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one-size fits all?
Focusing on Central and
Eastern Europe**



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The Lisbon strategy: one-size fits all? Focusing on Central and Eastern Europe

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Introduction

The EES - embodying the social investment paradigm - is presented as a key instrument for the EU and its member states to solve problems of low economic and employment growth and to adapt to the needs of the knowledge-based global economy, while maintaining a social model based on solidarity. But does the one-size fits all model respond to the needs of all member states? This Opinion Paper focuses on the new member states, where we will argue that the EES side-steps the main challenges in the 10 Central and Eastern European (CEE) EU Member States.

1. The EES as an EU social investment paradigm: contextualised in the EU-15

A new policy doctrine - which can be captured by the term 'social investment', focused on investing in people - emerged during the 1990s in the EU-15, and became a core aspect of the European Employment Strategy (EES). At the heart of this paradigm is the aim to achieve competitiveness, to be sustained by a re-defined full employment model, consisting of including as many citizens as possible in employment, and by re-directing expenditure from passive to active labour market policy. There have been a variety of creative labels for this new paradigmatic ideology, including the 'third way' (Giddens, 1998), 'the active welfare state' (Vandenbroucke, 2002) and a 'social investment' perspective (Jenson, 2009). These policy labels refer to the same combination of factors to make welfare states economically and socially sustainable. Employment policy, which is our concern here, should focus on encouraging employment participation among all categories of citizens through an active approach to labour force participation. The policy prescriptions nested in this approach are core features of the EES. In the EES, the role of the state is to support the adjustment process of individuals ('the enabling state'). The aim is to increase social inclusion and to ensure that the population is well prepared for the likely employment conditions (with higher educational requirements as well as less job security) (Jenson, 2009). At the heart of this model is a new notion of full employment, reflected in the most recent decision of the European Council in June 2010 to increase the average employment rate among the EU-27 to 75% by 2020. We will argue in the following that the EES and the social investment paradigm that it embodies side-steps the main challenges in the 10 Central and Eastern European (CEE) EU Member States that face major challenges in meeting the convergence criteria of Economic and Monetary Union (EMU).

This has required making reforms to ensure the financial sustainability of the welfare state systems, which has had negative implications for their social sustainability, and where social investment for the future has been shelved until times look brighter.

The EES embodies a comprehensive strategy for the development of human resources, via the Public Employment Services (PES), but also involving social partners, as well as education and training institutions, in order to achieve full employment. Various policies - under the broad headings of employability and flexicurity - should be implemented with the involvement of these institutions. It also includes a funding programme, to support initiatives developed on the basis of the EES policy objectives. The European Social Fund (ESF), developed initially to support the development of regions that were lagging behind in terms of competitiveness, has been an important contributor to the EES. What is crucial for successful implementation of the EES, as a 'social investment' strategy, is the need for long-term planning, to channel investment (supported by the ESF) effectively into human resource development to support the needs of the labor market. However, an obvious and too often neglected complication is that the EES, requiring considerable investments, is to be implemented in the context of Economic and Monetary Union (EMU), with its requirements on governments to control public expenditure and to reduce public deficits. For the EU-15, 'social investment' has implied the re-direction of expenditure (without increases), but for the EU-10 CEE Member States, the level of expenditure is much lower (17% of GDP in 2005, compared to 27.2% of GDP in 2005 for the EU-27), implying that there

is much less expenditure to re-direct. In addition to that, the problem in the new Member States is not institutional adaptation, but institutional development and stabilization.

2. Legacies of Communism and the EES: a difficult fit

The Communist system left an important institutional heritage in labour market policies and institutions in the CEE in their transition to democratic capitalism. Under communism, the countries were officially full employment societies, with no unemployment problems. The systems were paternalist and all individuals had rights to comprehensive social protection (education, health care, housing) via their job status. The post-1989 development has involved (sometimes very extensive) re-calibration of the former social and labour market policies and institutions, driven by the new elites in these countries, but in a context where external actors, including international organisations and the European Union (EU), have had an important impact on institutional change and policy development. The World Bank (WB) and other international organisations have been effective in directing pension reform in the CEE, promoting liberal policies based on individually funded solutions. It was due to liberal pre-disposition in the CEE during the 1990s, that the WB and other international actors were able to persuade many of the CEE to adopt liberal policy solutions. Orenstein (2008: 911) claims that the governments in the CEE wanted to “out-liberalise” the EU and to become policy leaders in economic liberalisation. The influence of the EU and the EES should be assessed against this background.

The EU has been influential in the CEE through membership conditionality across a wide array of policy areas governed by the hard *acquis communautaire*, including the development of the Single Market. Strikingly, the new member states show a better track-record than the old member states in compliance with EU law (Sedelmeier 2008). Apart from the strong accession conditionality this has been explained by the fact that the political and economic transition reduced institutional inertia and increased openness for external influences. On the other hand, compliance with convergence criteria of the Maastricht Treaty for full membership of the Economic and Monetary Union (EMU) has been partial and is still lagging behind (Johnson 2008). The conditions for adoption of EES policy prescriptions, then, are initially quite unfavourable. But let us briefly review the situation in the following.

3. Tensions between the EES and the socio-economic reality of CEE

First, looking at the headline EU quantitative objectives, the increases of employment rates themselves are not the major challenge, as there were high levels of labour market participation under Communism. While economic growth and employment rates have increased in the CEE member states since 1991 and even more since EU membership, this has been accompanied by higher income inequalities (greater per capita GDP gap), lower share of income in GDP, and persistently high poverty rates. The main problem is that the structural features of employment and labour market institutions, as well as educational and child-care institutions which support them, are rudimentary or inadequate compared to most of the EU-15.

Second, a focus on the policy recommendations highlights the main aspects of policy misfit between the EES policy paradigm and the institutions and policies in EU Member States. The recommendations presented in a rather soft way, however, which decreases their potential for impact. As expressed by a Commission official, “[in] a sense, recommendations can be considered to set priorities for each member state...The instruments do not focus on economic or other policy issues in neutral ground, but involve political actors. From a political perspective, it is not possible to issue 8 to 9

recommendations for Bulgaria, Poland or other new member states and then to issue fewer recommendations to some of the more successful old member states. The governments simply would not accept that. That is why we have a few broad-ranging recommendations within which there may be some sub-recommendations" (Interview Commission official 3, August 2009). Regarding the content of these recommendations, first, they point to the need to improve the productivity of the labour force. Indeed, seven out of ten CEE received recommendations to improve their education and training systems and/or life-long learning, which has been identified by the EU as the main instrument with which to address low labour productivity. Worker skills are often outdated, partly because vocational education systems are in need of reform, resulting in a mismatch between labor supply and demand. The low level of entrepreneurship and individual initiative, particularly among older workers, is also a problem. Investments in high quality education and vocational training are needed. It is expected that an investment in human resources would effectively create a labour force that is responsive to the needs of the market. Second, all recommendations contain policy advice to "activate" one or more groups in the active population - older workers and/or youth, and/or the long-term unemployed and disadvantaged groups. The risk is that other dimensions which require considerable investments, such as the creation of affordable child care institutions to be able to reconcile work and family life, may be underemphasised. Third, regarding flexicurity, which has been a major policy issue since 2005, some countries have received recommendations to improve labour law and or employment security for the workers. An interviewed Commission official found the Lisbon paradigm less appropriate for the new MS: 'The (Lisbon) paradigm is made for mature economies and well functioning systems with strong institutions, but with major structural rigidities in the system' (interview Commission official 1, July 2009). That is, while the EU-15 is expected to enhance flexibility by addressing structural rigidities, the challenge for the EU-10 is to improve security to reach a security-flexibility balance.

4. Necessity of Structural Funds *and* actor ownership for EES to have an impact

Turning to the institutional and policy developments, in most CEE, the EU has (co-)funded and supported the modernization of the public employment services (PES). Actually, the PES has been developed in most of the new member states since the early 1990s to cover significant parts of the population for placement. However, the active labour market policies are still small scale and not sufficiently targeted towards disadvantaged groups. Indeed, the overall expenditure on employment services (running the PES and activation measures) is still low, and has not increased substantially over time.

But is the EES more difficult to implement than in the EU-15, where research documents that it leads to policy learning, some agenda-setting and more rarely, policy change? On a positive note, the impact of the EES in the new member states is visible at the level of public administration. Especially the prospect of full membership, and with it the opportunity of funding through the ESF, provided with the motivation to build-up the institutional capacity necessary to implement the EES prior to EU membership. Although struggling with lack of experience in the policy field, under-staffing, staff retention etc, administrative competence has gradually been built-up. There is, as a consequence of the EES, an increased emphasis on monitoring, policy evaluation, and implementation, including the use of indicators and targets. However, although there have been programs against unemployment since mid-1990s in for instance the Baltic states, Poland, Hungary and the Czech Republic, these were mostly declarations of intent, with measures poorly developed and underfinanced. Decisions were often based on political priorities, with little focus on implementation and follow-up.

If the EES is to make a difference, actors need to care about it and need to be entrepreneurial enough to use it for discourse development, agenda-setting and,

ultimately policy change. The officials from the CEE involved in the EES are often young and resourceful in that they know many languages. The delegates of new member states thus mainly have an important role to provide information about the EU level deliberations to their ministries, and indeed, they tend to respond more positively to the policies deriving from the EES but without necessarily following through on them (Interview Commission official 3, July 2009). One of the problems is still that there is a high turnover among the representatives of new member states, due to lack of resources within the new member states. Moreover, the NAPs/NRPs mostly do not play a strategic role in policy-making nationally but are reports for an international audience produced by a few civil servants. Inter-ministerial coordination in the new MS generally seem more superficial than real (Interview Commission official 3, July 2009). In addition, coordination between NAPs/NRPS and budgetary allocations is limited.

Related to this problem of actor ownership, it needs to be pointed out that the new MS have centralized policy-making structures. Municipalities and local authorities, which are strategic actors in dealing with the unemployed and socially excluded, are barely, if at all involved in implementing the EES and are not well equipped for the task. The build-up of administrative competence has mainly been done at the central level, although there have also been initiatives to increase local administrative capacity, no least in order to prepare local agencies for ESF funding. In general, local authorities lack time and necessary resources to participate actively in the EES. Most efforts are focused on day-to-day tasks (including basic education, social services, primary health care, housing, utilities such as water supply and sewage, public transport, and road maintenance). As a consequence, vertical coordination in relation to the EES is very limited. There are examples, though, of the production of local and regional employment plans.

Yet another problem is the weakness of industrial relations. In the pre-accession period, in collaboration with trade unions from the West and with the support from PHARE, there were efforts to strengthen structures for social partnerships in CEEs. These efforts have been encouraged further since full membership to the EU. While the legislative framework and tripartite structures for social dialogue are in place, the social partners' weak organizational capabilities are a factor constraining the development of real social dialogue. In particular, bi-partite dialogue is very weak. Social dialogue is particularly weak on sectoral and workplace levels. The trade unions lack the ability to actively negotiate, both due to lack of resources and to the fact that they represent a minority of workers, partly due to the illegitimacy of the trade unions from the state socialist time. The social partners in the new member states are weak and hardly 'fit' or likely to play an active role in implementing the EES agenda, for instance concerning lifelong learning/vocational training (Woolfson 2008). The general imbalance of power between trade unions and employers in the new member states just adds to this. Moreover, the social partners have other priorities than being engaged in the EES. The trade unions are mainly concerned with salaries. The employers tend to have a short-term perspective or feel that their interests are already taken care of by the governments. Contrary to the EU-15, the social partners in the new member states have mostly not used the EES as a bargaining chip to gain more say in labour market affairs. All in all, social partner commitment to and involvement in the EES has been weak and superficial, and the EU does not seem determined to change this. Our interviews in the Commission reveal that the European Commission has not monitored the involvement of social partners in the CEEs 'so closely'. When it comes to social partnership, 'the Commission is quite helpless' (Interview Commission official 3, July 2009), and does not prioritize their further involvement.

Moreover, the political context in which a social investment strategy would be implemented differs compared to EU-15. Political parties in many of the new member states represent a different cleavage structure than parties in Western Europe, and are not

as likely to actively pursue the social investment agenda (i.e. are organized around other dimensions than class and the left-right distinction, such as rural-urban, religious-secular, nationalism-internationalism, i.e. the ethnic cleavage.) It is hard to fulfill European objectives if domestic actors are not prepared to make active use of the European strategy in the national context. Woolfson (2006) points to a lack of policy 'reform fit' between a 'European social model' and the domestic agendas dominated by 'business friendly' free market considerations in many of the new member states. He draws the conclusion that even the support for health and safety and a good working environment among political elites is limited. Moreover, the challenges are in some areas overwhelming. The new member states for instance suffer from poor working conditions, low wages, regional disparities (between urban and rural areas) and income inequalities.

Concluding remarks

All in all, the model inherent in the EES, where social partners and also local authorities are expected to play an important role in implementation, does not fit well with the situation in the new member states, due to the weakness of the social partners and the lack of resources at the local level. In addition, political elites do not prioritize 'social investments'; they handle short-term issues, rather than prepare for the future via an approach built around the social investment paradigm. As candidate countries the membership conditionality guaranteed some attention given to implementing the social *acquis*. This pressure is no longer there. Given the low political support and the weakness of industrial relations, pressure from the EU, coupled with financial incentives, is probably necessary for any substantive change to come about. With the financial crisis of 2008-9, there are reverse tendencies with cuts in social spending, for most of the new CEE member states. This has even been encouraged and in some cases actively supported by IMF and foreign governments. Market-making is the core priority of governments in the new member states, and this is typically how the EES is interpreted. However, the ESF has contributed to social investment in the EES, but the development of human resources and the reform of education and training systems on which this is hinged remains a major challenge. The new social investment policy doctrine emerged in the EU-15 under the European Employment Strategy (EES) to invest in human resources, to counter passivity, and in that way to contribute to a socially sustainable economic growth. Its EU-15 centric challenge formulation entirely sidesteps the challenges in the new CEE member states: to meet the EMU convergence criteria, which contrasts with the challenge to make social protection not only economically but also socially sustainable. Social investment may be a good idea, but it requires considerable financial investments, which was difficult prior to the financial crisis in 2008 and which has now practically become impossible. In this climate, local elites, even more than before, favour de-regulation and market-making.

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