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THE EU SOCIAL MODEL AND THE INTERNAL MARKET STRATEGY

Introduction

This working paper analyses the inherent tension between the concept of a European social model and the internal market strategy which is aimed at the completion of an integrated dynamic single market for the EU. The paper is based on the intergovernmentalist assumption that member states remain in full control of the strategic decisions on the macro-level of EU decision-making. 'Spill-over' has certainly occurred on the micro-level of day-to-day policy implementation in the EU, where a multiplicity of actors on multiple levels (supranational, national, regional, state and non-state) co-operate and influence outcomes. However, the overall strategic direction of the European integration process remains firmly in the hands of member state governments and hence depends on unanimous consensus in the Council. Based on this point of view, the paper illustrates the difficulties in combining economic integration with social progress throughout the history of the integration process and focuses on the central question of the DYNAMO project: Is the current Lisbon strategy with its core ambition to achieve rapid market liberalisation suitable to maintain the core values which characterise the national socio-economic varieties in the member states?

1. The History: The Long Way Towards a Social Europe

A mixture of political, social and economic factors which have often led to surprising and unpredicted outcomes have determined the post-war process of European integration. Both the political and economic integration of Europe have hardly ever been in tune with one another, and have often alternated in their rank as the top priority. As a result, not only the general European public, but also academic analysts of European integration often find it difficult to determine the true nature of the process. The steps towards the institutionalisation of post-war European integration initially seemed to follow the neofunctionalist concept of sectoral economic integration which would consequently led to increasing 'spill-overs' into political areas (Haas, 1968, p. 317).

Although institutional structure of the European Coal and Steel Community (ECSC) founded in 1951 remained relatively sparse, it showed that the integration process was twofold right from the beginning. The pooling of individual national economic sectors (like coal, steel and subsequently nuclear energy) on the European level demanded a basic structural supranational framework, which was able to politically supervise the economic integration[1] process. While the economic factors dominated in the early years, they were always linked with political intention, which consequently led to the development of integrated political structures and policies. The idea of Europe as a mainly liberalised free trade area along the lines of the concept advocated by Britain, only gained the support of a minority of the other nations in Europe.[2] EFTA provided a loose framework for Europe which did not go beyond a free trade agreement (George, 1998, p. 27) and offered an U.S.-style free market alternative to the Franco-German model of a European Community, as set out in the Treaty of Rome in 1957. The latter was a nightmare vision for the British elite.

It combined economic integration with the visionary political goal of creating an 'ever closer union amongst the people of Europe', based on a complex supranational institutional framework and a common European market with 'the strengthening of economic and social cohesion'[3]. In contrast to British expectations, this complex integrative concept became more economically successful and therefore more attractive to the rest of Europe than EFTA. The main reason for this was that in the aftermath of the Second World War, continental Europe grew much faster than the U.K. (Gowland and Turner, 2000, p. 84).

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[1] As was shown in the creation of a supranational High Authorithy within the ECSC, a parliamentary assembly and a court of justice. The High Authority was the predecessor of the European Commission, the assembly the predEECessor of the European Parliament and the Court of Justice later became the ECJ.

[2] It was joined by six other countries: Denmark, Austria, Norway, Portugal and Sweden.

[3] Treaty establishing a European Community, 1957, preamble and article 3, sEECtion j, http://europa.eu.int/abc/obj/treaties/en/entoc05.htm.

The emphasis on ‘a high level of employment and social protection, the raising of the standard of living and quality of life, economic and social cohesion and solidarity among member states’[4] showed that the Community of six was intended to be more than simply a platform for economic co-operation.

In the eyes of many observers, the Treaty of Rome clearly marked a new quality in the process of European integration. From this point of view, the notion of the political and social harmonisation of Europe within a supranational institutional setting, went beyond the initial concept of the partial pooling of economic sovereignty on the basis of very basic supranational structures. The neofunctionalist school of European integration theory considers the deepening of political and social integration set out in the Treaty of Rome, as a validation of its concept of ‘spill-over’ from economic to political areas. The problematic aspect of the neofunctionalist notion of ‘spill-over’ lies in the assumption that these processes occur in a reflexive, quasi-automatic way which lies beyond the control of the individual member state governments. Economic integration, which leads to the partial institutionalisation and pooling of national sovereignty on the European level, would therefore initiate an unstoppable transfer of domestic political loyalties towards ‘a new political community, superimposed over the pre-existing ones’ (Haas, 1968, p. 16).

This theoretical explanation does not take into account that the deepening of political and social integration in combination with further economic integration in the Treaty of Rome was a conscious choice made by the national governments of the original six members. It therefore makes more sense to assess the Treaty of Rome and the resulting EEC as the result of the post-war enthusiasm of the six participating member state governments to expand the integration process into political and social areas. They deliberately created an integrated ‘framework for the future of Europe’ (Milward and Sorensen, 1993, p. 15) which includes the creation of a European customs union based on a single European currency, a European Social Fund, the free movement of capital and labour, and the harmonisation of economic, financial and social policies.

[4] Ibid, Article 2.

It was part of a development, where the political and social integration of Europe seemed to have become as important as the deepening of economic co-operation. Subsequent events have shown that the reality has turned out to be different. In political terms, the Treaty of Rome remains the most enthusiastic major legal document in the history of the European Union. What followed afterwards was almost twenty years of reluctant attempts by fits and starts to advance the deepening of the integration process. The social movements of the late 1960s forced the Community to focus more on the development of common labour market and welfare standards. The resulting initiatives and regulations of the late 1960s and 70s showed that some progress could indeed be achieved in the social area if the political will existed. However, the establishment of a supranational policy framework which provides cover for 'all European citizens for any one risk, whether it be health, disability, old age, unemployment, poverty or family responsibilities'[5], has not been achieved to this day.

The aftermath of Rome was characterised by increasing disagreements about the concrete shape of an economically, politically and socially 'ever closer' Europe. The stalemate in the 1960s and 70s showed the importance of corresponding domestic member state preferences regarding the goals of further integration.

The enthusiasm for harmonisation set out in the Treaty of Rome had led towards a 'one size fits all' regulatory approach on the part of the European Commission that was not seen as beneficial to the economic and social challenges of the 1960s and 70s (Young and Wallace, 2000, p. 86).

The creation of the EEC unveiled an essential problem which has troubled integration ever since. It had shown the difficulties in achieving the simultaneous deepening of economic, political and social integration. Even with the best political intentions from all participants, the existing differences in the member states' national economies, policies and social structures often hinder further progress. The process of policy implementation which follows the visionary pro-integrationist declarations in the treaties usually proves harder than anticipated.

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[5] Hantrais, 2000, p. 231.

It is not unusual for the Commission to encounter member state resistance towards the micro-level policy details resulting from harmonisation measures agreed by government representatives at previous intergovernmental conferences. The clash between the micro- (i.e. day-to-day policy implementation) and the macro-level (i.e. the determination of the strategic direction of the integration process) continues to represent a fundamental hurdle towards achieving the deepening of integration, especially in the political and social area.

The official rhetoric of member state government representatives and Commission officials continues to stress the link between the deepening of economic integration on the one side and political and social integration on the other side. This was certainly the intention of the Treaty of Rome, and also an integral part of the renewed attempts to achieve a genuine single market that emerged as a result of the economic crisis in Europe in the 1970s. The negotiations preceeding the Single European Act in the mid-1980s resulted from combined efforts by the European Commission under pro-integrationist Jacques Delors and the leaders of the three largest member states, Britain, France and West Germany. Delors's attempts to achieve genuinely integrated social policies for the Community had initially met fierce resistance by Britain's Prime Minister Margaret Thatcher. She feared that the Delors Commission would jeopardise her government's domestic pro-market reform course. Thatcher's notorious catchphrase to resist Delor's attempts to introduce 'socialism by the backdoor'[6] and her three 'no's' in response to the Commission's White Paper (Gowland and Turner, 2000, p. 184) confirmed the divergence between domestic member state preferences, and Community policies in the social field.

In spite of her flamboyant rhetoric, Thatcher eventually joined forces with West German Chancellor Kohl and French President Mitterand, and worked closely with the Delors Commission to achieve the breakthrough towards the Single European Act (SEA).

[6] Margaret Thatcher's speech at the College of Europe in Bruges, 20 September 1998.

The well-documented negotiations[7] proved once and for all that substantial progress in the areas of political and social integration could only be achieved as part of a package of economic liberalisation and monetary integration (with the latter two irrevocably connected). Thatcher's principal opposition towards the political and social aspects of the Single European Act were only overcome as she considered the creation of a genuinely liberalised Single European Market to be essential for the success of her domestic economic reforms (Moravcsik, 1991, p. 51).

The general adoption of qualified majority voting (QMV) for decision-making on issues concerning the single market represented a significant step towards the harmonisation of economic policies within the European Community. While economic integration took centre stage in the Single European Act, the development of integrated social policies and structures remained on the margins. The SEA did not actually decide on any harmonisation in the social policy area but instead declared the intention of the member states to expand community competences in this area in the future.[8]

The strategy of the SEA therefore showed the typical pattern of European social integration. It tends to occur mainly as part of the general economic drive towards liberalising the Community's internal market. This means that member state governments lack the genuine political intention to develop a socially integrated Europe, despite the visionary rhetoric in the treaties. The unsatisfying minimal harmonisation of social standards that has occurred in the EU seems to mainly be the result of the need to combine single market liberalisation policies with social elements. This occurs in order to make the drive towards an integrated single market with the reduction of protective national legislation more acceptable for the individual domestic political and social arena of the member states.

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[7] For a detailed critical account of the negotiations leading to the SEA see Moravcsik, 1991.

[8] The SEA proclaims that the member state governments were determined 'to improve the economic and social situation by extending common policies and pursuing new objectives, and to ensure a smoother functioning of the Communities by enabling the institutions to exercise their powers under conditions most in keeping with Community interests' (Single European Act, 29 June 1987, http://europa.eu.int/abc/obj/treaties/en/entr14a.htm).

The follow-up to the SEA, the Treaty on the European Union passed at the Maastricht IGC in 1992, was consequently signed by member states with the intention to create a deeper integrated political and social framework for the Single European Market than had previously existed under the provisions of the Treaty of Rome. However, the far-reaching political and social provisions of the Maastricht Treaty still followed the previous pattern of integration. Maastricht assumed that 'economic and social progress which is balanced and sustainable'[9] could be achieved by removing internal market barriers and merging national member state currencies into a single European currency.

Maastricht indeed extended the *acquis communautaire* of the Community profoundly. Progress in the social area was made through the creation of the Social Chapter which committed the member states to EU-wide basic rights and employment standards for workers. The fact that the British Conservative government 'opted out' and refused to adopt the Social Chapter as part of Maastricht's acquis communautaire jeopardised the idea that Maastricht had achieved a profound step towards social integration. On the contrary, progress in this area only occurred as a non-compulsory part of the economic package. The drive towards the completion of the single market was not extended to the social area. Social integration in the EU therefore tends to only emerge as a marginal (rather than a substantial) element of the 'negative integration' process of the single market harmonisation (Scharpf, 1999, p. 45). Teague (1999) argues that despite the moves towards deepening the economic and political integration of the EU on the part of the member states, they have been lacking the will to merge the existing national welfare models into 'a generalised social regime'[10]. He especially emphasises the failure of existing EU initiatives to create common labour market regulations for the whole of the EU:

> (…) The political and economic configuration of the EU does not lend itself to the enactment of a large body of supranational labour market regulations (…) An important reason for this is the haphazard and untidy relationship between the EU and

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[9] Treaty on the European Union, Article B, 7 February 1992, http://europa.eu.int/en/record/mt/title1.html.

[10] Teague, 1999, p. 160.

> the member-states on employment matters. The result has been the obscuration of EU social policy.[11]

In the aftermath of Maastricht, the political debate in the member states centred on criticisms regarding the complexity of the institutional framework and the set of policies the treaty was supposed to put in place. The resulting attempts at the June 1997 Amsterdam IGC to tidy up the treaty and to make it more transparent still failed to initiate concrete measures to embed the single market project and EMU in an integrated EU social policy framework. Attempts by the newly elected Jospin government in France to push the other member states towards the establishment of an integrated European employment policy failed. The majority of the IGC was dominated by discussions about the establishment of a stability pact for EMU and an action plan for the completion of the single market. Although, EU heads of state managed to agree on the extension of qualified majority voting to a number of social policy areas in Amsterdam, the emphasis regarding employment standards and policies was put on co-ordination rather than harmonisation[12].

This confirmed that in the post-Maastricht era, just as previously, economic integration remains the paramount concern of member state governments. The political desire to rapidly complete the single European market overshadows everything else. The genuine concern of member states about the deteriorating employment situation across Europe caused member states to agree to the adoption of a Single Market Action Plan, which was put into concrete form in the Commission's 1999 internal market strategy. Regarding concrete common policies on the employment front, Amsterdam set out the strategic approach for Lisbon.

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[11] Ibid, p. 159-160.

[12] The employment committee, which was created in the Amsterdam Treaty, was mainly a compromise between the French government, who pushed towards harmonisation of labour market policies and Germany and the UK, who opposed any integrative steps in this direction . It monitors the employment situation in the member states and the whole of the EU and has advisory, but no binding executive powers. (Treaty of Amsterdam amending the Treaty on the European Union, 10 November 1997, article 109s, http://europa.eu.int/eur-lex/lex/en/treaties/dat/11997D/htm/11997D.html#0001010001).

As part of a strategy of co-ordination rather than harmonisation, Amsterdam stressed the need to respect member state sovereignty over employment policies and limited the EU approach to 'encourage cooperation between member states through initiatives aimed at improving knowledge, developing exchanges of information and best practices, promoting innovative approaches and evaluating experiences in order to combat social exclusion'.[13] The social core of the agenda to create a dynamic and competitive Single European Market by 2010 which was decided at the Lisbon summit in October 2000, followed the Amsterdam guidelines.

Lisbon stresses the need to base a reformed European social model on active co-ordination and best practice benchmarking of existing national practices, rather than on an extension of the Union's *acquis communautaire* in this area. It calls for the intensification of 'cooperation between member states by exchanging experiences and best practice on the basis of improved information networks which are the basic tools in this field'.[14] The intergovernmental character of this crucial policy area will consequently be maintained, the creation of EU-wide binding labour market policies and regulations flanked by greater financial and institutional support is not intended.

In contrast, Lisbon expresses a clear desire to accelerate the completion of the Single European Market by removing national barriers to deregulation and liberalisation. Therefore the EU's subsidiarity principle is adopted in different ways, depending on the purpose. In the field of social integration, member states refuse to transfer greater competences to the Union level, and accept the divergence of national social standards as part of the reformed Lisbon European social model. In the economic area, on the other hand, member state governments push towards the swift harmonisation of the conditions for business, financial markets and the service industry across the EU.

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[13] Treaty of Amsterdam, Article 137, paragraph 2.

[14] Lisbon European Council Presidency Conclusions, 23/24 March 2000, paragraph 31, http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm.

As part of the internal market strategy's drive towards 'full market liberalisation' and the creation of a 'level playing field', member states have handed the Commission a strong mandate to develop programs to remove barriers towards fair competition between their national economies. The EU is hence is hence troubled by the divergence between appearance and reality in the area of social intergration. Member state governments and the Commission follow the elitist and technocratic neofunctionalist assumption that progress in the economic area would almost automatically lead to the deepening of social integration. In practice, the hard reality of intergovernmentalist bargaining and the defence of exisiting national policies prevent substantial progress in this area.

2. The Dilemmas of Lisbon and The Internal Market Strategy

Since the late 1990s, the majority view amongst EU decision-makers considers the achievement of a globally competitive Single European Market through deregulation, liberalisation and privatisation as the right strategy to create social cohesion in Europe. The EU-wide unemployment problem which has been on the increase since the mid-1990s has led EU leaders to concentrate on driving employment rates upwards. This is regarded as the main means to achieve a more inclusive European society. The European social model defined by Lisbon is consequently very much a concept which centres on a society of working people. The 'welfare to work' approach of the Lisbon Agenda is aimed at creating a European social model where social status depends on an individual's ability to participate in the 'knowledge society' of working people. The emphasis on the individual willingness to accept the notion of lifelong learning and to make every effort to find work is central to this vision of a 'European knowledge society'.[15] Many analysts warn that the attempt to create social cohesion through higher employment rates carries the risk of creating new divisions within European societies. The creation of a knowledge economy risks to build the European social model on an approach which risks being socially divise rather than inclusive.

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[15] Lisbon European Council Presidency Conclusions, 23/24 March 2000, paragraph 25, http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm.

The main problem lies in the notion of employment as a means to an end and a precondition for social inclusiveness. The European social model aspired by Lisbon threatens to reinforce a hierarchical social order where only those in paid employment of any sort are regarded as socially acceptable. Unpaid, charitable work therefore risks to be regarded as economically unprofitable and people who are unable to work risk being increasingly pushed to the margins of society (Hantrais, 2000, 229). It is likely that the political goal of Lisbon to boost the employment rate across the EU to 70% by 2010 can only be achieved through the creation of a large amount of low-paid, short-term jobs in many member states. Although some member states, like for example Ireland, have shown that economic growth can be combined with stable long-term employment, the EU's overall target-setting approach does not focus enough on the national labour market particularities of individual member states. The Lisbon approach therefore indeed has the potential to achieve socially cohesive results in some member states. In others, especially those with a corporatist welfare state tradition, it is bound to damage existing structures and lead to greater social inequality and a new 'underclass' of the *working poor*.

The danger is that the desire to get as many people into work as possible will lead to a growing amount of American-style, unstable and low-paid employment which hardly offers any social benefits like pension and healthcare schemes.[16] It is essential that the EU bewares not to repeat the U.S. mistake of creating a society of the *working poor*, where many people are in employment but nevertheless do not earn enough to make a decent living for themselves and their families. The Lisbon approach is in danger of introducing the U.S. view into European societies that 'any job is better than no job at all', which has traditionally been rejected in Europe.[17]

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[16] Even Germany, whose post-war socio-economic model was built on extensive welfare benefits as an integral part of stable, long-term employment, has now introduced so-called '1 euro jobs' as part of its controversial *'Hartz IV'* labour market reform programme. They '1 euro jobs' are mainly aimed at removing the 'unemployable' long-term unemployed from the official unemployment statistics. Recipients of unemployment benefits under the 'Hartz IV' regulations are encouraged to take on this additional employment. It is often charitable work, for which the individuals are either paid 1 euro per hour or receive payment into their social insurance. (Info webpage of the Federal Ministry for the Economy and Employment, http://www.arbeitsmarktreform.de/Arbeitsmarktreform/Navigation/Service/fragen-und-antworten,did=52022.html).

[17] Wickham, 2004, p. 10.

The risk of new divisions as a result of Lisbon is even mentioned in the official presidency conclusions of the 2000 Lisbon European Council. The document acknowledges that the notion of a knowledge society 'brings a risk of an ever-widening gap between those who have access to the new knowledge, and those who are excluded'.[18] It also makes clear that the EU should not attempt to work towards full harmonisation in the area of labour market policies.[19] The obligation to enable large parts of society to get access to knowledge and to improve skills through training therefore remains within the member states. It is doubtful that this approach will be able to create a EU-wide cohesive social model with common labour market standards. It will undoubtedly help to increase the EU-wide employment rate, but is unlikely to even out the social differences between the member states. With Lisbon tolerating that 'the support structures for a symbiotic EU social policy are underdeveloped'[20], the Union's powers to achieve harmonising effects in the social area are mainly limited to directives.

The problem with the latter is that member states tend to use the subsidiarity principle, which was reinforced as part of a separate protocol in the Treaty of Amsterdam[21] as an excuse to water down the implementation of EU directives on their domestic levels. The recent evaluation of the Lisbon progress by the High Level Group chaired by former Dutch Prime Minister Wim Kok points out that many member states have a performance rating which is disappointing in respect of the implementation of the Lisbon targets.[22] This relates especially to the removal of internal market barriers and clearly shows that member states continue to protect their national competitive advantages.

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[18] Lisbon European Council Presidency Conclusions, paragraph 32.

[19] Ibid.

[20] Teague, 1999, p.161.

[21] 'Protocol on the application of the principles of subsidiarity and proportionality', Treaty of Amsterdam.

[22] 'Facing the Challenge: The Lisbon strategy for growth and employment', Report from the High Level Group chaired by Wim Kok, November 2004, p. 10, http://europa.eu.int/growthandjobs/pdf/kok_report_en.pdf

Without any 'hard'[23] compulsory regulatory framework for market harmonisation in the social area which diverges from the concept of active co-ordination, member states are likely to maintain social imbalances within the Union in order to outperform each other. Recent developments have shown that the EU is moving in the opposite direction. The new EU Commission led by the former Portuguese Prime Minister Barroso, which shows a greater free market-orientation than any of its predecessors[24], has put forward a proposal to the Council to redefine the priorities of the Lisbon Strategy. They criticise the lack of progress on the implementation of the Lisbon targets and urge member states to concentrate on economic growth and job creation. Achieving the latter would hence be 'the key to unlocking the resources needed to meet our wider economic, social and environmental ambitions'[25].

The internal market strategy has therefore become the dominant feature of the Lisbon agenda, which shows that the European social model the EU Commission wants to create is now increasingly a market-driven one. While the original Lisbon agenda was still partially committed to social policy objectives, the new approach of the Barroso Commission criticises 'Lisbon's overburdened list of policy objectives'[26]. Instead, the focus is mainly on productivity growth. This leads to a definition of people as an economic factor in the overall drive towards greater economic output and competitiveness. The tendency of the original Lisbon agenda to create social cohesion through economic growth and job creation rather than active EU social policies is now in the process of being reinforced even more.

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[23] Mosher and Trubek, 2003, p.61.

[24] Barroso was mainly supported by the British government who wanted to put an end the Franco-German dominance on EU reforms. The former Portugese Prime Minister is sceptical towards integrationist measures and is strongly in favour of market liberalisation in the EU. His choice of Commissioners, amongst them the Blair confidant Peter Mandelson for trade and the former Irish finance minister Charlie McCreevy for the internal market are an indication Barroso's deregulatory orientation (*The Guardian,* 'How Barroso secured the reformist team he wanted', 13 August 2004).

[25] 'Working together for growth and jobs – A new start for the Lisbon Strategy', Communication from President Barroso in agreement with Vice-President Verheugen to the Spring European Council, p.7, http://europa.eu.int/growthandjobs/pdf/COM2005_024_en.pdf.

[26] Ibid, p. 13.

If the Council adopts the Barroso strategy, the reformed European social model will be based on labour markets which are characterised by a widely adaptable workforce whose main purpose is to help to increase economic productivity in the single market. Consequently, individual needs and circumstances are subordinated to the overall goal of economic growth:

> The strong emphasis on knowledge, education and innovation in our renewed Lisbon strategy will give people the opportunity to climb the productivity ladder and guarantee that overall our productivity grows quickly.[27]

The debate about the substance of the European social model in the EU has finally moved away from the initial post-war attempts to create an integrated social policy framework. The new approach concentrates on an active ‘third way’ welfare-to-work approach, the reform of social systems and the creation of a deregulated business-friendly environment within the internal market. The core of Lisbon, the strategy towards the completion of single market is indeed aimed at creating a level playing field between the EU and the U.S. The Barroso strategy makes no attempts to conceal this:

> (…) Open Markets, both in Europe and globally, are crucial to generating higher growth rates (…). There should be a fresh drive for regulatory and administrative convergence at the international level, in particular in transatlantic trade relations.[28]

The characterisation of Lisbon as an attempt to ‘Americanise Europe’[29] is therefore not as far-fetched as it may seem at first sight. If one takes a closer look at the various action plans and directives which are the integral part of the internal market strategy and the Lisbon drive towards a ‘knowledge-based economy’, the divergence with the traditional notion of what makes Europe’s socio-economic model ‘European’ becomes clear. The three crucial areas to consider in this respect are corporate governance, financial markets and the service industry.

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[27] Ibid, p. 13.

[28] Ibid, p. 18.

[29] Hutton, 2002, p.19.

In all three areas one can detect a deregulatory drive which threatens to undermine the foundations of the post-war European approach towards economic governance. In many respects, the free-market orientation of the internal market strategy even contradicts the original intentions of the Lisbon agenda to avoid reforming the EU towards the model of U.S. free-market capitalism. The November 2004 Kok Report on the progress of the Lisbon strategy explicitly stresses the superiority of Europe in terms of social cohesion: 'Whether it is life expectancy, infant mortality rates, income inequality of poverty, Europe has a much better record than the US'.[30] The report therefore considers the Lisbon strategy as an attempt to modernise the European socio-economic model, not to replace it with U.S. capitalism:

> The Lisbon strategy is not an attempt to become a copycat of the US – far from it. Lisbon is about achieving Europe's vision of what it wants to be and what it wants to keep in the light of increasing global competition, an ageing population and the enlargement. It has the broad ambition of solidarity with the needy, now and in the future.[31]

The details of the internal market strategy speak a different language. They make sense from an economic point of view, but in terms of maintaining the fundaments of the European social model – *public space, economic and social citizenship* – instead they rather pose a threat. The acceptance of the state as an integral part of society has been a characteristic of all states in post-war Western Europe. The notion of *public space* (or *public domain* as it is sometimes referred to) expresses a view of the state as a servant to all citizens who provides supervision, public services and welfare to society. This has become the distinctive characteristic of the European social model in contrast to other global socio-economic models. A crucial element of this European understanding of the state is that it is seen as a public space which protects citizens from the rough forces of market capitalism, providing them with a set of guaranteed rights and in turn also limiting their individual freedom of economic activity (Marquand, 2004, p. 27).

[30] Report from the High Level Group chaired by Wim Kok, November 2004, p. 11, http://europa.eu.int/growthandjobs/pdf/kok_report_en.pdf

[31] Ibid, p. 12.

This goes hand in hand with *economic citizenship*, which Paul Teague has defined as the state's accepted role as the mediator and the supervisor of employment relations (Teague, 1999, p. 12) and *social citizenship*, the state-guaranteed minimum set of standards and welfare rights (and the responsibility to support them through taxes or social insurance payments) which have become part of the post-war European active welfare state tradition. The latter clearly stands against the U.S. idea of the state as 'a safety net of last resort'. [32]

What is puzzling about the internal market strategy is that in the area of market liberalisation, the EU does not favour the active co-ordination and best practice-benchmarking approach it adopts in the area of social policy. When it comes to the completion of the single market, the EU follows a consequent strategy of removing national protectionist barriers towards full harmonisation through Commission directives and annual monitoring of the national member state implementation scores.[33]

Although the original IMS document of 1999 assures EU citizens that 'increased competition is accompanied by adequate levels of social protection', the U.S.-style free market approach of the IMS could never really be concealed. The new Commissioner responsible for the Internal Market, Charlie McCreevy, summed the IMS's ideology up bluntly in a recent speech: 'We must ensure that our rules are effective and cause the minimum burden for business'.[34]The priority of business and markets is the central theme of the concrete action plans in three core areas of the IMS: *corporate governance, financial markets and service industries*.

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[32] Hutton, 2002, p.63.

[33] 'The Strategy for Europe's Internal Market', Communication from the Commission to the European Parliament and the Council, http://europa.eu.int/comm/internal_market/en/update/strategy/strat2en.pdf, pp. 13-14.

[34] 'The way ahead in the Internal Market', Speech by Charlie McCreevy, European Commissioner for Internal Market and Services to the Legal Affairs Committee of the European Parliament, Brussels, 2 February 2005, http://europa.eu.int/comm/commission_barroso/mccreevy/speeches/index_en.htm.

In the field of corporate governance, the Commission has adopted the core recommendations of the November 2004 report by the High Level Group of Company Law Experts, chaired by Jaap Winter, as part of its Action Plan for Company Law and Corporate Governance. The report presented recommendations on the modernisation of company law in the EU, which stressed the need to establish a U.S.-style system of corporate governance. The group criticises existing efforts to establish an EU-wide protective framework for company shareholders in order to prevent a 'race to the bottom'.[35] They stress that the EU should look at the American example and create a climate in the EU, which 'enhances the efficiency and competitiveness of business across Europe' and allow it 'to be able to efficiently restructure and move across borders, adapt its capital structures to changing needs and attract investors from many Member States and other countries'.[36] The desire to guarantee a high level of protection for shareholders and creditors is considered an obstacle to creating an environment in which European business can remain globally competitive.

As part of this laissez-faire approach, which rejects the development of an EU-wide company law, the Winter Group calls for a system in which companies are able to choose between the various existing national systems. In terms of corporate governance, the report shows an unrelenting trust in the ability of markets to govern themselves.

The establishment of an EU corporate governance code is rejected on the grounds that the EU and the member states should not dictate to market participants under which rules they perform. Based on the principle that 'the market and its participants know best what rules enhance reputation'[37], the Winter Group proposes a set of voluntary, non-binding codes of practice which emerge mainly out of contributions made by companies and other market participants.

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[35] Final Report of the High Level Group of Company Law Experts on a modern Regulatory Framework for Company Law in Europe, p.29, http://europa.eu.int/comm/internal_market/en/company/company/modern/consult/report_en.pdf

[36] Ibid, p. 30.

[37] Ibid, p. 72.

Again, the emphasis is on active co-ordination between existing member states codes of practice, where the EU is only supposed to play a supervising role with non-binding regulatory powers.

What should give even greater cause for concern are the recommendations in the report on corporate mobility and proposal to establish a European Private Company. Regarding corporate mobility, the group advises the EU to allow companies to freely move their real seat between member states and minimise the interference of the host country in the companies' internal governance[38]. In terms of the rights of employees and workers, it is especially important to highlight that the Winter Group system of corporate governance for the EU would not necessarily expect a company which moves its real seat to another member state to abide by the domestic employment law of the host state. On the contrary, employees would have to accept that in the majority of cases a company is run on the basis of the employment law of the companies' original country of origin:

> A total refusal to recognise a company on the ground that it fails to comply with the employee participation law of its place of real seat is clearly disproportionate (…) At least where fewer than 50% of the employees are employed in the host state, any imposition of local law seems hard to justify, and, even where the connecting factor is sufficient, there should be provision to allow an agreed system of employee involvement to be adopted.[39]

The 50% watershed would be problematic if it was indeed put into practice. It could mean that a Hungarian company which moved its real seat to France would be allowed to operate under Hungarian employment regulations, even if more than 40% of its workforce were French. Moreover, the whole tendency of this approach is to minimise the administrative burden for businesses, which naturally comes with cross-border operations, at the expense of employee rights.

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[38] Ibid, pp. 102-103.

[39] Ibid, p. 105.

The Winter Group's concept of a *European Private Company*, based on contractual freedom, shows the same tendency to keep the rights of employees on a minimal level. The report recommends that a European Private Company which forms out of a merger from various national companies should only be obliged to negotiate with its employees about a statute of participation rights if the number of employees exceeds 250 people. Furthermore, the report gives no clear recommendations regarding essential rights employees in a European Private Company with a workforce of more than 250 people should actually be granted. This approach has so far not been attractive to most member states. The response towards the EPC concept has therefore been lukewarm across the EU[40]. The new Commission approach is strongly based on shareholder value as the prime principle for corporate governance.[41] Considering the emphasis on market capitilisation and competitiveness of business, it follows the recent trend to 'downsize and distribute' in U.S.-style shareholder value corporate governance to 'downsize and distribute'. Under this system, the employee becomes little more than an easily dispensable economic factor whose rights are clearly subsumed under the overall goal of maximising the stock market value of the company for its shareholders.

Lazonick and O'Sullivan (2000) have stressed the weaknesses of the U.S.-style shareholder value corporate governance. They emphasise that under this system, employers neither invest in long-term training of their workforce, nor are they interested in establishing a committed workforce. This leads to increasing job insecurity, because managers show a tendency to 'downsize' the workforce in order to maintain profits, and consequently low-paid employment, which is the result of an unequal distribution of company profits:

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[40] Synthesis of the responses to the Commission's Action Plan: A working document of DG Internal Market, 21 November 2003, p. 21, http://europa.eu.int/comm/internal_market/en/company/company/modern/governance-consult-responses_en.pdf

[41] Ibid, pp. 10-12.

> The flexibility of US labour markets may have enabled the US economy to achieve reasonable rates of unemployment in the 1990s, but only at the cost of creating an economy based on low wage rates and incomes for most of the working population (…) The problem of income inequality in the United States reflects not only significant differences in levels of wages and salaries but also significant inequalities in the distribution of wealth, among which is the distribution of stockholdings.[42]

Windolf (1993) criticises that the new trend to facilitate trans-national business structures in the EU is not accompanied by a guaranteed EU-wide representation of workers. The lack of an 'underlying *organizational* basis for representing employees'[43] therefore risks creating an U.S.-style single market of corporate flexibility and competitiveness, where obstacles towards the free movement of business are removed at the expense of workers' rights. In addition, the Commission's 'Action Plan on Company Law and Corporate Governance' clearly favours the introduction of the American liberal system of corporate governance in the EU, in which the market has the dominant position. The system set out in the Winter Group report consequently threatens to undermine the existing tradition of corporate governance of many continental European states. It has often been described as the *Rhineland* system, because it has been most successfully established in post-war Germany.

The 'tamed capitalism' *Rhineland* approach towards corporate governance refuses to give the markets the freedom to determine the structure and operation of businesses. Instead, 'corporate governance is embedded in a system of tamed competition with large combines on the meso-level and extensive corporate networks (both capital and personnel) on the macro-level'.[44]

The EU should be careful not to follow the U.S. model of shareholder capitalism, if it wants to maintain the foundations of traditional socio-economic structures in Europe.

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[42] Lazonick and O'Sullivan, 2000, p. 29.

[43] Windolf, 1993, p.139.

[44] Heinze, 2004, p.3.

The Winter Group Report and the Commission Action plan head in the wrong direction and threaten to allow the Americanisation of European business culture. In spite of moves towards greater convergence of rules and practices amongst businesses in Europe and the U.S., essential differences still remain (Draghi and Pozen, 2004, p. 285). The introduction of the American 'downsize and distribute' shareholder capitalism has not yet been introduced on a larger scale within the EU.

Individual cases like the recent plans to substantially cut the workforce at the profit-making *Deutsche Bank*[45] are increasing warning signs that the European social contract tradition of tamed competition is under threat. With the current approach, the EU has definitely provided the breeding ground for a 'strategy for running down a company – and an economy'.[46] Considering the amount EU elites glorify shareholder value as the right principle for modern corporate governance in Europe, it remains doubtful that they are actually aware of its inherent problematic aspects. The current shareholder value cult in the EU, which has been challenged by numerous economic analysts certainly shows a certain degree of naivity on the part of those in charge of the internal market strategy.

The same pattern can be found if one looks at the EU's strategy to create an integrated security market. The core document to consider in this area is the report by the Committee of Wise Men, chaired by Alexandre Lamfalussy, who produced guidelines for the establishment of an integrated capital and financial market in the EU. The report's core recommendations are currently in the process of implementation as part of the EU Commission Financial Services Action Plan.[47] The report openly advocates the establishment of an U.S-style integrated capital market:

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[45] *Süddeutsche Zeitung,* 11 February 2004.

[46] Lazonick and O'Sullivan, 2000, p 29.

[47] The deadline for public consultation on the Lamfalussy recommendations was January 31st 2005 and the Commission has already introduced legislation on the basis of the report. The aim is to extend it to further areas in the future (banking and insurance industries, occupational pensions). (EU Commission Press Release, 19 November 2004, http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1384&format=HTML&aged=0&language=EN&guiLanguage=en).

> On average a US investment fund is 6 times larger than its European equivalent and overall, the capitalization of all US investment funds is twice as large as those in the EU.[48]

The report shows that U.S. capital markets with their higher supply of risk capital would make it much easier for companies to raise capital than in the EU, where raising cross-border capital is costly for business due to a lack of harmonisation of accounting standards and mutual recognition. It therefore calls for increasing harmonisation in this area on the EU level, which would have to include taxes, as national differences in tax 'are a major impediment leading to distortions of trading flows for non-economic reasons'.[49] The argument runs that the full integration of capital and financial markets in the EU would lead to sustained economic growth and give a boost to employment.

The Lamfalussy Committee proposes to make 'cross-border capital raising as easy as domestic capital raising'[50] and to reduce cross-border trading costs to U.S. levels. The emphasis is hence on cutting down existing national regulations and to focus on the interests of the markets:

> Growth and competitiveness will be hampered unless the administrative, regulatory or other types of obstacles which in practice impede cross-border securities transactions are eliminated (…) so as to meet the expectations of dealers and brokers, issuers and investors who wish to be able to deal with one another throughout the European Union in an effective, entirely secure and informed manner.[51]

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[48] Initial Report of the Committee of Wise Men on the Regulation of the European Securities Markets, 9 November 2000, p. 5, http://europa.eu.int/comm/internal_market/securities/docs/lamfalussy/wisemen/initial-report-wise-men_en.pdf

[49] Ibid, p. 20.

[50] Ibid, p. 23.

[51] Ibid, pp. 29-30.

The Committee mentions the need for 'establishing high and equivalent levels of consumer protection and efficient methods for resolving cross-border consumer disputes'[52]. It however fails to put forward concrete proposals on how the individual private investor would be protected in such an unregulated integrated capital market. The new trend in the Internal Market Strategy to rely on the markets to regulate themselves and produce economic growth and social inclusion in the process seems simply unrealistic. In terms of the integration of financial and capital markets it becomes problematic when one considers the third major area of the Internal Market Strategy, the service industry.

The establishment of an integrated service market for the EU is one of the core ambitions of the Lisbon agenda, and is based on the determination of the member states to create a single market of people, capital, goods and services. The Commission worked out a significant proposal for a directive in the latter area. The directive on services in the internal market, which was developed under the supervision of the former Internal Market Commissioner Frits Bolkestein, wanted to establish the 'country of origin principle' as the core of an integrated EU service market. Under this principle, service providers would only be subject to the law of their country of origin and would be able 'to provide services in one or more member states without being subject to those member state rules'[53]. The host member state would be unable to 'restrict services from a provider established in another member state'.[54] Moreover, the operation of foreign service providers would even be supervised by their member state of origin:

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[52] Ibid, p. 23.

[53] Proposal for a Directive of the European Parliament and of the Council on services in the internal market (presented by the Commission', COM(2004)2, 5 March 2004, p. 9, http://europa.eu.int/cgi-bin/eur-lex/udl.pl?REQUEST=Service-Search&LANGUAGE=en&GUILANGUAGE=en&SERVICE=all&COLLECTION=com&DOCID=504PC0002

[54] Ibid, p. 3.

> Service providers are subject only to the law of the country in which they are established and Member States may not restrict services provided by operators to provide services in one or more other Member States without being subject to those Member States' rules. This principle also means that the Member State of origin is responsible for the effective supervision of service providers established on its territory even if they provide services into other Member States.[55]

Based on this principle, the directive intended to remove all restrictions to the free movement of service providers within the EU by 2007, which includes any existing national laws and regulations.[56] The protection of consumers under this system mainly centres on providing information about the various national regulatory frameworks. The directive explicitly pointed out that it intended to achieve 'detailed and systematic harmonisation of all national rules applicable to services'.[57] The main purpose was to enable service providers to operate freely within the single market while the differences in national regulations remain. Harmonisation in the service area was therefore intended to be limited to the economic freedom of the providers and their protection from the constraints of national regulations: 'These regimes may not be used to restrict the provision of services by an operator established in another member state'.[58] At the same time, the directive did not foresee the establishment of a set of integrated EU rules or institutions which would safeguard the rights and the welfare of the individual consumer.

The break with European tradition becomes clear when one considers the definition of the term 'service' under the directive: 'A service is any activity through which a provider participates in the economy, irrespective of his legal status or aim, or the field of action concerned'.[59]

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[55] Ibid, p. 9

[56] Ibid, p. 10.

[57] Ibid, p. 18.

[58] Ibid, p. 18.

[59] Ibid, p. 20.

The original directive covered a wide range of activities, including healthcare and social services. In the face of resistance from member states, especially France and Germany[60], the Commission announced at the beginning of March 2005 that health care and ‘publicly funded services’ would be exempt from the directive.[61] In spite of the watering down of the original proposal, the directive was nevertheless rejected by the March 2005 Spring EU Council in Brussels. The Council followed the Franco-German demands towards a complete revision of the directive.[62] At present it remains uncertain what the future draft will look like. The original draft however indeed showed a worrying trend towards ‘social dumping’.

Through the definition of services as a purely ‘economic activity’ the Bolkestein directive followed the free-market notion that services are outside the public realm. As a result, they should not be restricted by state legislation. It was highlighted that this definition would not cover ‘activities by the state for no consideration as part of its social, cultural, education and judicial functions where there is no element of renumeration’.[63] However, the fact that the Commission indeed intended to extend the directive to essential services, like healthcare, which are still under full state provision in some countries (like the UK), shows the general direction of the intended character of an integrated EU service market. The notion of public space as a protected area, where the state provided and regulates a number of essential services, has disappeared.

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[60] German Chancellor Schröder and the French President Chirac warned that the directive would ‘terrify’ the people in Europe and demanded the complete redrafting of the original proposal Press conference with Chancellor Schröder and French President Chirac, Blomberg, 7 March 2005, http://www.bundesregierung.de/Pressekonferenzen-,11931.798612/mitschrift/Pressekonferenz-mit-Bundeskanz.htm

[61] Statement by Charlie McCreevy to the European Parliament on the Services Directive, 9 March 2005, http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/149&format=HTML&aged=0&language=EN&guiLanguage=en

[62] European Council Press Release ‘European Council agrees on a drafting of the directive on the opening of the services market respectful of the European social model’, 23 March 2005, http://www.eu2005.lu/en/actualites/communiques/2005/03/22conseurserv/index.html

[63] Ibid, p. 20.

David Rowland has drawn attention to the social imbalances of the Bolkestein directive in a *Guardian* article. He argued that the EU is right to work towards an integrated service-based economy, but warned that the approach of the Bolkestein directive risks worsening social imbalances by creating a ‘race to the bottom’ in Europe:

> Many would argue that there is something wrong with placing the interests of business above the protection of workers and consumers (…) As trade unions across Europe have pointed out, the directive will mean that those working in poorer countries will find it difficult to access the labour protection in the richer countries to which they are posted (…) Yet if EU-wide standards can be introduced to govern the quality of car tyres, there is no reason why standards for high-quality healthcare cannot also be worked out.[64]

3. What Future for the EU Social model?

The obvious contradictions between the ambition of the Lisbon Strategy to create a reformed and socially cohesive European social model for the 21st century, and the neo-liberal approach of the Internal Market Strategy make it unlikely that the outcome will be satisfactory regarding the aim to achieve social integration. The aim to combine a dynamic and globally competitive single market with increasing EU-wide social integration would certainly be the right approach in principle. The EU needs to intensify the structure of the single market in order to strengthen its weight on the global economic market, and to establish the euro as the major currency besides the dollar on the international financial markets. The removal of barriers to facilitate internal trade and investment is an essential prerequisite to make the single market more dynamic and to combat the EU-wide unemployment problem. As a result, the economic aspects of the strategy to complete the single market almost unavoidably have to focus on the removal of national regulatory hurdles to effective market interaction for businesses, financial markets and services across member states.

[64] David Rowland: ‘In the health trade’, *The Guardian,* 20 January 2005.

This would not be problematic if the member states showed a willingness to replace the national regulations with an integrated social policy framework, which safeguards the essential core values of the European socio-economic model (*public space and economic and social citizenship)* in a single market with open borders for economic activities. This would need to include an EU-wide binding integrated pillar of 'hard' regulations on labour relations (including workers' participation, trade union membership, employment standards), minimum welfare provisions and consumer protection based on the principle of *common standard harmonisation* rather than *active co-ordination* and *best-practice benchmarking*. Close regulatory supervision by the EU's institutions would also have to be applied.

The approach of the Lisbon strategy is a reflection of the lack of political will on the part of the member states to combine the progress towards market liberalisation with the establishment of EU-wide social standards[65] to maintain the core characteristics of the European post-war socio-economic development. The drive towards deregulation and harmonisation threatens to destroy the fundaments of the existing European welfare states and, in the absence of a 'hard' supranational entity taking their place, leaves the development of the EU's future social model to market forces. Lisbon has one fundamental flaw: It is the notion that, in the absence of binding standards and procedures, economic growth and high employment almost automatically leads to social cohesion and to a 'new' Social model for the EU. The new Barroso logic that 'the race for growth and jobs'[66] should be the dominant aspiration of Lisbon shows that social integration has been pushed to the background.

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[65] This would certainly have to include further tax harmonisation on the EU level, which is fiercly resisted by the more free-market members such as the UK and Italy.

[66] 'Working together for growth and jobs: a new start for the Lisbon Strategy', Speech by José Manuel Barroso, President of the Commission at the Conference of Presidents, European Parliament, Brussels, 2 February 2005, http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/67&format=HTML&aged=0&language=FR&guiLanguage=en

The current mantra dominating the debate within the EU is 'we shape policies allowing our businesses to create more and better jobs'[67], based on the conviction that 'a job is the best weapon against poverty'[68]. Employment remains the supreme goal to achieve an inclusive society. The EU however, continues to be restricted to a co-ordinating, rather than an integrating role in creating the framework for a dynamic EU labour market. The new Lisbon strategy underlined again that in this area, 'the major responsibility for change falls to member state authorities, and to the social partners'.[69]

The new Lisbon social model is based on national diversity, voluntary co-ordination and a profound belief that the market can create social cohesion if market forces are provided with the right conditions to produce economic productivity and growth. This new approach ignores the fact that the market forces alone cannot create European social identity, which is created in a complex interaction through 'informal institutional processes'[70] between a multiplicity of actors on various levels.

A dynamic single market, which now includes 25 member states (10 from former communist countries) should try to do better than that. It should aspire to become more than simply a European free-trade area with diverging national social standards. The current Lisbon strategy risks creating exactly the latter for the Single Market. A new socio-economic reform strategy for the EU's single market needs to promote Western Europe's traditional social contract in the reformed post-communist economies and societies of the new Central and Eastern European member states. Due to their experience of the all-dominating state, the notion of public space is still seen with scepticism, which is why they tend to embrace liberal free-market economic policies and are reluctant to increase welfare standards.

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[67] 'Working together for growth and jobs – A new start for the Lisbon Strategy', Communication from President Barroso in agreement with Vice-President Verheugen to the Spring European Council, p. 4, http://europa.eu.int/growthandjobs/pdf/COM2005_024_en.pdf.

[68] Barroso speech, 2 February 2005.

[69] Ibid.

[70] Soysal, 2002, p. 271.

The purpose of a dynamic Single European Market in the 21st century has to be the creation of an integrated social area where economic competitiveness and growth are based on harmonised labour market standards, with an active and guaranteed partiticipatory role for employees. The blind trust in markets may create economic productivity and boost employment in the short term, but it is no substitute for the creation of an inclusive European society where a highly-skilled, well-represented, protected and stable workforce actively works towards making the Single Market a high-growth area. This includes the need to accept that investment in the social area actually has economic benefits rather than being a hindrance to growth and competitiveness. A socially balanced European Social model does not come for free and should be seen as an investment rather than a costly burden.

The EU Social model of the 21st century should create a business- and investment-friendly environment in the single market, but its main focus has to be the people and their quality of life. It should seek to create a single market in which the active citizen is enabled to take control of his or her life, and does not just become a pawn in a game of chess run by market forces. This might sound illusionary, but it could be achieved if the EU as a whole manages to find the political will to overcome national egos, and provides the financial backing which is essential for an integrated social Europe. It also means that the EU would have to hold on to and actively promote its social values and achievements on the global scale, rather than to abandon them in the face of an increasingly aggressive global capitalism. Will Hutton has repeatedly advocated such a beacon role for Europe's Social model in the world, based on European self-confidence on the global stage:

> It can insist that globalisation assumes a European dimension. It can insist that its distinctive attitudes on company law, financial regulation, workplace consultation, environmental standards, profit disclosure, transparency over accounts and taxation are upheld as the conditions for trading within the EU (…). The EU's commitment to a social contract and high-quality, universal, egalitarian social outcomes is a beacon for the rest of the world.[71]

[71] Hutton, 2002, p.457.

In the future, Lisbon and the internal market strategy consequently have to concentrate less on what is wrong with the European social contract and become more aware of the flaws of the U.S. and other socio-economic models. A copycat version of U.S. capitalism would not make the EU more competitive, because it goes against the European social traditions that have evolved over time. It would hence divide rather than unite Europe. This should be realised before ill-considered reforming zeal takes away the core of the European model, which has served Europe well in the past and continues to be an asset for its future. The result could be a 'worst of both worlds' model which destroys social cohesion and fails to improve the EU's global economic competitiveness. For the DYNAMO project, it will consequently be crucial to assess in how far the drive towards deregulation and liberalisation in the major areas of the internal market have already affected the core of the social model in each of the participating member states.

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