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**OMC as a New Method of Social  
Integration in the EU:**

The Case of Social Inclusion in the  
United Kingdom, Germany and  
Denmark

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## **I. Remarks and Acknowledgements**

The authors prepared this assignment between October 2006 and March 2007 at request of the University of Hamburg's Department of Economics and Political Science.

The methodology (ch. 2), the conclusion (ch. 7), as well as the selection of policy fields were designed and selected by all three authors in cooperation.

Hao Weng contributed chapters 3 and 6.2, which contain a country study of Germany and an analysis of the introduction of the OMC in Germany. In the same vein, Stefan Georgiev covered the UK in chapters 4 and 6.1, and Yuliya Veramei uses different information sources in her treatment of Denmark in chapters 5 and 6.3.

The authors would like to thank Prof. Dr. Ulrich Mückenberger for his support and supervision, as well as his critical remarks and valuable comments.

## II. List of Abbreviations

Art. EC	Article of the Treaty Establishing the European Community
BfAS	Bundesministerium für Arbeit und Soziales
CEC	Commission of the European Communities
CTC	Child Tax Credit
EC	European Commission
ECHP	European Community Household Panel
EES	European Employment Strategy
ESM	European Social Model
EU	European Union
GDP	Gross Domestic Product
JIMs	Joint Inclusion Memoranda
LA	Local Authority
MS	Member State
NAP	National Action Plan
NGO	Non-Governmental Organization
NRSSPSI	National Report on Strategies for Social Protection and Social Inclusion
NTSN	New Targeting Social Need
OMC	Open Method of Co-ordination
PSI	Promoting Social Inclusion
PWG	Participation Working Group
SEA	Single European Act
SEU	Social Exclusion Unit
SPC	Social Policy Committee
SPTF	Social Policy Task Force
TEU	Treaty Establishing the European Union
TSN	Targeting Social Need
UK	United Kingdom
WFTC	Working Families Tax Credit
WTC	Working Tax Credit

### **III. Abstract**

One OMC discussion strand concerns this governance method's contribution to Europe's social dimension. Some authors have focused attention on the unique conditions under which OMCs operate in each member state. Our point of departure in writing this paper is that different welfare state systems determine to a great degree the extent of OMC's impact on member states. We note however that comparative assessments of institutional structural framework within which the OMC operates are rare.

We have therefore selected three EU member states as objects of study: the UK, Germany, and Denmark. Each country represents a case study of a different mode of capitalism. We have analyzed the deployment of the OMC in all three countries.

Having analyzed social policymaking processes, we conclude that the three countries use NAPs rather as a tool for reporting domestic measures than as a mechanism for policy learning and comparison of best practices. The main reason for this conclusion is that social policy is deeply embedded in national political and cultural context, which are in turn a result of historical evolution.

In light of this constraint, we argue that the lack of hard sanctions and the non-binding nature of soft recommendations have led the "real" influence of the OMC in the area of social inclusion to be reduced to "raising awareness". Consequently, the intrinsic nature of a country's welfare system predetermines the extent of the OMC's impact and undermines its ambition of having a uniform effect across countries.

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## **1. Introduction**

One OMC discussion strand concerns this governance method's contribution to Europe's social dimension. Some authors have focused attention on the unique conditions under which OMC operates in each member state. Our point of departure in writing this paper is that different welfare state systems determine to a great degree the extent of OMC's impact on member states. We note however that comparative assessments of institutional structural framework within which the OMC operates are rare.

This article's analysis is guided by the hypothesis that the extent of the OMC's influence on member states is linked to the normative aspiration and institutional setting of the MS in question. We verify this hypothesis in a series of steps. In chapter 2 the research objects are detailed and the methodology of indicators is defined and explained. Chapter 3 explores the role that MS has played in deciding the direction of European integration through a retrospective of the interaction between European integration and national welfare states.

In particular, the emergence of the issue of social inclusion is demonstrated with a historical context. Chapter 4 introduces the mechanisms of the OMC and core elements as well as debates over its advantages and limits. Moreover, the question "How OMC brought impact in the Social Area?" is investigated.

Because social policies very directly and very continuously touch citizens' lives, these opinions are strongly held. Social policies in each nation are the outcome of a finely balanced political equilibrium. Nations, including those as similar as the original six members of the EEC, hold very different opinions on which types of social policies should be dictated by government. Therefore, a deeper understanding of the three modes of capitalism as exemplified by the UK, Germany, and Denmark is warranted.

The theoretical and historical background of the European social policy and the OMC introduced set the stage for the three case studies in Chapter 6. The materials analyzed are the National Action Plans on Social Inclusion submitted by the three examined countries from 2001 to 2007. We draw conclusions from our research in the final chapter.

## **2. The research object and the methodology of indicators-using**

The aim of this article is to examine the impact of the OMC in the field of Social Inclusion, taking into consideration the different institutional settings, political cultures and thereto connected specificities of the three selected member states. The selection of countries is deliberately reflective of the “three worlds of capitalism” described by Esping-Andersen<sup>1</sup>, a factor that to a great extent pre-determines the institutional cooperation processes on the national level, the cross-national collaboration and the MS – EU connections. With regard to this research aim, the countries can be considered to be the dependent variable, serving as a basis for assessment of the OMC’s impact, which accordingly has to be regarded as the independent variable.

In order to analyze the impact of the OMC on three different types of welfare states on a common basis, quantitative and qualitative indicators are complementarily employed to compare the starting positions and progress over time in the terms of key areas of social concern. The quantitative indicators presented in countries study (chapter 6) are based on the data collected by Eurostat, the advantage of which is that indicators are measurable in a sufficiently comparable manner across countries.

The six adopted quantitative indicators include two categories. The first is ‘input indicators’, which are responsive to policy interventions but not subject to manipulation and establish a better linkage between policies and social outcomes. In this paper, the subcategory ‘social protection expenditure’ is chosen. The second category is ‘common indicators’, which focus on social outcomes rather than the means by which they are achieved. In this paper, three such subcategories are analyzed. The first one is monetary poverty, including the at-risk-of-poverty rate after social transfers by gender and by age group separately. The second is access to the labour market, including long-term unemployment rate and people living in jobless households. The third is non-income aspect, e.g. early school leavers.

To ask why these indicators reflects are chosen exclusion amounts to a quest for the concept of poverty and social exclusion. While poverty to a certain extent relates to monetary poverty, social exclusion is a controversial term. It can be traced to Weber, who identified it as one form of social closure. Examples might include conscious or

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<sup>1</sup> See also Ch.5

unconscious racial discrimination, or restricted access to higher education. Modern usage of the term appears to have originated in France. 'Les exclus' were those who fell through the social protection net (Burchardt et al. 2002:4). Within this context, the choice of indicators becomes understandable, since the risk of being excluded is linked to the labour market on which the insurance and protection are based. The "people living in jobless households" indicator illustrates the distribution of employment across households or the extent to which non-employed people share a dwelling with people at work or with other jobless individuals. People who live in jobless households are at higher risk of low income than those living in households where one of the partners is employed. On the other hand, households with two employed partners will generally escape poverty. The risk of becoming part of the 'at-risk-of-poverty' group is indirectly linked to the educational level and thus can also be examined through the 'early school-leavers' indicator, which is the share of persons aged 18-24 who have only lower secondary education.

Although the quantitative tools can describe the multi-faceted nature of social exclusion and measure the progress over time, some justified concerns about the effectiveness of OMC and how this could best be measured, if possible at all, have been expressed (Trubek et al. 2005:18). In an effort to assess the efficacy of OMC, Zeitlin offers an approach that can be called a 'contextualized process-tracing' and which divides the impact of the method into four areas: 1) substantive policy change (including broad shifts in policy thinking); 2) procedural shifts in governance and policy making (including administrative reorganization and institutional capacity building); 3) participation and transparency; and 4) mutual learning (Zeitlin 2005:4).

Inspired by the methodology of Zeitlin, the qualitative indicators that the authors adopt include newly introduced legislation, newly created governmental bodies established to respond the needs of new social programs, extension of the scope of existing social programs, new statistical data produced, the extent to which the NAP was incorporated into other previous domestic program, and the intensity and extent of the participation of civil actors. The role of the qualitative indicators is mainly to describe how the OMC as a new mode of governance at EU level affects the national policy-making.

As far as analytical steps are concerned, Zohlnhöfer (2004) et al., for instance, made use of an approach based on three analytical steps, where three basic presuppositions have

to be fulfilled, as an ultimate requirement, once an OMC is supposed to be assumed. First of all, the concerned policy should correspond to the EU recommendations, which is a necessary but insufficient condition. Therefore, secondly an explicit reference of the policy makers to the recommendation in question is required to ensure the OMC impact. The third factor to be guaranteed is that the policy in question (measure) can not be ascribed to pre-existing election manifestos or governmental programmes. The authors take into consideration the fact that such an approach (for instance existence or non-existence of explicit references) can result in inconsistencies. However, with regard to the limited time and resources, these potential inconsistencies will have to be accepted.

### **3. Social integration in the EU**

There are several perspectives from which to analyze the social integration in the EU. For instance, some authors argue that the European dimension can only be understood in terms of the long-term confrontation of “economic-oriented actors” versus “socially-oriented actors” (de la Port and Pochet 2002). On the other hand, some used the concept of negative and positive integration (harmonization) to demonstrate the erosion of national capability in dealing with social challenges resulted from the economic integration by using labour laws and social protection, and the insufficient harmonization of social standards at the EU level to enhance citizens’ welfare (Scharf 1996, 1999 and 2002; Streeck 1996; Hepple 2005). The two aforementioned aspects are used complementarily in describing the development of social policies at European level.

In this chapter, the main emphasis is on providing a brief historical context in which the European social policy<sup>2</sup> in general and social inclusion in particular has emerged and evolved. The concept of a “European social model” is an elusive one, whose content changes over time. Each period has dominant challenges and corresponding strategies. But the decisions of previous periods do not completely disappear and, to a certain

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<sup>2</sup> One possible reason for the different opinions may be attributed to the different definition of “social policy”. T.H. Marshall defines social policy as the use of “political power to supersede, supplement or modify operations of the economic system in order to achieve results which the economic system would not achieve on its own,...guided by values other than those determined open market forces.”(Marshall 1975: 15) By contrast, economists define social policy as “the set of rules that directly affects labour costs such as wage policies, working hours and conditions, and social benefits.”(Baldwin & Wyplosz 2006:41) In this article social policy is referred to Marshall’s definition.

extent, the current processes have roots in the past. An obvious example is that the prominence economic integration can be traced back to the very beginning of the foundation of the European Communities, because the founding fathers of the EU had expected social progress to evolve naturally from the economic progress generated by the Common Market (Atkinson et al. 2005, 29). In fact, however, the loss of capacity of member states through “Europeanization” did not compensate by the increasing of authority of the EU symmetrically. After several decades of using “Community method”, the EU is shifting its governing method to the soft form of policy coordination in social policy particularly.

### **3.1. Development of the European social policy: from Rome to Maastricht<sup>3</sup>**

The way of interpreting the European Social Model (ESM) reflects the stage at which European social policy has developed and the number of countries that belong to the EU<sup>4</sup>. Through a retrospective of the different periods of development, it could be said the history of European social policy is more a story of failure than of great success, if it was measured by the number of directives adopted. This section intends to demonstrate why progress has been made in some areas and not in others. The starting point is the negotiation of the Treaty of Rome.

#### **3.1.1 First period: social policy subordinated to the common market (1957-1981)**

In the process of European integration since 1957, the European social policy has always been overshadowed by economic integration through the free movement of goods, capitals services and labour. In the negotiations for the Treaty of Rome, Germany and the Benelux countries argued that the common market would automatically lead to the harmonization of social cost (Hepple 2005:199). This decision was supported by the Olhin report, which had been commissioned by the ILO, and which concluded that “social policy differences between countries were sustainable, so the harmonization of welfare state was deemed unnecessary” (Cantillon 2004:6, quoted

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<sup>3</sup> The division of different periods is compared with the articles of Heise (1997) and Pochet (2005).

<sup>4</sup> The concept of the European Social Model is an elusive one, which denotes the common characteristics of the different welfare states in Europe. However, it can also be divided into several sub-groups representing their respective distinctiveness. Chapter 5 will describe this point furthermore.

in Pochet 2005:4). Community competence on social protection thus was limited to work and employment-related matters, excluding “such classic social policy issues as pensions, unemployment, housing, family, the disabled and the young” (Henningsen 1989:6, quoted in Streeck 1996:397).

The European social policy had been constitutionally limited to the construction of a communitywide labour market, particularly by enabling the cross-border mobility of workers. The inclusion of the right of women to equal pay with men in the Treaty of Rome was meant to the prevention of market distortion rather than being an explicit social policy commitment, which, however, “proved highly significant as the source of five gender-equality directives between 1975 and 1986” (O’Connor 2005: 347). The first project of a market-correction was the ‘Social Action Plan’ of 1974, which aims at fighting poverty and continued until 1994<sup>5</sup>. Due to their non-binding character these programs were merely a political recognition of poverty and social exclusion rather than having a real impact on the eradication of poverty (Abrahamson 1997).

### **3.1.2. Second period: from Stagnation to a small step in progress (1981-1989)**

The beginning of the 1980s was a turning point in terms of economy and politics. The liberal and Christian Democratic governments began a neo-liberal turn which led to a pause in social regulation at European level and a process of deregulation at national level. Consequently, the Thatcher government blocked almost all significant proposals (the Vredeling directives on information/participation in multinational companies, reduction of working time, and regulation of atypical contracts) at EU level (cf. Pochet 2005; Heise 1998).

The Single European Act (SEA) (1985) expanded the Community’s social competencies, allowing the adoption of health and safety measures by qualified majority, thereby the risk of failure of adoption due to UK’s objection could be reduced. It also contained a rather vague provision on social dialogue which launched a dynamic of non-binding agreements (joint opinions) between the European social partners (cf. Pochet 2005) However, European social dialogue suffers from two fundamental

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<sup>5</sup> These programs will be introduced in detail in section 3.3. “The long road towards EU cooperation in combating poverty and social exclusion”.

weaknesses. Besides the absence of employers' enthusiasm for the procedure, even though the social partners are free to reach their agreements on any issue, the rights of association and the right to strike are explicitly excluded from the EU's legislative competence according to its institutionalization in the Maastricht agreement (Art 137 (5) EC) (cf. Bercusson 2005; Hepple 2005: 230-238).

Even though the major focus during the 1980s was on market building and the creation of the single market, the SEA signaled some progress and reflected the view expressed by Jacques Delors, President of the Commission in 1985, that "any attempt to give new depth to the Common Market which neglected this social dimension would be doomed to failure" (Delors 1985: xviii, quoted in O'Connor 2005: 347) against the background that integration through removing the tariff and non-tariff barriers ('negative integration') without establishing common regulations or institutions ('positive integration') would awaken the fear of social dumping among member states, i.e. deteriorating social standards (cf. Heise 1998: 10-11).

### **3.1.3. Third period: two agreements without United Kingdom (1989-1997)**

The end of 1980s and the beginning of the 1990s were characterized as "a period of triumphant neo-liberalism and globalization" (Pochet 2005:5). In 1989 all members of the European Community, with the exception of the United Kingdom, adopted the Community Charter of the Fundamental Social Rights of Workers, which was not an international treaty and had no binding force. The UK's suspicious attitude toward the Charter was due to a concern that the Charter "might be used as a back-door means of enlarging the competence of the EU" (Hepple 2005:241). But the basic idea of the Charter was to develop a set of minimal legal regulations at European level, which were even below the level of the ILO's international conventions (Pochet 2005:5).

A further step was taken in the Treaty of the European Union (Maastricht) 1992, including a Protocol on Social Policy, which failed to be a 'Social Chapter' due to the opposition of the UK. This Protocol, nevertheless, enables the council (without British participation between 1993 and 1998) to adopt directives that are applicable throughout the EU. Most proposed directives may be adopted by a qualified majority vote. Proposals dealing with sensitive national concerns, such as social security, require the

unanimous consent of all members (Springer 2001: 426). In the area of economic and monetary convergence the Treaty was a big leap-forward, but the progress made in the area of social policy was disappointed, which did not extend the formulation of the SEA significantly<sup>6</sup>. In order to persuade the UK to ratify the Maastricht Treaty, the retreat of the social side seemed to be inevitable (cf. Heise 1998: 12). Despite the absence of the UK, the European social dialogue has made progress by three Directives during this period. This related to European Works Councils in 1994, parental leave and part-time work in 1995.

### **3.1.4. Fourth period: from community method to policy coordination<sup>7</sup> (1997- )**

After the victory of the New Labour in UK and the Socialist Party in France, the Social Chapter was reintegrated into the TEU by the Treaty of Amsterdam (1997), which came into force in May 1999. “At Amsterdam ‘employment and social protection’ were moved up to the second place in the list of objectives in Article 2 just behind a ‘harmonious, balanced and sustainable development of economic activities’” (Hepple 2005:210). The most important change was that the European Employment Strategy has its Treaty-base and adopted the Open Method of Coordination, which indicate a new attempt to define the European Social dimension. National Action Plans as a core element of the OMC signalled a move away from heavy reliance on directives that were dependent on intergovernmental agreement to an open method of policy coordination and measurement of outcomes with the involvement of the social partners at national level (cf. O’Connor 2005: 350) .

The shift from supranational regulations to the new method of social integration can be understood in its historical context. Against the background of increasing pressure from the Europeanization and globalization during the 1990s, the pursuing of a “European social model” was constrained by the thin treaty-basis in social policy area on the one hand, and different social welfare regimes within the EU on the other hand. As a consequence, the European Union is confronted with the weakness of legitimacy and of effectiveness in formulating its social policy (cf. Scharpf, 1996, 2000 and 2002). With

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<sup>6</sup> The consequence of the asymmetry of the developments between economic and social integration is analyzed in section 4.1.

<sup>7</sup> The mechanism and core elements of the Open Method of Coordination as well as its application on social inclusion will be introduced in chapter 4.



regard to enhancement of employment rate and social protection, there is no enforceable law. Whereas trade unions and the Commission (social-oriented actors) try to build a social Europe, firms and business interest associations and the Ecofin (economic-oriented actors) are concerned with the competitiveness, who believe that through deregulation and the full function of market the benefits of people as a whole can be increased. By contrast, the deep-set norms and values of the socially-oriented actors are to support the positive development of social policies, to complement and to counter the negative effect of economic integration.

The different paces of development on social institutions among member states did not avoid the possibility of mutual affection in the course of the internal market process. Under the pressure of free movement of capital and goods business organizations can escape the welfare cost burden by choosing the lowest-cost production site. By contrast, governments suffer from the heavy burden of social expenditure caused by their welfare system.

For many years the single European Market and the European Monetary Union largely eclipsed the social dimension of the EU, let alone the issue of combating poverty and social exclusion. It is only since March 2000, when EU Heads of State and Government adopted the Lisbon strategy, that social policy has truly become a specific focus of attention for EU cooperation. However, the emergence of the cooperation at European level in fighting poverty was resulted from efforts over several decades. The following section tries to depict this long road.

### **3.2. The long road towards EU cooperation in combating poverty and social exclusion**

Whilst the OMC in social inclusion emerged a decade ago, the issue of combating poverty and social exclusion as such can trace its roots back to January 1974, when the EU Council of Ministers adopted its “Resolution concerning a social action programme”. Since the adoption of this text, the Council has established various programmes to combat poverty and social exclusion (cf. Atkinson et al. 2005, 29).

During the period of 1975 – 1994, the Council adopted three Poverty Programmes: Poverty 1 Programme (from December 1975 to November 1981), Poverty 2 Programme (from January 1985 to December 1988) and Poverty 3 Programme (from July 1989 to June 1994). The Poverty 4 Proposal (supposed between July 1994 and December 1999) was not adopted by the Council because of opposition from Germany and the United Kingdom, whose objections were based on the subsidiarity principle and the lack of proof of the programme’s effectiveness. It is only from the end of the nineties, and even more so from March 2000 when the Lisbon strategy was launched, that social protection and inclusion have become specific policy areas for EU cooperation. (cf. Atkinson et al. 2005: 30, de la Port 2005)

According to Atkinson et al. (2005:30-32), there were six key EU texts on social protection and social inclusion that played an important role in this process. The first such text is a Council Resolution on “*Combating social exclusion*” adopted in September 1989. This was followed up in the Council Recommendation of June 1992 on “*Common criteria concerning sufficient resources and social assistance in social protection systems*”. One month thereafter, another Council Recommendation on the “*Convergence of social protection objectives and policies*” argued that “comparable trends in most of the Member States may lead to common problems (in particular the ageing of the population, changing family situations, a persistently high level of unemployment and the spread of poverty and forms of poverty)”.

In the fourth text on “Modernizing and Improving Social Protection in the European Union”(CEC 1997), the Commission argues that social protection systems, far from being an economic burden, can act as a productive factor that can contribute to economic and political stability and that can help EU economies to perform better. In short, the relationship between economic and social policy is a partnership rather than a competition. These arguments undoubtedly contributed to the acceptance of the new legal base for the fight against social exclusion incorporated in the Treaty of Amsterdam signed in October 1997. A concrete implementation of this new legal base was the July 1999 Communication by the European Commission on “*A Concerted Strategy for Modernizing Social Protection*” (CEC 1999).

De la Port (2005) argues that the factors explaining the OMC inclusion as an institution that has been emerging progressively since the mid-1990 are multiple. First of all,

individual actors were key promoters in the development of the European social inclusion strategy. “The Commission has acted as a norm entrepreneur for the social strategy”(p.22). Secondly, the actors from the nascent European anti-poverty network were also crucial. Finally, its creation was determined more and more by political dynamics within the European Council. The Finnish, Portuguese and French Presidencies contributed to bring it forward in important way. But the capacity to bring the strategy forward would not have been possible without political interest constellations (majority of governing left-wing governments in the European Council) across the EU countries (cf. de la Port 2005; Manow et al. 2004). In the next chapter, the distinctness of the OMC and its application on social inclusion as well as the debate over its advantages and limits will be analyzed.

#### **4. What is OMC and how it is applied in the policy field of Social inclusion?**

The changing context of the European policy making at the end of 20<sup>th</sup> and the beginning of the 21<sup>st</sup> century provided for emerging of strong discussion on the various techniques and practices for governance across the continent. One of those ‘new’ modes attracting significant attention is the Open Method of Coordination (OMC). It is concisely described as an overarching tool including cooperation, process exchange and negotiating of common goals and guidelines, which are supported through NAPs. It also encompasses regular monitoring of the progress made and offers Member States an opportunity to compare best practices and learn from each other (Wessels and Linsenmann 2002:2).

An attempt to trace the roots of this new mode of governance leads back to the Maastricht Treaty. Articles 98 - 104 TEC created for the purpose of coordinating national economic policies through "Broad Economic Policy Guidelines" and recommendations of the Council (Hodson and Maher 2001) can be identified as predecessor of the OMC. This approach has further been used in the Amsterdam Treaty (Arts. 125-128 TEC) for developing a coordinated strategy for employment, which laid the ground of what was to become known as the European Employment Strategy or the Luxembourg Process. Without further creating of legal base, the Lisbon European Council then introduced the today widespread designation of OMC and resolved on

applying it in the field of education, training, R&D, enterprise policy, and social protection and social inclusion.

The OMC is a post-regulatory approach to governance. Compared to the original regulatory approach based on uniformity, which is usually characterized by detailed rules and procedures, strongly applied to all actors involved and based on hierarchical subordination of the participants in the process, the OMC mostly rests on a wide variation within general standards, which are partly or wholly voluntary.

Although there might be slight differences between policy fields, the OMC could be described as a common framework which comprises four general elements: 1) fixed guidelines set for the Union with short, medium, and long term goals; 2) quantitative and qualitative indicators and benchmarks; 3) European guidelines translated into national and regional policies and targets; and 4) periodic monitoring, evaluation, and peer review, organized as a mutual learning process (Portuguese Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000). Main emphasis is placed on developing common interpretations of situations, common values and techniques, through an iterative learning process (Dehousse 2002:12), in which discussions about common objectives and the analysis of national policies are expected to lead to a mutual sharing of knowledge (Trubek and Mosher 2003:19). However, scholars diverge when it comes to evaluating the method's potential for policy change. Those emphasizing learning are more optimistic (Rhodes/Goetschy/Mosher 2000, de la Porte/ Pochet/Room 2001, Trubek/Mosher 2003) than those who question its effectiveness due to the lack of sanctioning mechanisms (Scharpf 2002).

The vocabulary of the OMC is full of references to the market. Management by objectives, self-evaluation, peer control and reference to forms of flexible regulation - terms borrowed from the repertoire of the New Public Management School. Thus, the message is clear: Europe is certainly going to play a social role, but without taking the harmonization path. The OMC thus belongs to a series of new policy instruments attempting to do away with the legislative approach (Dehousse 2002:8). Its success is dependent on development of common indicators, benchmarks, and targets accompanied by peer review and exchange of good practices (Zeitlin 2002). It is most often used in areas where the EU Treaty powers are limited, the Member States can not

achieve sufficient consensus on enacting binding directives, as well as in policy fields that are very complex to allow achieving of substantial legal harmonization.

Numerous research articles from the last years emphasize the advantages that OMC as a new mode of governance delivers (e.g., Trubek and Mosher 2003; Scharpf 2002; Esping-Andersen/Galli/Hemerijck/Myles 2001). It allows for the policy initiatives to be adapted to the diverse institutional arrangements, legal regimes and national circumstances. Furthermore, Member States are free to choose the appropriate pace in progressing in particular fields, whereas still maintaining a course in the right direction. It seems also to offer an opportunity to act in areas where full harmonization is blocked and seems improbable. Moreover, the OMC encourages convergence of national objectives as well as performance and policy approaches rather than specific institutions, rules and programmes. This mechanism is particularly well suited in identifying and advancing the common concerns and interests of the Member States while simultaneously respecting their autonomy and diversity (de Burca and Zeitlin 2003:2). It is, moreover, necessary to mention that its success is conditional upon the willingness of those national actors who are in control of policy choices to involve themselves in the process of “learning by monitoring” (Sabel 1994). If it is not the case, then the National Action Plans may simply reflect the status quo of national policy routines (Scharpf 2002: 9).

One of the main concerns is that the OMC infringes the principle of subsidiarity by bringing EU policy making into policy areas which are of exclusive competence for Member States. This is, however, far away from reality, because the very advantage of this new method is to bring together and to create an appropriate conditions for each level, national and sub-national, to contribute its distinctive knowledge and resources to tackling common crosscutting problems (Radaelli 2003:26-27; Zeitlin 2002).

#### **4.1. OMC in the Area of Social Policy – ‘the state of the art’**

To understand the reasons that have led up to the endorsement of OMC as important tool in the Social area, a closer look at the overall objectives set at Lisbon is needed as well as to realize that the nature of social policy has transformed. As mentioned in section 3.1.3-4, with the creation of truly integrated market and common currency the

conditional framework for the social policy context changed. The monetary integration and the introduction of common currency have ‘taken away’ from the national governments the monetary policy as a tool to fight unemployment. At the same time, the Stability and Growth Pact has played similar role withdrawing the fiscal policy from the bunch of the government’s policy tool focusing on combating those same problems.

These two steps aimed at achieving closer economic integration on EU level triggered new constraints about the future of Social Europe. The increased interdependency made each Eurozone country vulnerable to budget policies in the others and made the competitiveness of the whole EU economy dependant on decisions on social policy at national level. As long as the national markets were autonomous and national budgets were relatively independent the social policy was a domestic concern. But once a common currency and a single market were created, the social policy of one country became relevant to other nations because it might affect both the other countries’ budgets and the competitiveness of the single market. Therefore, a need for some transnational policy coordination on Social Policy issues was necessary (Trubek & Trubek 2005: 345). It is how the OMC has been deployed to establish the missing connection and to subsequently support the new European policy doctrine.

While the proponents of Social Europe have long tried to give the EU a ‘social dimension’, they have very different ideas about what the concept of Social Europe<sup>8</sup> should be and how it can be best achieved. However, their understanding about the role of the EU in maintenance and development of the ‘welfare state’<sup>9</sup> and the preservation of Europe’s commitment to solidarity remained the same over time (Trubek and Mosher 2003:26-27; Trubek and Trubek 2005: 351-352). Amongst the many approaches that describe different ideas, the concept described as ‘decentralized cooperation’ is worth mentioning (Trubek & Trubek 2005:352). This approach is based on the understanding that has an important role to play in the future of Social Europe; however, its role should be limited to supporting and coordinating national-level activity. Moreover, certain task aiming to develop cooperative relations among the various stakeholders would be also ascribed to the EU. Yet, a very little legislation at the EU level is foreseen. In general, EU’s role would be to establish broad objectives and then to facilitate policy reform and experimentation at the local level. By setting objectives and

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<sup>8</sup> for more information on ‘European Social Model’, see Ch. 3

<sup>9</sup> Ch. 5 examines the link between the OMC in Social Inclusion and the different types of welfare systems.

monitoring the progress towards them the Union would ensure that Member State policy makers learned from each other (Zeitlin 2005:43-47; Trubek & Trubek 2005: 352).

At the same time, the opponents of OMC raise voices against it, accusing the Commission of using OMC as a vehicle to gain impact in policy areas excluded from the EU range of competences and thus infringing on the principle of subsidiarity. Yet, it can be argued that in the social domain, where the EU has little legislative power and the Member States possess the legitimate rights to exercise regulative power, this approach takes the subsidiarity further, allowing actions in policy domains where EU has restricted legitimacy to act, while respecting the principle of subsidiarity (Pochet 2001:9). The structure of OMC offers a double safety net for Member States autonomy. First, as a learning process it refrains from instruments of (hierarchical) sanctioning. Second, since dropping out of the process is impossible, room for weakening and evading the demanding requirements for benchmarking and peer pressure is assured. The existence of this safety net legitimizes the use of the OMC (Bernhard 2006:41).

Further criticisms of the OMC include the difficulties to measure its effectiveness, clarification of the relationship and distinction between open coordination and the community method and the accusations of OMC's democratic deficit due to its executive character are highlighted by Metz (Metz 2005:8). However, along with the criticisms expressed above, a set of convincing opportunities draw attention. First and foremost there exists no formal transfer of competencies, if a consensus on particular issues is achieved. Member States can implement the changes without any changes in the distribution of competencies in the Treaties. The flexibility of the method allows that it could be extended to various policy fields and institutional settings, while the lack of sanctions motivates openness and participation in the process. Since in some policy areas (Social Policy for instance) Member States will remain reluctant to surrender further sovereignty, open coordination can complement the 'hard' integration by providing for presence of the European approach in those areas. This is an instrument that builds on diversity and diversity is often seen as an obstacle to EU policymaking. Nevertheless, by aiming for a convergence of ideas rather than for legal harmonization, the OMC can find as-yet undiscovered potential benefits of diversity. (Metz 2005:9).

## 4.2. How OMC brought impact in the Social Area?

The effects of the OMC in social policy field could be categorized in two main groups. The first one, basically described as the group of ‘top-down’ effects of OMC comprises the following practices: *shaming*, *diffusion* and *policy network*, which illustrate how ideas developed at EU level influence national and sub-national level (Trubek, Cottrell and Nance 2005:17). Whereas by *shaming* the Member States seek to comply with the guidelines in order to avoid negative criticism in peer review and Council recommendation (those can rather be described as pointed observations about poor performance), the *diffusion* mechanism explains changes as triggered by diffusion of models developed in other polities or promoted by international organizations. The third form of impact is said to be happening through creation of *new policy network*. According to this, in the process of NAP creation, a network of government representatives emerged. The aim of this governmental network is solely the creation of the annual NAPs. However, the latter requires also input from social partners and civil society, thus extending the scope of the national level network beyond the government level. In addition, the Social Committee established a link between civil servants from all Member States with the Commission and the Council in a multi-level transnational network (Trubek & Trubek 2005: 357-359).

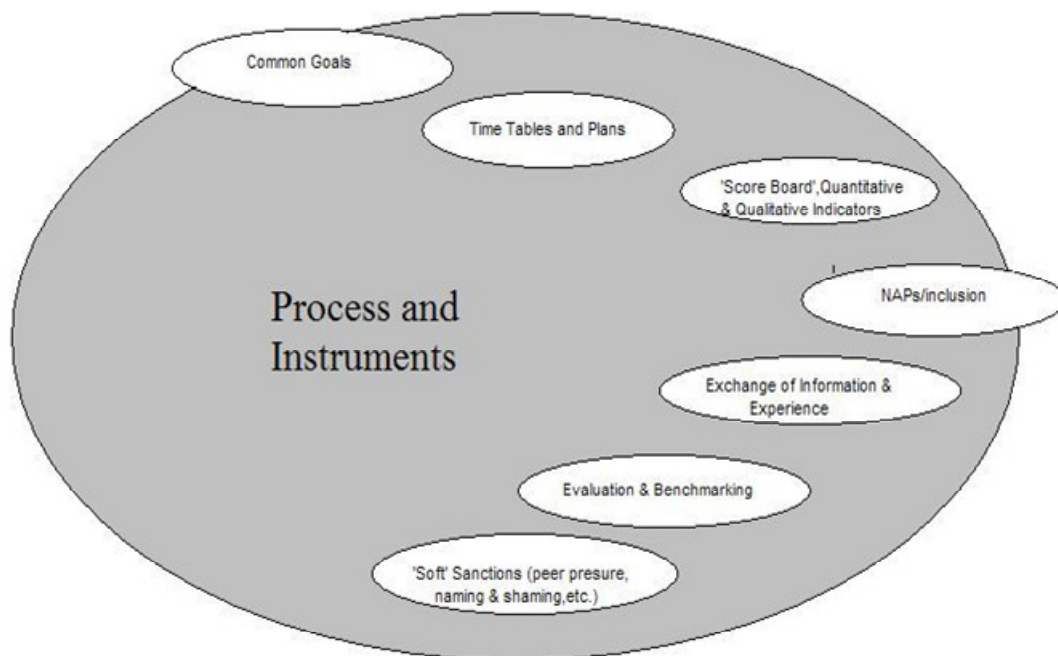


Figure 1: Characteristics of the Open Method of Coordination in the field of Social Inclusion (compare with Wessels and Linsenmann 2002:8)



The Social Inclusion process has also empowered weaker non-state and sub-national actors in different ways. Various NGOs and civil society organizations, which are amongst the most proactive users and beneficiaries of the Social Inclusion process, have gained influence and recognition.

The second set of ideas considers policy change process rather as one in which forces for change operate in both directions, not only top-down. This approach appreciates the EU diversity as a great asset and anticipates that different policies are tried out at any time. The process of annual planning and review, exchange of best practices and the system of multilateral surveillance help Member States find new solutions to their problems (Trubek and Mosher 2003:17).

If the above described new policy network model were to work properly people from labour, welfare and finance ministries would cooperate at national level and then meet with counterparts from other Member States to deliberate about the best way to deal with common problems. At the same time employers, unions and NGOs would have the opportunity to engage in the process at both national and EU level. This should result in emerging of a common European way of thinking about social policy and eventually would affect actions at national level (Trubek & Trubek 2005: 358). In spite of this, Member State representatives in the SPC have explicitly rejected any explicit performance ranking, and forced a modification of the first Joint Inclusion Report in 2001, which contained an implicit ranking of the various NAPs/incl. Member States governments have also remained so far unwilling to stiffen the procedures of the Social Inclusion process by adding formal guidelines and recommendations like those of the EES (Zeitlin 2005:33), and hence, the aim of this article is also to discover evidence, which will eventually give an answer to the concern that most governments treat NAP process only as routine administrative burden and not as a real opportunity for debate and deliberation. Thus the peer review and benchmarking could turn to be a standard exercise, which restrains the social partners from participating actively and makes some countries resistant to changes, because they feel they need no change, since they have largely met the goals set (Trubek & Trubek 2005: 359).

## **5. The OMC and three modes of welfare capitalism: common European way of thinking about social policy?**

The modern welfare state is a European invention.

Flora, P. (Cousins, M. 2005:3)

Summarizing drastically, the dominant European model of welfare is characterized by high levels of spending (especially on transfers), insurance-based social programmes, high intergenerational solidarity with modest to high vertical redistribution, in a majority of states a breadwinner model providing considerable employment protection and benefits for the core workforce, good social investment in human and social infrastructure capital and moderate to low levels of poverty and inequality

Gough 1998: 80

As it's pointed in the chapter 4.2 one of the main ideas of the OMC could be seen in the formulating the common European way of thinking about social policy. The challenge most MS could face thereupon are differences of welfare models they belong to, traditionally regulating social policy in different ways. Since Lisbon there has been a significant shift from coordination towards convergence between the welfare states however the term "harmonization" is still untimely and forbidden. The OMC is used as an acceptable way from negative to positive integration<sup>10</sup>, encouraging a process of convergence between European welfare states towards the minima (the lowest common social minimum) and social quality, a substitute of "European way of thinking about social policy".

In short-term perspective the convergence aims to recast prevailing social and economic policies of different MS to make them more responsive to the new demands of post-industrial economies, in terms of a common goal of the "European dream" "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" (Lisbon, 2000).

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<sup>10</sup> called also market correcting integration which includes the regulation of working conditions, social and environmental protection (Scharpf 1999: 47)

The long-term idea behind is to develop a new architectural type of a cross-national / supranational European Welfare State, linking together member states in a new single framework throughout the European Union (Cochrane [a.o.] 2002: 272). This vision of a new architecture has been criticised by different authors asserting there is no single European social model towards which member states of the European Union could possibly converge in the next decades (Ferrera [a.o.] in Esping-Andersen, G. 2003: 209). The immediate cause of this conclusion lies in the different normative aspirations and institutional structures of the MS. The last point namely differentiation in the institutional approach, as well as new challenges of national welfare states “being in transition” is to be studied more precisely. First of all, a new European welfare state is unlikely to look much like existing national welfare systems: 1. it will be reluctant to undertake tasks already performed at national level, 2. the EU has few legislative powers to operate independently of its MS. Secondly, the question is what is to understand by “European Social Model” (ESM) and how it corresponds with the reality of the EU-15 / EU-25 / EU-27.

The basic part of the reason for the socio-economic existence of the EU is its diversity; also the European social model is unique in its diversity and complexity. There is a common opinion, the ESM is “not solely European, not wholly social and not a model” (Diamantopoulou, A. 2003: 2-6). As Anthony Giddens explains this phenomenon (Giddens, A. 2007: 2) having effective welfare institutions, and limiting inequality, other countries are just as advanced as states in Europe (for instance Canada surpasses Portugal / Greece, not to mention post-communist countries from the EU-27). The ESM is not purely social, because it depends in the neo-liberal sense upon economic prosperity and redistribution (becoming productive redistribution – characteristics of a negative integration). And of course, the ESM is complex because of a big divergence between the MS in terms of their welfare systems, not being a single model. Further the author affirms that the ESM is not a unitary concept, but “mixture of values, accomplishments and aspirations, varying in form and degree of realization among European states”. Giddens develops the idea of a general set of values: “sharing both risk and opportunity widely across society, cultivating social solidarity or cohesion, protecting the most vulnerable members of society through active social intervention, encouraging consultation rather than confrontation in industry, and providing a rich framework of social and economic citizenship rights for the population as a whole”.

As mentioned above there is *no single* social model in Europe. In the literature there is a strong recognition that national welfare states are profoundly different on account of “historical institutionalization” (Cousins, M. 2005: 109). Moreover classifying welfare states our theoretical point of departure is Esping-Andersen’s typology distinguishing between three modes of capitalism: universal, liberal and corporatist<sup>11</sup>. His concept of the welfare models not only considers differences in the institutional aspiration, but also goes beyond referring to the mutually reinforcing interplay between welfare arrangements, the labour market and the family. The concept of different welfare state-regimes by itself “denotes the institutional arrangements, rules and understandings that guide and shape concurrent social-policy decisions, expenditure developments, problem definitions, and even the response-and-demand structure of citizens and welfare consumers” (Esping-Andersen, G. 1990: 80). In this paper three different welfare states the UK, Germany and Denmark have been chosen: representatives of all three worlds of capitalism to analyze the impact of the OMC on the social policy (inclusion) explained by differences in welfare regimes. Below - the explanation of the three worlds of capitalism and their challenges.

### **5.1. The Anglo-Saxon (liberal) model**

The Anglo-Saxon (liberal) model is a “residual form” of welfare system, based on low taxation, designated with little state regulation and flexible labour market (mode: flexibility). The regime is notable for “means-tested assistance, modest universal transfers / social-insurance plans” (Esping-Andersen, G. 1990: 26), low replacement rates, poor family services. Means-tested social assistance is provided in compliance with the principle of less eligibility (conditions of allowance-recipients have to be less favourable than the salaries of the lowest paid labour). Allowance-recipients are mainly a “clientele of low-income, usually working-class, state dependents” (Esping-Andersen, G. 1990: 26). The moral of the liberal welfare cluster is that everyone who can work has to work and living in poverty is the fault of the person rather than the regime. There are strict eligibility rules, modes of benefits and stigmatized social assistance. The labour market is encouraged by the low minimum benefit, low employment protection, low

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<sup>11</sup> to complete this typology two more types have been introduced: the Mediterranean one (Spain, Portugal, Greece), based on low taxation, social provision by the family (Ferrera in Giddens 2007: 9) and the post-Communist one, aiming to develop Western-style welfare states.

minimum wages and high wage disparity. There are also un-coordinated industrial relations with moderately strong unions, decentralized wage bargaining and low levels of collective bargaining coverage. By being in conformity with the market, this regime is expected in theory to prevent poverty traps and long-term unemployment, including female labour participation. As some authors argue (Goul Andersen, J. 2004: 15), in the real world the liberal regime produces poverty rather than social inclusion, as well as counterproductive results. For example they point to unemployment among couples encouraged by perverse incentives from means-tested social security. Moreover, as benefits are thought for the demonstrably needy, the middle classes have been encouraged to opt into the private welfare market while government has sought to strengthen income testing. A shift from needs-tests towards work-conditional benefits has been noted. The so-called conventional social insurance has been seen as a tool preventing social exclusion, in fact excluding workless people and producing downward pressures on wages. Two side effects of the private welfare plans were social dualism and second-order consequences: people living in households with lower income tend to become second-rate welfare citizens. As a result the system has had to be de-comodified vis-à-vis the labour market<sup>12</sup>. In last years there has been an observed poverty problem with the fast growing kind of vulnerable households (lone mothers and young families with children, child poverty). Most experts indicate that in some liberal countries (UK in the 1990s) decline in the unemployment didn't result in the decline of workless households. This trend caused the introduction of the "Third way", a new policy transforming the liberal regime in a social investment state, neo-liberal hybrid regime with strong commitment to social investment. Enterprises came to favour universal old-age pensions alleviating the replacement of elderly worker and preventing a competitive advantage. Hence, social protections mitigated some of the adverse effects of the labour market (Esping-Andersen, G. 1990: 41-44).

## **5.2. The conservative-corporatist type**

The conservative-corporatist type is defined by the strong association between employment and social right, based on payroll contributions (mode: social security type). Rights continue to be attached to class and status, the chief (male) breadwinner

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<sup>12</sup> De-comodification is defined here as „the degree to which the various welfare states permit people to make their living standards independent of pure market forces“ (Esping-Andersen 1990:3)

model is prevalent, providing generous income replacement. The system is notable for the strong job protection and quite high minimum wage. According to experts (Lindbeck and Snower in Goul Andersen, J. 2004: 16) all above mentioned criteria lead to the fact this welfare regime has “low labour-market flexibility and tend to produce strong insider / outsider divisions”. This model is family-oriented (“the preservation of the family-hood” by Esping-Andersen, G. 1990: 27), discriminatory against women and the young, people with less than full-time employment and a long contribution record. The outcome of a conservative welfare cluster is mainly described by low labour force participation, high reliance on early exit and a low development of both private and public services producing new workplaces. Such welfare regime relies heavily on social insurance, while “private insurance and occupational fringe benefits pay a truly marginal role” (Esping-Andersen, G. 1990: 27). The social insurance is employment-linked, providing the chief (male) breadwinner with stable, lifelong employment. According to the analysis of Esping-Andersen (Esping-Andersen, G. 2003: 16) there is a question about adequate social security for outsiders of the labour market (women) and workers with irregular carrier, namely arising difficulties in accumulating sufficient pension credits. To reduce financial shortages in pension, the tax on employment is growing, pricing the young and low-skilled worker out of the market. Further Esping-Andersen points to difficulties arising from attempts to strike a balance between maintenance of passive income and guaranteeing strong employment for male breadwinner-model. Material instability, as well as number of non-conventional households has been significantly increased in last times. The conclusion is that strong protection of the stably employed combined with huge barriers to labour market entry has, in many corporatist welfare states, fostered a “deepening abyss between privileged insiders and precarious outsiders”. Moreover, the overly transfer-biased social policy is an ineffective response to social exclusion, because of vulnerability of the welfare model to employment stagnation and to high inactive rates. As a matter of fact, employment among women and older workers is getting a precondition, “sine qua non” for long-term sustainability. The problem arising here is welfare without work, where job growth on the market is made difficult because of high wage floors and contribution burdens, as well as fiscal constraints in public services.

### **5.3. The Nordic welfare regime**

The universal type, also called social-democratic or Nordic welfare regime, is based on high taxation (i.e. 53% in Denmark) and extensive job opportunities provided within the welfare state (mode: flexicurity). This welfare regime is marked by high minimum wages, generous social benefits that encompass public care services with an egalitarian character. There could be differences in the employment protection, but the economic protection for unemployed is by itself high. Civil rights are based on citizenship, are “individualized, rather than family-oriented” (Goul Andersen, J. 2004:15). This fact explains the domination of unemployment benefits towards means-tested social assistance. Challenging a big problem of high costs and taxation there has been a deliberate attempt to minimize means-tested assistance; but not favour dualism they were upgraded. . Benefits are still based on earnings (there is substantial equality in earnings), private insurance market is underdeveloped because of universal character of public social protection. Relevant for the labour market and social policies is the dual-worker model (high female labour-force participation). The welfare is notable for the fact there is a minimal social exclusion caused by poverty and long-term unemployment. The duration of benefits is unlimited, conditional however on participation in trainings programs, following strict mobility requirements. The unemployment in low-skilled jobs is significantly higher as in the liberal model. Next challenge present immigrants and the policy of recognition, inclusion in terms of dual-worker model and labour affiliation. There is a stronger “role allocation” than in the conservative welfare model. Actually the problem of integration of ethnic minorities / immigrants has become one of the hot topics in all three welfare regimes, challenging national states to launch adequate measures. And last but not least, one of the biggest challenges of the universal welfare model, its Achilles’ heel as it were, is financing (fiscal and budgetary constraints) and the consequent need to expand private sector jobs to compensate for losses in public sector employment. In other words, there is hard choice between liberalizing private services (wage inequality) and continued adherence to wage equality, under conditions of budget constraint, implying more unemployment. The answer of this challenge was the introduction of the “active labour market” policy, aiming to evolve as much as possible citizens, including vulnerable groups.

#### 5.4. Three worlds of capitalism in European context

All three welfare models, being ideal types, describe partly the situation in the chosen countries. In the reality there are no pure models, rather “mixed economies” with hybridized forms, especially in light of outcomes of the reforms in 1990s. For example, the UK is supposed to be a “residual” welfare state, dominated by markets, but its net taxation is about the same as that of Germany. Moreover, according to Centre for European Reform (Barysch 2005), medicine in the UK is the most “socialized” in Europe. This classification helps only to “anatomize” the different problems and various responses which could arise in the described clusters. Of course, there are also common problems for all 3 regimes: international competition, ageing population, gender mainstreaming, de-industrialisation. The OMC has to give new dynamic at the national level to solve these problems to “recalibrate prevailing social policy profiles” (Zeitlin / Trubek 2003: 121) and achieve effective citizenship. Thus, the modifying processes are to be analyzed at the national level and in the context of national MS as constituent part of the EMS. The OMC should assist them in learning from one another how to reconcile full employment, social cohesion and budgetary stability through a continue cycle of contextualised benchmarking, peer review, exchange of good practices (Zeitlin / Trubek 2003: 16). No doubt, this diversity makes adherence to the benchmarking “best practices” hard to operationalize. There is also ambivalence about mutual learning: it is easier to “borrow” mechanisms / policies from members of the same institutional family, having the same problems of adjustment. On the other hand, as most experts agree (Zeitlin / Trubek 2003: 12), “hybridity” of modified systems “appears to work in their favour in achieving a system-wide search for a new, economically viable, politically feasible, and socially acceptable profile of social and economic regulation”. To finish this chapter the words of “the mother of the OMC<sup>13</sup>” should be quoted: “Diversity in Europe should be treated as an asset (a natural laboratory for policy experimentation) rather than as an obstacle to integration”. The practical application should be studied by certain MS to evaluate the outcomes of benchmarking.

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<sup>13</sup> Maria João Rodriguez (Zeitlin, J. / Trubek, D. M. 2003: 17)



## **6. OMC in Social Inclusion in UK, Germany and Denmark**

### **6.1. The United Kingdom**

#### **6.1.1. Institutional and political context**

The macroeconomic fundamentals of the UK economy have been positive since the introduction of the first NAP/inclusion and the prospects remain good. Although, the economy, like all other EU economies, confronted in recent years the increased pressure from the processes of globalization and has been challenged by sustained rises in oil prices, weak demand in the Euro area and subdued housing market, the GDP has expanded for 55 consecutive quarters, the longest unbroken expansion ever. Moreover, the UK economy enjoys a sustained and stable economic growth (2,44 % on average for the period 1996-2005), which has been above the growth of the Euro zone (1,8 % on average for the same period) for 10 consecutive years.

Concerning the area of social policy, all employment indicators are positive and show progress. UK enjoys one of the strongest labour markets in the EU, combining macroeconomic stability with labour market reforms, which helped create and sustain high levels of employment and low levels of unemployment. The UK is among those with highest employment rates in the EU (71,7%) exceeding the Lisbon target of a 70 % employment rate by 2010. The country has also exceeded the other two core Lisbon goals. A female employment rate of 65,9 % and a 56,9 % are above the Lisbon targets of 60 % and 50 % respectively.

Considerable progress on other social indicators has been made in recent years.<sup>14</sup> Along with the number of people and in particular of the children living in jobless households, the overall at-risk-of-poverty rates have been reduced. The social protection expenditure has risen in nominal terms and considerable results have been achieved in the area of education. However, promoting inclusion is not a matter for central Government alone. The success of the UK's inclusion strategy depends crucially on the contributions of local authorities, the voluntary sector, the social partners and individuals working in

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<sup>14</sup> A more detailed analysis on the progress of selected indicators is presented in sub-chapter 4.2. Progress on key indicators for social inclusion

their own communities (UK NAP/incl.2001-03:1). This statement of the UK Government enlightens its vision for the future of the entire NAP/inclusion process.

It is important to note that after the constitutional reforms of 1999, UK is no longer a unitary state. The UK Government provides economic management, tax and benefit system (strategic planning). The day-to-day work is assigned to the different devolution settlement of Scotland, Wales and Northern Ireland. The field of poverty and social exclusion is mostly reserved for the devolved administrations (UK NAP/incl.2001-03:33), where they carry the main responsibility and develop their own strategies, designed to best respond to their particular circumstances. The Scottish Parliament elects the Scottish Executive, which focuses on its responsibilities for education, health, housing, social work (UK NAP/incl.2001-03: Annex A). The National Assembly for Wales has secondary legislative and administrative powers (UK NAP/incl.2001-03:Annex B) in relation to a wide range of functions including economy, agriculture, education and training, health and social services, environment and culture. The, in December 1999 established Northern Ireland Administration, including the Assembly as well as the First Minister, the Deputy First Minister and the Executive Committee of Ministers share responsibility for major social and economic policies (UK NAP/incl.2001-03: Annex C), although the decision making in some policy area with impact on poverty and social exclusion remain within the authority of the UK Government (such as National Minimum Wage, Taxation, etc.). The local governments deliver many of the services, which promote inclusion: they advise on translating European guidelines by setting specific targets and adopt measures taking into account national and regional differences provide experience in delivering structural funds programmes and transnational cooperation projects, etc.

The success of the policies across the UK depends therefore on a joint and complementary work of the different tiers of the Government. The UK Government is working in partnership through the Joint Ministerial Committee on Poverty which includes Ministers from the UK and the devolved administrations. To achieve this aim and to learn from good practices they develop different approaches to tackle similar problems. The Scottish Social Inclusion Network advises the Executive's Social Justice Ministers and help the co-ordination between different sectors to promote social inclusion in Scotland. Membership in the Network have community representatives, members of the public, private and voluntary sector. The National Assembly for Wales

set up a policy board (this includes Assembly ministers and officials, representatives from other governmental departments, the business and volunteer sector, local governments and Assembly sponsored public bodies) to drive forward the Social Inclusion Agenda and to ensure effectiveness and crosscutting implementation of its Communities First Programme.

The Office of the Deputy Prime Minister has been responsible for social exclusion and neighbourhood renewal since mid 2002. This was seen by some as bringing together core areas of the government's anti-poverty work – but by others as downgrading it from Cabinet Office or prime ministerial status (Bradshaw and Bennett 2003:51). Several central governments' units have an input to policy and practice for disadvantaged areas (in England) and there appears to be some confusion at the local level, with service providers struggling with the volume of central initiatives.

### **6.1.2. Strategic Approach**

The first UK NAP on inclusion is constructed around the four objectives<sup>15</sup> from Nice, upgraded later at Copenhagen European Council (UK NAP/incl.2003-05:20): facilitating participation in employment and access by all to resources, rights, goods and services, preventing the risk of exclusion, helping the most vulnerable and mobilizing all relevant bodies. Widely shared opinion among scholars (Bradshaw and Bennett 2003:2-3) is that the UK rather incorporated its already existing strategies to fight poverty and social exclusion into this newly created tool – the NAP/inclusion, than creating something completely new as a programme. However, this NAP process has brought changes into the already existing programmes – some were re-shaped, others re-focused and amended by newly created programmes or piloted projects in certain areas.

There is also no doubt that the 2003-2005 NAP/incl process has involved much more participation by the policy actors. Although the central Government is primary responsible, it works in close co-operation with the local authorities, voluntary organizations, Learning and Skills Council and private partners. Local governments have a duty to produce community strategies. Local authorities (community leaders,

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<sup>15</sup> The four objectives agreed upon at the Nice European Council 2000

employers, service providers and experts) have crucial role in promoting social inclusion by maintaining and building effective partnership between central and local governments. Furthermore, they (LA) interpret and implement nationally framed measures to best suit their local areas. LA play unique role in bridging the EU dimension down to local level (advising on translation of EU guidelines into domestic policies). An important role in tackling social exclusion, play the trade unions (UK NAP/incl.2003-05:62-71). The Trade Union Congress for example recognizes a network of Unemployed Workers Centers, which help some of the poorest people get jobs and benefits. The Government along with devolved administration has been building a dialog with representatives of NGOs, local governments and others, including people with direct experience of poverty. An important forum for this continuing dialogue has been discussions, in the form of meetings and workshops between 6 and 8 times per year, between officials and the Social Policy Task Force (SPTF), an ad hoc NGO umbrella group constituted to discuss NAP issues (UK NAP/incl.2003-05:62).

However, NGOs are now demanding a clear mechanism to ensure output from this dialogue (EAPN 2005:25) as well as sufficient funding for several of the most involved NGOs.

Along with other positive developments, the positive perception of the cooperative work between the Government and other actors is worth mentioning. The UK EAPN network believes that it has had some impact, though limited, on policy priorities due to the NAPs inclusion '03-05 process (EAPN 2005:19), which can be seen as a step in the right direction.

The third round of NAP ('06-08) provides a new way to support engagement across government and with the voluntary and community sector (VCS), with links created between NAP and other processes, in particular the transnational exchange projects (UK NRSSPSI 2006-08:4). The Social Policy Task Force (SPTF) has played a key role in developing this process of co-operation. A key recommendation of the working group was the utilization of the Get Heard toolkit results as an information source for the development of NAP 2006. The NAP process has supported some mutual learning across the UK and is beginning to show the possibility of policy transfer across the EU (UK NRSSPSI 2006-08:42). In the policy area of over-indebtedness and in-work

poverty, the NAP process has supported policy development. The Government considered the development of a formal stakeholders group<sup>16</sup>, which would give the NAP process a clearer legitimacy, and seeking new ways of providing support for the participating NGOs. The UK anti-poverty NGOs have regular dialogue with the social exclusion team responsible for the European social inclusion agenda (DWP). Meetings are now well established and civil servants from other Departments and from the new Social Exclusion Task Force are invited to meetings (EAPN 2006:27-28).

### **6.1.3. Key Policy Measures**

Most of the policy measures, highlighted in the first NAP on social inclusion, such as the New Deal (UK NAP/incl.2001-03:5), the co-location of Social Security Offices and JobCentres launched in Northern Ireland in 2000 – 2001, which evolved as an equivalent to an already existing similar initiative in another part of the UK called Jobcentre Plus (Büchs p.201; also Bradshaw and Bennett 2003:15) and different forms of Tax Credit, were already existing and de facto in force by the time this action plan emerged. Others like New Agency Jobcentre Plus basically combined services previously delivered by the Employment Service and the Benefit Agency, without changing the content of their work. The ‘truly’ new measures included some modest changes like the Working Tax Credit (Bradshaw and Bennett 2004a: 27), originally called Employment Tax Credit, targeted at separating in-work subsidy from means-tested help with the costs for children (in force since April 2003), ‘making work pay’ measures, among which is the National Minimum Wage, which was increased from October 2003 (Bradshaw and Bennett 2004a: 26-28), but remains strongly criticized for its lack of inbuilt up-rating mechanisms, extension of disabled people’s rights of access to services under the Disability Discrimination Act (enforced October 2004), and the establishment of national disabled people’s parliament with 180 elected members reflecting both geographical and cultural diversity (Bradshaw and Bennett 2003:54).

The NAP/inclusion 2003-05 showed evidence that some of the criticism of the previous plan has been taken on board with a broader reference to the roots of social exclusion and the examination of a wide range of policy areas. There is also a more open approach

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<sup>16</sup> In spring 2006 the stakeholder group was officially launched. It contains different departments, representative of devolved government, municipalities and NGOs.

to the involvement of a broader range of actors in the preparation and monitoring of NAP, the recognition that people with direct experience of poverty have much to offer is beginning to transform the UK's approach. The UK is among those that most consistently and systematically set quantified targets (in the second NAP'03-05) derived from the priorities and objectives. UK comprehensively set targets (100) across a wide range of policy domains covered by the Common Objectives (CEC 2004:44).

Among the new initiatives falls funding for local authorities to support language training and wider employment integration initiatives for refugees provided by the National Asylum Support Service (CEC 2004:44). Moreover, two new tax credits launched in April 2003 provide better financial support for families, tackle child poverty and make work pay. These are Child Tax Credit and Working Tax Credit. CTC and the childcare element in the WTC will be paid directly to the main carer (often the female) in the family, which contrasts with the Working Families' Tax Credit, which was paid to the main earner in the family (UK NAP/incl.2003-05:35). The major trend is toward more tailored policies (Bradshaw and Bennett 2004a: 9-10), targeting specific groups and particular purposes. Among these are the announced new measures to encourage lone parents (expected in 2004/05) as well as an extension of the national minimum wage to 16-17 year-olds from October 2004. The Digital Inclusion Strategy (in Northern Ireland), which ran from 2003 to December 2005 and the Public Internet Access Point Initiative (in Scotland) are an answer to the exclusion of some population groups (young people in deprived areas, in lower socio-economic groups, etc.) in particular areas from access to computing technology and internet access (UK NAP/incl.2003-05:48).

Important changes are noticeable, concerning the last NAP/inclusion (2006-08). After five years the strategy has been streamlined at European level so that the social inclusion, pensions and health strategies are now integrated as three parts of a single National Strategy Report on Social Protection and Social Inclusion (EAPN 2006:4).

The Act will enable Jobcentre Plus and local authorities to work together effectively to ensure that all families on benefits and those on low incomes are able to benefit from the ongoing expansion and improvement in early-childhood services. The LinkAge Plus, a pilot programme based on the principles of service delivery developed for children in Sure Start programme to ensure service that is locally owned, joined-up,

non-stigmatizing, accessible and economically effective has been created. This brings together a range of services designed to meet the local area needs (UK NRSSPSI 2006-08:33). Among the new programmes is City Strategy, a pilot initiative in the cities to support jobless people, especially the most disadvantaged, into work. Its aim is to test whether a local consortium, or partnership of agencies, can provide the drive and focus for cross-agency efforts to help jobless people. It is a bottom-up approach which looks to empower the local area through the opportunity to put forward proposals to government about how employment related services should be delivered locally, based on their knowledge of their area and the key priorities for action (UK NRSSPSI 2006-08:45). Other measures, targeted at breaking the cycle of deprivation include legislation to create a unified multi-agency approach to children's services - More Choices: More Chances (UK NRSSPSI 2006-08:24), aimed at reducing the proportion of young people not in education, employment or training. In April 2005 the Government launched Connecting the UK: the Digital Strategy<sup>17</sup> aiming to ensure that society benefits from digital media and information communication technology. The local e-Government programme is also working to ensure that all local services can be delivered through electronic channels. A Digital Inclusion Team works to develop the potential of digital technologies to benefit the socially excluded (UK NRSSPSI 2006-08:36). The government has set up an Office for Disability Issues (ODI) focusing on helping disabled people to achieve independent living, supporting families with young disabled children, facilitating a smooth transition into adulthood and improving employment incentives for disabled people (UK NRSSPSI 2006-08:37-38). However, priority for the government remains the implementation of the new legislation (UK NRSSPSI 2006-08:38), requiring all public bodies to promote equality of opportunity for disabled people.

On the UK level the fight against social exclusion reached a new impetus with the appointment of a Minister for Social Exclusion and a Social Exclusion Taskforce (UK NRSSPSI 2006-08:41). The Social Exclusion Action Plan launched in the autumn of 2006 focuses on tackling social exclusion of vulnerable groups on a number of levels. It will also examine how the systemic reforms across public services can improve the delivery of services to those most at risk of exclusion. Specifically, it proposes new incentive models to support early interventions, cross-agency working, information sharing and the spread of best-practice early interventions.

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<sup>17</sup> [www.strategy.gov.uk/downloads/work\\_areas/digital\\_strategy/digital\\_strategy.pdf](http://www.strategy.gov.uk/downloads/work_areas/digital_strategy/digital_strategy.pdf)

#### 6.1.4. The Impact of OMC / incl. on the UK in terms of quantity indicators

In general, the UK economy has ever shown considerable advantage against EU average rates on employment indicators. This, to a larger extent, can be explained with the typology of its ‘welfare state system’<sup>18</sup> characterized by supply-side macroeconomic policies and ‘hire and fire’ work relationships (Ebbinghaus 1999:12-26 and Scharpf 2002). The situation in the UK labour market can further be explained with the active labour market policies and work focused approach combined with integrated labour market and benefit services (UK NAP/incl.2003-05:6), which have positive impact on keeping the long-term unemployment in the UK at levels around one percent in the last years.

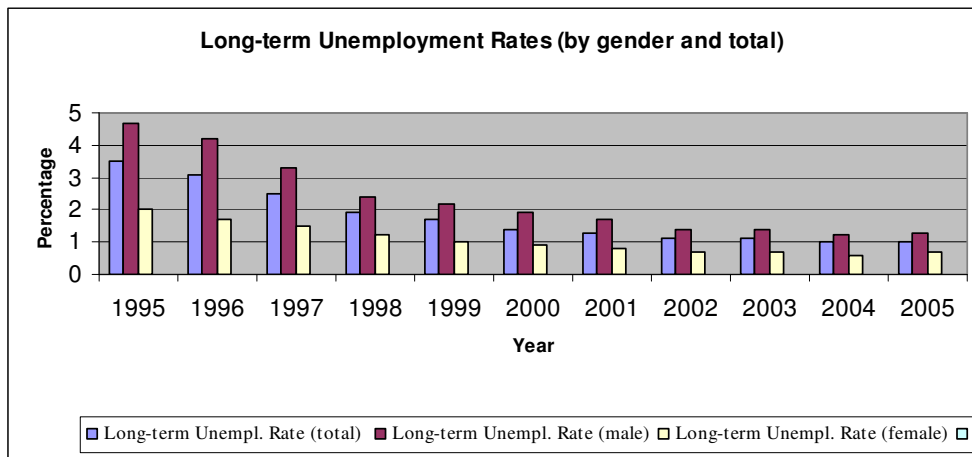


Figure 2: Long-term Unemployment Rates in the UK (1995-2005); Source: Eurostat, 2007

There is still some concern in the gender division of labour, although the above figure illustrates atypical labour market situation, with female long-term unemployment accounting to half of the male long-term unemployment rates. A partner can still only gain access to employment services via the other partner’s status (Bradshaw and Bennett 2004a:17) whereas help is not available for those with partners already in paid employment, even in cases when they are on in-work benefits or tax credit. The government main focus is on reducing dependence on the state (Bradshaw and Bennett 2003:17), focuses more on work incentives for the first earner in families, whilst the work incentives seem to have been reduced for the second earners (Brewer and Clark 2002).

<sup>18</sup> For a more detailed analysis on the different ‘welfare state systems’ see Ch. 5



Expenditure on Social Protection show a clear downstream trend (except 2000 and 2001), which over a ten-year period between 1995 - 2004, decreased by almost two per cent, to 26,3 per cent of GDP. Even so, there has been increase in nominal terms, taking into account the unprecedented ten year consecutive growth of the UK's economy. This development is in line with the attempts of the UK Government to significantly reduce social protection expenditure, a large part of which is ascribed to pension transfers, through shifting this burden to the private sector.

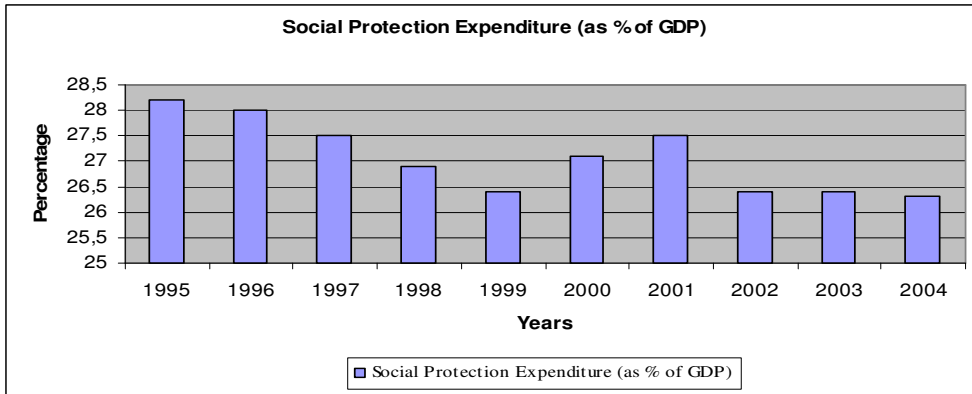


Figure 3: Social Protection Expenditure in the UK (1995-2004); Source: Eurostat, 2007

At-risk-of-poverty rate is one of the leading indicators on poverty; part of the initial list of 18 indicators agreed upon at the Laeken European Council (2001) and is since then amongst the primary indicators measuring social inclusion (CEC 2004:225; Atkinson et al. 2005:42). This illustrates the share of persons with an equivalised disposable income, after social transfers, below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income. For the purposes of this essay, a distinction by gender and age on this indicator would allow for clearer illustration of the most vulnerable groups.

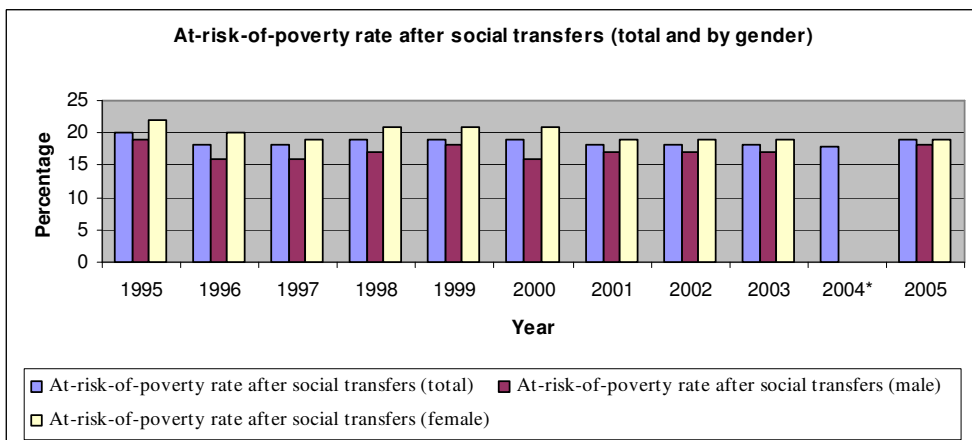


Figure 4: At-risk-of-poverty rate after social transfers in the UK (1995-2005)

Source: Eurostat, 2007 (\* information for 2004 not available)

It is obvious from the chart above, that females are on average more prone to fall under the poverty threshold, which can be explain by the fact that most of the lone parents in the UK are female and by the stronger negative impact of parenthood on female employment (CEC 2005c:39/47/64). There is a strong relationship between ‘at-risk-of-poverty’ and ‘living in jobless households’ indicators. Although the percentage of children at-risk-of-poverty fell below that of ‘above 65 years old’ in the last three years included (fig. 5), they are still overrepresented, the reason for this being the considerably high level of children living in jobless households (fig. 6).

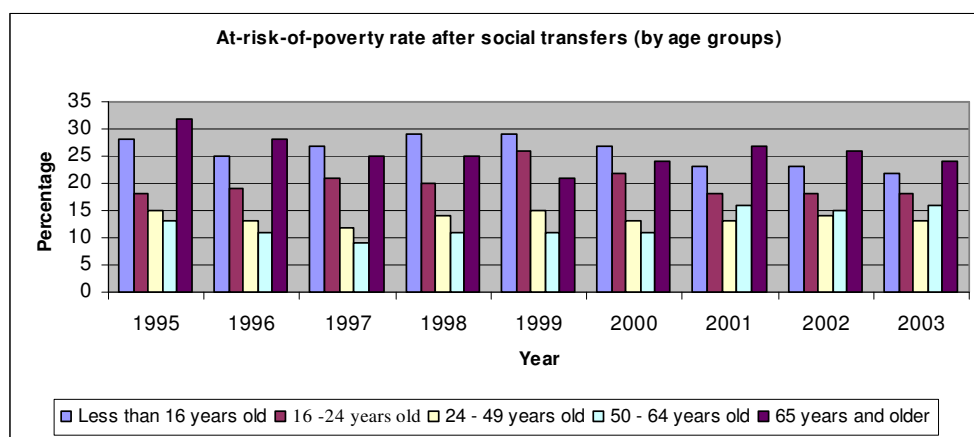


Figure 5: At-risk-of-poverty rate after social transfers in the UK (1995-2003); Source: Eurostat, 2007

Closely connected with the at-risk-of-poverty indicator is the number of people living in households in which nobody works (Fig. 6). Despite the ever-widening scope of the anti-poverty programmes’ coverage in the recent years’ governmental plans targeted at reducing these figures, this is still an issue in the UK. Although, noticeable progress has been made since the Labour Government came into office in 1997, the percentage of people living in jobless households remains above the EU average for ten consecutive years. These discrepancies are even wider for the children living in jobless households. The reason for this being the high share of lone parents in the UK (Bradshaw and Bennett 2003:56) and the low levels of employment among them.

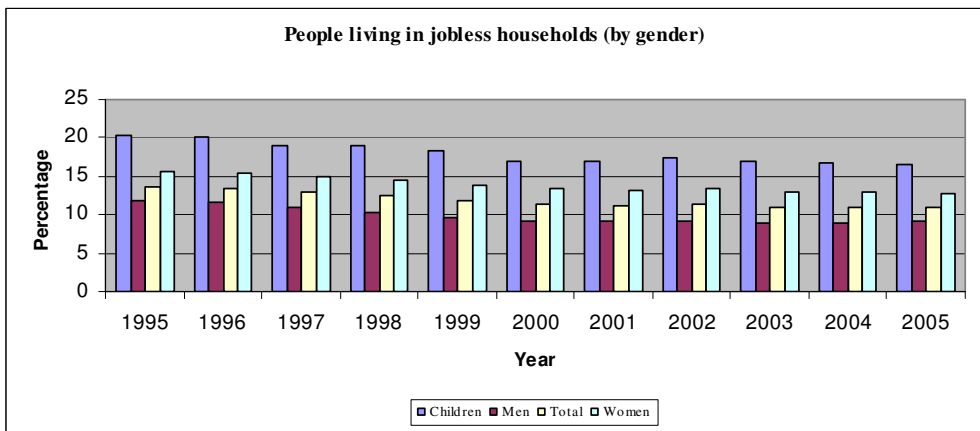


Figure 6: People living in jobless households in the UK (1995-2005); Source: Eurostat, 2007

Amongst the fields, where the UK Government can claim having a decisive influence is the strategy to reduce the share of early school-leavers and thus breaking the cycle of deprivation. The pilot scheme of means-tested educational maintenance allowance shows definitely increased participation (positive results and therefore has been extended nationwide from 2004) in post-16 education amongst young people from low-income families (Ashworth 2002).

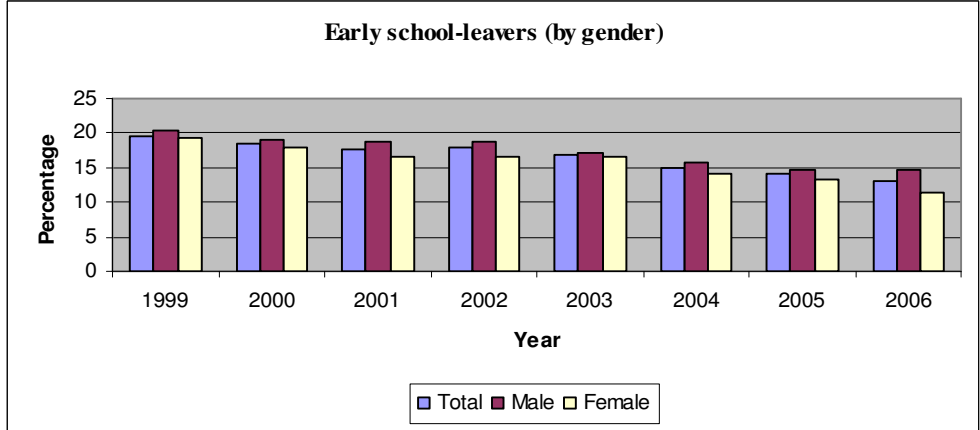


Figure 7: Early school-leavers in the UK (1999-2006); Source: Eurostat, 2007

Although, the fight of the Government against social exclusion of children can be seen as delivering good results (UK is persistently ahead of EU 15, and is even widening the gap), there is still concern that factors such as social class, gender and poverty are still barriers to participation (Bradshaw and Bennett 2004a:35).

### **6.1.5. The Impact of OMC on the UK in terms of quality indicators**

This first round of NAP/inclusion process has been strongly criticized. These critics vary from claiming the UK NAP/inclusion that it only reported on existing policies and did not announce any new ones, presenting little data on gender mainstreaming and little evidence of involvement of NGOs on national level, Social Partners and people in poverty (CEC 2002) to alleging it as being very far from the action plans promised by the Lisbon strategy (EAPN 2003:9) and the Nice objectives, needed to achieve the Lisbon goal of *making a decisive impact on the eradication of poverty and social exclusion by 2010*.

While the above critics have been more general, others went beyond the criticism line, accusing the Government of presenting a re-packaged and re-labeled policy (McLaughlin 2004:36), which was not and is not an anti-poverty strategy (McLaughlin et al. 2003) as Northern Ireland's anti-poverty strategy. Originally, TSN emerged in the early 1990s from a set of conflict management rather than anti-poverty concerns. The initial idea for this was that it is a policy aimed at renewing the political support as part of the Equality and Human Rights Agenda in the Peace Talks leading to The 1998 Northern Ireland Act. The 1998 Act re-launched TSN as New Targeting Social Need (NTSN) and attempted to ensure implementation through new bureaucratic procedures and practices (McLaughlin 2004:37).

Duffy (2002) concluded that the UK failed in the co-ordination of local, regional and national policies on social inclusion (Duffy 2002) and the weak involvement of sub-national authorities in the NAPs process was such that UK failed to address objective four, 'to mobilize all actors'. Northern Ireland and Wales actors had not been mobilized and by 2002 neither the Welsh nor the Northern Irish Assemblies had agreed indicators of poverty or measures of the success of anti-poverty policies or sub-national NAPs.

There exist objective reasons for the failure of the first NAP/ inclusion, among which the short time for the preparation, the lack of previous experience of the Department for Work and Pensions concerning cooperation and partnership with external actors, as well as the fact that the independence of the four jurisdictions sets serious obstacles for smooth work. However, particular developments that the NAP/incl. process can claim some responsibility for, are the new kind of cross-cutting/cross-governmental review

that emerged and is now being more systematically used in the annual *Opportunity for All* reports (Bradshaw and Bennett 2003:3-4), and that the NAP process has in a way required the different jurisdictions to get back together again which will eventually lead to a more productive relationship between the UK national government and the devolved administrations both in policy and monitoring (Bradshaw and Bennett 2003:2).

While the first UK NAP/inclusion (2001-03) was an adaptation of the annual *Opportunity for All* report, the second one (2003-05) was a much more original and substantial document (Bradshaw and Bennett April 2004:3). The NAP 2003-05 comprises six chapters, the first three of which represent a strategic overview, including definition of poverty and social exclusion, discussion of key trends, risks, indicators and targets. Further, a discussion of most relevant responses (Chapter 4) and analysis of the relevant institutional arrangement and relationships (Chapter 5) is presented. Finally it reports on some UK 'good practices' that could be shared with EU partners. In order to fulfill the needs of NAP preparation processes, the Office for National Statistics has launched, among others, a new Neighbourhood Statistics Service, with a wide range of ward-level information available.<sup>19</sup> A clear sign for change provoked by the NAP is the changed understanding by policy makers and their different approach as of how the new policies will be developed and delivered. This new approach describes five completely new or reshaped steps important part of which is the intention to bring together those affected by social exclusion and those on whose efforts the success of the policy will depend. Furthermore, the links between the government actions at all levels and the important role of the voluntary and community sector is emphasized. Information is gathered mutually from people who have experienced poverty, and from NGOs which support them. This allows the government to find out what works well, to identify problems and to plan more effective participation in the future. It will also make the policies more concrete and more focused on people's needs.

Recently, the government has introduced a simplified system of area-based incentives, including reduction of the funding streams, mainstreaming the lessons from different programmes such as Sure Start and merging Education Action Zones and Excellence in Cities. In 2002, the Participation Working Group (PWG), which includes people with

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<sup>19</sup> [www.statistics.gov.uk/neighbourhood/home.asp](http://www.statistics.gov.uk/neighbourhood/home.asp).

experience of poverty and of participatory working have devised a toolkit, called Get Heard (UK NRSSPSI 2006-08:42), to promote participation in debate on the NAP (Bradshaw and Bennett 2004b:32). To ensure the effective implementation of the policies, a cross-departmental cooperation was envisaged. Supported by newly established units (Children and Young People's Unit, Neighbourhood Renewal Unit, the Rough Sleepers Unit, a.o.), which aim was to bridge the gaps in the working and implementation process a partnership of service providers from all sectors was established on local level. In addition, a more focused approach to social exclusion was developed, which aims to put a new emphasis on the link between economic and social policy through making tackling of social exclusion a priority in spending reviews and Budgets. This all could not be effective of course, without setting clear measurable targets and timetables for what programmes are to achieve and assigning responsibility for their achievement to someone.

Some of the most marginalized and stigmatized groups are excluded from the labour market or unable to access it and some are excluded from benefits or living on benefits inadequate to sustain decency and dignity. They are amongst those most at risk of severe long term poverty and exclusion: asylum seekers, refugees, some migrants, undocumented workers and people in bad jobs, long-term unemployed, older retired pensioners and households living in poor and isolated environments (EAPN 2005:16).

Despite all described changes and the progress made, no clear evidence can be found that these positive developments and the fight against social exclusion have, somehow, been influenced by European Policy Initiatives or inspired by similar policy plans through the open method of co-ordination. All these achievements can rather be assigned to the natural development in the UK Government's social policy plans over the years

#### **6.1.6. Challenges and future development**

One of the key challenges faced by the NAP/inclusion process is to establish clear linkages between budgets and policies and programmes as well as to enhance the political visibility of the NAPs inclusion (EAPN 2005:20). The NAP on inclusion must be closely coordinated with the NAP on employment and both plans should be read

together to get a fuller picture of the measures being taken to combat social exclusion through participation in the labour market (CEC 2004:46).

Apparently anti-poverty priorities are being driven by European processes and this is a major impact of the OMC. Its processes have increased inter-departmental contact, but there are practical difficulties and time required to institutionalize contact and achieve mainstreaming (EAPN 2006:25). On the other hand the European funding has had broad impact. The policy priorities and measures evident in most reports (child poverty, active labour markets, access to services and integration of migrants) appear to be a consequence of European policy priorities and exchanges. Policy measures for certain risk groups – e.g. long term unemployed and Roma - are clearly also driven by the European Social Fund and for Roma by the impact of the JIMs (Joint Inclusion Memoranda) process. Promotion of social and civil dialogue has clearly been an impact of European funding (EAPN 2006:22).

The NAP may so far have had more influence on process in the UK than on policy-making (Bradshaw and Bennett 2004a:9). It is still difficult to tell how much influence will help embed a broader culture of participation. It is also difficult to know as yet how much influence participation will have on the content and priorities of future NAPs.

## **6.2. Germany**

### **6.2.1. Institutional and political context**

Different from UK, which belongs to the Beveridge-type<sup>20</sup> of welfare states, Germany has an employment-centered system of social protection, which is based on various social insurance schemes, providing insurance against the major life risks – old age, illness, invalidity, the need for long-term care and unemployment – and as a last resort safety net, on the right for residents in Germany to social assistance (cf. Heise 2005:202). Under such circumstances, those without work and unable to afford the various insurance costs are at the risk of exclusion from this protection system and thus

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<sup>20</sup> The Beveridge-type can be divided into Anglo-Sachsen model, including UK and Ireland, and Scandinavian Model. In case of UK the benefits are based on the principle of need-oriented and financed by tax instead of Bismarck-type, which are based on the principle of salary-dependent insurance and financed by worked-related contributions (cf. Heise 2003:41).

mainly relied on social assistance which cannot help them escape from poverty in the long run. Nevertheless, Germany has a distinct institutional setting composed of complementary arenas.

Germany's institutional setting in fighting poverty and social exclusion is characterized by three arenas, namely the federal arena, the sub-national arena including the Länder and local authorities, and the civil society arena (cf. Buechs/Friedrich 2005: 275-279). The federal arena dominated by governmental actors who initiate and shape the whole process and have the final political responsibility. The sub-national arena plays an essential role especially in the scattered social policy field because "bringing in the Länder and local authorities is a precondition for the success of the NAP/incl." (EAPN 2002:64). Legislative competencies "are in principle with the Länder unless the constitution stipulates the competence for the federal level or declares shared competencies" (Müller 2002:41, quoted in Büchs/Friedrich 2005:276), which is the case for social policy (Article 74 Basic law). The responsibility of securing a social balance in living conditions belongs to the local authorities, which undertake their tasks by securing the social infrastructure either through direct provision or delegation to the six welfare associations<sup>21</sup> which account for about two-thirds of social provision in Germany (Büchs/Friedrich 2005:276). Additionally, the civil society arena obtains a crucial position due to the importance of the subsidiarity principle in Germany's social system. Therefore, the sub-national actors question the potential "top-down" imposition of the NAP Inclusion. In spite of this suspicion, NGOs such as EAPN National Networks feel that the NAP/incl. "lay out a more strategic approach to poverty than in the past" (EAPN 2003: 9).

During the three rounds of NAP/incl. from 2001 to 2006, the political context of Germany has experienced a paradigmatic shift from social-oriented SPD to economic-oriented CDU due to the unsatisfied economic performance of Germany in the first half decade of the new century. However, the crucial turn of political atmosphere taken place long before the administrative shift in October of 2005. Since March 14, 2003 Chancellor Schröder announced a series of reforms (Agenda 2010)<sup>22</sup>, which aim at improving economic growth and thus reduce unemployment. The measures taken resemble Thatcherism in terms of big cuts in the cost absorption for medical treatment

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<sup>21</sup> Diakonisches Werk; Caritas; Deutscher Paritätischer Wohlfahrtsverband; Arbeiterwohlfahrt; Deutsches Rotes Kreuz; Zentral Wohlfahrtsstelle der Juden in Deutschland.

<sup>22</sup> The development of Agenda 2010, see ([http://en.wikipedia.org/wiki/Agenda\\_2010](http://en.wikipedia.org/wiki/Agenda_2010))



and drastic cuts in pension benefits and in unemployment benefits alike. Although the term Agenda 2010 is not mentioned by Merkel's government frequently, the language of supply-side and market-oriented reform still dominate political discourse.

### **6.2.2. Strategic Approach**

In order to combat the main challenges of social exclusion and poverty, the major strategy is to increasing participation in the labour market. In Germany, participation in working life is viewed as a measure of achieving the goal of social inclusion, where the emphasis is put on education and training. This 'social inclusion discourse' emphasizes inclusion through paid work, combating economic exclusion (exclusion from labour market) rather than social exclusion (Amstrong 2005:252). The strategic approach behind is to activate and to promote ('fördern und fordern'). The first round of NAP (2001-2003) adheres explicitly to the concept that each person has to be more responsible for him- or herself and at the same time his or her participation in social life has to be secured. The second round of NAP (2003-2005) links the fight of poverty to improvement of people's capabilities to lead the kind of life that they value. Strengthening personal responsibility and existing potentials is regarded as a main strategy for the future and protection against poverty and social exclusion.

The NAP 2003-2005 sets out a broad-ranging strategy to secure the active participation of all citizens in social life. This is to be achieved through *education* and *employment policy*, *better work-life balance* and *appropriate social services*. The extensive update of the NAP that was submitted by the Federal Government in 2004 describes the concrete decisions and measures that the Government has taken in these four areas with its initiative "Agenda 2010". The 2005 Implementation Report provides a detailed overview of the steps taken since 2003. However, the impact is especially difficult to evaluate, because the strategy lacks clear quantified targets in relation to social inclusion and as major Agenda 2010 reforms have not been mentioned again since 2006.

Instead of following Agenda 2010, the NAP 2006 highlights the situation of children and families, the position of immigrants and access to the labour market for women. It identifies seven political priorities for 2006-2008, namely enhancing labour market

participation, reducing disadvantages in education and vocational training, modernizing child and family policies to eradicate child poverty, improving the integration of immigrants, fighting discrimination against disabled people, strengthening the role of social services and civil society and improving governance (cf. BfAS 2006)

With regard to improving governance the ‘Report on Poverty and Wealth’ (NARB) is especially deserved to analyze. It is a comprehensive compendium of social data, orientated towards the life course concept, which, however, lacks concrete policy proposals and targets. Despite this, there is broad agreement among German social policy scholars that the NARB represents a first and important step towards a federal commitment to combat poverty and exclusion (Büchs/Friedrich 2005:267). The publication of the first governmental Report on Poverty and Wealth (NARB) in April 2001, emphasizing the multidimensionality of the phenomenon of social exclusion, was an important step towards a more substantiated public discussion. The NAP also tries to establish a link with the ‘Report on Poverty and Wealth’ (NARB) in order to establish an analytical and empirical framework for a policy against social exclusion (CEC 2004:158). From the first NAP/incl. in 2001, the cooperation between federal government, Länder and NGOs has continuously improved. This improvement is largely attributable to the parallel process for producing the NARB. A ‘Permanently Advisory Workshop on Social’, representing 35 important stakeholders, has been established (CEC 2006:45).

### **6.2.3. Key policy measures**

Since the first round of NAP (2001-2003) there is a continuity of priorities in fighting poverty and social inclusion, namely (1) integration into the labour market and qualifications, (2) reconciliation of work and family life, (3) assistance for the most vulnerable groups and (4) improved efficiency of the assistance schemes by making them more targeted. However, the deficiency common to the first and second round of NAP (2003-2005) is that quantified targets and monitoring mechanism capable of measuring progress were less developed and insufficiently operational (CEC 2004:158).

In 2003 “Agenda 2010”, which centres on the implementation of overcoming economic weakness, mass unemployment (Hartz I-IV laws) and structural deficiencies in social

security systems gained its political salience in Germany. The aim of combating poverty and social exclusion became subordinate to labour market reform. Therefore, it is not surprising that the NAP/employment is considered to play a significant role in tackling poverty and social exclusion. In order to enhance the labour market participation of low-qualified workers, immigrants, older workers and young people, a number of measures are planned and or partially implemented. Integration through work has become a leading principle of fighting poverty and social exclusion in Germany. Against this background, the Commission reminded Germany that the impact of the Hartz IV legislation as of 1.1.2005 does not lead more people into poverty should be ensured (CEC 2006:39). However, the 2005 Hartz IV reform package is not yet fully implemented. The new administrative structures responsible for supporting the long-term unemployed (ARGEs) have not been delivering a satisfactory level of service, as a recent report by the Federal Court of Auditors has revealed (CEC 2007:44).

In the reporting period of 2003-2005, the reduction of the persistent high youth unemployment has been a priority. Special programmes at Federal and Länder level contributed to the reduction of the rate of unemployment youth. In view of the lack of apprenticeship places, industry and government agreed on a 'National Pact for Training and the Next Generation of Skilled Craftsmen' in June 2004. The programme "FörMig" aims to improve the reading and writing of children. For the transition from school to the labour market, the Federal programme, EQJ (Einstiegsqualifizierung Jugendlicher), helps disadvantaged young people to qualify for apprenticeship.

The channel through family policies to combat poverty and social exclusion is twofold. On the one hand, to facilitate the reconciliation between work and family life enhance the participation of women in the labour market by means of strengthening childcare. Child-Day-Care Expansion Act which entered into force on 1 January 2005 is an example, which aims to expand childcare facilities by 230,000 places mainly in West Germany by 2010. On the other hand, single parents with many children have an especially high risk of poverty (CEC 2005b: 5). As section 1 has mentioned, the children living in jobless household have high risk of poverty. Thanks to the reduction of the tax burden for families the poverty risk rate of families has risen somewhat less than that of households without children (CEC 2005b:15).

For the immigrants, the language ability is viewed as a crucial access to improve the possibility of participation in the labour market. According to the NAP (2006-2008), the language courses for newly arrived immigrants will be continued and given an added value by revising the system of immigrant counseling agencies. Individual migrants have access to these services for the first three years after arrival in Germany. In 2005 115,000 people started language courses, approx. 29,000 have already completed them and have thus giving themselves better access to education and work (CEC 2006b:15). The Immigration Act of January 2005 aims at a structured and easier integration of immigrants into the labour market and in all aspect of life. It is complemented by numerous initiatives at Länder and municipal level.

With regard to eradicating discrimination against disabled people the four European Antidiscrimination Directives were transposed into German law in 2006. Furthermore, the existing comprehensive measures integrating people with disabilities were given improved legal frameworks at Federal level and Länder level (BfAS 2006:27), whereby the strengthening of the integration of disabled people in social working life should be improved. The compulsory implementation of a budget in 2008 for each person in rehabilitation empowers disabled persons to organize their personal pathways back into society through appropriate measures (CEC 2007:45).

#### **6.2.4. Challenges ahead**

Different from the case of UK and Denmark, Germany must deal with its persistent high **regional disparities** between West and East Länder and the people with **immigrant** background. According to the ECHP, Germany is among the Member States with the lowest at-risk-of-poverty rate. In 2001, 11% of the population lived in households below the national poverty line (EU 25:15%). However, German national data show higher poverty rates in the Eastern Länder (16% against 10% in the Western Länder) and for holders of foreign passports (22% against 10% for Germans) (CEC 2004:158). The reduction of regional disparities remains a challenge, due to the fact that persistent unemployment rate especially in East Germany is high, where complementary strategies for preventing social exclusion remain important, and that the progress of integration of immigrants, eradication of child poverty, especially in East Germany remain unsatisfied. A strong correlation between parental social status and educational success

exist, hence, creating better opportunities for group at risk by facilitating access to education is of high importance (CEC 2006b:44). All in all, the major concern is how to strike a balance between efficiency and justice while pursuing economic growth and protecting the most vulnerable people at the same time.

### 6.2.5. The impacts of OMC/incl. on Germany in terms of quantitative indicators

In respect of social expenditure as percentage of GDP in Germany in period of 1996-2004, the percentage fluctuated around 29 percent and arrived at its peak in 2003 with 30.2% well above EU average (EU/15: 27.7%; EU/25; 27.4%). These guarantee to people who do not have an adequate income the basic resources for meeting their economic, social and cultural needs.

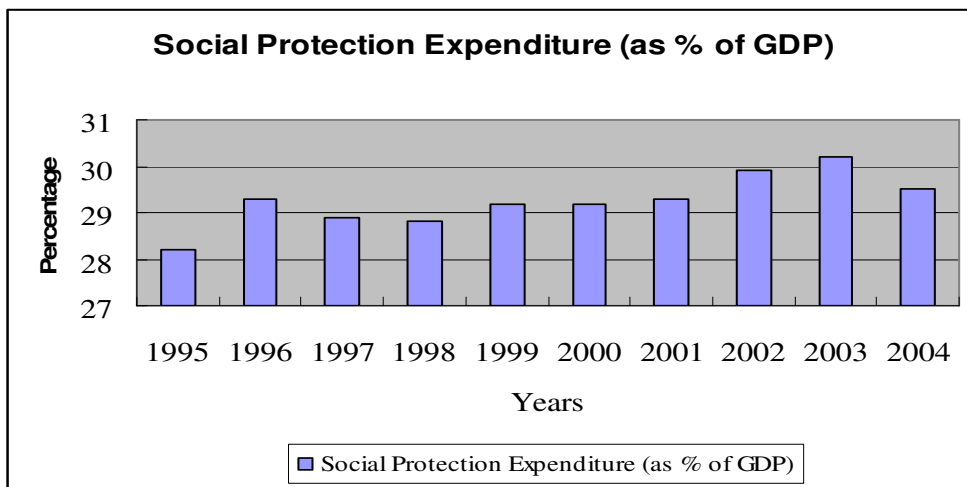


Figure 8: Social Protection Expenditure in Germany (1995-2004); Source: Eurostat

On the other hand, the Federal Government's second Poverty and Wealth Report reveals that the poverty risk rate has risen slightly from 12.1 % (1998) to 13.5 % (2003). The data of Eurostat (Figure 9) demonstrates that the overall **risk-of poverty rate** deteriorated from 2001 to 2004 and rose to its peak (16%) in 2004.

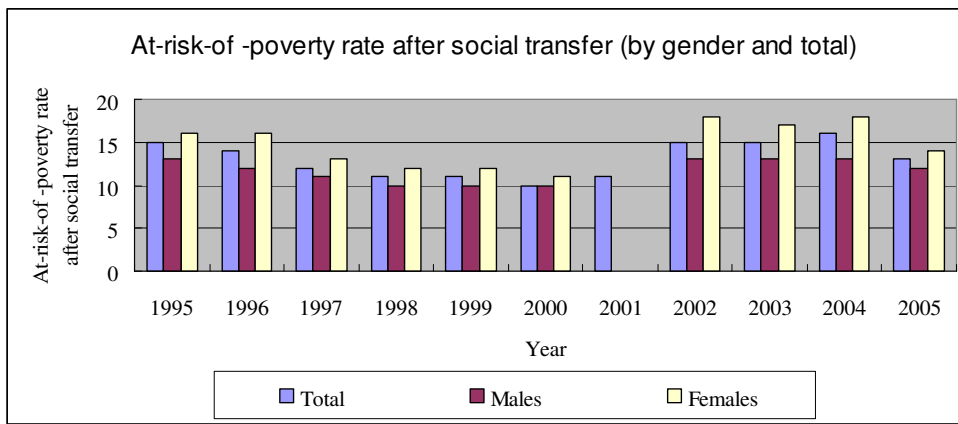


Figure 9: At-risk-poverty rate after social transfers, by gender in Germany (1995-2005); Source: Eurostat

According to national data of Germany, the poverty risk rate in East Germany, at 19.3%, is higher than in West Germany (12,2%)(CEC 2006:44). The poverty risk of immigrants rose from 19.6 % to 24.0 % between 1998 and 2003, thereby being significant higher than that for German citizens. The Government of Germany argued that “the resultant lack of domestic economic dynamism has been a major factor in social inequality” (Germany 2005:4-6).

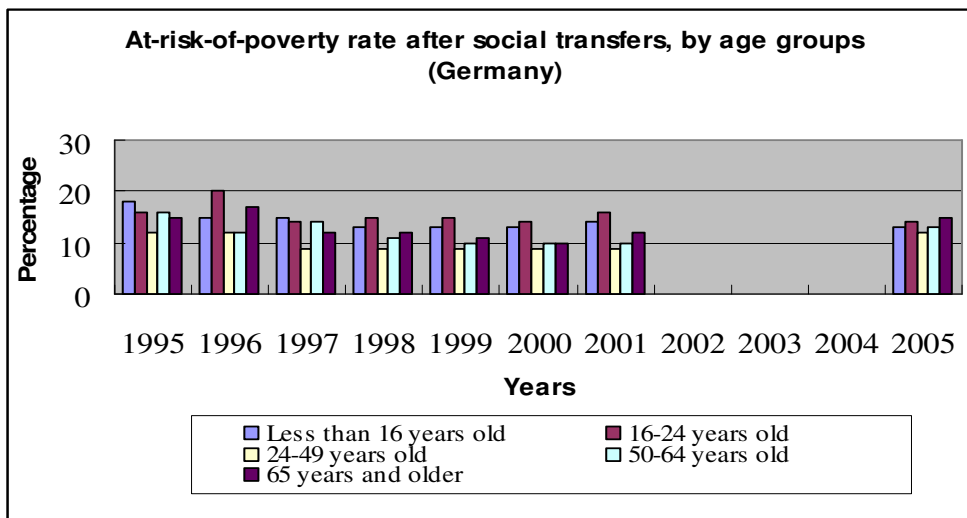


Figure 10: At-risk-poverty rate after social transfers, by age group in Germany (1995-2005) Note: data from 2002 to 2004 is not available. Source: Eurostat

As figure 10 shows, it is clear that the age group of 16-24 years old and the group of 65 years and older are the two groups suffer from poverty severely. Despite the statistics of 2002-2004 is absent on Eurostat data base, the experts of EAPN (2005: 9-10) provide some important information. They compare the risk of poverty by age in 2003 in Germany and UK, the two Member States with different unemployment rates and

different pensions system. Where pensions are relatively low, as in the UK, older people are more at risk. The fact that young people are more at risk of poverty in Germany could be correlated to a higher unemployment rate (in the UK the rate of unemployment for people under 25 is 12.1 %, this rate is 15.1% in Germany).

However, the at-risk-of-poverty rate is insufficient to demonstrate the multifaceted nature of poverty and social inclusion, which is in reality composed of several problems at the same time, such as long-term unemployment, income poverty, homelessness, drug or other addiction, liability to criminal punishment and poor health. Therefore, the other data should be taken into account. After examining the poverty from perspective of monetary indicators, the following deals with indicators relates to access to labour markets, namely **long-term unemployment rate** and **people living in jobless households**.

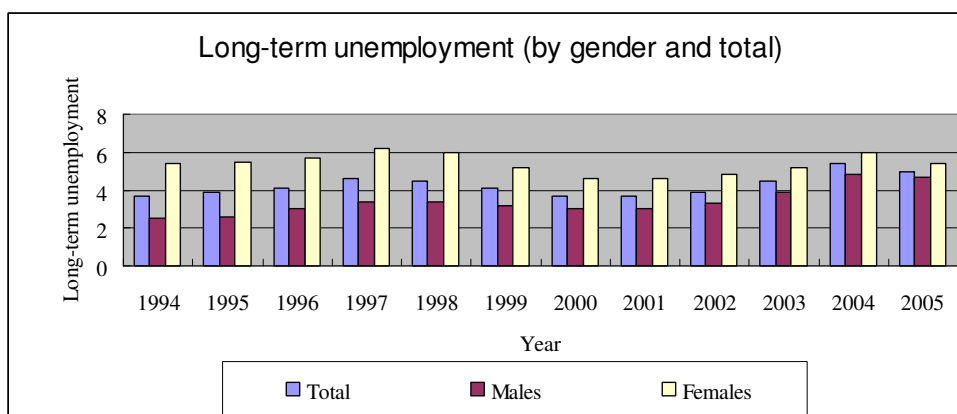


Figure 11: Long-term unemployment rate, by gender in Germany (1994-2005); Source: Eurostat

Since the beginning of the Lisbon decade, the situation on the labour market has been tense due to economic development. In 2005 the unemployment rate was historically high (11.7%). The challenge of German labour market is especially reflected in the high proportion of long-term unemployed (unemployed for 12 months or more): 36% of all the unemployed were long-term unemployed, 19.4% of the unemployed had even been unemployed for at least two years. According to the data of Eurostat, the number of **long unemployment rate** rose from 3.7% in 2001 to 5.4% in 2004 and stood at 5% in 2005 (EU 25 average: 3.9%). National data show that from September 2005 to September 2006, the number of long-term unemployed increased by 5.3%, to 1.6 million people. Long-term unemployment is not only a major poverty risk and could

also have long-term influence as the people concerned enter into pension age (BfAS 2006:11).

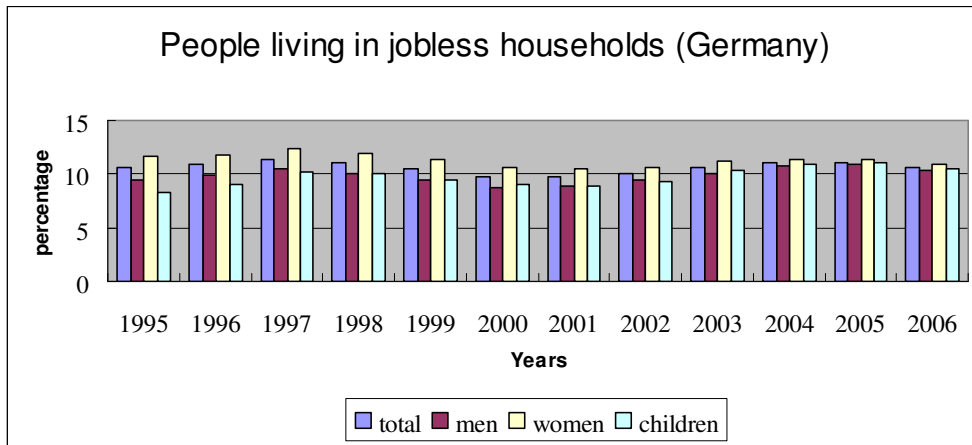


Figure 12: People living in jobless households in Germany (1995-2005); Source: Eurostat

The strong correlation between parental social-economic status and the educational attainment of children has been confirmed by recent studies. An OECD study of May 2006 shows in particular that the educational attainment prospects of immigrant background are only 50% of those of comparable native children (cf. CEC 2007: 43).

As an indicator of non-income aspect of social exclusion, **early school-leavers** relates to those aged 18-24 who have only secondary education. Against the background of transforming into a knowledge society of Germany, this indicator reflects the proportion of people under qualification and thus at risk of becoming jobless. In spite of efforts in expanding the educational system, the data (see Figure 13) reveals a deteriorative development. The percentage of early school leavers rose from 12.5% in 2001 to 13.8% in 2006. Worse than an insufficient qualification, 9% of the young people every year do not attain any school-leaving qualification and are at risk of not being integrated at work (BfAS 2006:11).



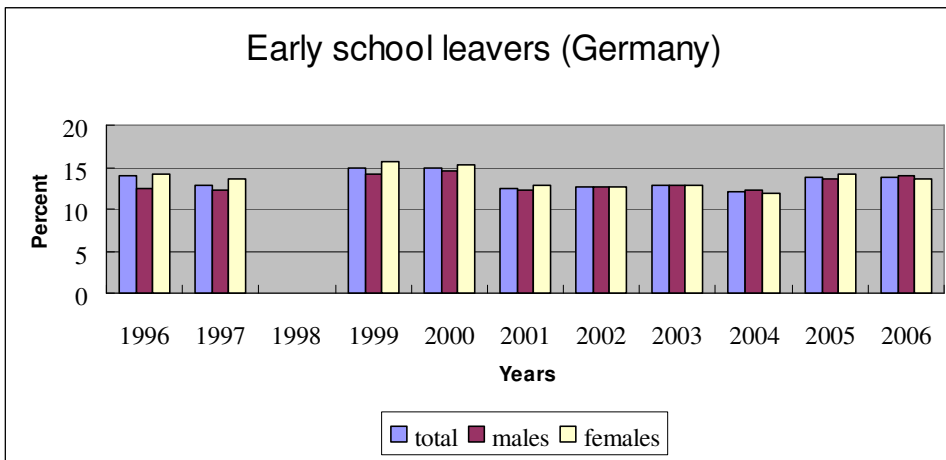


Figure 13: Early school-leavers in Germany (1996-2006); Source: Eurostat

Long-term unemployment, regional factors and immigrant background, empirically speaking, has a close connection with the risk of poverty rate. However, it should be mentioned that low income is only one aspect of poverty, which should also include access to employment, housing, health care and the degree of satisfaction of basic needs. To sum up, the trends of quantitative indicators are hard to explain the substantial impact of the OMC method because the progress as a whole is ambiguous, while the qualitative indicators analyzed in the next section will help to analysis the OMC's influence on procedural developments in Germany

#### 6.2.6. The impact of the OMC/incl. on Germany in terms of quality indicators

In the period of 2001-2006, numerous new legislation, programs and measures were introduced. These should help Germany make progress in fighting poverty and social exclusion. However, it is arbitrary to argue that such progress can be attributed to the OMC exclusively, even though section 3 has demonstrated several key policy measures in the three rounds of the NAP reports. The reason of the difficulties to evaluate the impact of the OMC on Germany is that the public actors primarily seek to meet the requirements of the NAP in order to fulfill a “tiresome task” (Büchs / Friedrich 2005:275). Instead of using NAP as an instrument to activate new policy or as a channel through which good practice of the other countries can be learned, the NAP is at risk of becoming a purely bureaucratic exercise. Nevertheless, some progress should be mentioned regardless of to what extent the correlation between these progress and impact of the OMC is guaranteed.

First of all, as regards newly introduced legislation, the Job-AQTIV Law, and the four laws for the promotion of employment and reform of the financial support for the unemployed (Hartz I-IV), are presented as responses to the main labour market challenges, which, however, confronted with great protest among the German people. The Immigration Act of 2005 strengthens the integration of immigrants, including integration courses and pilots projects.

Another impact of the OMC on Germany can be argued is that it makes the issue of poverty gain attention in Germany. In 2001, the first NARB ( Nationaler Armuts- und Reichtumsbericht) was the first ever official admission by the German Federal Government that poverty and exclusion exist, even though it was regarded as a graveyard for data (Büchs / Friedrich 2005:275) and the authorities which prepare the NARB and the NAP are separate. However, during the preparation of the second NARB, which was published in 2005, it brings the policy dimension through the incorporation of the NAP/incl into the NARB in which new statistical data have to be produced.

It is obvious that Germany remains focused on its own domestic agenda (for example, Agenda 2010) and its policy choices are not directly influenced by the OMC<sup>23</sup>. The poverty and social inclusion obtains low political salience in Germany (Friedrich 2006: 18). The NAP merely provides a framework for reporting its own policy at European level. The NAP is regarded as a tool of reporting rather than a tool of policy formulation and inspiration. An evidence to support this argument is that no references are made to the experiences outside the boarder of the country, implying that the purpose of mutual learning did not function. The circulation of best practice information occurs within the border of Germany.

Nevertheless, the OMC process has given the social NGOs opportunities to participate in preparation of the national NAP. The intensity and extent of the participation of civil actors in preparation of NAP can improve the effectiveness of polices, since in Germany local actors and social NGOs are the main implementers. The participation of non-

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<sup>23</sup> This point of view is not only an impression of the authors but also expressed by the Germany's reply to an evaluation questionnaire on the OMC in the fields of social inclusion and adequate and sustainable pensions. It is said that "Germany did not feel that the OMC had directly impacted on national policy choices" (CEC 2006a: 7).

governmental actors is seen as a very important condition for solving social problems. Ironically, it is the social NGO that criticize the newly NAP policies heavily<sup>24</sup>.

### **6.3. Denmark**

#### **6.3.1. Institutional and political context**

In Denmark the state has the supreme responsibility for domestic policy-making in matters of social policy / social inclusion, while the local authorities manage administrative tasks in the field of social affairs as close as possible to the citizens and counties are responsible for health matters. The Danish policies are built on a well-developed tripartite system, satisfying the participation of social actors / stakeholders through the strong institutionalized social dialogue at all three levels: central, regional and local levels. There is a well-developed network of social NGOs, social partners, closely co-operating with local authorities. The know-how of the Danish social policy of recent years is decentralization of the responsibilities towards the country's municipalities, performing "dual role of local self-government and units of local state administration" (Jacobsson, K. 2005: 110).

Due to the neo-liberal reforms undertaken in 1990s by the national government, nowadays Denmark considers itself as one of the best performing countries in social inclusion policy trying to influence the EU objectives. The domestic policy of this Nordic state is well in line with the EU targets. This fact explains why the NAP has more descriptive character on current social policy in Denmark. There is no debate in Parliament on the NAPs, special national and EU committees supply all relevant information to this democratic body. The NAP / incl. is produced by the Social Ministry of Denmark with support from the consulting group, relevant Ministries and Agencies<sup>25</sup>, the umbrella group for municipalities and for regions, research and development

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<sup>24</sup> See EAPN (2006) criticizes that the eradication of poverty is losing ground (p.30) and that poverty should be put back on the agenda! (p.33)

<sup>25</sup> the Ministry of Labour, the Ministry of Urban and Housing Affairs, the Ministry of Trade and Industry, the Ministry of Information Technology and Research, the Ministry of the Interior, the Ministry of Health, the Ministry of Education and the Ministry of Economic Affairs (CEC (2001): 9) and Agencies: National Social Appeals Board (Ankestyrelsen), The National Social Security Agency (Den Sociale Sikringsstyrelse), The National Board of Social Services and Special Advice (Styrelsen for Specialrådgivning og Social Service), the Danish National Institute of Social Research (Socialforskningsinstituttet)

institutions, trade union and 25 NGOs. On the whole, the Danish government is very supportive of the idea of the OMC, benchmarking, peer review, at the same time shows ambivalence, not accepting “adaptational pressure from the OMC” in domestic social policy and controlling the process. As to the participation of the social actors, NGOs are consulted on the draft of the NAPs / incl. through a specialized committee for social voluntary work at the Social Affairs ministry. As the Danish Association of Local Authorities and a disability organisation report the NAP / incl. is more open and participatory as for example the NAP / employment (Jacobsson 2005: 128). There is a strong support of civil social actors through the Danish government. One further element to be described in this chapter is the co-operation between local authorities and business network, being one of the traditional “Nordic inventions”. It is logical that an extensive partnership between the local authorities, the Public Employment Service and the unemployment insurance is seen as a tool contributing to insure against social exclusion / marginalization. The social policy aims for active mobilisation of all relevant authorities through implementation of local action plans, as well as establishment of co-ordination committees at the local level. As it was stated in 2000 the aim of the local action plans is setting “goals for the effort and following up on the result” (CEC 2001: 16), to be closer to the affected. These committees consist of different representatives (the Council of Organisations of Disabled People, employee / employers organisations / units) in order to bring a common understanding in the mass, advise the local authorities and “make people self-supporting by re-entering / entering the labour market”, where the labour market is seen as panacea from marginalization and social exclusion. The Danish government has been encouraging not only trade unions and local authorities, but also private enterprises, to exercise corporate social responsibility and thereby involving them in the social dialogue. This tripartite partnership for social inclusion has been a top-down process with a level-headed outcome. It is especially important to underline the success achieved by the governmental campaign “Our Common concern” on CSR, 1994-1995 promoting social cohesion, where the government involved private enterprises due to soft interventions. In the national context it meant to share the responsibility for reducing unemployment. The National Network of Business Leaders was set up in early 1996. This “the Danish Board of Business Executives for Social Cohesion”<sup>26</sup> advised the Minister of Social

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<sup>26</sup>this advisory body is made up of 16 leading Danish companies with impressive records on employing the long-term sick and on training unemployed, like Danfoss, LEGO Group, Falck, Novo Nordisk, Oticon Sparekassen, more detailed information is to be found on [http://www.corporate-citizenship.co.uk/employees/studies/e1/seven\\_denmark.asp](http://www.corporate-citizenship.co.uk/employees/studies/e1/seven_denmark.asp)

Affairs (later the Minister of Employment, due to the structural conversion). At the local level there 5 regional networks of local business leaders have been organized (approx 250 enterprises), advising local municipal government in matters of corporate social responsibility. Even if the CSR is a relatively “soft” tool to contribute to the problem, there has been a noticeable change of public conception / attitude concerning the role of business sphere in social matters. Due to social polls (1996, 1998) most respondents (between 70 and 80%) think that enterprises should take on a social responsibility even in fields that were traditionally the responsibility of the welfare state (Holt 2000: 13).

There are nowadays 5 regional networks in the country, created on the initiative of the National Network, following the principle of the social responsibility at local level and getting financial support by the Ministry of Social Affairs.

### **6.3.2. Strategic Approach**

As one of the leading Scandinavian countries with a social-democratic welfare model Denmark supports the idea of universality, solidarity, inclusive society and gender equality providing social security protection for all citizens fulfilling legal conditions in case of social problems (unemployment, dependency or sickness, old-age).

The main strategic approach for social policy / incl. in the Danish context means “giving people an active life” (CEC 2003: 34), developing an inclusive labour market and providing active social policy. There are two time dimensions to develop this approach: short-term and long-term. On the short-term agenda is the involvement of already socially excluded and marginalised groups<sup>27</sup> (+ migrants, youth) in the labour market. The long-term vision is combined with an demographic development: the structure of employment is expected to change in next 20-30 years challenging Denmark’s quantitative social policies (decrease of labour forces on which income depends, tax payments, and maintenance of the welfare model) and qualitative (an ageing population<sup>28</sup> leads to structural changes in social and health services for elderly).

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<sup>27</sup> These groups are only 1,4 % of the Danish population, but risk of longitudinal poverty is the highest in comparison to other social groups in the country (Tsakoglou, Papadopoulos 2006: 11)

<sup>28</sup> between 2010 and 2040 increase of the Danish population in the 3<sup>rd</sup> age (60+ years) from 23 % to 29 %, as well as increase of life expectancy from 78 years to 82, that’s why the state to increase employment (by 110.000 in 2025 and 125.000 in 2040)

The idea of all Danish reforms now is to increase employment. At the same time Danish NAPs / incl. strong emphasis on non-employment support for people experiencing or at risk of poverty and prepared by the Social Ministry. The problem of eradication of poverty and social inclusion is seen as a multi-dimensional phenomenon in Denmark, spanning different policy areas, involving local authorities, different social bodies, stakeholders, and user organisations in the institutionalised social dialogue.

Comparing the NAPs, there is a qualitative development in the main policies: the first NAP (2001-2003) had a wider focus on the positive effects of active social policy and an open labour market. The main achievements of this period are the creation of sheltered mobile working arrangements, the anticipatory pension scheme and the presentation of a new approach – working capacity method. The second NAP focused on vulnerable groups (substance and alcohol abusers and their families, people with mental illnesses, prostitutes, homeless people, battered women, youth / children with special needs, poorer senior citizens; the long-term unemployed) and immigrants. The underlying idea was to adjust efforts towards personal needs by steady assistance of local authorities, increase user participation, and promote public awareness through voluntary work. The strategic focus on integrating ethnic minorities has not been successful and is to be re-oriented now. Disadvantaged children and youth have been target groups in terms of efforts to fight the intergenerational transmission of poverty, improving early learning among children and extending focus on formal qualification. The strengths of the NAP 2003-2005 is its social segmentation, while its lack of more strategic goals and technical indexes / indicators for monitoring the development make it not effective for subsequent evaluation.

The third NAP 2006-2008 has taken into account weaknesses of the previous two, and includes as well social protection and other policy areas, namely objectives for pensions, health and long-term care. The three aims that the Danish OMC intends to address in near future 1) increasing the employment rate of vulnerable groups, 2) ensuring that all citizens have equal access to a high-quality, efficient health care system and 3) establishing the budgetary conditions for maintaining the present universal pension system (CEC 2007: 33). The integration of ethnic minorities in the labour market is also seen as one of the important aims of social policy, reoriented through reduction of welfare allowances aiming to increase the participation in the national labour market.

From the first NAP/ incl. in 2001-2003, the partnership with a large number of actors has been improved (interviews, consultations on the drafts of a first and second NAP through a formal contact committee for social voluntary work at the Social Affairs Ministry, social network). In 2002 there has been established new action programme “Our Collective responsibility II” directed on developing indicators and technical basis for further evaluation on social inclusion strategy, improving services to socially excluded, housing problems. At the same year the Danish Council for Socially Marginalized People has been created, representing the idea “to be heard”, wake public awareness to problems of socially excluded. The Council has to play an interdepartmental liaison role to monitor the development of governmental policy, propose improvements. However there is no clear confirmation the Council has been created as a monitoring body on NAPs / incl.

### **6.3.3. Key Policy Measures**

Fighting against poverty / providing social inclusion is seen in the Danish national context as a multi-dimensioned phenomenon, covering different policy areas. All three NAPs have been used to prioritize within national policies: create an inclusive society, affiliate vulnerable / socially excluded groups and immigrants; prevent negative intergenerational transmission (family conciliation, tackling child poverty); involve and dialogue with social stakeholders and actors. Since 2006 there is a positive trend in “safeguarding the current high level of protection while satisfying increasing demands for health and welfares in view of the ageing population” (CEC 2007: 34). As to the targets and coordination of achievements from the very beginning (2001-2003, 2003-2005) there has been a considerable lack of current targets and indicators to assess the success of the measures taken on the situation of vulnerable groups. Recognising this deficiency the third NAP (2006-2008) introduced *remedial instruction* (plus institutionalised documental and knowledge-sharing between local authorities), the achievements are to be published only by the end of 2009 to analyze the effectiveness of chosen indicators.

Mentioned in previous chapter the Danish government introduced in the 3<sup>rd</sup> round of NAP a new phase in the national program “Our Collective Responsibility II” (2002)

with focuses on supporting services for vulnerable groups, opening the labour market for them, improving social administration. According to the 3<sup>rd</sup> NAP there are several initiatives aiming at the individual, the workplace and public initiatives. Most relevant reforms have been launched since 2002, being improved in 2005. Demonstrative is the fact, the total expenditure on social inclusion has been increased; however improvements are difficult to determine because of lack of further quantitative information. First of all the finance spending on the supporting disabled people has been increased (new employment initiatives for mentally ill people, budget: 43 Mio €; increase of dwellings for disabled people).

The Danish government has increased financing to several activities for those on the fringes of the labour market: 67 Mio € to activate the long-term unemployed (rates of participation are to be doubled). There has been developed a framework: the pool for social activation, special mentor scheme and temporary working scheme. Positively could be evaluated the idea of a debt remission pilot project (EAPN 2006:9) for vulnerable groups<sup>29</sup>, the outcomes are to wait for. There are relevant action programs for substance and alcohol abusers (treatment guarantee for substance abusers from 2003; and a guarantee of two weeks for alcohol treatment in 2005; “The fight against drugs” in 2003; Action plan for young (under 18 years) substance misusers in 2005).

A lot of new programs combating “material poverty” has been launched improving living conditions: increase of housing and shelters for homeless people, providing 300 temporary local authority offers and 75 alternative care places; urban and housing areas programs aiming at combat poverty<sup>30</sup> (Mai 2004 adoption of the governmental strategy against ghettoisation on the social- and self-assistance basis), since 2002 a new 5-years program “Urban for everyone” (focus on intensive job-finding support for ethnic minorities). Five neighbourhood improvement projects have been initiated, scheduled to run until end-2007.

To prevent intergenerational transmission of child poverty through family conciliation and support, the government published in 2003 “A good start for all children”. Most of programs have been launched now. The financial support for day-care facilities has been increased (€ 268 m. for a 4-year period). Since 2002 the Danish parental leave

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<sup>29</sup> except criminal and tortuous acts

<sup>30</sup> The idea behind is it to stop the flow of socially excluded people into these areas and retain the more well-off residents (CEC 2007: 36)



scheme has been improved, stretching leave duration to 40 weeks. From August 2004 there is a qualitative improvement in all day care institutions: a new learning plan with six themes, which are thought to give children the necessary competencies to cope in society. Of course, it is difficult to evaluate now how relevant the outcome could be in perspective. Another strong point when combating poverty is support of children / youth in disadvantaged families: special effort was given to the school attendance of youth in care and improving of casework in local authorities in 2006. To break the “vicious circle of deprivation” (CEC 2007:33) the long-term welfare agreement<sup>31</sup> was introduced in June 2006, in order to increase the number of pupils in the upper secondary education to 95 % in 2015. There are a lot of mainstreaming projects: establishment of 18 girls’ and women’s clubs. Special challenges are to be made concerning integration of immigrants and their children (e.g. pilot project for “whole-day-schools” in the framework of out-of-home placement reform, in force since 2006).

As for the labour affiliation of the immigrants, of course there are communication gaps (language problems / different social expectations of immigrants towards the Danish cultural room), their willingness to seek jobs and availability of jobs for migrants (also low skilled jobs, which are comparatively scarce, Roseveare 2004: 22). In 2005 the “Act on Teaching of Danish to Adult Aliens” was presented, to ensure that all members of the migrant-family have taken the language course and complete the course with a final test. In 2006 the social partners signed on integration and training positions in the regional and local areas, supporting people who lack language qualifications / professional competencies (CEC 2006c: 27). The next step was establishment of 5 regional knowledge centres in 2004 (to clarify competencies of ethnic minorities and create data bases of skilled workers for local authorities and jobcentres). To challenge the immigrants and activate their job-seeking, the so-called “waiting period” was introduced in July 2002, reducing the level of social assistance for new arrived to the level of allowances offered to students (introduction benefits)<sup>32</sup>. According to private and public studies there has been a little if any impact on the labour market participation, but on the social situation of ethnic minorities negatively evaluated by the Council of Socially Marginalised People. The local authorities / municipalities have to support immigrants / refugees and their families by developing an individual plan

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<sup>31</sup> According to this agreement also the adult and vocational system is to be strengthened.

<sup>32</sup> only those who have lived in DK for seven out of the preceding eight years have the right for the full dimension of social assistance

(directing into jobs or training / education). Also, the Danish business community is addressed through the Versality Programme (2005), “compiling, developing and communicating companies’ good experiences in managing diversely composed groups of employees” (CEC 2006d: 30).

#### **6.3.4. Challenge ahead**

The struggle against poverty in Denmark faces two major challenges: to increase the employment rates through the active labour affiliation of immigrants, to continue to encourage the socially excluded (the programs initiated and described in previous sub-chapters are estimated for the long run) and older workers to stay in the labour market; and to improve and restructure the health and care services for elderly in view of the forecasted ageing of Danes. As the welfare system is based on the tax payments of the active participants in the labour market, employment has a high value in the Danish context, integrating the idea of safeguarding the current high level of social protection. Thus social policy in the Danish context gets another perspective, generally “moving” in the next NAP from anti-poverty priorities in the health and care spheres.

#### **6.3.5. The impact of the OMC / incl. on Denmark in terms of quantity indicators**

By preventing the polarization of the society and securing social and economic cohesion, the state guarantees equal access to welfare for residents, regardless their previous participation in the labour market. Another considerable feature of the Danish welfare model is its egalitarian character, combining steady economic growth (real GDP growth 3% in 2006) with a comparatively equal distribution of income. This distributive primarily **tax-financed** system explains why Denmark has one of the lowest income gaps in the OECD: both the Gini coefficient for income distribution (24,7 % in 2004, UN HDR 2006: 335) and the income ratio (8,1 %) are among the lowest in the EU. The effectiveness of the social model is also confirmed through the fact that the country has the lowest risk of poverty rate in the EU, as well as monetary poverty (12% compared to the EU-15: 16%), also a low persistent poverty rate (6 %, CEC 2002: 154). In last years (2004, 2005) there was no statistical disparity in poverty rates between two genders (aggregated indexes, not considering relative poverty).

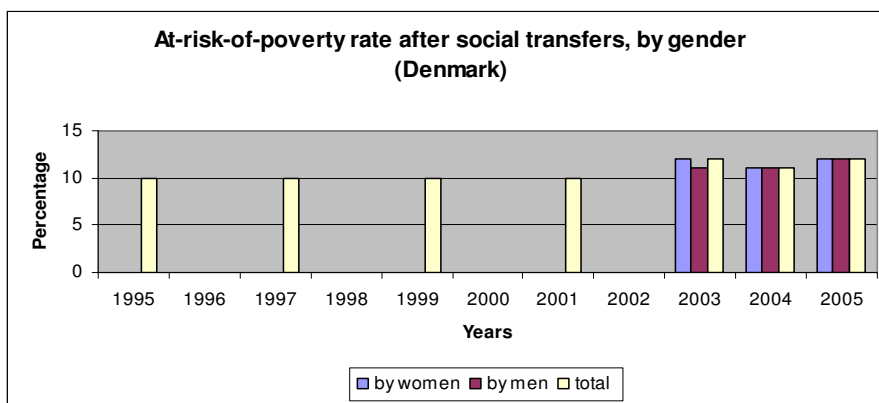


Figure 14: At-risk-of-poverty rate after social transfers, by gender and total in Denmark (1995-2005)  
Source: Eurostat<sup>33</sup>

In the three year period 2002-2004 national social protection as a percentage of GDP rose steadily, being one of the highest in the EU (30,7 % of GDP in 2003, 2004; compared to an EU-15 average 27,3 % in 2004). However it is meaningful to mention the quality of social transfer income being criticized for falling half of percentage point behind wage gain each year, reducing the level of income replacement provided by social benefits (EAPN 2005: 15). Nevertheless this ratio is much less compared to the data in the UK and is effective mitigating poverty.

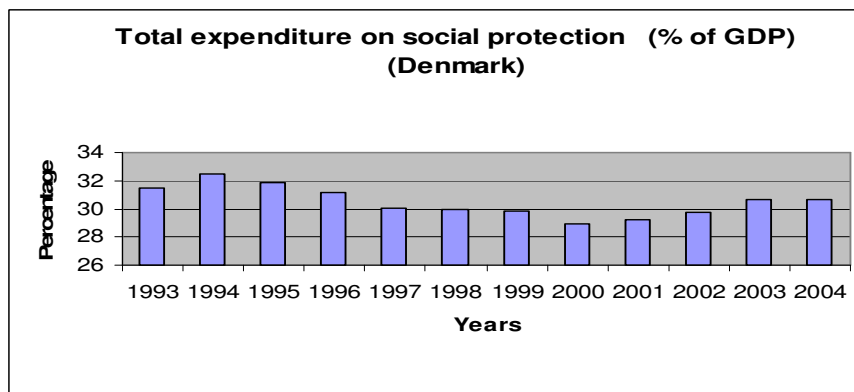


Figure 15: At-risk-of-poverty rate after social transfers, by gender and total in Denmark (1995-2005)  
Source: Eurostat

To measure risk of poverty it is also important to take into consideration housing conditions, health care, as well as access to labour market. In the Danish national context, quality of life is directly associated with an active working life, reducing social marginalisation. Employment rates in the country<sup>34</sup> not only reached, but noticeably exceeded the Lisbon and Stockholm objectives: 75,9 % in 2005; particularly high for

<sup>33</sup>Until 2003 no data for genders available

<sup>34</sup>Period between 1999-2002 is called a “Danish employment miracle”: official quote of unemployment decreased from 12,5 % to 5%.

women (71,9% in 2005) and older workers (59,5% in 2006)<sup>35</sup>. *Such high employment rates could be explained through the “flexicurity model” for the labour market “borrowed” from Sweden “combining flexible rules for hiring and dismissal, a relatively high level of unemployment benefits and social security as well as a comprehensive active labour market policy” (NRP 2006: III).* Most households in Denmark are protected against poverty. The main challenge of the Danish social policy is to maintain the high level of social protection. The inclusion of socially disadvantages / excluded is seen as the real target of the 2<sup>nd</sup> and 3<sup>rd</sup> Danish NAPs Incl. (2003-2005, 2006-2008). Analyzing poverty and social inclusion in Denmark, there could be defined several groups among the most vulnerable people.

There is a strong correlation between poverty and age: **young people** between 16 and 24 years are overrepresented in the low income brackets. According to the data of Eurostat, from 2003 to 2005 the quota rose from 21% to 29%. One of the explanations for high rates could be found in the Demographic Research (2006: 43): home-leaving at an extremely early age, where high proper earnings are unlikely to be at the disposal to protect against poverty. The second affected group from the figure 16 (includes **older people**, 65+ years) is the worst off compared with the median income in the population (at-risk-of-poverty-rate: 18%, 2005). The recipients get 70% of the median income (gender difference is very small). Through the statutory pension schemes the risk of poverty for elderly people is held at moderate level.

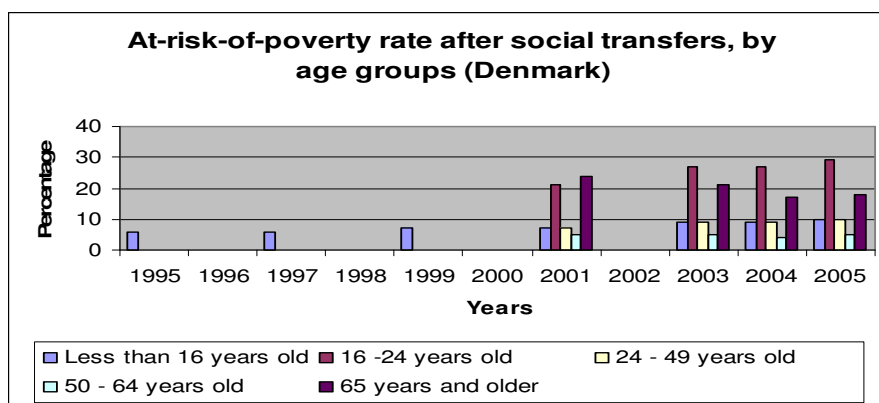


Figure 16: At-risk-of-poverty rate after social transfers, by age group in Denmark (1995-2005)  
Source: Eurostat

<sup>35</sup> *At the same time the average number of hours worked is still relatively low compared with the EU average, AoNRP 2006:1, what essentially degrades the “quality” of employment*

The indicators for **long-term unemployment**<sup>36</sup> rose by 0,2 % in the period between 2001-2005 from 0,9 % to 1,1 % (women: from 1% to 1,2 %, men: from 0,8 % to 1 %; EU-15 total average: 3,9 %). Many of the long-term unemployed are young women, a large number of whom are of foreign origin.

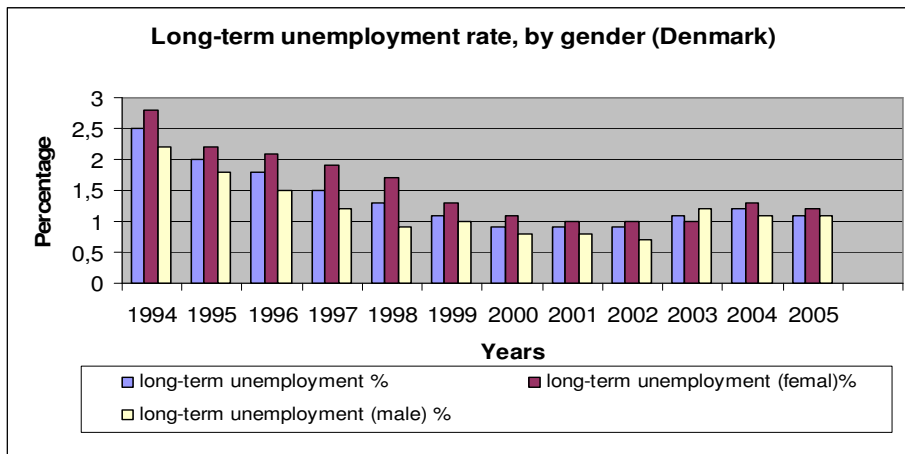


Figure 17: Long-term unemployment rate, by gender in Denmark (1994-2005); Source: Eurostat

**Immigrants** are one other group at risk to be poor. The employment rate among immigrants (16-64 years old) is still insufficient (48% employed of non-western-immigrants in comparison to 76 % of Danes, 2005). Language problems, as well as the peculiar character of the Danish labour market (incompatible professional skills and qualifications) are still seen as obstacles to successful adhesion to the labour market. Those receiving introduction benefits (insufficient to cover living costs) create a new underclass – primarily of refugees (Caritas Europa 2006: 37).

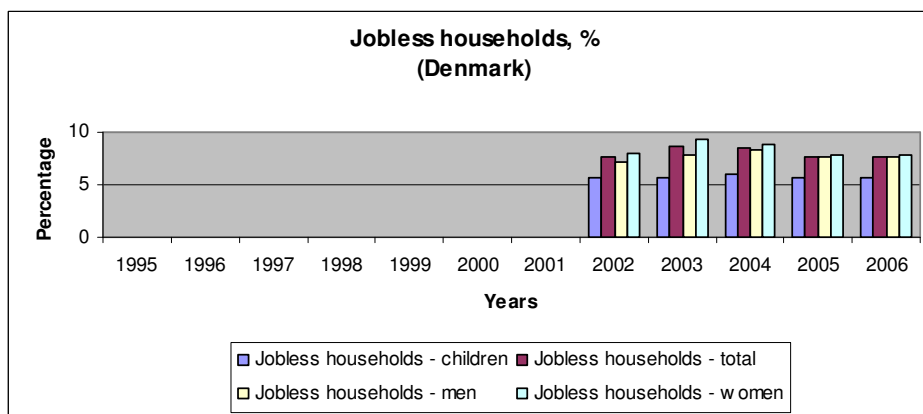


Figure 18: Jobless households in Denmark (1995-2006); Source: Eurostat

<sup>36</sup> The risk of poverty by unemployed is only 13% (2005).

Another group of socially excluded with high risk of income poverty, financial stress, housing and health problems are **people living in jobless households** where no one works. Especially “sensitive” in this situation are jobless households with dependent children, where the poverty risk is as high as 63 % compared to a risk of 30% in those without children<sup>37</sup>. There is a positive improvement in the situation of this category of people: the quota in Denmark declined from 8,6 % in 2004 to estimated 7,7 % in 2006 for adults and from 6,0 % to 5,7 % for children.

On the whole, according to Danish Economy Report on Poverty (DERP 2006), in 2004 165.000 persons living in Denmark were poor. Besides youth and immigrants there were so-called self-employed, persons living alone / with high number of dependent children, people outside the labour force (+ vulnerable / socially excluded groups: 22.000 mentally ill people, 14.000 drug abusers, 8.500 homeless people, 5-7000 prostitutes).

As in the UK, special attention has been paid to the elimination of child poverty, determined in the intergenerational transmission. The Danish child poverty rate (2,4 % after taxes and transfers; OECD average: 11,2%, 2005) ranks as the lowest rate in the world (Bradshaw 2006: 42), as well as in Europe (9%, EU average: 20%, 2005; EAPN 2006: 2). In the priority list the social assistance for child care takes place at once after benefits and taxes, housing and services. 10% of GDP has been allocated to child care, particularly for preschool care: according to the Ministry of Social Affairs over 80% of Danish children (6 months -9 years) have a place in a publicly supported day-care facility (Denmark 2007: 5.1). In comparison to the situation in other countries the child benefit package in Denmark is a positive sum, covering in special cases housing benefits. Unfortunately there is a lack of information about unemployed single-mothers with one child. DERP 2006 asserts a single bread-winner with one child escapes poverty risk faster than a single parent with several children, staying poor for a longer time. 90 % of single mothers are employed. The data from Eurostat provide empirical evidence that the poverty risk for single parent household with dependent children is relatively low (21 %, 2005) as compared to the EU-15 (33 %).

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<sup>37</sup> <http://www.eurofound.eu.int/ewco/2005/12/EU0512NU03.htm>

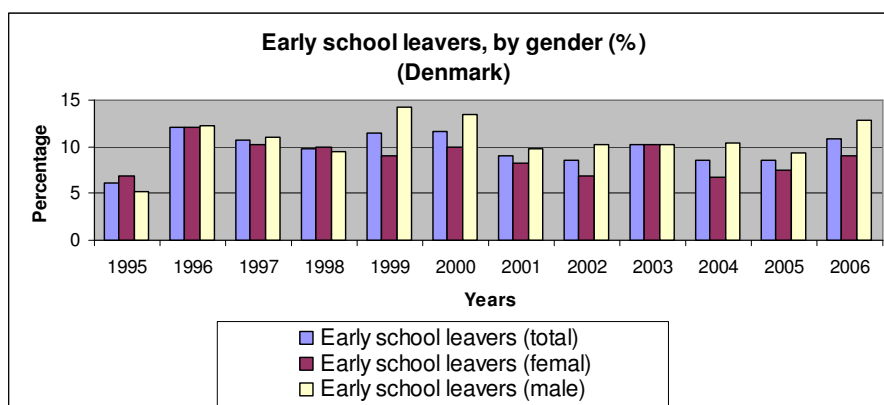


Figure 19: Early school leavers, by gender (1995-2006); Source: Eurostat

There is another challenge for social policy combating child / youth poverty: school attendance as a way to prevent social deprivation by at risk children.

### 6.3.6. The impact of the OMC / incl. on Denmark in Terms of Quality Indicators

In summary, between 2001 and 2006 various measures and programs were introduced in the national social policy in the field of combating poverty and providing social inclusion. In evaluating the impact of the OMC in this process the twofold attitude of the Danish government is to be observed: on the one hand the state is highly supportive of the processes; on the other hand it is interested in controlling the processes (due to the fact that social policy belongs to the national competences of the MS). The NAPs are not used like strategic tools / “action plans” in the authentic meaning, but rather seen as governmental documents that report on current policies. That is the secondary positive effect of the OMC process to force the national state to provide information on what is achieved in different policy areas, giving a good overview of present policies / pointing out shortcomings, in other words holding the government accountable for performance or lack thereof (the idea of benchmarking). There is a slight superficial irony in the case of Denmark, positioning itself as one of the best performance countries in the EU in social policy, when Danish officials highly favourable to exchange of best practises “cannot point to any particular examples of this kind of learning so far not having time to read other countries’ NAPs” (Jacobsson 2005: 132). It underlines only the fact that the EU priorities in the social matters are important for the Danish social policy, but are not the major challenge or contribution. According to Peter Nedergaag’s comparative analysis of the direction of Mutual Learning Processes within the OMC of Coordination Committees of the EU (2006: 10) Denmark is also seen as “tutor” by the

EU states, country that has good economic-political performance, “appropriate economic reforms and policy measure taken”, “succeeded in building stable policy measures”, has “very innovative and / or successful social policies” or simply has “the best practices”. In other words this Nordic country is also considered by other MS to be one of the favourites for the EU-15 in the matters of social policy (as well as in the matters of employment). For example, in comparison to Germany the Danish Integration Act for refugees and immigrants took place in 1999, aiming to integrate aliens into a homogeneous Nordic society by the idea of self-support through employment<sup>38</sup>. At the same time for Denmark itself, the “mutual learning” could be seen as an important subject, first of all if learning from similar countries (benchmarking in the Nordic context), having initial systems and combating problems of the same or similar nature. Of course, this practice does not deny the importance of learning from other EU countries with good and high performance. Unfortunately there is no relevant information on mutual learning from continental Europe.

The most important positive evaluated achievement of the OMC for Denmark is the mobilisation of social partners and stakeholders in social policymaking. The dialogue of volunteers and public sphere has also improved, continuing the long tradition of social partnership in Denmark. That is one of the strong indicators of the domestic policy. The OMC has given NGOs “credentials for voice” in the matters of social policy. There is continuity in “public promotion of NAPs inclusion”, awakening media and public awareness through newspapers, magazines, cooperation with the Danish Broadcasting Corporation and the nationwide TV – channel DK 4 (according to National Awareness Raising Actions on Social Inclusion, there is the idea to create minimum 2 TV or radio programmes). Special efforts have been made to address the challenges faced by vulnerable groups, continuing change in the structure of households, immigrants, perspectives of ageing society, but all these achievements could be seen only in the context of the national policy of an active labour market. As one can see in terms of know-how’s, knowledge / ideal support of the OMC there is not much visible impact on the country, rather on the government being “pressured”. Combating poverty and trying actively to integrate in the labour market socially disadvantaged and immigrants not only economic incentives to seek job are to be taken into account, but also willingness and ability of welfare recipients to participate in the labour relations.

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<sup>38</sup> However it’s worth mentioning the number of immigrants in DK is one of the lowest in the EU, the “labour integration”(=social) as it’s seen from the subchapters is to be improved



## 7. Conclusion and open questions

During the first four decades of European integration, UK and Germany did not play an important role in advancing the issue of combating poverty and social exclusion at European level. Furthermore, they insisted on the subsidiarity principle and were skeptical toward the effectiveness of the European action. The position of Denmark has been ambiguous: Danish social inclusion policies are already ahead of the EU agenda; the country sees in the OMC neither a major challenge nor contribution to its own social policy. At the same time Denmark does not deny the effectiveness of benchmarking / peer review for other MS.

Concerning the thesis we want to verify, in chapter 3 the authors argue that instead of asserting that the EU has an impact on member states, the progress of European social policy was dominated by member states and depends on the vision or ideology of the political party in power in the case of formulating hard law.

The authors also argue that diversity of welfare models (chapter 5), the studied countries belong to, predetermines the way social (inclusion) policies in different national MS could be regulated. This diversity makes adherence to the benchmarking “best practices” hard to operationalize, so that the OMC is seen only as potential, but not strategic tool, way of inspiration. This statement is also confirmed in practice of three chosen countries.

The three selected countries demonstrate diverse level of meeting the requirements concerning reducing the Social exclusions among various groups of the population. While Denmark scores well on most of the examined indicators, Germany and the UK’s performance are ambiguous in particular areas. It may subsequently be assumed that the different characters of their economic systems determine to a large degree the different problems they have on labour market level and result also in diverse problems in the social field.

The UK government hardly makes any reference to the EU Social Policy recommendations in the NAPs / incl. In this respect, the NAP is only used as a convincing mechanism, to declare compliance with the EU recommendations and guidelines and reporting instrument. Therefore, the impact of the OMC can be so far

described as having more influence on processes than on policy making. The peer review and policy learning is limited to the national level (Wales, Northern Ireland, Scotland), in the rare cases, when it occurred. In the case of Germany, it is obvious that Germany remains focused on its own domestic agenda (for example, Agenda 2010) and its policy choices are not directly influenced by the OMC. Poverty and social inclusion has little political salience in Germany. The NAP merely provides a framework for reporting its own policy at a European level. The NAP is regarded as a tool of reporting rather than a tool of policy formulation and inspiration. An evidence to support this argument is that no references are made to the experiences outside the borders of the country, implying that the purpose of mutual learning did not function. The circulation of best practice information occurs within the border of Germany.

Neither could the NAP in Denmark be seen as strategic tool for domestic policy-making: the document is regarded to be a governmental report on current policies to the EU. Most experts consider the positive effect of the OMC process is to force the national state to supply information on national policies to the Commission e.g. to hold the national governments responsible for performance or the lack thereof. The Commission could evaluate or point out shortcomings and give recommendations. But this begs the question: if this reflection or qualitative control through the Commission could really influence the national state in its policy-making or is rather seen as “bureaucracy”. Probably this is one of those rhetorical questions without any answers. The same thing is with mutual learning. There is a strong belief in potential learning (what can work under which conditions), but in the practice the evidence of good practices is rather minimal or lacking. Of course, it does not deny the potential effectiveness of benchmarking, but in the reality could be seen only as optional inspiration rather than guidance. Denmark is also a good example to show that there is a weak pressure from the OMC on the country with a good performance in social policy. There are some areas, where “the fit is less good” (taxation, levels of benefits), but the position of Denmark is strong: defending the current policies and preventing adaptational pressure from the OMC.

Regarding the pressure, that is the main characteristic and weakness of the OMC: trying to exert a certain pressure in the matters which belong to indigenous national competences. The national governments have to actively protect their positions / “think twice” before implementing measures which could be against the common EU norms.

That is the paradox of the OMC being a tool of soft law, creating tension between the governments in the multinational co-operation processes and the common European thinking in the matters of social policy, the “related tension between openness and closeness in the process”, tension between “top-down type of learning and a voluntary lesson-drawing type of learning”, tension between the idea of pan-European convergence and national diversities, “tension between the OMC as a technocratic top-down strategy, where policy is made at European level and supposed to be implemented by actors in the MS and the OMC as a process of political opinion-formation, where support must be built up within the MS” (Jacobsson, K. 2005: 133-134). The next open question is on the active role of MS and their national performance, inputs at the European level. For example, in case of Denmark the country prefers to see the OMC as a tool useful mainly for others. At the same time the idea behind the OMC is not to give guidance, but rather inspiration, encouraged by setting more challenging national targets, encouraging cross-sectoral networking, as well as performance of social actors.

By analyzing social policy-making processes the authors conclude that these three countries use NAPs/incl more as a tool for reporting domestic measures rather than as a mechanism for policy learning and comparison of best practices. The main reason for this development is that social policies are deeply embedded in national political and cultural context, which is a result of historical evolvement. As a consequence, social policies cannot easily be “imported” or “exported”. Taking this constraint into account, the authors argue that in the area of social inclusion, due to the lack of hard sanction and the non-binding nature of soft recommendation, the “real” influence of the OMC is reduced to merely “raise awareness.” Consequently, the factor of welfare system has predetermined the extent of the OMC’s impact and undermines its ambitions of mutual-affecting across countries.

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