create the kind of lock-in that Pierson detected as a mechanism that propels integration. At Maastricht, the British Conservatives had to opt-out of the Social Protocol to avoid its consequences. After Amsterdam, this is no longer necessary since soft law does not bind reluctant governments in the first place.

Combining European guidelines, national decisions and multilateral discussions became a new policy instrument called the Open Method of Coordination at Lisbon. It has been extended to more than ten other policy areas since then. A nonbinding form of cooperation makes it easier to find compromises and seems particularly advantageous to governments as it widens their strategic room for maneuver. Accordingly, the OMC became a way of cooperating beyond the traditional Community Method.

To conclude, I would like to draw attention to three theoretical points. First, there is no inherent dynamic leading to ever more integration. While past decisions sometimes become irreversible, this is not always the case. For example, the OMC is presently applied to a whole range of policy-fields without a legal base in the EU-Treaties. Cooperation is voluntary and can be withdrawn. This leads to a second, closely related observation: Not all policy-instruments lead to agency losses. Especially the OMC avoids transferring power to supranational actors. Soft law cannot oblige governments to comply. In fact, this paper has argued that governments support the OMC because of its low degree of legalization and its limited potential for unintended consequences. Third, Pierson's main source for preference change – changing governments – has to be taken seriously and, accordingly, more attention should be paid to the political composition of the (European) Council. Parties not only systematically differ in their support for integration (Marks/Wilson/Ray 2002; Manow/Schäfer/Zorn 2004) but also favor different policies. While left parties tend to support European social policy and, more generally, regulated capitalism (Hooghe/Marks/Wilson 2004: 129-130), they are on average also less integration-minded than their Christian democratic counterparts. Hence, I argue that different political majorities at Maastricht and Amsterdam are an important variable that helps to explain why EMU is built on hard law and employment policy on soft law.

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Endnotes

(*) This paper resulted from several workshops of the European Research Colloquium funded by the Netherlands Institute of Government. I would like to thank the organizers, Ron Holzhacker and Markus Haverland, for their advice and support. Moreover, I benefited a lot from the discussions with the other participants and, especially, from Femke van Esch's suggestions. Finally, I would like to thank two anonymous reviewers for very useful comments.

(1) Cf. Hix's (1998: 47) summary.

(2) Rhodes (1995: 99-104) refers to this as the 'treaty-base game'.

(3) Usually, three institutionalisms are juxtaposed: sociological, rational choice, and historical institutionalism (cf. Hall/Taylor 1996). However, the first two can both lead to the lock-in that the last usually stresses; hence, there can well be either a sociological historical institutionalism OR a rationalist historical institutionalism. Thelen (1999) provides a discussion of the relationship of the three variants. Since this paper relies mainly on Pierson's *rationalist* variant of historical institutionalism, it neglects socialization and long-term learning effects, i.e., endogenous preference changes. Instead, due to the limited period under observation and space restrictions, in this paper changes in preferences result exogenously from changing actors.

(4) Historical institutionalism and especially arguments about path-dependency always face the difficulty to delimit the beginning and the end of a path. The very time segment studied can influence the estimation of the causal effect. Unless we have a theory about the forces that sustain (and end) a path, it is hard to repel the claim that any particular path actually started even earlier than maintained. While this is an important problem that deserves attention, this brief paper can by no means do justice to it. Note, however, that the approach here chosen could well be extended further into the past or, at a later point of time, into the future.

(5) 'While the term 'Social Europe' accentuates the social goals behind the strategy, these goals are almost exclusively approached from the direction of employment. The underlying message is that the social value of an individual is primarily determined by his/her potential contribution as a worker. The overarching operational aim is to get those able to work working and those unable to work enabled' (Hvinden/Heikkilä/Kankare 2001: 174).

(6) Dyson and Featherstone (1999) provide a detailed account of the developments leading to the Maastricht Treaty.

(7) To mollify France's concerns, the German government agreed to a precise schedule towards monetary union. Earlier, any definite time-table had been rejected with the argument that prior economic convergence would have to occur. This so-called 'coronation theory' had traditionally been opposed by the French view that monetary cooperation would trigger economic convergence ('locomotive theory') (Kruse 1980: 62-70; Tsoukalis 1993: 178). The will to come to an agreement in Maastricht bridged these seemingly contradictory strategies: While the start of EMU was fixed for 1999, only those states that until then would have achieved a sufficient degree of convergence should partake. Hence, the Maastricht Treaty spelled out a number of convergence criteria as a precondition for participation.

(8) This poses serious questions for the democratic legitimacy of ECB's decisions. Cf. Scharpf (1999: 155).

(9) As a matter fact, the Essen Employment procedures were meant to fend-off more ambitious proposals of the ascending social democratic majority in the European Council (Hix/Lord 1997: 194).

(10) These objectives until today are at the heart of the European Employment Strategy

(11) A detailed reconstruction of the negotiation process and the positions of relevant actors can be found in Tidow (1998).

(12) The crucial role Juncker had played was confirmed frequently in interviews the author conducted with Commission and national officials as well as ETUC representatives.

(13)The following draws on Abbott and Snidal (2000: 436-443).

(14) For an overview see Hodson and Maher (2001: 726).

Table I

Menu of EU Modes of Governance

Delegation	Legalization	Mode of governance	Example
low	soft law	competition	wage policy; tax policy;
		cooperation	OMC Social Inclusion
		coordination without sanctions (soft coordination)	EES (Art. 125-130); BEPG (Art. 98-100)
		coordination with political sanctions	fiscal policy (Art. 104, and SGP)
		coordination with delegated sanctions (Community Method)	competition policy (Art. 81-89)
high	hard law	integration (complete delegation)	monetary policy (Art. 105-112)

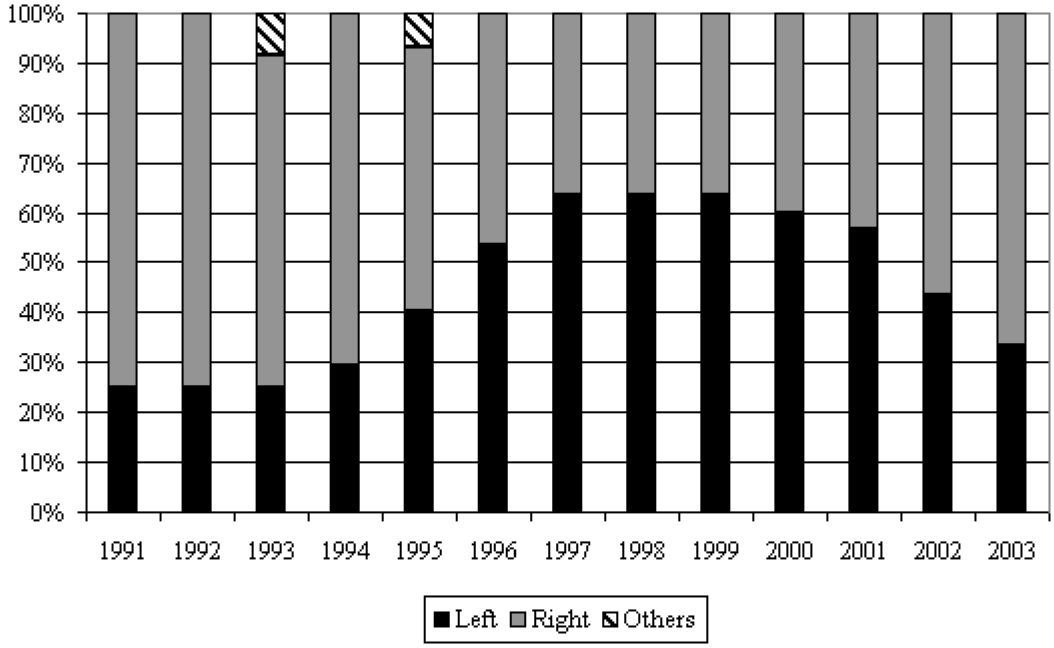
Table II

Sequence of Integration and Europeanization

	actor constel-lation t_1	integration t_2	Europeani-zation t_3	resulting regulation
monetary and fiscal policy	conservative-liberal coalition	strong	strong	EMU: hard law
	t_4	t_5	t_6	
employment and social policy	social democratic coalition	weak	weak	OMC: soft law

Figure 1

Governments dominated by the left in percentage*



*Based on a data-set of Schmidt et al. (2003). 2003: own data. For 1997 and 2000 the data refer to the time of the Amsterdam and Lisbon summit respectively. Numbers in graph 1 refer to the percentage of ministers of the left (Communists, Socialists, Social Democrats and Greens) and the right (Christian Democrats, Centrists, Conservatives, Liberals and the non-regionalist Right). Others refers to ministers or prime ministers without party affiliation; in graph 2 these mainly are technocratic governments in Italy.

Figure 2

Governments led by prime minister of the left in percentage