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EU RESEARCH ON SOCIAL SCIENCES AND HUMANITIES

EU Governance by self co-ordination?

Towards a collective 'gouvernement économique'

GOVECOR

Final report

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Preface

Within the Fifth Community RTD Framework Programme of the European Union (1998–2002), the Key Action 'Improving the Socio-economic Knowledge Base' had broad and ambitious objectives, namely: to improve our understanding of the structural changes taking place in European society, to identify ways of managing these changes and to promote the active involvement of European citizens in shaping their own futures. A further important aim was to mobilise the research communities in the social sciences and humanities at the European level and to provide scientific support to policies at various levels, with particular attention to EU policy fields.

This Key Action had a total budget of EUR 155 million and was implemented through three Calls for proposals. As a result, 185 projects involving more than 1 600 research teams from 38 countries have been selected for funding and have started their research between 1999 and 2002.

Most of these projects are now finalised and results are systematically published in the form of a Final Report.

The calls have addressed different but interrelated research themes which have contributed to the objectives outlined above. These themes can be grouped under a certain number of areas of policy relevance, each of which are addressed by a significant number of projects from a variety of perspectives.

These areas are the following:

- ***Societal trends and structural change***

16 projects, total investment of EUR 14.6 million, 164 teams

- ***Quality of life of European citizens***

5 projects, total investment of EUR 6.4 million, 36 teams

- ***European socio-economic models and challenges***

9 projects, total investment of EUR 9.3 million, 91 teams

- ***Social cohesion, migration and welfare***

30 projects, total investment of EUR 28 million, 249 teams

- ***Employment and changes in work***

18 projects, total investment of EUR 17.5 million, 149 teams

- ***Gender, participation and quality of life***

13 projects, total investment of EUR 12.3 million, 97 teams

- ***Dynamics of knowledge, generation and use***

8 projects, total investment of EUR 6.1 million, 77 teams

- ***Education, training and new forms of learning***

14 projects, total investment of EUR 12.9 million, 105 teams

- ***Economic development and dynamics***

22 projects, total investment of EUR 15.3 million, 134 teams

- ***Governance, democracy and citizenship***

28 projects; total investment of EUR 25.5 million, 233 teams

- ***Challenges from European enlargement***

13 projects, total investment of EUR 12.8 million, 116 teams

- ***Infrastructures to build the European research area***

9 projects, total investment of EUR 15.4 million, 74 teams

This publication contains the final report of the project 'EU Governance by self co-ordination? Towards a collective 'gouvernement économique', whose work has primarily contributed to the area 'Governance, Citizenship and the Dynamics of European Integration'.

The report contains information about the main scientific findings of GOVECOR and their policy implications. The research was carried out by five (12) teams over a period of 30 months, starting in September 2001

The abstract and executive summary presented in this edition offer the reader an overview of the main scientific and policy conclusions, before the main body of the research provided in the other chapters of this report.

As the results of the projects financed under the Key Action become available to the scientific and policy communities, Priority 7 'Citizens and Governance in a knowledge based society' of the Sixth Framework Programme is building on the progress already made and aims at making a further contribution to the development of a European Research Area in the social sciences and the humanities.

I hope readers find the information in this publication both interesting and useful as well as clear evidence of the importance attached by the European Union to fostering research in the field of social sciences and the humanities.

J.-M. BAER,

Director

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National Rapporteurs

In the framework of the Govecor project, rapporteurs from the Assistant Contractors from ten member states of the European Union have carried out extensive research on their respective national level. The research was based on a common questionnaire and a common terminology. The rapporteurs have submitted four reports during the lifetime of the project, that is between spring 2002 and autumn 2003.

The following rapporteurs have contributed to the national reports: *Austria*: Peter Huber, Dr., OIIP and WIFO, Vienna; *Belgium*: Philippe Pochet, Dr., GEPE and OSE, Brussels; Sylvain Plasschaert, Prof., University of Antwerp and Catholic University of Leuven and GEPE; Olivier van der Haert, GEPE, Brussels (co-author first report); *France*: Jacques Le Cacheux, Prof., CATT, Pau, and OFCE, Paris; Florence Touya, CATT, Pau; *Germany*: Elke Thiel, Prof., IEP and Stiftung Wissenschaft und Politik, Berlin; *Ireland*: Brendan Lynch, Dr., Institute of European Affairs, Dublin; *Italy*: Stefano Fantacone, Dr., IAI and CER, Rome; *Netherlands*: B.J.S. Hoetjes, Prof., EIPA and University of Maastricht; *Portugal*: Patrícia Cadeiras, IEEI and Instituto Superior de Ciências do Trabalho e da Impresa, Lisbon (fourth report); Pedro Courela, IEEI Lisbon (first and second report); Noemia Pizzaro, IEEI Lisbon (third report); *Schweden*: Kerstin Jacobsson, Dr., SCORE, Stockholm; Åsa Vifell, SCORE, Stockholm; *United Kingdom*: Dermot Hodson, Federal Trust and London School of Economics, London.

The editing of the national reports and the production of the synthesis section has been carried out by Principle Contractor TEPSA, and by the Coordinator. During the four rounds of national reports, the following researchers were involved: on behalf of TEPSA, Olivier Maiscocq, Dorota Pyszna-Nigge, and Barbara Engelstoft; on behalf of the Jean Monnet Chair, Christoph Meyer, Ingo Linsenmann, and Gaby Umbach. Additional support was given by Tobias Kunstein at the Jean Monnet Chair, and Michael Bornkessel @ www.europa-digital.de

Participants of the Mid-Term and Final Review Meetings

In addition to the GOVECOR researchers, the following guest experts attended the Mid-Term Review Meeting in January 2003: Amy Verdun (University of Victoria), Martin Marcussen (University of Copenhagen), Daniel Gros (Centre for European Policy Studies), Jonathan Zeitlin (University of Wisconsin Madison), Janine Goetschy (CNRS), Jacques Pelkmanns (College of Europe), Hendrik Enderlein (European Central Bank), Elena Saraceno (European Commission, Group of Policy Advisors), Angela Liberatore (European Commission).

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Abstract

GOVECOR has studied a vital part of EU governance: self-coordination in the area of fiscal and employment policy and their impact on European integration between 1997 and 2003. It has explored the impact of the new treaty provisions (articles 125-130 and 104 TEC) on the emergence, evolution and transformation of these modes of governance. The starting point was: how do governmental and non-governmental actors understand, use and adapt these legal empowerments? Looking at the combined impact of the legal provisions across levels of governance (vertical dimension) and across governing modes in the selected policy fields (horizontal dimensions), we have sketched four ideal-type scenarios (bounded, loose, tight, and collective coordination) of how those governance modes could impact on multi-level governance. We expected that the new legal provisions on 'hard' (fiscal policy) and 'soft' (employment policy) coordination would act together with pre-existing central institutions to result not only in a 'ratchet effect' or a 'locking-in' of the new status quo, but also in a further expansion of rule application, leading to deeper integration through Treaty amendments.

Contrary to our initial expectations, however, those modes have not evolved in the direction of the ideal-types of tight or collective coordination, which could be seen as a stepping-stone for a 'ratchet fusion process':

- The new legal provisions have not encouraged a co-evolution of the policy coordination modes. While we have observed evidence for an intensified use, scope extension, proliferation and streamlining of policy coordination processes below the level of treaty change, economic policy coordination modes have not been fundamentally transformed or comprehensively altered economic policy-making especially on the national level.
- European policy coordination modes have not yet fully integrated with domestic structures of policy-making, interest mediation and public deliberation. Compliance and adaptation was at best moderate, despite publicly stated commitments by the member states, pointing to a systematic and in some areas widening 'commitment-implementation gap' of policy coordination. Even though policy coordination, both in its hard and soft form, has caused upgrading effects with regard to some dimensions of national political systems, our study uncertain raises doubts about whether self-coordination modes can be more than a supplement to the domestic process of formulating, deciding and implementing national socio-economic policies.

- Surprisingly, our results showed that the differences between 'hard' and 'soft' coordination in terms of adaptation and compliance on average were not substantial. The only exception have been publicised discourses on these two governing modes: European fiscal policy co-ordination has established itself as a real factor in national press discourses of policy choices and we have sometimes even seen the emergence of cross-national debates.
- Even though key policy actors are gradually developing a European perspective – and to that extent it is accurate to speak of deliberative supranationalism – there are clear limits of discursive mechanisms to affect preference change and to ensure implementation. Given the lack of involvement of national parliaments and intermediary actors, doubts must also be raised over the ability of policy coordination modes to overcome gaps in democratic participation in European multi-level governance.

For the time being, both modes of governance can be described as a kind of loose coordination. There are even indications for a largely informal process of reverse spill over in the area of fiscal policy, which is driven by political actors' growing realisation of the real consequences of a previous integrative step (the creation of monetary union). Five years of testing and applying the new legal provisions has not hampered an extension of soft coordination to new policy fields, but has not increased political support for harder rules. Differences among member states arising from divergent economic conditions, welfare state arrangements, and economic philosophies have stopped significant steps towards a 'gouvernement économique'. In the foreseeable future we expect that governing modes will not converge towards a single model, but become more hybrid and complex, as the new and separate provisions for euro zone member states in the Draft Constitutional Treaty indicate.

1. EXECUTIVE SUMMARY

1. Background and the Main Research Puzzle

GOVECOR has studied the evolution of new modes of governance through self-co-ordination in the area of fiscal and employment policy and their impact on European integration. The research project has explored the impact of the new treaty provisions (Articles 125-130 and 104 TEC) on the creation, evolution and perhaps the transformation of these modes of governance. The main research puzzle was: how do governmental and non-governmental actors understand, use and adapt these legal empowerments, which provide means for interaction, deliberation, problem-solving, and decision-making in vital fields of European public policy? Are we going to see a gradual horizontal fusion of policy-making and opinion formation across the policy-fields as well as vertical fusion across levels of governance, leading to some kind of deliberative "gouvernement économique" of national and supra-national actors bound together in a core network, or do trends towards a fragmentation dominate which can be described as ritualistic co-ordination of national actors leaving supranational institutions powerless within a 'hollow core'. We expected that the new legal provisions on 'hard' (fiscal policy) and 'soft' (employment policy) coordination would act together with pre-existing central institutions to result not only in a 'ratchet effect' or a 'locking-in' of the new status quo, but also in an expansion of rule application, leading to deeper integration through Treaty amendments.

The aim of Govecor was to contribute to a better understanding of the deliberation, problem solving and decision-making processes in the European Union and the unique multi-level construction of an evolving European system of governance by self-co-ordination for the actors and the European citizenry, and to provide the current conflicts and debates between the EC/EU institutions as well as between the Member States concerning their roles, functions and strategic positions within the evolving Union with academically founded suggestions.

In the following we will summarise the results of the different work packages and will present overall conclusions and policy implications. A brief overview on the dissemination and exploitation of results will be given at the end of this executive summary.

2. The analytical framework: A Neo-Institutionalist Approach to Theorising Integration

We have adopted a classic research design with the legal provisions governing policy coordination as our independent variables – the ‘legal constitution’ of policy-making laying down roles and functions of institutions, procedures and objectives provide opportunities and constraints for several groups of collective actors – and an empirical focus on a number of intervening variables which help to explain the dependent outcome of what we observe as the ‘living constitution’ of policy-making. Based on the overlapping theoretical bodies of neo-institutionalism, Europeanisation and regional integration, we have sought to integrate the insights and approaches of sociology and economics into our research design.

Three sets of intervening variables have been identified which affect the evolution of economic policy coordination modes. The first, and in many respects key intervening variable explored how different political actors at European and national levels of governance have followed, made use of and expanded the legal provisions for policy coordination. This ‘compliance variable’ encompassed the dimension of explicit procedural requirements emanating from the treaty provisions, possible shifts of power resources between political actors at different levels of European governance and finally how national actors have used the legal provisions. The second intervening variable refers to the impact of the provisions on the extent and nature of the interactions between governmental and non-governmental actors across and within different levels of European governance. The legal provisions may stimulate the creation or the reinforcement of informal or quasi-formalised networks, leading to some kind of deliberative governance. The third variable draws on sociological institutionalist thinking to explore the contribution of public discourses to political change, in particular, how political actors alter perceptions of their interests, how new institutional paths are being established, and how new cultural rules are being created.

The dependent variable is the kind of economic governance, which may come about through a combination of institutional, procedural, behavioural, and ideational changes at multiple levels of policy-making and opinion formation. Our understanding was that rule following, adaptation processes, the emerging networks for problem-solving of institutional and intermediary actors as well as the impact on publicised discourses will not be disjointed. Looking at the combined impact of the legal provisions across levels of governance (vertical dimension) and across governing modes in the selected policy fields (horizontal dimensions), we have sketched four ideal-type scenarios of how policy

coordination modes could hypothetically impact on multi-level governance and how this evolution might lay the ground for the agreement of new legal provisions governing the European Union.

Bounded coordination describes a scenario in which the rules for policy coordination are becoming dead letters, at best symbolically followed and routinely ignored when formulating national responses to economic policy challenges. This scenario amounts to a status-quo ex-ante minus. *Loose coordination* means that participants are following largely opportunistic strategies and comply when the benefits are obvious and the costs negligible. With regard to the question of scope for policy coordination, we would find only little changes. *Tight coordination* can be seen as an upgraded status-quo ex-ante scenario, where the EU level institutions, procedures and goals of economic governance enjoy strong support, where participants are ready to accept costs for reaching common goals, and where political actors are adhering to and extending 'the spirit of policy coordination'. Finally, one can envisage a transformation scenario, in which member states and EU institutions alike are increasingly being socialised into *collective coordination*. This is understood as a governing arrangement, which builds up mutual trust through deliberative problem-solving rather instrumental bargaining and does only rarely need to use the provisions for qualified majority voting. Collective coordination might also be viewed as the fulfilment of demands calling for the establishment of a 'gouvernement économique', although the actors of this evolving 'core network' would encompass not only national governmental actors but also European institutions such as the Commission and the ECB and European social partners.

Within this analytical framework, the results of the different work packages as documented below will be discussed at the end of this chapters.

3. Fiscal Policy Co-ordination in the EU: The Dismal Record of the Stability Pact

This work package, situated at the principle contractor CATT, has focussed on European fiscal policy coordination within the Stability and Growth Pact (SGP). It has furthermore contributed the analysis of the economic foundations of policy coordination, which has been one of the assets of this multidisciplinary project. The following conclusions with regard to fiscal policy coordination can be drawn.

Since the launch of European monetary union in 1999, it has become amply clear that the SGP is not functioning the way it should. Though not apparent during the first two years of existence of the euro zone, thanks to the favourable growth conditions then prevailing everywhere, its defects and weaknesses have been revealed by the slowdown of economic activity that hit the European Union (EU) in the wake of the US recession, in

2001. Nevertheless, by focusing attention on budget balances, the SGP has indisputably contributed to reinforcing and spreading the 'stability culture' in the euro zone, in particular in countries that had lived with high inflation, as well as high public deficits and debts in the 1980s and early 1990s. Also with regard to Member States fiscal policy-making, the SGP has undoubtedly had an influence: first, it has induced institutional changes, sometimes going as far as the adoption of domestic 'Stability Pacts', and has usually reinforced the control of central governments on the finances of other public entities; second, it has also strengthened the position of the Finance Minister within national governments, thus giving more weight to considerations of overall budget balance; and third, it has contributed, through the mechanism of "naming and shaming", to focus attention of the press and public opinion on overall budget developments, and in particular on the deficits and the dangers of over-accumulation of public debt.

Yet, the outcome in terms of public finance developments in the Member States of the euro zone is not up to the expectations. Deficits and debts ratios did indeed ebb in the Member States of the euro zone in the (early) 1990s; but no more than elsewhere in the OECD countries. As soon as the slowdown in economic activity swept over the euro zone, not only was consolidation brought to a halt, but deficits started skyrocketing again in most Member States, especially larger ones, and the trend toward smaller debt ratios, which is arguably the most important, though implicit, aim of the SGP, was actually reversed, and especially in those countries where it was still much above the 60%-of-GDP figure that had been regarded as a maximum in the Maastricht treaty.

Although the SGP has undoubtedly made fiscal policies a 'common concern' of the euro zone by focusing attention on fiscal aggregates of Member States, it cannot be said to have significantly improved economic policy coordination, insofar as the focus has been exclusively on 'excessive deficits', with almost no progress being made on other issues. In the years when the European economy was enjoying relatively high growth, there was little coordinated effort at reducing deficits, and even less coordination on the various tax cut plans that were mostly used as tools for tax competition, rather than in a cooperative strategy to promote growth.

At the same time, the SGP turns out to be highly pro-cyclical, because it is mainly focused on fiscal discipline during cyclical downturns and thus provides wrong incentives since it does not tackle the tendency to run expansionary pro-cyclical policies in good times and does not reduce the political inclination to 'spend the money when it comes in'. In addition, efforts to consolidate public finances have resulted in most Member States in a sharp reduction of public investment. The achievement of a broadly balanced budget may negatively affect the public investment level, since most capital expenditure will

have to be funded from current revenue and, as a consequence, have a negative, lasting impact on the productive and growth potential of the economy.

Among the possible routes for reform, the first one would consist in reinforcing the powers of the Commission and/or independent experts in the implementation of the SGP: though in principle likely to improve compliance and hence credibility, such an institutional change would run against the aspiration for a less “technocratic” functioning of the EU. The second direction for improvement would involve taking better account of business cycle conditions: indeed, with hindsight, it is clear that there had not been enough consolidation in “good times”, which made compliance in “bad times” almost impossible, or at least politically very costly. Focusing more on a cyclically-adjusted measure of deficits would partly solve the problem, provided Stability Programmes are treated more seriously; yet the problem of unambiguously identifying the cyclical position of countries and of precisely evaluating the “output gap” is paramount and makes this solution less easy than it seems.

A final suggestion for reform would be to apply a golden rule (inspired by the British, or even by the French practice in local public finances), but amended to take the cyclical component into account: the budget would be divided into a current and a capital account; the former would have to be balanced or in surplus while the latter would be allowed to run a deficit, so long as an appropriate measure of indebtedness is stabilised over the medium term. Such an amended golden rule would allow for both growth and automatic fiscal stabilisers; it would also preserve heterogeneity among Member States in terms of public investment, which is not the case in the current SGP, under which socially desirable public investment projects might well be cancelled. Possible drawbacks of such a rule should nevertheless be mentioned. First, there is no dual-budget accounting system in EU countries and the calculation of amortisation is quite complex, so that it would be necessary to reach an agreement on accounting methods. Second, a golden rule could lead to a bias in expenditure decisions in favour of physical capital and against spending on human capital or other productive items, which also contribute to growth and employment; but the inclusion of human capital could lead to the opposite outcome and generate a risk of unsustainable public finances.

However, none of these reform proposals would suffice to solve the insufficiency of coordination, which would require a mix of institutional changes and incentives, in particular through the European budget, to induce governments of Member States to effectively engage in cooperative strategies. In addition, it is probably the case, that the costs of abiding or breaching the rules are not the same for all countries in all contexts, in particular that the incentives may be stronger for large member states not to obey.

Because of the prospective increase in heterogeneity of the euro zone, following the enlargement and the desire of some new members to join the euro zone soon, this issue of incentives should be carefully studied before a needed reform of the SGP is proposed.

4. Employment Policy Coordination: The limits of a Top-Down Approach

The research task of work package (WP3), situated at SCORE, has been to study the policy-making practice following from the new formal procedures and the new formal institutions in the field of EU employment policy. The analysis is based on extensive interviews at European level conducted during 2000-2003, in combination with the ten country studies produced within the GOVECOR project and other secondary studies.

The provisions in the Employment Chapter have enabled initiatives and efforts by various types of actors to co-ordinate and develop policies. Our country studies show that the European Employment Strategy (EES) has developed in many respects as a trans-governmental process. Network-building between national and European level is often limited to small sections of national ministries and governmental agencies, which means that learning and deliberation is at best taking place in the administrative sphere, not in the public, and so far only to a limited extent among stake-holders more broadly. Without exception, national parliaments have no decisive say about the National Action Plans (NAP) in the countries studied, and are informed about it mostly after it is already produced. The NAPs are regarded as governments' reports to Brussels. They have no operational function as guiding documents or indeed action plans in the Member States, but are merely reports on domestic policy for an international audience.

Despite the NAPs being documents of low importance in the national policy-making system, the NAP process and the EES in general has improved coordination and facilitated links between different policy areas. Coordination between ministries has improved in almost all countries, and links between various actors in the production of the NAPs have been developed. Horizontal integration of policy areas (such as labour market policies, social assistance, pensions, taxation, etc.) has been improved nationally, but also at European level. While still insufficient in most countries, there has at least been some attention to vertical co-ordination between national, regional and local levels of government. Moreover, member governments and national administrations are committed to and do comply with the cooperation *procedures*. National civil servants consider the exchange of information and best practice and the peer review valuable, and they believe that there is a potential for learning from others.

The EES has in several respects contributed to a professionalisation of labour market administration in the Member States. It has put the functioning of Public Employment

Services on the agenda, the need for performance indicators, and improved statistics. The setting of specific policy targets has been encouraged, even if governments have responded to the invitation to set their own national targets only to a very limited extent. There are some indications of a spread of a culture of evaluation and institutional arrangements for implementing gender mainstreaming have been set up in most Member States.

The fact that the EES brings people with diverse interests, perspectives, and standpoints together, may function to destabilise existing understandings, and open for re-thinking of policy options. The EES has forced the member governments to reflect on, define, and then relate to collective objectives. The focus on employment rates, rather than levels of unemployment, is such a collective achievement on the level of policy thinking, as are the needs to widen the policy agenda in order to achieve higher levels of labour market participation, to include, for instance, measures to reconcile work life and family life, such as improved childcare facilities. The EES has provided a common framework for national employment policy, and an element of structure, with annual planning and review. A more long-term, or at least medium-term, policy perspective has been introduced in some countries where it did not exist. Thus, the EES has in various respects contributed to improvements of national governance systems.

The EES developed as a trans-governmental process and this was also in much how it was perceived by other actors in the Member States. Gradually, more actors have come to perceive themselves as affected by the EES, notably civil society actors and local authorities, and have pressured for influence. Social partners' satisfaction with their participation in the NAP process varies between countries. The social partners tend to consider participation in real negotiating and employment-creating policies in the Member States more important. Only in a few countries are wider circles of civil society involved in the EES.

In our analysis, the first years of the EES took the character of a two-level game, with the Commission and the Council as the key actors, and where governments tried to stay in control of the processes domestically. European social partners have also resisted attempts to give them the role of implementers of Council policy. More recently, the Commission together with the EP have tried to involve a wider set of actors, including parliamentary bodies, local authorities and civil society actors in the Member States, sometimes with the governments trying to resist these developments. Accordingly, the Commission has attempted to create various allies at national and European level as a way of mobilizing actors for the purpose of making them pursue the ideas and goals of

the EES. This has led to networking and creation of new forms of interaction, and also to the empowerment of some actors, especially at local and non-governmental levels.

To conclude, there are both positive and negative sides as to the achievements of EU employment policy co-ordination thus far. There are limits to what top-down and external pressures, e.g. pressures from the Commission or the Council, can achieve. In order to be effective the EES has to mobilise the relevant actors within the Member States much more systematically. The EES has stimulated some steps in this direction, albeit, arguably, not sufficiently.

5. Structural Funds and the European Employment Strategy: Functional spill-overs

Linked to work package 3, but executed by the principle contractor EIPA, a special study was carried out to explore possible spill-over processes between European Structural Funds (ESF) and the European Employment Strategy. The research puzzle is the following: Does, five years after its creation, the EES continue to function in a separate compartment of the European system of governance? Or could we observe growing inter-linkages and spill-over with other EU policies also targeting employment. In financial terms the EU's most important policy instrument to combat unemployment are the structural funds. The question was whether, at what level of policy making and how the relationship has evolved over time into a new mode of governance that links the intergovernmental sphere of the EES with the supranational sphere of the ESF.

The research has looked at three different levels of policy making: the legal, the strategy formulation and the administrative level. The analysis was based on primary and secondary legislation, NAPs as well as on structural funds related strategy documents such as the Community Support Frameworks, Operational Programmes and Programme Complements. The ten 10 national rapporteurs drafting the country studies contributed their expertise based on a questionnaire.

With regard to the legal-constitutional level, the following conclusions can be drawn: Firstly, secondary legislation very clearly establishes a functional relationship between the EES and the ESF. It is thus not a question of whether the ESF should be linked to the EES but only how. Secondly, the legal basis establishes an ambivalent relationship with regard to the funds except the ESF since it does not translate the horizontal priority to achieve a high level of employment into secondary legislation governing the other three funds (ERDF, EAGGF, FIFG). The legal-constitutional level does thus not establish a clear approach to the EES. On the one hand it shows signs of functional spillover and interlinkages between the EES and the ESF. On the other hand it includes deliberate

compartmentalisation and separation between the EES and the other structural funds. Given the constitutional asymmetry between the EES and the structural funds these mixed messages are likely to create frictions or at least different interpretations during the strategy formulation and administrative phases. The study has shown that establishing the legal constitution does not necessarily translate into a living constitution which is consistent with the legal concepts. Yet, the legal provisions seem to function as an incentive for Member States to adapt strategies.

The study has furthermore shown that Member States follow a different approach when it comes to implementing the functional relationship at the level of strategy formulation and managing the functional relationship. All of them have implemented the requirement to link the ESF and the EES and most Member States' structural funds programming documents reflect the EES objectives and include explicit references to them. Yet, out of those countries included in this study most of them seem to do this in a rather formal than strategic manner. Consequently, the role of the NAPs in drafting the structural funds programming documents was very limited. The EES is not perceived to have a major impact on priorities and the strategy of the current programming documents.

With regard to the administrative level, the EES structure clearly differs from the multilevel governance structure of the structural funds. Not least due to the broader scope of structural funds' interventions, their management structure relies on a broader inter-ministerial coordination involving different levels of governance. However, neither have new formal institutions been created to facilitate or serve the cooperation between the ESF and the NAP, nor have the existing institutions been adapted to respond to new coordination needs. Given this current weak administrative links in the implementation phase it is remarkable, that a number of Member States seem to accept the link between EES and structural funds when it comes to monitoring and evaluation.

It can therefore be concluded, that it is partly due to the Commission's strong influence during the strategy formulation phase that contributes to the Member States' respecting the functional relationship. During the implementation phase the Commission does not have such a strong influence, which would allow it to act as an ideational entrepreneur supporting the functional relationship in the Member States. Although Member States respect the functional relationship during the strategy formulation phase, this positive attitude can in general not be attributed to a change and convergence of preferences, norms, or values of actors. On the contrary, it seems that a vast majority of the Member States included in this study does not fully endorse the functional relation between EES and structural funds. Member States continue to perceive the EES as being located in a different sectoral subsystem, which links only partly and temporarily with the structural

funds' subsystem. This hesitancy on the side of the Member States is fuelled by the fact that there is no 'agreed exemplary organisational model'. The spillover between EES and ESF is therefore not a political spillover but a functional one. However, the fact that the EES objectives are taken on board in the structural funds programming documents – even if Member States only fulfil a Commission requirement – may gradually induce a shift of expectations and loyalties.

The Member States resistance to introduce the functional relationship into their administrative and institutional structure may not only stem from political reluctance. It may also stem from the 'institutional robustness' confirmed by numerous studies. This institutional robustness may be supported by the fact that every Member State has a long tradition of employment policy. Linking their institutional structure in this policy area with the structural funds will not only require more time but also a change of actors or their relative powers and their expected benefits.

For the time being, European and national actors continue to be faced with a paradox: the EU has adopted a European employment strategy and provides for a financial instrument to help achieve the objectives of this strategy. But the resulting linkage between its policy strategy and the relevant policy instruments is not codified in the EU governance structure, power relationship, and communicated norms. The Convention's debate on the OMC has made clear that Member States continue to oppose strengthening the link between the EES and Community instruments such as the structural funds. The Commission's proposals for the next financial perspective and the third cohesion report however point to an even closer linkage between EES and ESF. Whether the Member States agree to the Commission's ideas is yet an open question.

6. The Coordination of Coordination Policies: The low implementation record of the BEPGs

Work package 4, implemented at the chair of the coordinator, has examined the co-ordination of the two co-ordination policies – fiscal policy and employment policy – on the EU-level as well as on the national level of analysis. The aim of this work package was to assess the effectiveness and the impact the Broad Economic Policy Guidelines (BEPG), provided for in art. 99 TEC, have had so far on European as well as on member states' socio-economic governance.

During the observation period of our research we have seen numerous attempts by both European and member state actors to enhance the effectiveness of the instruments and the efficiency of the procedures linked to the BEPGs. Policy learning as well as the start of stage three of EMU have led to a number of improvements in economic-policy

coordination, culminating in the 2003 attempt to synchronise the cycles of the BEPGs and of employment policy and to (re-)introduced a *multi-annual* programme by foreseeing a full review only every three years. Furthermore the procedures as described in art. 99 TEC have been followed by the actors involved. The attempt to achieve a well-balanced macro-economic policy mix has also led to the understanding of the actors concerned that a more encompassing policy-mix should include additional policy areas. Coordination in its softest form has thus been introduced with the various OMCs which can be understood as some kind of functional spill-over.

On the domestic level, administrative adaptation – as opposed to innovation – has ensured that at least the procedural implementation of the BEPG procedure has been successful. The implementation of the BEPGs procedure on the domestic level has not led to a novel approach to deal with European coordination policies. The BEPGs have been included in the array of tasks to be handled by national administrations and other bodies in charge of European affairs, in most cases using ‘traditional routines’, but the guidelines have not affected many other actors or institutions.

Yet the gap between publicly stated commitments by the member states and the real implementation of policy adaptations is still wide and, in some areas, has not diminished in the recent years. With regard to fiscal policy recommendations in the BEPGs the undisputed conclusion is even that implementation efforts have declined in a number of member states after their accession to the euro zone and the achievement of the convergence criteria. The BEPGs implementation reports are documenting the lack of implementation by the member states, quite often disguised by euphemistic conclusions such as “in progress”, “partial” or “there is a risk of not achieving the aim”.

If peer and public pressure are elements of soft coordination, the BEPG procedure has clear limitations in both respects. The public commitment of member states in the publicized BEPGs should strengthen the willingness to comply with the commonly agreed recommendations. However, if the ‘public’ is as small as it is in the case of the BEPGs, it does not create sufficient public pressure on member states. Public awareness and public discourse to this mode of European governance has only marginally developed. Given the very mixed implementation record of the BEPGs for most of the members states, peer pressure has obviously also not increased the willingness of member states actors to fully implement the BEPGs. It seems however too early to conclude that we might see a vanishing of the consensus on the ‘sound finances and money’ paradigm, which was necessary to establish Monetary Union as this would be in contradiction at least to the rhetoric of the Lisbon agenda and the efforts invested into OMC in related policy areas.

Considering the importance of a balanced macro-economic policy mix going beyond the aims of price stability and sound finances but indeed affecting the core of European welfare states, the absence of a public discourse on key economic options available is remarkable. That national legislators and the EP are not involved in these deliberations and decision-making continues to be a major obstacle for the effectiveness and bindingness of the coordination procedures. Neither the streamlining exercise in 2003 nor the 2003/4 Intergovernmental Conference have however made progress in this respect, even though the possible introduction of "euro zone BEPGs" might in the future lead to more binding recommendations.

As a conclusion, given the continuous revision of and amendments to the existing rules and the introduction of several new procedures to enhance the deliberation and interaction process on economic policy, we do see attempts of the key actors involved to create some kind of 'economic governance' which goes beyond the provisions of the legal constitution and to merge (or fuse) existing policy areas (horizontal) and policy arenas (vertical) on the European level. On the other hand, the more it has contributed to an increase of political actors participating in these procedures, the less they could rely on "shared commitment" and "common doctrines".

7. National Adaptation in Member States: Between Absorption and Upgrading

Work package 5 has focussed on the national dimension of the co-ordination taking place in the fiscal and employment sectors. In the framework of the GOVECOR project the empirical backbone of this inquiry were six-monthly reports between 2002 and 2003 conducted by the national experts of the assistant contractors (as well as the principle contractors CATT, EIPA, and SCORE for their respective countries) to report on how policy coordination in the two fields has been used in and impacted upon ten member states (cf., the final national reports, Govecor 2004). Drawing on standardized measures of Europeanisation, an aggregate assessment of member states' practice of policy coordination has been developed to broaden the view beyond the different cases. We have applied a heuristic distinction between four possible outcomes of Europeanisation, namely, *inertia*, *absorption*, *upgrading*, and *transformation*. Furthermore, a second feature related to the use of performance indicators of the ten member states, relating to both policy sectors as well as to commonly used macro-economic indicators. While the primary objective of the project was not to explore the issue of policy performance or effectiveness, but the evolution of governing modes, the data are a useful complement to the soft indicators.

Generally, we note that absorption and upgrading were the most common phenomena of national adaptation to Europeanisation opportunities and constraints. None of the different dimensions of political change exceeded on average the assessment of moderate Europeanisation in the form of upgrading, some important differences among member states notwithstanding. The second finding is that hard policy coordination has caused a greater degree of adaptation than its softer counterpart. The national experts' assessment was that fiscal policy coordination has on average led to a mixture of *absorption* and *upgrading* of national systems. *Upgrading* was most pronounced in the area of institutions as well as in the area of discourse and ideas. In sum, however, the provisions for fiscal policy coordination have led only to very selective upgrading of national policy-making processes, actors, and institutions, and not to the kind of transformative changes, which would have been needed to make national fiscal policy fully consistent with the SGP.

Employment policy coordination was mostly characterised by weak to moderate adaptation trends. *Upgrading* was most pronounced in policy-making and coordination procedures, which is largely due to the need to comply with the requirements for inter- and intra-ministerial cooperation for the production and implementation of the NAPs. In contrast to its fiscal counterpart, employment policy coordination hardly led to much institutional innovation. It did, however, encourage greater participation and involvement of social partners and interest groups, even if changes were at best moderate. We could observe also some ideational changes, but not via public discourse were the impact as very weak, but via the EES's influence on administrative elites and expert networks.

When looking at the coordination of coordination policies at the national level, adaptation can clearly be characterized as absorption. While the procedures have very moderately been adapted to the increased demand for coordination between the policy fields, institutional innovation has basically not taken place. Compared to the other two modes, public discourse is even less developed in the case of the BEPGs. The same can be said with regard to adaptations of governmental policies, even if the national rapporteurs have traced moderate ideational changes.

The studies do not yield a single answer to the question of member state adaptation. Yet, there is also scope for cautious generalisations, which indicate that the scope of Europeanisation has been at best moderate, and on balance smaller than those actors who signed the legal provisions for policy coordination 1997 in Amsterdam seem to have expected judging by their public rhetoric. Policy coordination modes have only in a small number of countries led to transformative changes in the administrative set-up, actors' policy preferences and strategies, and domestic public debates and policy ideas. On

average therefore, domestic arrangements for economic governance are thus too 'sticky' for the incentives and constraints of these softer governing modes to cause more than a mixture of absorption and upgrading of national political system, their practices and policy ideas.

Yet, there are important qualifications to be made. Policy coordination, both in its hard and soft form, has caused upgrading effects with regard to some dimensions of national political systems. For instance, employment policy coordination did help to introduce some changes in national agendas, policies and ideas in a number of countries and with regard to different issues. It also helped to bring about changes in national policy-making procedures and interactions among political and non-governmental actors. Moreover, the provisions for fiscal policy coordination were capable of contributing to the setting-up of new institutions for the conduct of fiscal policy as well as influencing the course of national fiscal policy – mostly in some smaller and medium-size countries. We have accounted for these differences in Europeanisation by highlighting the asymmetric vulnerabilities between large and small countries in Europe, which focuses on their varying ability to comply with the fiscal rules of the SGP on the one hand, and the credibility of threats of political exclusion and sanctions on the other hand. Moreover, we have noted that some countries were generally less able to implement transformative changes against political resistance given the existences of informal or formal veto positions within the national political systems. Finally, the ideational attachment to European integration in general and the purpose of fiscal policy coordination under EMU were factors in explaining differences in Europeanisation.

8. Networks, Legitimacy Building, and Public Discourse

Work Package 6 on networks, public discourse and legitimacy building has been split into two different studies, one dealing with committee interaction on the EU-level and executed by SCORE, and one focussing on public discourse. This part was situated at the university chair of the coordinator with the support of EIPA.

Committee Interaction in Soft Co-ordination: Towards Deliberative Supranationalism?

A number of committees are central to the policy process of the Open Method of Co-ordination, especially in the economic policy field. Focussing on them should provide a useful way of examining the possibilities for soft co-ordination to provide favourable conditions for a deliberative mode of policy-making. The study has been concerned with employment policy co-ordination and has focused in particular on the Employment Committee (EMCO) but has also looked at three other committees involved in economic policy-making, namely the Social Protection Committee (SPC), the Economic Policy

Committee (EPC), and the Economic and Financial Committee (EFC). We investigated these committees both in terms of their formal role and their actual working methods and informal and formal interaction.

The study shows that there are indeed indications of soft co-ordination being supportive of a deliberative mode of governance. However, there are also structures and factors that limit the scope for deliberative interaction, and there are limits to deliberation as a mode of problem solving and action co-ordination in this case.

The committees are important in the EES (as in the OMC generally). Formally, they are important since they are the only preparatory committees before the Council, and mostly the final Council decision does not differ from the committee decision. Informally, the committees are important for network building among the national civil servants, which in turn facilitates future contact and policy learning. Since the OMC builds on soft coordination, support must be created and this makes networking ever more instrumental. The committees are also important in consensus formation. Committee members are dedicated to reaching agreement. Participants enter the committee discussions with the ambition to find points in common where cooperation can be developed.

The non-binding character seems to facilitate a deliberative mode – openness to be convinced by arguments – and a culture of listening and learning rather than meeting criticism by defensive attitudes. It is reported that arguments based on knowledge and experience count in the discussions, more than for instance the size of the country. Non-compliance must be explained and reasons provided. In the absence of legal force, reason-giving gains in importance. Moreover, the closed committee discussion allows one to ‘drop the guard’ for criticism.

The common project of developing and coordinating employment policies has been generally accepted. There are indications of shared frames of reference in the use of a common policy discourse, in expressing common concerns, common challenges, and common policy framework and approaches, even if this does not necessarily translate into a consensus about concrete measures. A European perspective is gradually developing in that key policy actors increasingly ‘think politics’ and policy with European frames of references rather than exclusively national ones. They have begun to rethink national employment policies in the light of ‘common problems’ and redefine it in terms of ‘common concerns’ and something that is legitimately the concern of other states and nationals and which requires cooperation. To that extent it is accurate to speak of a deliberative *supranationalism*.

However, there are limits to the open-mindedness in the committee exchanges. Positions are partly 'locked' on beforehand because of political mandates from back home. Committee discussion changes character when more sensitive issues are at stake, such as country-specific recommendations in the direction of bargaining rather than open-ended discussions. In sensitive areas, it is difficult to find evidence of national standpoints actually being modified during committee interaction. Moreover, the Member State representative may well agree that a certain measure might be the best for his/her country, but he might also know that this is not what is considered the best solution at the national level for political reasons.

It seems easier to reach consensus with more technical, rather than directly political, issues. It also facilitates if members share the same professional background or theoretical frames of references (cf. epistemic communities) as in the case of the EPC and EFC. However, this type of exchange tends to be less open to take in considerations from other perspectives, i.e. be less open-minded, and rather builds on a pre-political consensus (e.g. being determined by theoretical framework or discourse in the Foucaultian sense). Committee deliberation therefore has limits when it comes to solving political problems and conflicts of interest or value – the type of issues that cannot easily be resolved by scientific evidence.

The committees' openness to social partner and NGO participation varies considerably. The SPC and EMCO are most open to participants from outside the committee. The Commission officials working with EMCO and SPC are also more interested in contacts with the interest groups and social partners, and can see the value of these contacts, compared with the economic committees and their staff. The OMC processes in general lack transparency, and this is even more true of the economic committees in the OMC. The dilemma is that the more closed fora are, the more open appear to be the discussions. It means that public transparency in the trans-governmental process is likely to increase bargaining rather than arguing. Committee governance, in its ability to develop a cooperative regime, may thus have an important function to fill in a certain phase of the policy-making process, but will-formation in order to be democratically *legitimate* must ultimately be developed with input from fora with *public* deliberation. Democracy is not conceivable without a public sphere, and for the OMC to improve the democratic character of EU governance, its relation to the public sphere, nationally or supranationally, must be strengthened. This would also boost effectiveness. Since no binding decisions are taken at supranational level, implementation will not take place unless learning reaches down to lower levels of governance and is developed in public reasoning there.

Publicised Discourses as Indicators for the Functioning of Policy Coordination Modes

The work package 6 was also concerned with the relevance of public discourses for assessing the utility and appropriateness of economic policy coordination processes. Given that both fiscal and employment policy coordination in and through European Union processes cannot be legally enforced, the question of whether European recommendations, guidelines and government commitments made in Brussels are supported in national public discourses is of crucial importance. Moreover, national public discourses are relevant for normative assessments of economic policy coordination modes. Increasing intra-European debate on economic issues could also underpin the emergence of more institutionalised forms of economic governance.

The theoretical expectation was that the legal provisions for policy coordination with their emphasis on consultation, learning from best practices, and peer review represent a new opportunity structure for national actors to make their voices heard not only within the governing process, but also in mediated public discourse. We distinguish between two forms of Europeanisation of public discourse, namely *regulatory* and *compensatory Europeanisation*. The first can be called regulatory Europeanisation as it refers to adaptation processes arising from pressures for policy compliance and learning as determinants of the effectiveness of the cyclical governing modes. The second refers to the responsiveness. The question is whether public discourses have adapted along the lines of compensatory Europeanization, which holds that a given step upward the integration ladder would lead in due course to the changes in political practices and deliberations at the national level which help to re-establish the linkage between Brussels-based policy-making processes and national civil society.

We have explored these questions by conducting a content analysis of quality press coverage in Germany, France and Britain since the agreement of the new legal provisions at the European Council of Amsterdam in 1997 and until 2003. An in-depth analysis was conducted with regard to the media coverage of negative recommendations/reprimands in the field of economic (BEPG) and fiscal policy coordination in Ireland (2001) and Germany (2002). We have tested the two dimensions of Europeanization by looking at four criteria: Do we see an increase in media attention for policy coordination over time? Are public discourses capable of imposing reputational costs on governments in these policy areas? To what extent can we trace ideational change in policy approaches in public discourse along the lines promoted by policy coordination? And finally, can we identify a transnationalisation of news media debate in these policy fields?

With regard to the question of *increasing media attention* for economic policy coordination, curves for both governing modes do not show a clear intensification trend for the whole of observation period. Only for the first three years, from 1997 to early 2000, did they go through similar and on the whole downward attention curves. Starting from the second half of 2000, however, we see a clear divergence in media attention curves of 'hard' fiscal policy co-ordination and its 'softer' counterpart in the area of employment policy. The rules for fiscal policy co-ordination have established themselves in the last three years as a regular topic on the socio-economic news agenda of the quality press. In contrast, European employment policy co-ordination is being covered at best sporadically and usually as part of a wider theme about Europe's competitiveness and the Lisbon strategy.

With regard to *reputational costs through public discourses*, our studies cannot prove the impact of publicised discourse on policy-makers, but it does show that negative recommendations under fiscal policy coordination have had a significant impact on national news media discourse, particularly in Germany, but also in France. The in-depth case study of Ireland (reprimand under the BEPG) and Germany (proposed early warning under the Stability Pact in January 2002) showed that both countries' press devoted considerable attention to the critical recommendations, producing a high number of headline stories, opinion pieces and editorials. At least in these instances of first-time application, peer review procedures, which involve the singling out of member states, have proven capable of generating considerable public attention, forcing governments to justify themselves and contributing to a rapid politicisation of decision-making. For employment policy coordination our studies suggest a low and declining of ability to impose reputational costs on national governments. Moreover, a striking feature of employment policy coverage is that an article on the EES (usually written from Brussels) hardly creates any follow-up by either national political actors or nationally based journalists.

In our qualitative frame analysis of media coverage we have seen some evidence for weak instances of *ideational change*, mainly in the field of fiscal policy, e.g. a marked increase in public attention being paid to the need for anti-cyclical policies. At the same time, of declining relevance in public discourse was the underlying economic philosophy that price stability was good for economic growth. It seems therefore that the Stability Pact was good at focusing attention on the annual public deficit, but not very successful in fostering debates about the reduction of national debts or anti-cyclical policies. In the case of employment policy coordination, we identify across all three countries a decrease in the attention the press has paid to the key ideas of the EES. This seems to be a disappointing result for a governing process aimed at inducing policy learning. However,

the employment related findings need to be regarded with some caution given that employment policy coverage declined in importance to very low absolute levels.

Looking at a possible *transnationalisation of news coverage* both regarding the presence of foreign political sources and a synchronisation of news frames used to interpret political reality, at least the frame of performance comparison has increased markedly across both policy fields. It reflects a growing interest in other countries' performances as well as a decline in the ability of governments to insulate 'their' press from 'foreign' news and opinion sources.

To conclude, *regulatory Europeanisation* has been moderate or even strong in the case of fiscal policy coordination but weak for its counterpart in the employment domain. While the rules of the Stability Pact remain heavily contested and violated by some countries, albeit by a small degree, it is also clear that no government can fully insulate itself against peer pressure spilling over to domestic press coverage. The EES in contrast had virtually no success in imposing reputational costs through public debate, and little with regard to fostering ideational change, except for some measures aimed at increasing labour market flexibility in Germany.

Compensatory Europeanisation was virtually absent in the case of the EES and varied between countries with regard to the fiscal policy coordination process. Fiscal policy coordination is increasingly 'hitting home', making it a real factor in national press discourses of policy choices, especially in Germany, but also in Britain and France (since 2003). We have seen the emergence of increasingly vigorous, and sometimes even cross-national debates about national fiscal choices and their appropriateness. In contrast, media attention to soft employment policy coordination declined dramatically up to the point of extinguishing this governing mode from public awareness.

9. Conclusions and Policy Implications

The following section summarises the key findings of the sectoral work packages regarding the evolution of the living constitution of economic policy coordination modes between 1997 and 2003. It follows the line of argumentation, including the intervening variables and their operationalisation as defined by the common analytical framework and will present summarizing policy implications for European economic policy coordination.

Rule Following and Adaptation: Moderate Expansion at the EU level, Shallow and Opportunistic Use at the National Level

Political actors at various levels of EU governance have generally followed and complied with the procedural and institutional aspects of policy coordination. Yet, a divergence in rule following and use between European and national levels of governance can be noted. At the European level, it can be distinguished between an 'expansion phase' (1997-2000), which saw elaboration and increasing detail in the processes, guidelines and recommendations coupled with a proliferation of a range of new 'softer', non-Treaty based coordination processes as part of the Lisbon strategy. This was followed a phase of 'consolidation' (2001-2003), which was marked by efforts to respond to the spreading perception of overlaps and inconsistencies between the different processes at the EU level, and insufficient follow-up and implementation at the national level. The end of this period is marked by the majority decision of the Ecofin to disregard the provisions of the Treaty and of the Excessive Deficit Procedure.

In terms of substantive rule following and use, non-Treaty coordination processes spread to ever more policy areas as part of a wider strategy, usually referred to as the Open Method of Coordination. However, some treaty-based policy coordination modes did become 'harder' through new linkages with first pillar instruments or Treaty amendments (see our separate study on the increasing linkage of the EES priorities in Structural Funds programming). The Draft Constitutional Treaty suggests only few changes to the existing provisions, with the notable exception of the possible deepened coordination within the euro group. A constitutionalisation of OMCs was not undertaken.

At the national level, compliance and adaptation was sporadic and pointing to a systematic and in some areas widening 'commitment-implementation gap' of policy coordination. Governments often departed from their commitments made at EU-level and ignored substantive individual recommendations for policy change directed to them. They often pursued a pick-and-choose-strategy, implementing only those recommendations in line with their political aspirations, but not the more costly or long term ones. However, EU processes may have supported some changes in labour market regulation, pension systems, and the setting-up of procedures for sub-national fiscal surveillance or instruments for anti-cyclical public expenditure.

Impact on Interactions between Supranational, Governmental and Non-Governmental Actors: Some Horizontal, Limited Vertical Fusion

The new provisions have supported the emergence of more deliberative, but delimited forms of governance involving national and supranational actors within key policy coordination committees and top-level informal groupings. The nature of interaction in key EU level committees have allowed for the evolution of common frames of reference, consensus orientation rather than voting, and the power of the good argument rather than guarded bargaining and country size. Yet, when it comes to deciding on country-specific recommendations, hard performance indicators, and particularly salient policy issues, positions can be locked-in, pre-meeting coalition building occurs, and bargaining takes place. The real impact on transforming political preferences is probably more long-term.

Policy coordination has drawn in non-governmental actors, but to a lesser degree than one might have expected. Unsurprisingly, it was primarily the EES which encouraged a greater involvement of social partners and civil society actors. European level social partners organisations have remained relatively weak actors even in the EES. Social partners organisations of some countries became somewhat more involved in the drawing up of NAPs, yet given their low significance in the national policy-making process, they did not invest many resources or dramatically shift their attention to EU coordination procedures, remaining largely national players. Generally, the picture of civil society involvement varies substantially between countries, especially according to the pre-existence of a strong consultation culture.

With respect to the intensification of interactions and coordination attempts across policy areas at the same level of governance and as well as across levels of governance we generally found that interactions increased horizontally rather than vertically. From a *horizontal perspective* we saw European level socio-economic committees strengthening their coordination efforts. At the national level, a parallel development of horizontal fusion has taken place with regard to the EES, whereas fiscal policy coordination in contrast has not dramatically improved coordination between national ministries. As far as *vertical* fusion trends are concerned, policy fields at the European level remained rather closed to other interested political parties such as executive agencies and sub-national authorities. In the area of fiscal policy coordination, upward network building concerned primarily the highest European fora with the creation and evolution of the euro group. The requirements for fiscal policy coordination did, however, encourage some

degree of domestic vertical strengthening of coordination efforts in the form of the setting up of 'national stability pacts'.

Public Discourses and Policy Ideas: Opportunities and Obstacles to Debate and Learning

We could not observe a linear increase in public attention *for both* governing modes. Since 2001 we see a divergence of impact between hard and soft co-ordination. Fiscal policy co-ordination is increasingly 'hitting home', albeit to varying degrees in different member states, as controversies over compliance with the three percent threshold come to the fore. In contrast, publicity for employment policy coordination declined steadily, even when taking the general decrease for the topic in national media coverage into account. The Luxembourg process and its policy impulses are lost on all but those directly involved in the review process.

Policy coordination and peer review translated into public pressure and ideational change in member states differently in the two policy fields. Our case studies showed that negative recommendations emanating from the SGP or the BEPG did make an impact on publicised discourses and force governments to justify themselves in public and may have contributed to a degree of policy change (lesser deficits, national stability pacts). The EES in contrast had virtually no success in imposing reputational costs through public debate. It was only slightly better with respect to inducing some degree of ideational change. On the fiscal side we saw increasingly monothematic, mechanistic discussions about the three percent limit rather than debates about other 'messages' of the SGP framework, namely about the sustainability of public finances within the EMU framework and the need for anti-cyclical policies. Yet, the SGP together with the BEPG provided also new justifications for budgetary consolidation and discipline, as the debate about the sustainability of pension systems in the wake of changing demographics got seriously under way in a number of countries.

Finally, we found more evidence for an increasing Europeanisation (vertical fusion) than for a synchronisation (horizontal fusion) of national public spheres on economic modes of governance. Especially in the debates about fiscal policy did we observe a growing Europeanisation in terms of colouration and representation of news voices. Even though national frames of reference usually dominated these debates, European perspectives were also clearly represented both in terms of news selection and commentary. In contrast to horizontal Europeanization, we have found very little intensification of cross-national references and debates in the both policy areas. We did observe, however, a cross-national convergence in the use of news frames relating to performance comparison, sovereignty, and sanctions. The debates about fiscal policy and EMU became

thus more interlinked, even though a genuine trans-European debate has not yet emerged.

The dependent variable: Loose Policy Coordination and the Limits of Fusion Trends

Summarising the analysis of the intervening variables, our assessment is rather mixed. When surveying the whole picture, we find that policy coordination has so far not evolved in the direction of the ideal-types of tight or collective coordination, which could be seen as a stepping-stone for further political integration. In terms of the scenarios developed within this project, on balance the dominant mode of governance can be described as loose coordination with only limited fusion trends. The new legal provisions have not encouraged a co-evolution of the policy coordination modes, which would act as a stepping-stone towards deeper integration.

Policy coordination modes have not fully integrated with domestic structures of policy-making, interest mediation and public deliberation. Low levels of national ownership, especially at sub-national level, hindered the kind of adaptations needed to foster sustained compliance. Furthermore, especially in the area of soft coordination, the early enthusiasm waned and opportunistic use of the rules followed. Fiscal policy coordination entered a phase of contention and crisis as the Euro zone's two largest economies exceeded the deficit rules and successfully evaded sanctions.

At the same time, policy coordination modes were modified *without requiring Treaty change* to respond to some of these problems. During the consolidation phase (2001-2003) they became more flexible with regard to national conditions, more coordinated and synchronised, less detailed and more oriented towards medium term goals. Especially in the area of BEPG and EES, this can be seen as moderate moves towards horizontal fusion. At the same time, open method of coordination modes proliferated outside of the Treaty.

However, an alternative view is also valid: partly as a result of the failure to advance on the 'hard issues' within the EMU context, soft, non-binding policy coordination modes were introduced under the Lisbon strategy. Member states' were not prepared to relinquish control over policy areas with high electoral significance for rather uncertain gains or even potential costs from a European approach aimed at convergence of national economies. Therefore a flexible, non-binding governing mode was advanced, within which member states expected to benefit from gains in knowledge about best practices and the possibility to adapt in different ways while steering clear of hard compliance pressures in sensitive policy areas. Even more than that, national executives are increasingly realising how little room for manoeuvre has been left to them under the

current legal framework and are keen to preserve or even extend their leeway for national action and adaptation by interpreting the rules in an opportunistic and more flexible manner. This development could be seen as a creeping, largely informal process of reverse spill over, which is driven by political actors' growing realisation of the real consequences of a previous integrative step (the creation of monetary union); some member states are trying to recuperate policy autonomy by re-interpreting rules, making them de-facto less binding.

Our findings, furthermore cast doubts over whether policy coordination modes are particularly 'democratic' or enhance the legitimacy of European multi-level governance. Not only did national parliaments show little awareness of and involvement in the policy coordination procedures. Civil society actors exhibited relatively little interest in using the opportunities of policy coordination to increase their voice at the national level, partly because of their perception that national governments do not need to deliver on EU soft law. Furthermore, public debate about the issues raised by self-coordination was deficient from the perspective of sheer quantity as well as from the perspective of promoting peer review and ideational change. Finally, the problem at the policy preparation stage is that if these structures need to involve national stakeholders and feed into domestic debates in order to overcome the commitment-implementation gap at the governmental level. And if they do make an impact without such a debate, policy coordination can be accused with some justification of blurring lines of accountability, weakening the scrutiny powers of parliaments, and hiding political choices behind technocratic reasoning. In its current form, self-coordination rests on a rather weak, top-heavy legitimacy of the EU-Commission with occasional injections of political rhetoric and initiatives by the European Council.

On the Future of European Economic Governance: a Further Hybridisation of Governing Modes

At the current stage the modes of economic governance analysed in this project are not a decisive step in the ratchet fusion process of European integration leading to a communitarisation in these policy fields in the foreseeable future. The history of economic coordination since the beginning of the integration process tells us that the path chosen by the member states has not been one-directional and we have also seen that certain policy approaches and instruments had been abandoned, sometimes even without being replaced by alternatives. The only exception is monetary policy. Yet, in the era of the single currency both economic doctrine and political analysis demand at least some kind of macro-economic coordination at the European level. At the same time, economic challenges, for instance the fiscal implication of the demographic developments

of the European societies, the increased integration of the international market in which Europe has to situate itself, and, especially, the integration of the new member states into the euro zone, are likely to accentuate the need for further cooperation.

Supranational and national actors have tried to make the different coordination modes more effective during the period considered by this report, OMC spin-offs have extended the scope of deliberation on various other policy fields, and we have seen some if limited improvement of economic performance of the member states. However, there are still important procedural deficiencies on the domestic and the EU-level and the European Union and its member states will almost certainly miss the self-binding targets set within the Lisbon strategy. But as interdependences increase across several dimensions, governing modes are needed that establish a common approach while allowing differential adaptation at the national and regional level.

The European Convention as well as the Intergovernmental Conference in mid-2004 have amended the legal provision of the current Treaty only to a limited extend. While the deliberations in the European Convention have once more demonstrated that there is no consensus on how much coordination there needs to be and on the underlying economic philosophies, the outcome of the IGC – rejecting some of the proposals of the Convention and keeping more or less the status-quo – underlined the position of the member states' governments that political choices on these vital policy fields of the European welfare states should remain in their hands. The new provisions on the euro group as well as on the separate euro zone BEPGs, however, have at least the potential to increase policy coordination between euro zone countries and seem to acknowledge the necessity to ensure that an coherent economic framework is provided for the setting of monetary policy by the ECB. However, if this is understood as a nucleus for an emerging 'gouvernement économique' demanding some kind of ex-ante coordination, it might lead to further frictions and bargaining with the Central Bank.

Based on our research, and contrary to our initial expectations, for the next years we do not expect a linear development of governing modes within economic policy coordination. For instance, the introduction of 'hard' sanctions in employment policy is neither feasible nor economically sensible. With the failure of the particular 'hard' coordination mode in fiscal policy, it will in any case not serve as a model for other policy areas in which a tightening of rules could be envisaged. At the same time, the governments of the member states as well as the European Commission will have to reform fiscal policy coordination within the next years, as the current provisions have lost their credibility as they are both economically counterproductive and, after the November 2003 decisions of Ecofin, the sanction mechanism has proven to be ineffective. How this new configuration

of the Stability Pact will be legitimised and later on implemented will be central to European economic governance. But, in the light of monetary union, it will have to include some kind of sanction mechanism within the SGP to be applied if member states to not comply with newly calibrated criteria that take into account specific conditions for growth periods as well as for economic downturns. This revision should not be understood as a watering-down, but rather as an upgrading of the legitimacy of the Pact. In any event, the key problem will remain whether there will ever be sufficient political impetus to impose sanctions on non-compliant countries, as the current voting rules have made it too easy for groups of non-compliant countries to escape sanctions. Furthermore, incentives and constraints have to be carefully chosen due to the increase in heterogeneity of the euro zone, following the enlargement and the desire of some new members to join the euro zone as soon as possible.

Hence, governing modes will not converge towards a single model, but become ever more hybrid and complex as particular elements spread across policy fields. This flexibilisation will be enhanced by the length of the transition period during which numerous new member states will have (or deliberately choose) to stay outside the euro zone.

10. Dissemination and exploitation of results

The **dissemination strategy** of the GOVECOR consortium included the appearances at conferences and workshops as well as the organisation of semi-public workshops and two review meetings, publications in academic and semi-academic journals, publications and appearances in the mass media, and the presentation of the project and its results on the internet at the GOVECOR website.

The preliminary findings and the results of the project have been presented and discussed at a number of **workshops and conferences** during the lifetime of GOVECOR, most importantly, at the 1st Pan-European Conference on European Union Politics of the European Consortium for Political Research (ECPR), the EUSA conference in Nashville, Tennessee, March 2003, and at five Presidency Conferences of the Principal Contractor TEPSA. In addition, various semi-public workshops were organised as well as the **mid-term** and the **final review meeting**, where GOVECOR research was presented to and discussed with a high profile group of experts and practitioners.

Furthermore, a very important relay for the exchange of information, the coordination of research activities and the communication of research results was **Govecor-Online**, the project' web page. It included a weekly newsletter service and almost 29,000 page views were recorded. The website remains online at least until April 2008. With regard to

publications, members of the Consortium published widely in research journals, including the leading peer-review journals for the study of the European Union, and edited volumes. Beyond these formal means of disseminations members of the consortium sought to feedback its results to policy-makers through various for a. For example, Furthermore, the project co-ordinator and two of the principle contractors have carried out studies for the European Parliament on the implementation of the Broad Economic Policy Guidelines in 2001 and 2002.

The two main **follow-up activities** are linked to projects and networks funded by the 6th Framework Programme of the European Union. GOVECOR Coordinator Wolfgang Wessels is cluster leader and member of the Steering Committee of the NEWGOV project (New Modes of Governance - CONTRACT No CIT1-CT-2004-506392), an integrated project aiming to produce a deeper conceptual, empirical and normative understanding of all aspects of governance within, and beyond, Europe. Furthermore, in 2003 the Coordinator has submitted a proposal for the establishment of the "Constructing Europe" Network (CONSENT). "EU-CONSENT" as a network of excellence for joined research and teaching will look at the construction of a new Europe especially from 2005-2008.

With regard to the **exploitation of the results** after the termination of the project, the GOVECOR Consortium has been offered a contract with Palgrave for a book incorporating the project's key findings. *A Technological Implementation Plan* will be submitted to the European Commission in order to obtain the authorisation to publish the manuscript. It does not constitute a pre-defined deliverable.

II. BACKGROUND AND OBJECTIVES OF THE PROJECT

GOVECOR has studied the evolution of new modes of governance through self-coordination in the area of fiscal and employment policy and their impact on European integration between 1997 and 2003. Governance through self-coordination refers to the process through which member states agree to meet common European concerns and objectives whilst fully preserving their competences to legislate in the respective policy areas. Self-coordination aims to achieve common goals not by means of hard law through the traditional Community method but by differently binding modes of governance characterised by fixed guidelines, benchmarking, consultation, monitoring and peer pressure. The increasing political and scientific importance of this field of research has been further underlined by proclamation of the Lisbon strategy (2000), the Commission's White Book on Governance (2001), the discussion of the provisions for economic governance in the Draft Constitutional Treaty of the European Convention (2003) and the Intergovernmental Conference (2003/2004), and the controversy surrounding application of the Stability and Growth Pact since the year 2002, culminating in the ruling of the European Court of Justice in 2004 on the November 2003 Ecofin meeting on the Excessive Deficit Procedures against Germany and France.

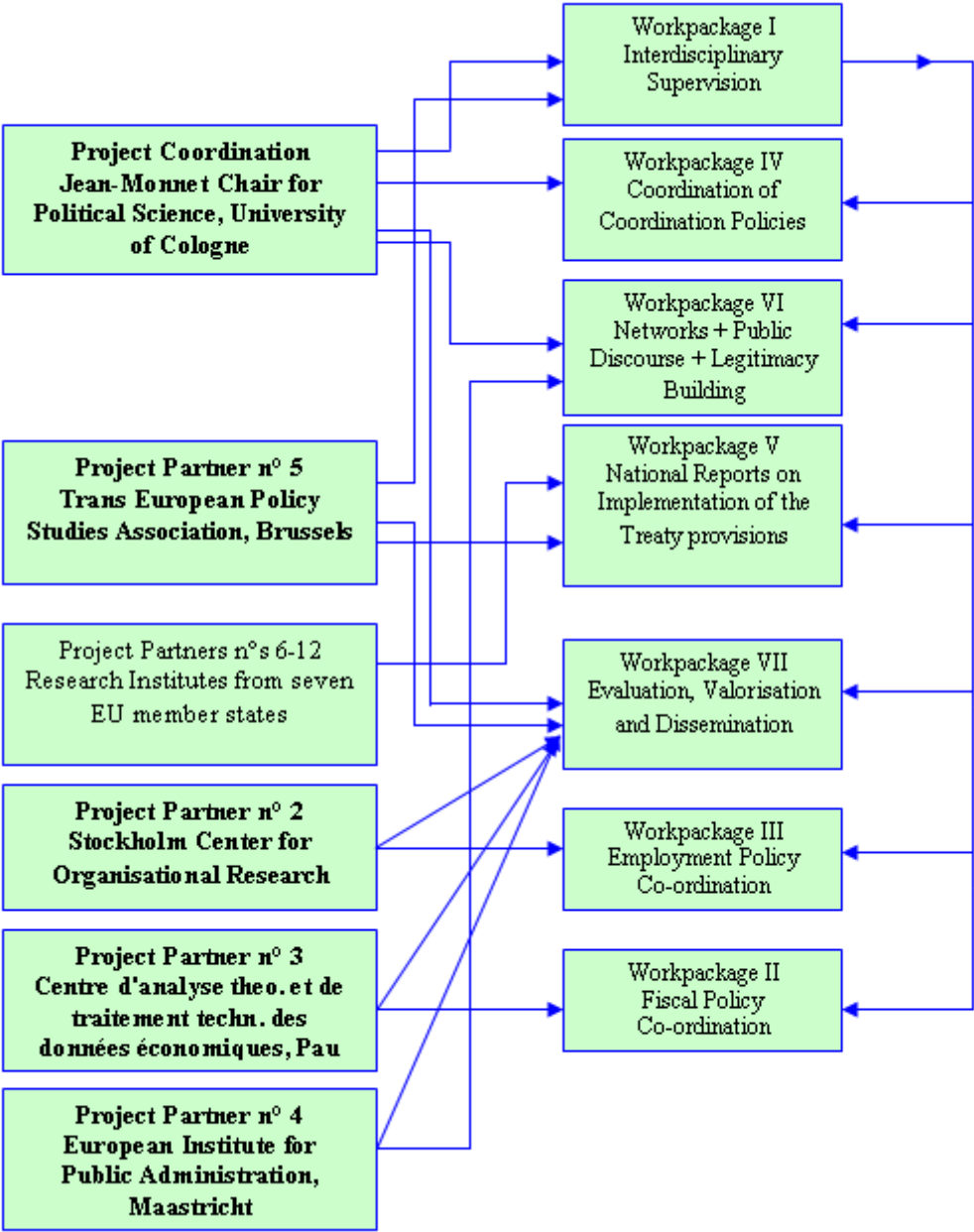
Despite the rising interest in policy coordination empirical research and theoretical analysis has been scarce, leaving large blind spots on the map of knowledge as to the functioning, effectiveness, and legitimacy of these governing modes. At the same time, the 'open method of coordination' has become the catch word for 'better governance' for political actors and experts alike. The research project has aimed to fill these gaps by looking at the impact the new treaty provisions in the field of employment policy and fiscal policy (Articles 125-130 and 104 TEC) have had and are having on the creation, evolution and perhaps the transformation of new modes of governance. How do governmental and non-governmental actors understand, use and adapt these legal empowerments, which provide means for interaction, deliberation, problem-solving, and decision-making in vital fields of European public policy? Are we going to see a gradual horizontal fusion of policy-making and opinion formation across the policy-fields as well as vertical fusion across levels of governance or do trends towards a fragmentation dominate? The first scenario of fusion would entail the emergence of a deliberative "gouvernement économique" of national and supra-national actors bound together in a core network, whereas the second can be described as ritualistic co-ordination of national actors leaving supranational institutions powerless within a 'hollow core'.

The key issues addressed by the research were: the institutional dynamics and behaviours of actors within two policy fields which qualify for the following novelties in view of other modes of governance; the differences and similarities between the two variations of co-ordination – ‘hard’ and ‘soft’ co-ordination; the institutional, instrumental and procedural linkages, fusion, fragmentation and/or segmentation trends between the two policy fields under consideration as well as between the latter and other ‘regulatory’ and/or ‘distributive’ policy fields of the EU; the emergence or failure of a ‘gouvernement économique’; and (possible) new kinds of deliberative democracy, public discourse and public opinion.

The aim of Govecor was to contribute to a better understanding of the deliberation, problem solving and decision-making processes in the European Union and the unique multi-level construction of an evolving European system of governance by self-co-ordination for the actors and the European citizenry; making the interlinking of the Member State levels and the EC/EU level through the various types of procedures and the involved inter-institutional links and networks more transparent; showing how different kinds of fused or fragmented procedures improve the processes of multi-level and multi-actor governance; making suggestions to the current conflicts between the EC/EU institutions as well as between the Member States concerning their roles, functions and strategic positions within the evolving Union; and making the debate on new forms of European governance more objective and thus helping in finding adequate tools for the upcoming debate about the design of the Union in the 21st century.

We have taken the new legal provisions for self-coordination in the two policy fields as our independent variables. In order to explore our research guiding question (dependent variable) as to the emergence of new forms of governance, we have drawn on neo-institutionalist and social constructivist theorising on the impact of these new legal provisions, pinpointing three crucial intervening variables: (i) the effective use of the Treaty provisions at different levels of governance, (ii) the evolution of governing networks consisting of both public and non-public actors (iii) and the adaptation of national public discourses on these socio-economic issues.

Figure 1. The GOVEOR Work Packages



The project has investigated these variables through six vertical (cross-sectoral) and horizontal (cross-national) analytical work packages. The three sectoral work packages have examined the use of the new legal empowerments in the fields of Fiscal policy (WP2), Employment policy(WP3) and the co-ordination of these policies on the EU-level of analysis (WP4), focussing on the Broad Economic Policy Guidelines. The three horizontal work packages dealt with interdisciplinary supervision and the development and analysis of independent, antecedent and depending variables (WP1), the implementation of the Treaty provisions on the national level (WP5), as well as Network,

Public Discourse and Legitimacy Building (WP6). A final work package dealt with the evaluation, valorisation and dissemination of the project results (WP7). Within work package 1 on interdisciplinary supervision a coherent analytical framework was developed, refined in the first months of the project and applied to the different kinds of analysis in the work packages.

The research project was managed by the project co-ordinator, the Jean Monnet Chair for Political Science at the University of Cologne, and the "core-group", consisting of the co-ordinator and all principal contractors – SCORE, CATT, EIPA and TEPSA. An additional group of seven assistant contractors to TEPSA were responsible for additional national reports in the work package on national implementation (WP5).

III. SCIENTIFIC DESCRIPTION OF PROJECT RESULTS AND METHODOLOGY

1. Theoretical Approaches to Changes of Governing Modes

1.1. The analytical framework: The Living Constitution of Economic Governance: A Neo-Institutionalist Approach to Theorising Integration

In the following we will review and evaluate contemporary theorising about the changing nature of European governance in general and evolution of soft modes of governance in particular. We will argue that theories aiming to explain the practice of European governance and accounts of how the European Union is evolving have not sufficiently taken account of each others' insights and conceptual strengths. Based on this critique, we set out the theoretical framework for the different kinds of analysis applied throughout the project. Drawing on the overlapping bodies of neo-institutionalism, Europeanisation (in fact processes of EU-isation or Brusselisation given that Europe has been and still is distinct from the EU) and regional integration, the research design, theoretical assumptions and key variables are presented and explained. However, the primary objective is not to refute, re-design or criticise different schools of theorising, but to draw on and synthesise these contributions to set out an appropriate theoretical frame for the study of economic governance. In doing so, we have also sought to integrate the insights and approaches of sociology and economics into our research design. We will argue that different neo-institutionalist approaches can be usefully combined to better understand how new modes of policy coordination have evolved, but that key insights of integration theory are needed to advance some hypotheses about their future co-development. Are they heading in the direction of a closely integrated EU economic government or do trends of divergence or even fragmentation of the various economic policy-making arenas and governing levels dominate?

More specifically, we have adopted a classic research design with the legal provisions governing policy coordination as our independent variables – the 'legal constitution' of policy-making – and an empirical focus on a number of intervening variables which help to explain the dependent outcome of what we observe as the 'living constitution' of policy-making (Olsen, 2000: 6). The dependent variable is the kind of economic governance, which may come about through a combination of institutional, procedural, behavioural, and ideational changes at multiple levels of policy-making and opinion formation. On the basis of our research design, we have sketched ideal-type scenarios of how policy coordination modes could hypothetically impact on multi-level governance (Wessels and Linsenmann 2002) and how this evolution might lay the ground for the agreement of new legal provisions governing the European Union.

1.1.1. The Debate about Policy Coordination Modes: How to Theorise Their Functioning and Evolution

We have defined policy coordination within the EU as an iterative, cyclical process by which member states submit themselves to follow a common set of policy objectives, time-tables, review, reporting and monitoring procedures in order to realise common gains and/or to safeguard the provision of collective goods. As a principle, policy coordination does not [automatically] lead to binding legislation at the European level, indeed its choice has been motivated by concerns over the drawbacks of a hard law approach, such as an erosion of national sovereignty in policy fields of electoral significance and an overly rigid approach to diverse national circumstances. Under policy coordination, competences in these policy-fields are not supranationalized or brought under the remit of traditional legislative processes such as the so-called community method. They remain usually outside of the jurisdiction of the European Court of Justice and the formal influence of the European Parliament. This rather general description subsumes a whole host of policy coordination modes, which differ amongst each other substantially, depending on, for instance, their legal basis, their degree of bindingness and depth, the means of sanctions and incentives and other criteria elaborated in more detail below. Hence, policy coordination can be 'hard' as in the area of the fiscal rules of the Stability Pact rules, 'soft' as in the area of the European Employment Strategy and the Broad Economic Policy Guidelines, or 'open' as in the case of the various new coordination procedures introduced within the framework of the Lisbon strategy (cf. also Begg et al. 2003).

Unsurprisingly, most of the academic attention has concentrated on describing, conceptualising and evaluating the allegedly 'new' modes of soft governance, in particular the open method of coordination as set-out by the European Council of Lisbon (European Council 2000, De la Porte and Pochet 2002, Linsenmann and Meyer 2002). Yet, when looking at macro-economic policy coordination in the 1970s and the application of the Broad Economic Policy Guidelines the degree of novelty can be questioned (see below, III.3.2). Policy coordination has been called the 'multi-level governance method' (Wallace 2000a: 28), 'open coordination' (Scharpf 2001b, Scharpf 2001c) or even 'democratic experimentalism' (Eberlein and Kerwer 2002). These 'soft' governing modes are often contrasted with traditional top-down regulation and the community method policy-making by virtue of being particularly 'deliberative', 'heterarchical', 'poly-centric', 'networked', 'bottom-up' (Ahonen 2001, Hodson and Maher 2001, De la Porte and Pochet 2002, De la Porte et al. 2001). The first wave of scholarship argued the case for an alternative to a hard law approach, because the latter did not leave sufficient room for national policy choices in the provision of social welfare and

therefore respect the principle of subsidiarity in vital policy fields (Scharpf 2001a). Input legitimacy would be better preserved by European policy coordination, given that binding decisions are taken and justified at national and not at European level (Scharpf 1999: 30). Another line of argument highlights the effectiveness gains to be reaped from the capacity of policy coordination to take differences between member state's political systems, socio-economic preferences and welfare arrangement into account, stimulate learning through benchmarking and peer review, and thus allow for more appropriate solutions (Goetschy 2003; Trubek and Mosher 2003). More sceptical voices, including the German Länder, highlighted the potential problems of soft governing modes, particularly the blurring of accountability between levels of governance, the lack of parliamentary involvement and the implications of joint-goal setting at the Brussels levels for regional autonomy. Moreover, first empirical studies have pointed out that soft governing modes face substantial problems to reach their objectives without at least the 'shadow of hierarchy' (Héritier 2003).

Beyond the strong debate about the functioning and performance of governance, some scholars are beginning to ask how the application of European policy coordination to new policy fields fits into and affects the course of political integration. One can distinguish between those who argue that policy coordination might be a typical step towards deeper forms of integration within the logic of a 'ratchet fusion' or neo-functionalist phenomena of spill-over (Linsenmann and Wessels 2002, Wessels 2003). Policy coordination would act as 'precursor', 'stepping stone', 'catalyst', 'transmission-belt' for deeper political integration or, in the words of Kenner, as an 'ideal means of progressing policy ... in anticipation of Treaty changes' (Kenner 1999: 58). Another position is that self-coordination modes are likely to spread to new, not previously Europeanised policy areas, where 'harmonization is unworkable or counterproductive but mutual recognition and the resulting regulatory competition may be too sensitive' (Trubek and Mosher 2001: 21, Hodson and Maher 2001: 721, Ferrera et al. 2000). Goetschy (2003) has expressed the concern, that policy coordination is not a precursor to hard legislation in the social policy field (which she evidently considers necessary), but rather a substitute. Indeed, Scharpf sees and welcomes a trend towards inserting open coordination elements into traditional governing modes covering other policy areas ('framework directives'), replacing an overly rigid approach to market creation and liberalisation (Scharpf 2001a). In this line of argument, open coordination may be either kind of first step towards a re-nationalisation of European Union governance as governments claim back decision-making manoeuvre in the area of welfare provision lost over time, or at least the end of an 'inevitable' supranationalisation trend in policy fields covered by the EC-Treaty.

How can current theorising advance the study of policy coordination modes, which aims to explain their functioning and evolution? Best suited to make these choices are new institutionalisms. Depending on the strand of theorising, institutions are understood as formal organisations and decision-making rules and/or as informal rules, norms and practices, which will influence the choices of (self-interested) political actors. We have used new institutionalism to structure our research and to select the intervening variables for the study of how policy coordination has worked in practice. But new institutionalism in its current form is not sufficient for addressing the broader question of whether and under what conditions further treaty reforms are likely to occur and thus does not constitute a theory of European integration (cf. Pollack 2004: 151, 154). It is true that neo-institutionalist assumptions pervade the traditional approaches of theorising European integration (Aspinwall and Schneider 2000). Liberal intergovernmentalist approaches (Moravcsik 1993, 2000) are in line with rational choice institutionalism in so far as they acknowledge the influence of supranational institutions and decision-making rules on structuring bargaining processes and limiting the choices of national leaders. Neo-functionalism (Haas 1958, Lindberg 1963) rests on the foundations of historical institutionalism, while its notion of political and cultivated spill-over contains elements of sociological institutionalism. But this does not mean that traditional integration theory is superfluous. Neo-institutionalist approaches are limited in that they are under-specified for the context of theorising regional integration, including the idiosyncratic role of central institutions. Classical integration theory can offer a more elaborate set of causal mechanisms and hypotheses, which can help to better explain and predict the trajectories of these soft governing modes. We will come back to the competing visions regarding the evolution of policy coordination in the concluding section.

1.1.2. Outlining a Neo-institutional Approach to Studying Policy Coordination

The Legal Provisions for Fiscal and Employment Policy Coordination: Setting the Independent Variables

Johan P. Olsen has made a distinction between the 'formal-legal' and the 'living institutions' of the European Union, by which he meant formal institutional design, decisions, and Treaty texts on the one hand, and rule-implementation, political conduct, outcomes and culture on the other hand (Olsen 2000: 7). In the case of the legal constitution of policy coordination agreed at the Maastricht and Amsterdam summits, pre-structuring consist, firstly, of explicit legal provisions for the implementation of certain procedural the setting up of specific institutions: it establishes voting rules,

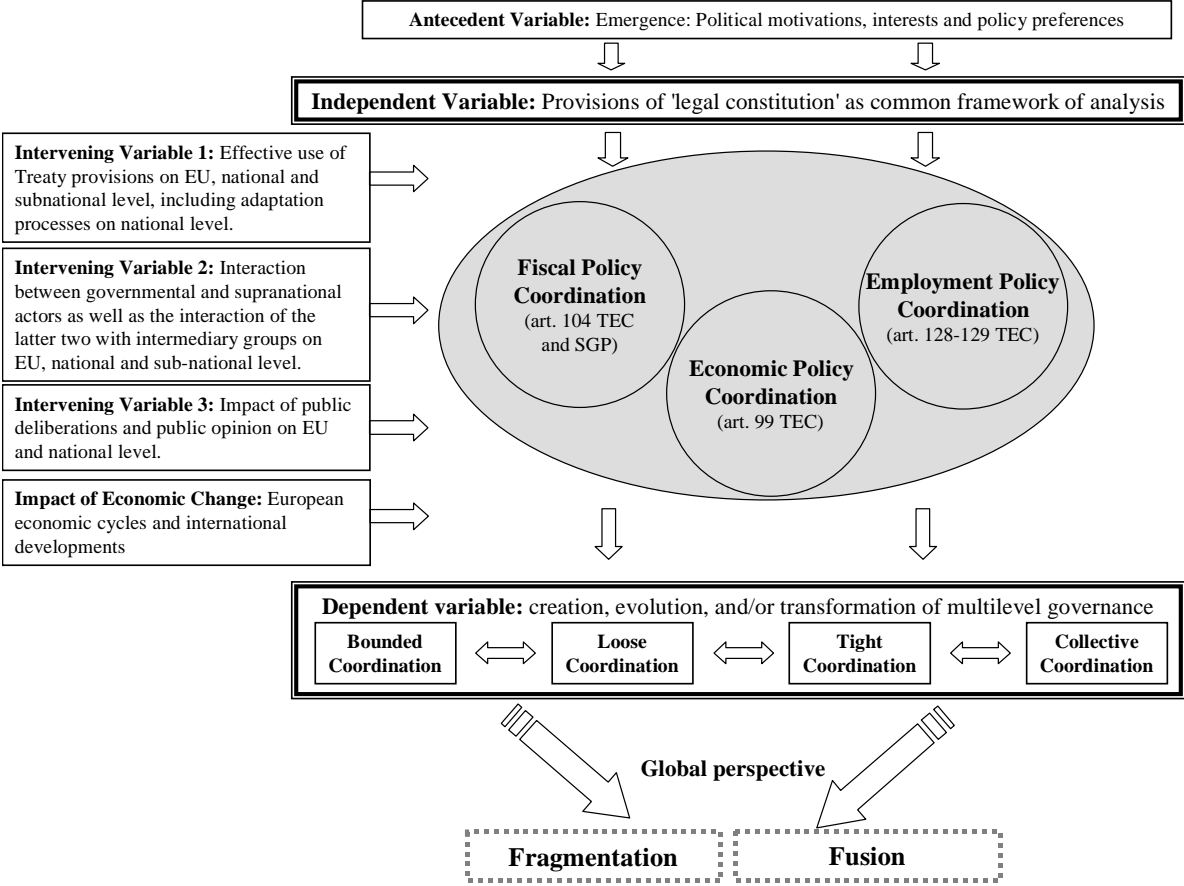
reporting and surveillance procedures with time-tables, committees to deliberate, prepare and decide. It consists, secondly, of provisions that implicitly aim to change actor behaviour through incentives for compliance (ESF funds), or disincentives against non-compliance (fines under the SGP), encourage participation of non-governmental actors (NAP process), and offer opportunities for publicity and debate (publication of implementation reports, early warnings, recommendations, reprimands). Yet, how these new constraints and incentives are used in reality and whether the use will lead to further political integration depends on pre-existing institutions, both formal and informal, at various levels of European governance, but also factors which may be exogenous to the policy fields under consideration. As time progresses, these institutions may influence outcomes in ways not anticipated by member states, leaving room for functional spill-overs and the activism of central institutions as Pierson has argued from a historical institutionalist perspective (Pierson 1996). Given the high degree of ambiguity of EU law and the enforceability gap in the area of policy coordination, we expect institutions at the national level to play a strong role in determining the degree of change. Different kinds of actors will use their freedom of manoeuvre to 'interpret', 'translate' and 'edit' the legal provisions and the soft law generated through their effective use (Mörth 2003), leading to a range of potential adaptation outcomes at various governing levels, European, national, regional and local. Neo-institutionalism can help us to better understand how the adaptation pressures and offers are being mediated, fractured and filtered through institutions, affecting the interactions, deliberation and decision making patterns of the actors involved (Bulmer 1993, Hall and Taylor 1996, Marks et al. 1996, Olsen 2000, Aspinwall and Schneider 2000). Our approach is thus to explore the impact of our independent variable on the emergence of economic governing modes as mediated through pre-existing formal and informational institutions. In fact, we are looking at three sets of independent variables: one for fiscal, employment, and economic policy coordination, given that there are notable differences in the obligations, commitments and sanctions involved for each of the participating member states (see also Chapter II.).

Combining Institutional Approaches to Mediating Political Change: Spelling out the Intervening Variables

How will the provisions for policy coordination be utilised and how will they impact on the overall evolution of European governance? In order to answer this question we have identified three kinds of intervening variable we deem relevant for understanding and, ultimately explaining, the evolution of policy coordination modes and their repercussions for political integration. The selection of the variables is informed by the three different strands of new institutionalist theory (Hall and Taylor 1996, Peters 1999, Kaiser 1999),

that is rational choice institutionalism, historical institutionalism, and sociological institutionalism.

Figure 2. From Legal Provisions to Living Practice: The Line of Argumentation



Intervening Variable 1: The Compliance with and Use of the Treaty Provisions and Secondary Legislation

The first, and in many respects key intervening variable looks at how different political actors at European and national levels of governance have followed, made use of and expanded the legal provisions for policy coordination. The treaty articles and secondary legislation generated in the source of their application do not 'dictate' certain sets of behaviour, policies, instruments and rules. However, roles and functions of institutions, procedures and sanctions as set down in primary and secondary law do matter insofar, as they provide opportunities and constraints for several groups of collective actors, most notably member state governments. Constraints include for instance sanctions mechanisms such as fines under the SGP, as well as naming and shaming under all three governing modes. Opportunities comprise for instance performance gains through peer review and benchmarking, improved access and voice for certain kinds of actors, new means to deal collectively with unexpected problems, as well as the benefits from the

preservation of collective goods. Drawing on the terminology of Europeanisation literature (Radaelli 2003: 38), the degree to which national political systems adapt can be classified as retrenchment (increasing the misfits between national and European arrangements), inertia (no response), absorption (minimal adaptation to fulfil objectives), upgrading (moderate change, some novel elements) and transformation (far reaching changes in national arrangements, also overcompliance). Yet, we do not expect convergent rule-following and use (or patterns) given that political actors are not only influenced by the new EU constraints and offers, but also by the influence of pre-existing national institutions, both formal and informal, which can shape their cost-benefit analysis of how to pursue their self-interest, their perception of what is appropriate and possible, as well as their perception of what is legitimate (open cit. Olsen 2001a: 9). These institutions may differ of course among types of collective actors, as well as within these types across national contexts as the reservoirs of institutional diversity. However, before we can understand the reasons for actors' behaviour we need to study in detail how they followed and used the rules, and whether we have seen an expansion of their scope and depth. The empirical research has been structured around three main points:

- 1) The degree to which political actors at various levels have followed and expanded the procedural and institutional provisions of policy coordination. Did the actors follow the time-table, submit accurate information or National Action Plans on time and did they submit themselves to peer review and multilateral surveillance? To what extent did national actors adapt their internal coordination and consultation procedures and the institutions in charge of them in order to better respond to the new requirements? Did EU institutions and bodies, most notably the EU Commission and the key policy committees (EFC & EMCO) seek to intensify use of the existing procedures and institutions or by making them harder by linkages to the first pillar (for example by linking the EES to programming under the European Social Fund)?
- 2) The degree to which political actors at different levels of governance have followed and expanded the scope of soft law emanating from policy coordination by adapting socio-economic policies. Has the scope of EU policy coordination expanded to include new policy areas, either through hard or soft policy coordination (including the extended scope of OMC)? To what degree have policies and associated institutions changed as a result of commitments and recommendations of self-coordination, for instance the setting up of national stability pacts to control sub-national spending?

- 3) Finally, we are interested in whether the rules lead to differential empowerment of institutions, political actors and socio-economic interests in the economic governance processes at the European, national and regional level. Firstly, we are interested in whether the new and existing institutions and committees for decision-making and deliberation such as the ECMCO and the EFC have gained in importance and leverage in policy-making. At the national level, we are interested in investigating whether the relationship between national ministries has been altered through the existence of policy coordination mechanisms with different characteristics.

Intervening Variable 2: Impact on Interactions between Supranational, Governmental and Non-Governmental Actors

The second variable refers to the impact of the provisions on the extent and nature of the interactions between governmental and non-governmental actors across and within different levels of European governance. Treaty provisions as well as the European Council conclusions of Luxembourg (1997), Cardiff (1998), Cologne (1999) and Lisbon (2000) have stressed the wish to include interest groups, social partners and other NGOs to achieve a broad understanding of policies via deliberations on the EU level. Moreover, in so far as the policy coordination process is perceived as important (depending on intervening variable 1), the provisions may influence the interest perception of intermediary groups and in turn, their strategies of projecting these interests. In addition to this rationalist account of change in interactions, policy coordination provisions also aim to change informal institutions. Especially, soft coordination relies on 'discursive regulatory mechanisms' (Jacobsson 2002: 9) geared towards the creation of knowledge and meaning through communication, signalling a dominance of arguing over bargaining (Risse 2002). It is on this background that scholars have seen potential for deliberative governance through OMCs (Eberlein and Kerwer 2002, Trubek and Mosher 2003). Finally, the evolution of networks may come about as the functionally efficient response to the interdependence of the issue areas covered by policy coordination provisions, for instance between job creation and fiscal consolidation. Hence, the legal provisions may stimulate - some more and some less, some directly, others indirectly - the creation or the reinforcement of informal or quasi-formalised networks of public and private actors (Streeck and Schmitter 1991, Héritier 1993: 432-50, Lehbruch and Schmitter 1983), a form of deliberative supranationalism (Eriksen and Fossum 2000). To explore these dynamics, we will seek to address the following questions:

- 1) To what extent did the new provisions impact on the nature of the interactions between national and supranational actors within committees and other formal

and informal peer review and decision-making fora? Are these interactions more characterized by bargaining or deliberation as these actors take part in problem-solving processes and are subject to socialisation pressures?

- 2) Have the new provisions substantially encouraged the involvement of non-governmental actors in the coordination cycles at the national and the European level? What kind of non-state actors (e.g. social partners, private companies and non-corporatist NGOs) are most active and are given access? Do we witness strong or weak players shaping clearly defined interests primarily in the national capital or only in Brussels? Or do we observe - on the other hand - intermediary groups as multi-level players, which are able to perform at both levels using efficiently the offers in the 'Brussels' and as well as the national arena?
- 3) Do we see an intensification of interactions and coordination attempts across policy areas at the same level of governance and as well as across levels of governance? This question is particularly relevant for understanding the extent to which vertical and horizontal network-building is occurring among administrations. In this respect, we need to understand which parts of the national administrations are actively involved in policy coordination and how they integrate with the higher political echelons on national policy-making.

Intervening Variable 3: Impact on Public Debates within and Across Member States

The third variable draws on sociological institutionalist thinking to explore the contribution of public discourses to political change, in particular, how political actors alter perceptions of their interests, how new institutional paths are being established, and how new cultural rules are being created (Rosamond and Hay 2002, Schmidt 2002, Schmidt 2001). Policy-coordination, on the one hand, relies on mechanism of peer review and learning to support the process of voluntary deliberation and adaptation. Policy coordination may, on the other hand, also impact on public discourse and debates through the publication of peer review assessments, ranking exercises such as the Lisbon/BEPG scoreboard, and the deliberate use of 'naming and shaming' to impose reputational costs on non-compliance member states. A regulatory Europeanisation of public debates on these policy issues and an increasing public attention for the process and the results of self-coordination may thus impact on the cost-benefit analysis of governments. If the public resonance is very high, it may also bring about ideational changes with regard to key policy ideas and paradigms of national welfare state. Furthermore, the legal provisions and their effective use may prompt news media to pay increasing attention to EU policy coordination through a process of compensatory

Europeanisation of public debates. This would also involve the gradual opening up of domestic public discourses towards each other and toward the Brussels level (Steege 2002, Meyer 2002, Risse 2002). This could provide deliberative governance with a public dimension, which would enhance responsiveness and accountability.

- 1) To what extent did the provision for policy coordination lead to an intensification of public discourses on these issues over time? This implies, most importantly, a rise in public attention for European policy coordination processes, instruments, and outcomes. The background assumption is that only if there is a minimum degree of public awareness of the existence and functioning of self-coordination modes can accountability mechanisms and 'naming and shaming' work effectively.
- 2) To what extent does policy coordination and peer review translate into public pressure and ideational change in member states to support compliance with EU soft law? How do the media portray critique and ideas emerging from EU institutions and other governments? We also ask to what extent ideas and messages emanating from policy coordination are diffused from the European to the national level and debated? And if so, to what extent can we identify ideational change over time?
- 3) Finally, we are interested in the contribution of soft governance to the increasing synchronisation and Europeanisation of national public spheres. Do we witness the emergence of a European and/or cross-national discourse on issues of socio-economic governance? Do what extent can we identify discursive linkage building between functionally interdependent issues areas on the one hand, and national arenas of political action on the other hand?

The Dependent Variable: Evolving Modes of Economic Governance in the European Union

We seek to explain whether and to what extent modes of economic policy coordination are developing into a stepping stone for more integrated forms of economic governance in the European Union. The primary underlying expectations has been that rule following, adaptation processes, the emerging networks for problem-solving of institutional and intermediary actors as well as the impact on publicised discourses will not be disjointed. The findings of the distinct research areas will thus be re-visited to analyse converging trends and (new) forms of co-ordination efforts among policy areas, thus indicating the creation of new and distinct modes of coordination. Also asymmetries between the two areas or between the networks in each area will be analysed in terms of their implications for the overall evolution of European multi-level governance. The depending

variable is thus a moving target, which needs to be observed during a sufficiently long period of establishing the 'living constitution' and observing fusion or fragmentation trends (1997-2003). Looking at the combined impact of the legal provisions across levels of governance (vertical dimension) and across governing modes in the selected policy fields (horizontal dimensions), we have adopted an inductive approach by outlining four ideal-types of modes of economic governance as different potential values of our dependent variable (see Table 1).

Bounded coordination describes a scenario in which the rules for policy coordination are becoming dead letters, at best symbolically followed and routinely ignored when formulating national responses to economic policy challenges. The committees at the EU level would be, at first heavily polarised as bargaining between the actors dominates, and over time increasingly hollowed out as national administration send only lower rank civil servants. The scope of policy-making would diminish. Governing networks remain nationally bounded, do not freely share information about their intentions and situation nor do they coordinate their approaches, thereby diminishing gains from learning and raising the risks to collective goods (e.g. stable common currency). Non-governmental interests limit their strategies exclusively to the national level, largely because they do not see the EU sphere as having much influence. We also expect that public discourses are thoroughly nationalised through the symbolic exclusion of European and the foreign voices. We would see evidence for blaming Brussels and questioning its legitimacy in interfering in national economic affairs. This scenario amounts to a status-quo ex-ante minus, i.e. the situation we had before the coming into force of the legal provisions of Amsterdam. The different governing modes will function largely in isolation of each other and coordination procedures fail to make an impact.

Loose coordination means that participants are following largely opportunistic strategies and comply when the benefits are obvious and the costs negligible. Although the rules are being used/followed, we would see little intensification of procedural use and institutional innovation. While the responsible committees fulfil their work, we see a mixture of bargaining and arguing, with the former dominating whenever strong national preferences for the status-quo exist. We would also see increasing cooperation between different relatively small segments of national administrations and interest groups in European fora, and a moderate receptiveness of national public discourses to other European voices. Naming and shaming strategies would remain largely ineffective for making recalcitrant governments comply with recommendations and we would also find only relatively minor instances of learning and ideational change. With regard to the question of scope for policy coordination, we would find only little changes.

Tight coordination can be seen as an upgraded status-quo ex-ante scenario, where the EU level institutions, procedures and goals of economic governance enjoy strong support, where participants are ready to accept costs for reaching common goals, and where political actors are adhering to and extending 'the spirit of policy coordination' as articulated in European Council conclusions. The commitments and recommendations are followed not only if in line with actor's predetermined preferences, but rather actors are open to change their interest perceptions due to the intense interaction processes and deliberations with their peers and other actors. Public discourses about policy coordination would intensify nationally, raising the effectiveness of 'naming and shaming' mechanism and a degree of public accountability. Policy coordination would not be moved up the integration ladder with regard to the level of member state commitments, but we would expect its extension to new policy fields, not least because the actors involved acknowledge the usefulness of this approach.

Finally, one can envisage a transformation scenario, in which member states and EU institutions alike are increasingly being socialised into collective coordination. This is understood as a governing arrangement, which builds up mutual trust through deliberative problem-solving rather instrumental bargaining and does only rarely need to use the provisions for qualified majority voting. Political actors from different levels would thus constitute a 'core network', whose interactions will be sufficiently strong to develop a 'communauté de vue' and to exist even without an institutional centre. Such a network would raise support for deepening mutual commitments to economic governance, formulate more specific rules, institutionalise deliberations, pool policy instruments, and firmly apply sanctions against 'sinner' governments. This development would be backed by a fusion of governing networks and a Europeanization of public opinion formation and idea diffusion regarding economic policy issues. We would see the gradual emergence of a Grand Débat Européenne across national public spheres on issues of economic governance. These developments would be geared in policy terms by a coherent and increasingly detailed economic policy strategy. Collective coordination might also be viewed as the fulfilment of demands calling for the establishment of a 'gouvernement économique' (Commissariat Général du Plan 1999; Jospin 2001, Verdun 2003), although the actors of this evolving 'core network' would encompass not only national governmental actors but also European institutions such as the Commission and the ECB and European social partners via the macro-economic dialogue.

Table 1. Intervening Variable and Types of Governing Modes

Indicators Evolution of Policy Co-ordination	Type of Cooperation	Rule Following and Adaptation	Evolution of Governing Networks	Impact on Public Discourses
Bounded	Purely symbolic cooperation	National: Non-Compliance, mainly inertia European: purely symbolic; rules become empty letters	National: horizontally fragmented European: horizontally fragmented Nat/European: vertically fragmented, no evolution	National: isolation of debates, 'us against them' frames prevail European: no European discourse
Loose	Opportunistic cooperation based on pre-defined national interests	National: limited compliance, mainly absorption European: Compliance by letter, but hardly by spirit	National: some attempts for overcoming horizontal fragmentation European: some attempts for overcoming horizontal and vertical fragmentation	Limited Europeanisation in terms of themes, hardly any reciprocity
Tight	Strong support for European cooperation; acceptance of costs for the sake of common approach	Compliance by spirit and letter, at the national level mainly upgrading	Some degree of fusion and intensified interaction on both levels	Europeanisation of public discourses, thematic synchronisation and reciprocity
Collective	Rise in mutual trust through deliberative problem-solving; support for upgrading of rules	Overcompliance as new rules are being created, transformative change at national level in some cases	Vertical and horizontal Fusion trends between European and national actors	Tranationalisation of public discourses, notion of single public sphere

1.1.3. Catalyst Towards an Economic Government? From Real Use to Treaty Change

The previous analysis is limited to all kinds of changes in the evolution of policy coordination modes below an amendment of EU primarily law, i.e. the Treaties. Yet, we do want to argue that the dynamics unleashed in the process of translating legal provisions into governing practices are relevant for assessing the likelihood and indeed causes of such change, and their impact on overall integration trends. Will these current

governing modes remain episodic in time and limited in scope, will they mature and spread to new policy areas, or will they act as a stepping stone towards a communitarisation of these policy-fields, transferring national competences into the supranational domain of the Community Method?

We have argued before that neo-institutionalist assumptions about the role of formal and informal institutions pervade theories of (European) integration, some more explicitly than others. The question is what these theories would let us to expect of the future evolution of economic governance? What could be the cause for upgrading at a still undefined new critical juncture, which could involve the hardening of governing modes and/or their extension to new policy fields through changes to primary EU law? From the perspective of historical institutionalism, a theoretical expectation would be that the institution of the legal provisions will strengthen the leverage of central institutions and set in motion new and mostly unintended dynamics in dense issue areas, which will induce national political actors to beyond their initial commitments to delegate more power to central institutions. Historical institutionalism ties in with neo-(neo)-functionalist tenets (Schmitter 2004) that predict the occurrence of tensions arising from the functional interdependence of economic sectors covered by one set of instruments, which might force actors to extend the scope and depth of the community approach to reach their original objective or deal with unintended harmful effects. These tensions and contradiction do not always arise, however, and they do not always automatically necessitate a supranational response. One argument has been that a further communitarisation of fiscal policy coordination may come about if the current approach is perceived as not effective enough to guarantee the stability of Monetary Union. Furthermore, a hard law approach to employment policy may be supported by member states in order to prevent the unintended consequence of a regulatory race to the bottom in an environment, where governments have given up fiscal room for manoeuvre to the Stability Pact, as well as the leverage of interest rates and currency devaluations. Authors have thus emphasised the alleged 'asymmetries' between a highly centralised monetary policy-making authority with the European Central Bank and decentralised but functionally connected national policies (Verdun 2003, Collignon 2003).

In addition to these functional spill-overs, we can expect to see forms of cultivated and political spill-over to take place in policy areas dealt with by the Community. The Commission (and the European Parliament demanding more accountability) would increasingly seek to expand their roles and influence and to lobby hard for a formal upgrading of their competences. A form of cultivated spill-over would be the Commission's efforts to give the EES more teeth and incentives by linking it strategically to the allocation of subsidies through the European Social Fund (with its employment

objective). The Commission would be also expected to try to build up support for the view that economic growth in Europe and the avoidance of recession may only be possible if market and currency integration goes hand-in-hand with coordinated and supported attempts of national levels reforms of social security systems and labour markets. This view would be increasingly supported by the dynamics of political spill-over, which involves the co-opting and socialisation of national civil servants and experts into European epistemic communities (cf. Haas 1992), a process called engrenage (Taylor 1983: 9). Moreover, as new forms of coordination evolve, they will draw in not only administrative elites, but also different types of intermediary actors. Non-governmental actors will realise the shift of problem-solving activity, use the new opportunities for influence, and eventually lobby to the extent that they are rewarded by this activity for a further communitarisation of the respective policy fields.

The ratchet fusion thesis (Wessels 1997) draws on and complements these (historically contingent) spill-over accounts by adding the impact of globalisation on the problem-solving capacity of the nation-state and the repercussions of increasing interpenetration of administration at various levels of governance. Hence, external economic pressure or events such as increased competitive pressures as a result of globalisation might push national executives concerned over economic growth and the protection of the welfare state to look towards the European level for assistance, while the highly bureaucratised iterative process of peer review, national reporting, and multi-lateral surveillance might build-up administrative interdependence and trust among the participants. Integration then proceeds in stages of trial and error from the creation of predominantly intergovernmental, loose coordination structures over critical junctures of treaty reform to ever more supranational forms of decision-making (Wessels 2003: 213, Wessels 2001: 18).

The following chapters will take turns in looking at the intervening variables elaborated in the previous section and explore of how their observation can help use to better understand the evolution of policy coordination modes and whether their 'living constitution' is likely to act as catalyst for deeper political integration towards a more integrated European economic governance.

1.2. To coordinate or not to coordinate: The economic rationale for fiscal policy coordination in the Euro zone

This chapter tries to clarify the economic rationale for fiscal policy coordination in a monetary union and to shed light on the sources of current difficulties with the implementation of rules in the field of fiscal policy in the Euro zone. We survey the major arguments for policy coordination and discuss the possible objectives of coordination, as well as the major devices to coordinate fiscal policies. Then we analyse the constraints and incentives that arise from these various tools of policy coordination, in order to better understand the choices facing national governments in such settings. We will emphasise one important source of difficulties in the current EU configuration, namely the heterogeneity of national macroeconomic performances. Furthermore, we review some possible sources of this heterogeneity and stress that country size is probably a relevant dimension to consider when analyzing the incentives facing national governments in a monetary union. Finally some tentative conclusions about the design of rules and institutions for a better macroeconomic policy mix in the Euro zone are drawn.

1.2.1. Economic interdependencies and the rationale for coordination

What emerges from the abundant economic literature on policy coordination is the generic idea that the need for coordination arises in contexts characterised by interdependencies, due either to collective goods or to externalities: in such contexts, decentralised decision-making in the absence of coordination devices will lead to sub-optimal, non cooperative, Nash equilibria. In a monetary union with decentralised fiscal authorities, economic interdependencies may arise from different channels. They result from the existence of collective goods, such as monetary stability or reputation on financial markets and vis-à-vis private agents in general, of public goods and common policies (defence, infrastructure building with network effects, and so on), or from spillovers, that is unintended consequences of national macroeconomic policies on other member states economies, and such spillover effects may be positive or negative.

The nature of macroeconomic spillovers from fiscal policies

Because the European monetary union was conceived at a time when monetary stability was widely held to be the single, most desirable objective, and with the aim of minimizing centralisation, that is transferring only monetary powers at the supranational level, while leaving most attributes of economic sovereignty, especially fiscal and tax policies, in the hands of national governments, interdependencies stemming from the use of these instruments were given most attention in the debate over economic policy

coordination. Macroeconomic spillovers from national fiscal policies in a monetary union arise as a consequence of market integration or, due to monetary integration, of the interactions between the aggregate outcome of decentralised fiscal policies and the central bank's decision process. In the first category, spillovers may be either positive – the so-called traditional Keynesian spillovers, that result from the multiplier effects of fiscal policies and their 'locomotive effects' through trade – or negative, mostly through the consequences of deficit financing on financial variables, be they interest rates or exchange rates. Similarly, the spillovers linked to interactions between fiscal and monetary policies are also negative, resulting in the choice by the central bank of a tighter monetary policy than it would have decided in the absence of budget deficits, insofar as they represent a threat to monetary stability¹.

In spite of the relative scarceness of empirical evidence regarding the respective magnitude of these various sources of policy interdependence, the dominant view, and indeed the one behind the choice of imposing fiscal rules – the Stability and Growth Pact (SGP) – is that negative spillovers tend to be more important. The most commonly cited in the literature are the induced rise in long term interest rates and fall in the external exchange rate of the common currency when budget deficits increase, as well as the short-term interest rates' hikes that the central bank may want to impose as a retaliatory move when national fiscal authorities appear not to exert enough political will to contain budget deficits. Whereas experience to date with fiscal policies in the Euro zone would seem not to validate these hypotheses concerning the channels of negative spillovers, it is likely that a prolonged period of deficit financing in a context a low growth will result in a process of public debt accumulation in some countries, and that may lead to unsustainable debt dynamics, which would in turn threaten the long term monetary stability by eventually imposing some form of bail-out by fellow governments or by the central bank (monetisation), and this may be reflected in higher long term interest rates for the whole monetary area.

Whereas positive spillovers or collective good situations should be dealt with by a centralised authority or collective action, either by common policy instruments or by incentives for decentralised decision-makers to act in the common interest, negative spillovers can in principle be fought either by negative incentives or by the adoption of rules imposing limits and constraints on national fiscal policies, in order to prevent the nuisances arising from 'bad behaviour' and 'excessive public deficits'. But these rules

¹ It should be emphasised that the time horizon of the various effects and spillovers may differ widely, which may help explain why democratically elected governments may put different weight on costs and benefits materializing at different horizons.

have a cost, in terms of lost opportunities or reduced flexibility, and they should be properly directed at making national fiscal policies sustainable, not necessarily through an upper limit on current deficits.

External effects from domestic public spending and the issue of public goods

Just as the tax side of the budget may generate external effects on partners in an economic and monetary union, the precise composition of expenditures is also likely to influence the overall economic performance of the union, hence also the sustainability of individual fiscal policies of its member states. Most recent developments in growth theory, as well as a number of recent empirical studies comparing the growth performance of the EU to that of the US over the past decades, point to the importance of such factors as investment in infrastructures, not only for transports, but also for communications, and spending on higher education and R&D². These expenditures are, to a large extent, financed by public funds, either through direct provision or through indirect funding. Again, to the extent that such interdependencies are of a relevant magnitude, the rules chosen to constrain fiscal policies should induce favourable choices on the part of national governments.

This consideration is actually more generally true for the whole range of public goods that are deemed to provide benefits to the whole union, especially in a context in which it has been decided, for good or bad reasons, that the EU central budget should remain small, which correspond to a conception of federalism in which most of the tasks of public good provision and execution of common decisions are devolved to national governments³.

It may also be argued that the macroeconomic policy mix of monetary union is indeed a public good for its members, so that institutions should be designed in such a way as to elicit individual policy choices that result in favourable aggregate outcomes, including an appropriate orientation of monetary policy by the central bank.

Wage moderation, structural reforms, and other sources of spillovers

There is also a large array of policies that can be shown to have significant spillover effects on partners in an economic and monetary union. In particular, all policy instruments that affect production costs for firms located in the domestic economy, such

² For a broad perspective and thorough analysis of growth policies in the European Union, see Sapir *et al.* 2004, who offer radical, and debatable, solutions.

³ See *infra* and Le Cacheux 2004a. A classical line of analysis of these issues is of course the theory of fiscal federalism, which tends to favour centralisation (see, for a synthetic statement, Oates 1999), first applied to issues of European integration by the McDougall Report (European Commission 1977).

as wage moderation and a whole range of 'structural reforms', have consequences that are very similar to those of tax competition, and therefore contain elements of non-cooperative, beggar-thy-neighbour strategies. The institutional framework of the economic and monetary union may, in many cases, lead to an excessive recourse to such policies, especially for small members (see below), or indeed insufficient recourse on the part of large ones.

The Optimum Currency Area (OCA) analysis also suggests that structural reforms, especially on the labour markets, as well as efforts to coordinate employment strategies, may also serve the purpose of substituting for an insufficient central budget in the EU, by easing the adjustment of national economies to idiosyncratic shocks

Rules vs. discretion: the distrust of democratically elected governments

The precise rules and institutions that have been chosen for the Euro zone in the Maastricht and Amsterdam treaties have been decisively influenced by the inflationary context of the seventies and eighties in the EU, as well as by the then dominant macroeconomic theories, that is the so-called 'new classical, rational expectations macroeconomics'. In these analyses, interventions by public authorities in the functioning of the economy are at best ineffective and useless, and at worst harmful in that they lead to an equilibrium with a higher than desired inflation rate and an unemployment rate no lower than in the absence of discretionary policies⁴. This strand of analysis also emphasises the perverse incentives facing democratically elected governments, due to the problem of time inconsistency of optimal strategies. Natural recommendations from the implications of these theories are therefore to prevent elected authorities to tamper with money, by granting independence to central banks, and to constrain their fiscal policy choices by rules and automatic sanction procedures, preferably implemented by independent bodies.

1.2.2. Coordination by rules and other institutional arrangements: constraints and incentives on national governments choices

While the economic rationales for policy coordination are quite numerous, but of unequal and debatable empirical relevance, they leave open the issue of how to design institutions that would foster coordination of the kind required according to the underlying analysis, and also of the costs and benefits of the various tools that may be

⁴ This is an essential, though highly debatable, ingredient of the 'Brussels-Frankfurt consensus' (Sapir *et al.* 2004), which tends to negate the existence of a trade-off between stability and growth, even in the short run. For a forceful reassertion of these, by now old, arguments, see Lucas 2003. For critical appraisals of this view, see Le Cacheux 2004b and Fitoussi/Saraceno 2004.

used to elicit favourable behaviour from national governments of member states in a monetary union.

Negative coordination by rules: outlawing dangerous or harmful strategies

Fiscal policy rules, such as the SGP, constitute the minimum coordination devices: by setting limits on what national governments are allowed to do, they are meant to prevent them from embarking on behaviour that is deemed harmful for the union as whole. As is well known though, such rules are subject to a number of limitations, some of which have been illustrated by the difficulties to implement the SGP over the past few years. In particular, if rules have a discretionary element of interpretation, they may suffer from a lack of credibility. But most importantly, it can easily be shown that the SGP has been ill-designed to achieve the kind of sustainability of fiscal policies it is meant to ensure: first, as is by now well understood, the pro-cyclical bias of a current deficit ceiling does not induce enough deficit reduction in good times, while becoming too stringent in bad times, even to the point of impeding the spontaneous functioning of automatic fiscal stabilisers; second, it does not elicit the kind of expenditure choices that would be most favourable to long term growth of the monetary union, nor is it particularly in favour of public goods; finally it lacks legitimacy and credibility, so that breaching the rule may not be very costly for national governments. Hence, considered from a cost-benefit point of view, it is not clear that the precise specification of the rule is appropriate, not to speak about optimal rules (see Creel/Latreille/Le Cacheux 2002; Fitoussi/Le Cacheux 2003).

The aggregate policy mix

While fiscal rules such as the SGP may be regarded as useful, even if ill-designed and costly, to prevent harmful strategies on the part of national governments, they are clearly insufficient to induce cooperative behaviours in a number of circumstances. To illustrate this aspect, it may be useful to recall the distinction, taken from the theory of optimal currency areas, between symmetric, or common, macroeconomic shocks, and asymmetric or idiosyncratic macroeconomic shocks. The literature has usually concluded that, in the absence of sufficient mobility of production factors or flexibility of relative prices and wages, and barring a significant increase in the size of the central, federal budget, the latter would require some autonomy of national fiscal policies in a monetary union, which the SGP may not allow. But it has also been generally assumed that the former could be dealt with using the common monetary policy tools. This conclusion may be challenged on the ground that it is often preferable to use a macroeconomic policy mix, so that a desirable feature of common institutions is to induce national authorities and the central bank to coordinate on the appropriate mix, which is probably not the case

with the current set of rules and institutions in the euro zone (see Fitoussi 2002; Fitoussi/Le Cacheux 2002).

It may, for instance, be argued that the current policy mix is characterised by too restrictive a monetary stance, and too expansionary fiscal policies in the aggregate, which may explain the tendency of the euro to appreciate vis-à-vis the dollar in a period of weak economic activity in the euro zone. One possible cause of such an inappropriate mix may lie in the difficulties of coordinating small and large countries in matters of fiscal policy, with the former tending to free ride on the latter in the occurrence of common shocks. Another explanation may be the game situation in which national governments and the central bank are engaged, which in some occasions will lead to a 'game of chicken' (Fitoussi/Le Cacheux 2002).

Growth policies as a European public good

A more ambitious goal of coordination in a monetary union would be to design institutions and rules in such a way that they would contain the right incentives for the various actors – national governments and central bank, but also national parliaments, public opinions, the European Parliament, and so on – to choose the strategies that would be most favourable to average, long-term growth of the union, as advocated by the Sapir report. This would mean that sustainable public finances are a medium term objective, rather than a short-term constraint.

1.2.3. Heterogeneity in the Euro zone

In spite of efforts during the transition phase to economic and monetary union, especially through the imposition of convergence criteria – the so-called Maastricht criteria –, the economies of the euro zone has proved much more heterogeneous than what had been expected. This is clearly shown in the standard macroeconomic performance indicators, especially measures of price stability, short and long term real interest rates, which in turn influence domestic growth rates and unemployment rates, as well as in the current account positions of the various member states. With identical nominal short-term interest rates and almost equal long-term ones, differences in domestic inflation rates are reflected in different real interest rates: indeed lower real rates not only tend to boost economic growth by making investment and private indebtedness less costly, but also reduce the real burden of existing public debt, thus easing the task of fiscal policy making.

For monetary policy, the heterogeneity of monetary conditions and transmission mechanisms raises a number of serious problems: the better known ones relate to the

decision-making rules in the ECB council, with the excessive weight of small countries (cf. e.g. Fitoussi/Creel 2002), many of which happen to have inflation rates higher than average. With regard to fiscal policies, the 'one-size-fits-all' character of the rules may also prove harmful in a number of contexts, as illustrated by the case of Ireland in 2001, formally in line with the deficit and debt requirements of the Stability and Growth Pact, but in practice having too expansionary a fiscal stance, given the high growth, high inflation situation of the country at the time.

1.2.4. Possible causes of macroeconomic heterogeneity

How can such large discrepancies in macroeconomic performances and policy stances be explained? One possible, though not very plausible, explanation would be asymmetric shocks; but why would such shocks have been so numerous and so large, systematically hitting smaller countries? Another explanation would rely on 'structural' differences, especially in development levels: most countries having higher inflation rates are also economies that were lagging behind and have been catching up, for various reasons and at different speeds, over the past decade or so; the Balassa-Samuelson hypothesis that such countries would then experience above-average inflation rates, due to the diffusion of nominal wage increases from the tradable sectors, exposed to foreign competition and benefiting from high productivity gains, to the non-traded, sheltered sectors where productivity is lagging behind and prices initially much lower, but then growing faster. This hypothesis helps explain some of the observed differences in domestic inflation rates; but then what about the Netherlands or Luxembourg?

Differences in the preferences of national governments with respect to price stability and growth or unemployment may also be invoked, as a widespread cause of failure to coordinate, and of the observed differences in macroeconomic performances. But economists are always reluctant to rely on such explanations; and in spite of differences in discourse, there seems to be a growing consensus – 'Brussels-Frankfurt', in the terms of the Sapir Report – in the EU on the virtues of monetary stability and sound public finances.

However, there may well be differences in the perceived trade-offs facing national governments in the field of fiscal policies. First, as alluded to above, the time horizon of costs and benefits of the various policies may influence the choice of nationally elected policy-makers. Then, there may also be cognitive divergences on the ability of fiscal policies and its various components to really have a significant effect on domestic macroeconomic conditions: this would refer to the 'power of ideas' – dear to Keynes – in shaping policies. But perceived differences in costs and benefits of various policy courses

may also correspond to actual, genuine differences, relating, in particular, to country size.

1.2.5. Small and large states: coping with differences in incentives

Although the equal treatment principle is deeply entrenched in the democratic ideals and widely regarded as the only fair organisation rule in a democracy, the recent crises with the implementation of the SGP, with all four large countries of the EU having budget deficits above the 3%-of-GDP ceiling in 2004, and with the conflict over qualified majority rules that forestalled the adoption of the constitutional treaty project, have revealed a profound cleavage between small and large countries in the EU, a distinction that had never been apparent before. For scholars of the history of federal states and institutions, especially of the United States of America, this should not come as a surprise (see Laurent/Le Cacheux 2004).

Nor indeed for economists, as it has long been emphasised that in contexts of 'collective action', size matters and smaller players are more likely to free-ride and exploit larger ones (Olson 1965), and as it may easily be shown that the incentives – costs and benefits of various courses of action – facing a small open economy are not at all the same as the ones facing a medium-sized one, such as Germany or France, which may help explain the differences in performances and strategies that seem so systematic in the recent history of the euro zone.

For a small open economy, traditional fiscal policy of the Keynesian kind will usually be of little efficiency, whereas all policies that improve the competitiveness of the national economy by lowering production costs of firms located in the domestic economy are relatively more powerful: this may explain why fiscal consolidations in small countries have been found to have 'non-Keynesian' effects (see Giavazzi/Pagano 1996); it also suggests that tax competition, 'structural reforms' and wage moderation policies will all have very powerful, positive effects for a small open economy, both because exports represent a major fraction of demand to domestic firms and because the elasticity of the supply of external capital – in particular foreign direct investments – is higher, the smaller and the more open the economy is. In addition, policies that lower production costs in a small economy do not harm domestic demand very much, and they have little incidence on domestic inflation, so that they do not raise real interest rates, as nominal rates in a monetary union tend to be uniform across countries and to be relatively little influenced by the policies of a single, small country.

For large countries, on the contrary, free riding is almost impossible, and the various policy choices reviewed above tend to be more costly, or even counterproductive.

Traditional, Keynesian-style demand-management policies, especially fiscal policies are more efficient than for a small open economy, because demand spillovers are relatively less. On the other hand, all policies tending to lower production costs are less effective, and they all tend to lead to a lower domestic inflation, which then results in a higher real interest rate, so that they tend to be costly in terms of economic activity and growth. The fate of Germany over the past few years seems to be a perfect illustration of this difficulty of large countries in an economic and monetary union.

1.2.6. Concluding remarks: fiscal policy coordination without a *gouvernement économique*

As abundantly illustrated by the vicissitudes of the Stability and Growth Pact and by the poor performance of the economies of euro zone over the past few years, fiscal policy coordination is still embryonic and not very satisfactory in the European monetary union, after more than five years of existence of the European currency. Though not really surprising, when considered in a historical perspective – it took much more than five years for the US Federal Reserve System, created in 1913, and the Federal government to set up the subtle mechanisms of macroeconomic management that are now seen to operate in the US economy --, this difficulty is clearly hampering the achievement of other goals and negatively affecting the whole process of institution-building and integration in the EU.

Because of the still very large divergences in preferences and perceptions of costs and benefits of the various possible strategies for fiscal policies, and more generally for economic policy-making amongst member governments of the euro zone, the prospects for a genuine economic government of the euro zone are rather gloomy. It is therefore likely that the current minimal coordination, essentially based on rules such as the SGP and a non-binding set of coordination procedures such as the Broad Economic Policy Guidelines (BEPG), will prevail for the foreseeable future, as the Constitutional treaty adopted in Brussels on June 18, 2004 makes almost no progress on this front, and the start of the negotiations preparing the next medium-term financial perspectives for the EU budget over the period 2007-2014 leaves little doubt about the possibility to significantly alter the central budgetary process.

Yet, in the absence of a genuine *gouvernement économique* (cf. e.g. Commissariat général du Plan 1999 and 2003) that would in some way aggregate preferences over common rules and collective goods and make use of policy instruments to ensure their provision, there may be ways to improve on the current performance within existing institutions. One direction for reform, which is already being explored by the Commission

and member states' governments, is the improvement of fiscal rules: making the rule less 'stupid', by taking better account of business cycle conditions (Fitoussi/Le Cacheux 2004); reducing the cost to individual governments of sticking to the rule, while possibly making the enforcement mechanisms stricter, and so on. Given the widespread difficulties with the Stability Pact in 2004, it is likely that some progress will be forthcoming on this front, though a stronger than expected economic recovery in the euro zone would probably make postponement of such discussions tempting. A more ambitious reflection would try to explore the possibilities of developing an original brand of highly decentralised federalism, which may be labelled 'Pigouvian federalism' (Le Cacheux 2004b), in which the central budget would remain relatively small, but where an appropriate mix of rules – with desirable features, such as an amended 'golden rule' of public finance, whereby expenditures to be encouraged are not counted in the agreed deficit ceiling or target – and financial incentives, in the European budget, is set up in order to induce national governments to undertake actions that are collectively considered to be in the common interest.

2. Modes of Policy Coordination in Action: Adaptation and Response

2.1. New Governance Structures in Employment Policy-making? - Taking Stock of the European Employment Strategy

This chapter is concerned with the impact of the European Employment Strategy (EES) on governance structures in employment policy-making, the most developed form of soft policy co-ordination in the EU. It asks what the formal treaty provisions have meant for the 'living' practice of policy-making and implementation. What opportunities and avenues of influence have been opened for various actors, at various levels of governance, and how have these been used? What practices and patterns of interaction have developed in response to the formal EU co-ordination procedures? To what extent have the new procedures spurred new dynamics in employment policy-making nationally and transnationally?

Rather than focusing on impact on policy output or policy outcomes, we are concerned with impact on policy-making practices and actor relations. It could be framed as looking at the 'infrastructure' of policy-making. This includes networking between policy actors, who might, through European networks, get their policy ideas elsewhere than from traditional national channels and actors. We are interested in potential actor interaction both horizontally, across policy areas, and vertically, across levels of governance. Assuming that the impact of soft policy co-ordination will be mediated by, and thus ultimately dependent on, its capacity to mobilize the relevant actors and action within the

Member States, an analysis of these intermediate factors must be central in an analysis of soft policy co-ordination.

We conclude that the soft co-ordination practiced in employment policy, has indeed spurred dynamics and induced some changes in the Member States: it has encouraged co-ordination and consultation practices in national employment policy-making, encouraged reflection on policy choices, and led to new initiatives, especially at local levels. However, we also argue that the potential of the policy co-ordination is far from fully used by policy-makers, and that its effectiveness could be considerably improved by being better integrated in the policy-making systems of the Member States. Moreover, dynamics follow institutional logics and traditions in the Member States, which leads us to conclude that, rather than having led to the implementation of one European strategy, the new procedures have stimulated in some respects changes in, and improved capacity of, national employment policy-making.

The analysis is based on 10 country studies produced within the GOVECOR project (GOVECOR 2004), plus case-studies of Spain and Denmark produced by ourselves and/or colleagues (Jacobsson/Schmid 2002; Jacobsson 2004a; Rydbjerg/Sand Kirk 2003, López-Santana 2004), and other secondary studies (Zeitlin et al, 2004; Umbach 2003; and the official five-year evaluations of the EES). We also made regular interviews with EU-level actors during 2000-2003. Thus, we have data from 12 out of the 15 Member States. Our assessment of impact on procedures and actor relations is qualitative, highlighting types of changes taking place. Yet, if we can show that the EES, by empowering certain actors, has challenged predominating equilibriums in the Member States, then soft co-ordination is not just symbolic even if it has not fully achieved its goals either. Moreover, if we can show that the EES in some respects has led to improved organisational capacity for employment policy-making in the Member States, then it would be a mistake to dismiss soft co-ordination as a policy tool, even if it may never be able, by itself, to counter-balance the economic integration process (given the constitutional asymmetry in the EU with centralized monetary policy, constrained fiscal policy and decentralised labour market and social policy) (cf. Scharpf 2002).

2.1.1. The Amsterdam treaty as opportunity structure

To what extent has the establishment of formal procedures for employment policy co-ordination in the EU provided actors with new rules of the game, implying incentives or constraints? While in formal terms authority relations are not changed, in practice, actors may have been provided with new windows of opportunity. The Employment Chapter of the Treaty of Amsterdam (Art. 125-130) established employment policy as 'a joint

responsibility' of the Member States, and it was, moreover, stated that 'the Member States and the Community shall work towards developing a co-ordinated strategy for employment'. The treaty thus provides an institutional framework for mutually reinforcing measures at EU and Member State level.

While guidelines and recommendations are formally non-binding, the Member States have in the treaty committed themselves to a number of general objectives as well as to a particular monitoring procedure. Thus, the hierarchical element is only present in the monitoring requirements. This means that coercion cannot be the primary mechanism for achieving policy adaptation at national level. Instead, domestic change is likely to follow from two other mechanisms: by changes of domestic opportunity structures (changes of rules of the game or strategic positions, resources or incentives of domestic actors), or by changes of beliefs and expectations among domestic actors, that is change brought about mainly through cognitive mechanisms (Knill/Lehmkuhl 1999; Knill/Lenschow 2003). We have focused on the mechanism related to domestic opportunity structures, the key argument being that there will be no effect of soft co-ordination unless it is able to mobilize and/or empower the relevant actors in the Member States.

2.1.2. Coalition-building in face of member state resistance

While the endorsement of the EES was not uncontroversial (see de la Porte/Pochet 2003), the EES came to be accepted among the Member States. However, the member governments have all along been concerned to remain in control of the process. The European Commission' Directorate General Employment and Social Affairs is of course a key player in the EES, having to play a 'two-front war' – in relation to the economic policy actors at EU level (DG Economic and Financial Affairs, finance ministers in Ecofin) and the Member States – to keep the EES on track. Since no directives are taken, the Commission is dependent on making Member States willing to comply with the EES. In order to put pressure on Member States, and also to counter balance the economic actors at EU level it is important to have allies in the process. The Commission tries to integrate the Member States at an early stage to avoid open conflicts, aware that the strategy can only be successful if the member governments to some extent agree and are prepared to take action domestically.

The Commission also acts as a policy entrepreneur in relation to the various non-state actors. The Amsterdam treaty granted the right to consultation to the EU level social partners. Their support is a resource for the Commission. At the same time, the social partners can use the guidelines and recommendations to support their claims. The treaty

obligation to consult the social partners has strengthened social partnerships in countries where such traditions were weak.

2.1.3. The integration of the EES in the Member States – or rather lack of it

Our country studies (GOVECOP 2004) show that there has generally been a high degree of compliance with the co-ordination procedures. Governments have been dedicated to fulfilling the monitoring requirements: producing the NAPs, delivering them on time, and so on. Moreover, interviewed civil servants report that participating in the transnational policy exchanges, such as peer review sessions and committee deliberations, is meaningful and valuable, and they believe that there is a potential for learning from others. The process makes sense to the actors directly involved, although civil servants interviewed complained over the workload and supported the revision of the EES into three-year cycles. Policy actors not directly involved, however, tend to express less faith in the process.

For governments to fulfil the co-ordination requirements, well-functioning inter-ministerial co-ordination has been necessary, and indeed, this has improved in nearly all countries studied. Mostly existing structures for interaction and communication has been used rather than new ones invented. Nevertheless, despite the fairly positive assessment of the government officials directly involved, it is clear that the EES has largely developed as a trans-governmental process, sometimes 'insulated' in relation to the day-to-day domestic labour market policy-making. The EES is not systematically integrated in the domestic labour market policy-making.

As to integration of lower levels of governance, federal states seem to have better routines for vertical co-ordination than do the more centralized states - but also more pressing need for such co-ordination. As to the local authorities, they are consulted in Sweden and Denmark through their national organizations. In other countries, such as France, local authorities are not consulted despite playing an important role in welfare policy. The regional and local levels have, with some exceptions, not been systematically integrated in the EES/NAP work, which has to a large extent got 'stuck' at the national levels, as a process 'owned' by government departments – even if there has been greater attention to the involvement of lower levels of governance after the five-year evaluation (see CEC 2004; Employment Taskforce 2003).

Parliamentary bodies have been put to the margin in all countries studied. National parliaments have been informed about the NAP, often after it is already produced and sent off to Brussels, and without any decision-making authority. There are examples

where opposition parties have used recommendations directed to their country to support their own claims, which have also been done by employer organisations and trade unions. However, in general the EES has not led to much parliamentary debates in the Member States.

The NAPs are regarded as governments' reports. They have no operational function as guiding documents or indeed action plans in the Member States, but are merely reports on domestic policy for an international audience. This means that there is no mechanism in the EES as such to ensure its integration into effective national decision-making and budgetary allocation, even if governments are required to report implementation, including budgetary implications, to the Commission. The low policy relevance of the NAPs has also reduced the interest of the social partners in continuing to participate actively in their production. Thus, the EES with yearly NAP cycles showed signs of fatigue, when social partners lost interest in participating and to some extent also the civil servants saw their task mostly as fulfilling administrative procedures than to mobilizing action in response to the objectives set.

Despite the compliance with the formal co-ordination procedures, it is clear that governments have tended to keep in control of the processes, considered themselves the key actors, and in some cases been reluctant to open up for wider networks, wanting to decide what impulses to receive or what recommendations to follow. However, they have not altogether managed to function as gate-keepers.

2.1.4. The EES and changes in domestic opportunity structures

Despite the attempts of governments to remain the 'owners' of the EES, there are a number of examples of the EU co-ordination procedures having spurred wider dynamics in the Member States. The role of local and regional actors has increasingly come into focus, as in many countries they are important in carrying out labour market policies, sometimes with a considerable autonomy. The need for involvement of local actors was included in a guideline in 2001, following a Commission communication in 2000 on the local dimension of the EES (CEC 2000; also CEC 2001). The Commission has also deliberately promoted those Member States that have been successful in involving regional and local actors, such as Finland. Mobilizing and making other actors committed complements the limited capacity of the Commission to pressure national governments in the soft co-ordination, when these in turn put pressure on decision-making authorities to live up to the common commitments.

In 2000, the Commission launched a campaign on 'Acting locally for employment', with the accompanying possibility to apply for funding for developing Local Action Plans (LAPs)

for employment. By 2002, there had been 33 projects supported by this Commission programme, 13 of which aimed at developing LAPs. Some of the LAP projects have been national, others transnational. An example of transnational networking developed around the production of LAPs is the work of Eurocities, a network of major cities in Europe, financially supported by the Commission, which has supported its members in producing local action plans for employment and social inclusion. The EES message on the need for improved co-ordination and collaboration between policies and agents apparently correspond well to perceived local needs. However, there are also examples of sub-national actors being outspokenly negative to the idea of regional or local involvement, for instance production of action plans, fearing intrusion of their autonomy, like in Germany (Büchs/Friedrich 2004), even if there are also examples of LAPs in Germany.

There are cases where the EES has enabled actors in the Member States to put pressure on the Member States to develop well-functioning consultation practices or partnerships in relation to the production of the NAP, and/or to open up for local actors or wider sections of civil society. In Sweden, a recently established network of social NGOs has been pressuring for involvement, not just in the production of the NAP on social inclusion, but also in relation to the NAP on employment. This is an example of the EES inducing the breaking down of institutional boundaries within the Member States. Thus, the EES has provided certain actors with a say, or at least a legitimate claim to be heard: social partners but also wider sections of civil society.

2.1.5. The limitation of a top-down strategy

Even if these examples of actor empowerment following from the EES are important, they should not be overemphasized. Engagement in the EES has so far mostly been limited to small sections of national ministries and governmental agencies. Knowledge about the EES is generally not well diffused in the national or sub-national labour market administrations or in civil society. Yet, the process has improved over time, sometimes in response to Commission and Council criticism, for instance as regards involvement of sub-national actors, and social partner participation, which in the beginning often took place too late to have any real impact on the NAP. This can be expected to improve further with the increased attention to 'good governance' in the Joint Employment Reports (CEC 2004). Policy-making based on soft co-ordination apparently takes time, and is dependent on being effectively integrated into the system of policy-making within the Member States.

The EES was initially designed as a top-down and largely technocratic strategy, targeted at governmental actors and to some extent social partners. Arguably, the technocratic

approach, with the development of EU-level networks of experts and policy-makers, was successful in establishing a common employment policy agenda, but it failed when it came to effective implementation in the Member States. The first years the EES indeed took the character of a two-level game, with the Commission and the Council as the key actors, and where governments tried to stay in control of the processes domestically. More lately, the Commission has, together the European Parliament, tried to involve a wider set of actors, including parliamentary bodies, local authorities and civil society actors in the Member States, sometimes with the governments trying to resist this developments. The more recent multi-level development is more promising in terms of effective impact of the EES.

Actors must be mobilized and motivated and cannot be pressed from the top to get involved. This is particularly obvious in systems with local or regional autonomy in labour market policy. Neither can social partners be pressed to act. Likewise, soft co-ordination appeals to the will of member governments to develop and improve their policies – unpopular measures cannot be ‘pushed through’. EU recommendations are dependent on coalitions and support nationally. A barrier to impact has been the limited diffusion of knowledge of the EES nationally beyond actors directly involved. Few references are made to the European dimension of employment policy in the national policy debate, and policy is often presented as national policy even if it is in line with, or possibly even originating from, the EES.

2.1.6. The contribution of EES to improved national governance systems

Even though governments, in various ways, have resisted full implementation of the EES, the EES has nevertheless supported changes in national governance structures in employment policy. It has led to increased inter-ministerial co-ordination and facilitated links between policy areas and erosion of boundaries between policy domains and stakeholders, and, in some cases, contributed to reconfiguring of policy networks. The EES has brought together various actors, with the aim of establishing a more integrated and holistic approach. Also locally, the EES has supported the notion of co-operation, and encouraged integrated local and regional employment strategies. This, however, has been conditional on the willingness of local actors to respond, and economic incentives, from the ESF or other Commission funds or from governments, have been instrumental.

The fact that the EES brings people with diverse interests, perspectives, and standpoints together, may destabilize existing understandings (Trubek and Trubek 2003), and open for re-thinking of policy options. One example is Spain where the EES has helped to establish a wider notion of employment policy and made both public and private actors

aware that their actions may have repercussions on employment and, thus, that employment is not the sole concern of the labour market ministry (López-Santana 2004). Moreover, the EES has induced the member governments to reflect on, define, and relate to collective objectives. The increased attention to employment rates, rather than levels of unemployment, is such a collective achievement on the level of policy thinking. Another example is the perceived need to widen the policy agenda in order to achieve higher levels of labour market participation, to include, for instance, measures to reconcile work life and family life, such as improved childcare facilities.

The EES has institutionalized a reflexive element in employment policy, as well as added a European dimension to national employment policy-making. Moreover, it has provided a common framework for national employment policy, and an element of structure, with the annual planning and review. A more long-term, or at least medium-term, policy perspective has been introduced in some countries where it did not exist (Belgium, Portugal). The EES, if used that way, could provide structure and coherence to work already going on, and contribute to the exchange of experiences in the national context, for instance between municipalities. Much creative work was already going on locally, but the NAPs so far reflect little of what goes on at lower levels in the Member States.

The common strategy has contributed to placing and keeping issues on the agenda, and it has functioned to support and reinforce domestic reform strategies, even if these mostly originate in domestic problems rather than in EU guidelines. EU recommendations give national policy-makers, or other interested parties, additional argument for domestic reform, and can, thus, function as a power resource in the domestic scene, legitimizing certain policy option and/or procedures. Yet, the EES can only support national reforms if the ideas find resonance among relevant actors in the Member States.

2.1.7. Conclusion: The mixed record of the EES

It is clear that the provisions in the Employment Chapter have enabled initiatives and efforts by various types of actors to co-ordinate and develop or improve policies. The treaty provisions have stimulated interaction and exchange among national administrations. Social partners have been explicitly invited in policy-making. Other actors have increasingly demanded participation, such as civil society actors and local authorities. Horizontal integration of policy areas (such as labour market policies, social assistance, pensions, taxation) has been improved. The integrated approach has led to better inter-ministerial co-ordination nationally in most countries. There has at least been attention given to vertical co-ordination between national, regional and local levels of government. However, stakeholders, such as implementing agencies at various levels of

government, municipalities, social partners and civil society actors, but also political parties and national parliaments, could generally be much more systematically involved in the EES than done so far. An effective implementation of the strategy would require a far better integration of the EES in the policy-making systems of the Member States.

Still, some important changes have taken place within the Member States, induced by the European co-ordination processes. Regardless of whether the EES has triggered policy change directly, it has triggered some other things: It has given weak actors a chance to be heard and provided domestic actors with argument and backing of a powerful actor (the EU) in their reform efforts. By empowering various actors, the EES has contributed to challenge existing equilibriums in labour market policy. Moreover, the EES has activated actors at various levels of governance. It has pressured policy-makers to give a second thought to existing policy choices in the light of new ideas and the agreed common framework, and to accept being compared to better performers. It has contributed to professionalisation of labour market policy administration. It has provided policy-makers with new instruments: LAPs which have been considered useful for efficient use of resources locally and NAPs, which are not important as policy-guiding documents but which nevertheless have provided overviews of existing policies and have necessitated improved inter-ministerial co-ordination. In our view, the EES has a potential for strengthening the organisational capacity for employment policy-making nationally.

However, opportunities provided by the new treaty provisions and formal co-ordination procedures must be perceived as such by actors in order to take effective advantage of them. We have argued that the EES developed as a transgovernmental process and this was also the way it was perceived by other actors in the Member States. Governments tried to pursue a gate-keeping strategy in relation to both the EU level and other actors within the Member States. Gradually, increasingly more actors have come to perceive themselves as affected by the EES, notably civil society actors and local authorities, and have pressured for influence. This has also been supported by changes in the incentive structures related to the EES: The consultation requirements and the review of how consultation functions in the Member States, the strategic use of the European Social Fund (ESF) to support the EES objectives, and the Commission funding of transnational networks of local authorities or civil society actors. The EU funds available are relatively small but they matter for those actors.

To the extent that the soft co-ordination processes are perceived as governments' processes, they will remain without much impact in the Member States. There are limits to what a top-down soft co-ordination strategy can achieve. At best the top-down

pressures can be combined with pressures from below in the Member States, and the European strategy interact in an effective way with domestic actors and opinions. Guidelines, recommendations and Member State peer pressure will be important to the extent that they are used by domestic actors. Indeed, rather than relying on top-down pressure, an effective soft co-ordination process would have to ensure that the relevant actors and stakeholders are mobilized. The EES can support a reform process if there are actors willing and able to pick up and move the questions forward. The EES can then function as a structure supporting domestic reform, even though mostly not being the decisive factor.

Consequently, rather than the implementation of one European strategy, we see 15 domestic reform processes, however with apparent similarities. The EES supports these processes, by providing ideational input but also by altering actor relations. What we see is not the replacement of national institutions and practices, but in some cases alteration of them, with partly new elements. Existing practices and institutions structure the response to the EES. Its effectiveness depends – apart from such factors as the type of welfare regime and thus the type of reform pressure; the distribution of responsibilities and the centralization of the state; and the domestic political priorities and political majorities – on whether there are interests currently marginalized but sufficiently well-organized to be able to use the new openings. It is not certain that local actors are empowered, let alone seize the opportunities opened for. This depends on existing distribution of resources as well as on actors' self-perceptions and priorities. But we have shown examples of this happening following the EES.

Thus, does soft co-ordination work? The prerequisites for co-ordination in terms of a balanced policy mix at EU level hardly exist, given the institutional asymmetry between monetary, fiscal and social policy. Yet, co-ordination in terms of horizontal and vertical integration at actor level has been improved. The EES has intensified transnational exchanges. In the absence of coercive instruments, the Commission has succeeded in fostering networking – in the new committees; by the Peer Review programme; by the support to transnational networking between local authorities and civil society actors – and alliance building – by the mobilization of non-governmental actors, and interestingly, by an increased emphasis on the role of national parliaments in the EES. Increasingly, actors in the Member States – such as local authorities and non-governmental actors – have responded to the new openings. The record of the EES is thus mixed: The EES has induced some actor dynamics in the Member States, however, not yet penetrated the policy-making systems enough to make a real difference in national labour market policy-making.

2.2. The Dismal Record of the Stability and Growth Pact

The crisis of fiscal policy rules under the Stability and Growth Pact (SGP) in the euro zone reached its climax on November 24-25, 2003, with the Ecofin Council rejecting the European Commission's recommendation on French and German fiscal policies, thus effectively waving the sanctions to be taken according to the letter of the Amsterdam treaty. Although reasserted by the European Court of Justice, who in early July 2004 vindicated the Commission but only on form rather than substance, the future of the Stability and Growth Pact (SGP) is clearly uncertain, as the make-believe game that had characterised the previous breaches has at last ended. Yet, the number of countries not complying with the famous 3%-of-GDP limit for public deficits has been increasing over the years: one in 2001, two in 2002, four in 2003, and according to the Commission's spring 2004 forecasts, four will still exceed the limit in 2005. In addition, only days after the EU enlargement, in May 2004, the Commission launched the "excessive deficit procedure" against six of the ten new members.

Over five of years of experience since the launching of the European monetary union have made amply clear that the SGP is not functioning the way it should. Though not apparent during the first two years of existence of the euro zone, thanks to the favourable growth conditions then prevailing everywhere, its defects and weaknesses have been revealed by the slowdown of economic activity that hit the European Union (EU) in the wake of the US recession, in 2001. Ever since, its implementation has been a source of tensions, both amongst member states, with, in particular, a cleavage between large countries and small ones, and between member states and the Commission.

In our analysis, we have first put the emphasis on the way the SGP rules have been implemented since the beginning of EMU, then we review the outcome in terms of fiscal performances. In the third section, we have discussed some of the major flaws that have been stressed in the literature, as well as the weaknesses of the current institutions for fiscal discipline and/or co-ordination in the euro area. Finally, we have examined the pros and cons of some reform proposals or inflexions to the current SGP interpretation, and conclude on the missed opportunity of the Constitutional Treaty.

2.2.1. Implementation of the multilateral surveillance procedure underlying the stability and growth pact

Fiscal performances of the Member States

In 1999, fiscal performances turned out better than forecast, budgetary targets were met and sometimes over-achieved, in spite of a growth weaker than expected in most member states. Revenues were higher than expected, and thanks to lower interest payments total expenditures displayed a slight decrease. As a result, the average debt-to-GDP ratio of the euro zone slightly decreased, but with heterogeneity amongst member states. Retrospectively, it appears that the growth slowdown in the first part of the year was chiefly due to a fall-off in external demand, which had little impact on tax revenues and did not prevent tax receipts from being buoyant.

In 2000, economic growth resulted higher than expected, with however quite a lot of variance within the euro zone, and budget balances kept on improving in most member states, while government debt-to-GDP ratios kept on falling. The main factors of this continuing reduction are to be found in lower deficits, healthy economic growth, and the allocation of UMTS receipts to debt reduction. Nonetheless, the cyclically adjusted primary balance did not improve, which reflects a certain lack of fiscal consolidation.

In 2001, the budget positions sharply deteriorated, for first time since 1993, and budgetary adjustments were suspended, mostly as a result of automatic stabilisers in this period of weak growth, but also due to ambitious tax cut plans in many European countries. 2002 was also a difficult year, as all GDP growth forecasts for 2002 had to be revised downward, and public finance indicators registered a further deterioration, over and above what had been expected. For the first time since the launching of the euro, the 3%-of-GDP threshold was overstepped in Germany and France⁵. In the latter country, whereas the first two versions of the stability programmes had been reflecting an orientation toward fiscal consolidation, with negative fiscal impulses, the third programme reflected a genuine break, with a loudly proclaimed fiscal stimulus. In 2003 again, the GDP growth assumptions proved to have been far too optimistic, and so were the public account forecasts (except for Finland). Nevertheless, Finland, Luxembourg and Spain managed to pursue the reduction of their debt-to-GDP ratios. But the average indebtedness ratio of the euro area, which had ceased to fall in 2002, started to rise

⁵ Already in 2001 Portugal had breached the deficit ceiling, but it clearly appeared to the result of mismanagement. On these episodes and the successive revisions of the stability programmes as expectations were proving first over-pessimistic, then over-optimistic, see Creel/Latreille/Le Cacheux 2002.

again in 2003. In spite of efforts by some Member States' governments, most notably Germany and France, the prospects for fiscal consolidation in 2004 were only marginally better, as other countries (the Netherlands, Italy, Greece, Portugal) were breaching the 3%-of-GDP ceiling so that the average public debt ratio of the euro zone was a forecasted to rise again. But this time, with economic recovery under way and growth rates probably slightly above expectations, fiscal performances might, in most Member States, turn out better than planned.

Domestic institutional changes and compliance strategies of Member States

In the 1990s, two simultaneous structural trends may be observed in most EU Member States: on the one hand, the degree of fiscal decentralisation increased almost everywhere; on the other hand, budget rules were set to guarantee sound public finances and make for sufficient leeway for counter-cyclical policies. Some countries have also introduced national mechanisms to help them implement European rules and constraints, such as medium-term expenditure control processes.

Member States are endowed with the responsibility of defining fiscal relationships between the various entities that form the general government so as to meet the SGP requirements. It is the central government that is responsible for respecting the Treaty and SGP requirements, but regional and local governments, and other public entities (such as social security) in most countries account for large shares of fiscal aggregates, which points out the necessity for member states to find solutions to secure sustained discipline at all levels of government, in order to achieve the medium term target of 'close to balance or in surplus'. Various coordination frameworks have been developed, and some countries have chosen to implement 'internal stability pacts' in order to ascertain the precise responsibilities of each government level.

In spite of these institutional changes, the general orientations of fiscal policies in Member States were, in general, not 'virtuous' enough in the phase of relatively high growth for the targets to be met during the slowdown. In addition, some countries deliberately embarked on expansionary fiscal policies (Creel/Latreille/Le Cacheux 2002). In 2000, year of the economic activity peak, Germany, Austria, France, Greece and Portugal were displaying negative budget balances. With the slowdown experienced between 2000 and 2002, they couldn't but deteriorate even more. Austria, Belgium, Spain and Portugal tried to avoid the deterioration through pro-cyclical fiscal policies, whereas Germany and France brought support to activity not only by letting automatic stabilisers play, but also with the help of discretionary policies. Since 2002, nominal deficits have been breaching the 3%-of-GDP threshold in several Member States.

2.2.2. Has the SGP Delivered?

Initially conceived to ensure that the nominal convergence and stability criteria embedded in the Maastricht Treaty as conditions for participation in the European monetary union would prevail even after countries had been admitted in the 'club', the SGP is in principle focused on two goals: coordination of economic and fiscal policies of Member States, and public finance 'discipline', the latter being summarised by the double objective of preventing 'excessive deficits' and aiming at a budget 'close to balance or in surplus' in the medium run.

By focusing attention on budget balances, the SGP has indisputably contributed to reinforcing and spreading the 'stability culture' (Sapir *et al.* 2004) in the euro zone, in particular in countries that had lived with high inflation, as well as high public deficits and debts in the 1980s and early 1990s. In its most current meaning, this 'stability culture' refers to two ingredients, which are usually thought to be complementary: stable money and sound public finances. While the first ingredient is being delivered by the independent and stability-minded European Central Bank, the second implies some sort of discipline exerted on the governments of Member States, and, insofar as financial markets do not seem to exert sufficiently discriminating discipline, rules have been imposed on national fiscal policies⁶.

As discussed, in most Member States, the SGP has induced institutional changes that have tended to reinforce the control of central governments over the overall developments of public finances in their own country. By focusing attention on deficits and the necessity to keep them below a certain threshold, it has also reinforced the position and powers of Finance Ministers within national governments. And, thanks to the mechanisms of 'naming and shaming', it has contributed to make large deficits politically more costly, both internally, as the press has been more eager than in the past to report on non-compliance with the European rules, and on the European scene, as the Commission has found allies, in particular amongst smaller Member States, in its fight against 'excessive deficits'.

Yet, the outcome in terms of public finance developments in the Member States of the euro zone is not up to the expectations. Deficits and debts ratios did indeed ebb in the Member States of the euro zone in the 1990s; but no more than elsewhere. And most of the reduction happened under the Maastricht criteria, before the launching of EMU, at a

⁶ Note, however, that financial rating agencies have downgraded the Italian public debt in July 2004, as a response to prospects of deteriorating budget balance and debt ratio, thus showing a, admittedly mild, tendency to discriminate amongst public debts of euro zone countries.

time when the rules were more explicitly aiming at a decrease in public debts in those countries that had been the least 'virtuous', and when the sanction for non-compliance appeared quite unambiguous and drastic: it was the price to pay for participation in the euro zone. Public deficits and debt ratios went on declining in the first two years of existence of the euro zone; but the reduction was mostly due to stronger than expected growth, and instead of taking advantage of unexpected extra revenue to accelerate consolidation and reach the medium-term objective of "close to balance or in surplus", governments yielded to popular pressure to cut taxes⁷ and embarked on ambitious tax reform plans that prove extremely costly for further consolidation afterwards.

As soon as the slowdown in economic activity swept over the euro zone, not only was consolidation brought to a halt, but deficits started skyrocketing again in most Member States, especially larger ones, and the trend toward smaller debt ratios, which is arguably the most important, though implicit, aim of the SGP, was actually reversed, and especially in those countries where it was still much above the 60%-of-GDP figure that had been regarded as a maximum in the Maastricht treaty. In particular, France and Germany did breach the Maastricht ceiling for debt in 2002-2003.

Although the SGP has undoubtedly made fiscal policies a 'common concern' of the euro zone by focusing attention on fiscal aggregates of Member States, it cannot be said to have significantly improved economic policy coordination, insofar as the focus has been exclusively on 'excessive deficits', with almost no progress being made on other issues. Hence, for instance, in 'good times' – in the years when the European economy was enjoying relatively high growth, there was little coordinated effort at reducing deficits, and even less coordination in the various tax cut plans that have been flourishing then, and that were mostly used as tools for tax competition, rather than in a cooperative strategy to promote growth. Similarly, in spite of the existence of a broad agreement on the so-called 'Lisbon objectives' for promoting growth and competitiveness, there is almost no common or even coordinated strategy to deliver on the objectives: after almost two decades of mediocre performance, when the catching-up process vis-à-vis the US was interrupted, the euro zone has gone through more than three years of very slow growth; the gap with the US economy has been widening again and, in spite of an economic recovery under way, the European monetary union is now the region of the

⁷ The French episode of 'cagnotte', when government reluctantly had to give unexpectedly buoyant tax receipts back, and decided to cut the normal VAT rate by one point, is a perfect illustration of such difficulties, and of the lack of visible effects of at least some of the tax cuts.

world with the lowest economic growth rate. It is difficult not to suspect that economic policies are, at least in part responsible for this poor performance⁸.

2.2.3. The relevance of the SGP instruments questioned

A critical analysis of the Pact rules

As emphasised by many analysts⁹, the ultimate and only important goal of fiscal rules in a monetary union should be public debt sustainability, which implies to stabilise the debt ratio around some agreed level¹⁰. For well-known reasons, the SGP could not target debt ratios and is therefore formulated in terms of 'excessive deficits', which not only entails a nuisance in that it introduces noise in the message, but also makes it less effective. First, those countries with large debt ratios do not feel compelled to reduce them so long as their deficit remains below the SGP ceiling. And the medium-term rule of 'close to balance or in surplus' position is subject to interpretation. The "significant divergence" clause stipulates that budgetary positions should not depart consistently from the medium-term target or from the path of adjustment towards it; to the extent that this clause is applied to cyclically-adjusted balances, it would prevent the typical relaxation of fiscal policies in periods of high growth, while letting automatic stabilisers play freely in periods of recession. If the clause is applied to actual rather than structural budget balances the result would be exactly the opposite namely a pro-cyclical bias of budget monitoring.

The SGP turns out to be highly pro-cyclical, because it is mainly focused on fiscal discipline during cyclical downturns and thus provides wrong incentives since it does not tackle the tendency to run expansionary pro-cyclical policies in good times and does not reduce the political inclination to 'spend the money when it comes in'¹¹. It could be usefully complemented by fiscal policy guidelines encouraging EMU members to avoid fiscal laxity in periods of upswing and buoyant activity, which would also leave margins of manoeuvre for automatic fiscal stabilisers in 'bad times'.

⁸ The Sapir Report (2004) has the same diagnosis on performance, but does not seem to incriminate macroeconomic policies.

⁹ See, for instance, Brunila/Buti/Franco (2001), von Hagen (2003), Fitoussi/Le Cacheux 2003, etc. See above, on the rationale of fiscal policy coordination also Chapter 4 of this volume and references therein.

¹⁰ See, in particular, Buiter (2001), Cœuré (2002), Pisani-Ferry (2002). Arguably, the debt criterion should bear on net, rather than gross debt, and include all implicit debts of the public, including pension liabilities. But the level at which it should be stabilised does not matter very much, provided it is not zero –for which there is no justification–, nor so high as to entail a large interest burden.

¹¹ When Member States enjoy high growth and buoyant tax receipts, there is a clear political pressure to alleviate the tax burden, while the incentives to speed up fiscal consolidation are weak, to say the least; when instead they face mounting deficits, the trade-off they are offered is the following one: avoid discretionary anti-cyclical policy or even block automatic fiscal stabilisers vs. neglect rules. As Bean (1998) puts it, the Pact is 'all sticks and no carrots'.

In the second half of the 1990s, efforts to consolidate public finances and meet the Maastricht requirements resulted in all Member States, except Greece and Portugal, in a sharp reduction of public investment. It is likely that the SGP has intensified this trend, especially in times of low growth. The achievement of a broadly balanced budget may negatively affect the public investment level, since most capital expenditure will have to be funded from current revenue (the cost of an investment will not be spread over the generations of taxpayers to whom it is supposed to benefit) and, as a consequence, have a negative, lasting impact on the productive and growth potential of the economy.

A discussion of reform options of the SGP

In 2001, the Ecofin adopted a code of conduct over the form and the content of stability and convergence programs, which specifies that medium-term fiscal policies also have to take into account non-expected risks and other variability and uncertainty sources likely to modify public accounts. In the text of the SGP itself, be it Art. 104 of the TEC or the Council resolutions, the emphasis is put on the medium-term, and the possibility of taking account of public investment expenditures is also explicitly mentioned, thus opening up a space for reform without having to amend the Treaties.

In order to promote long-term public finance strategies, Pisani-Ferry (2002) suggests using a debt sustainability criterion and elaborating a long-term public finances sustainability pact, making it compulsory for member states to keep their debt below a 50%-of-GDP threshold and publish data relative to one-off commitments. Likewise, Gros in the CEPS Report (2002) is in favour of some kind of a 'SGP for public debt': each country would be set a debt-to-GDP target, and proposed a transition path based on the condition that one-twentieth of the differences between the initial debt ratio and the target be eliminated each year (cf. also von Hagen 2003). Recently, the Commission itself recommended to pay attention to the sustainability of public finances ('countries with high debt levels would be required to set ambitious long-term debt reduction strategies in their stability and convergence programmes, also suggested that high-debt countries should be required to achieve a satisfactory pace of debt reduction towards the 60 percentage points of GDP reference value, and that a failure to do so should result in the activation of the debt criterion of the excessive deficit procedure'). However, long-term debt projections are very sensitive to the assumptions made with respect to growth scenarios, interest rates, the valuation of pension liabilities and so on, so that the adjustment path should be kept flexible enough.

The Ecofin Council of March 2003 modified the SGP so that Member States could use automatic stabilisers, and made it clear that one-off measures exerting a transitory effect

should be examined and taken into account. Henceforth, the goal of a 'close to balance or in surplus' budget account must be appraised over the whole cycle, and the rhythm of public finances consolidation must be appreciated through developments in the structural budget balance (the Commission suggested a 0.5%-of-GDP a year reduction of the structural deficit); at the initiative of the Economic Policy Committee, it was also agreed to change the measure of the output gap from a purely statistical methodology to a more economically-based one. However, whereas considering only nominal current deficits could lead to serious errors such as pro-cyclical effects, focusing attention on structural accounts would, in principle, tighten the adjustment requirements in phases of higher-than-potential dynamism and loosen them in contrary situations: this norm would allow automatic fiscal stabilisers to play since the norm mechanically relaxes as soon as economic activity is under its potential growth path; thus, growth slowdowns, and not only sharp recessions, would allow more expansionary fiscal policies. The problem is to find a consensus over the methods to estimate structural budget balances, which implies agreeing on potential output and potential growth, a difficult task, especially if the latter depends on economic and fiscal policies being conducted by Member States' governments and the ECB.

In particular, if, as suggested by theories of endogenous growth, potential growth depends on some types of public investment, one suggestion for reform (Creel/Latreille/Le Cacheux 2002; Fitoussi/Le Cacheux 2003) would be to apply a golden rule (inspired by the British, or even by the French practice in local public finances), but amended to take the cyclical component into account: the budget would be divided into a current and a capital account; the former would have to be balanced or in surplus while the latter would be allowed to run a deficit, so long as an appropriate measure of indebtedness is stabilised over the medium term. Such an amended golden rule would allow for both growth and automatic fiscal stabilisers; it would also preserve heterogeneity among Member States in terms of public investment, which is not the case in the current SGP, under which socially desirable public investment projects might well be cancelled.

Possible drawbacks of such a rule should nevertheless be mentioned. First, there is no dual-budget accounting system in EU countries and the calculation of amortisation is quite complex, so that it would be necessary to reach an agreement on accounting methods. Second, a golden rule could lead to a bias in expenditure decisions in favour of physical capital and against spending on human capital or other productive items which also contribute to growth and employment; but the inclusion of human capital could lead to the opposite outcome and generate a risk of unsustainable public finances.

The incentives and credibility issue

The institutional organisation of the Pact is based on a model combining notices from experts and political peer-decision. The lack of clarity of rules and positions of the institutions is harmful, and the game that follows may undermine the mechanism credibility. The Commission tends to be very watchful and the Council follows its proposals when it deals with making the doctrine clearer – as in the case of conduct codes – but each member is tempted to depart from the rule when seeking an average way between a credibility (which supposes to go along with the experts' opinion) and a diplomatic constraint (which implies trade-off rigor against a politic equilibrium concern). If, from a theoretical point of view, the Council gets the last word, the Commission's notices are given a lot of publicity and are given an equal incidence as the Council's one. In addition, the Commission benefits from a reputation effect since it is presented as an independent expertise organ, and this gives her a greater authority than the Council.

Credibility rests on the opportunity for the Council to impose sanctions on the unruly state, and does not rest on automatic sanctions or the independency of a juridical power: the Council attends to the fiscal surveillance whereas it is made of fiscal policy actors that can be subject to surveillance: an important risk exists that sanctions be perceived as politically motivated. The incentive is not perceived as a strong one since the involved country can try to change enough his behaviour so that no majority in favour of sanctions emerges, this state can also try to ally to other voices via bringing support to some countries over another policy issue debated by the Council. Actually, representatives of Member States in the Council will behave with understanding towards their counterparts' lack of fiscal discipline, since they stand on both sides of the trial and it is the best way for them to guarantee a similar treatment for themselves in times of fiscal difficulties. The fact that the enforcement of sanctions requires many votes spread over a long period of time increases the probability of recourse to such coalitions. A majority can emerge for the non-compliance with the rules, motivated by the eventuality for states to be themselves submitted to these sanctions. As a consequence, the plausibility of the enforcement of sanctions directed towards sovereign countries is quite questionable (fines seem rather perverse and not politically credible), and the SGP reduces the weight of sounds economic judgment.

The Pact is an institutional compromise, which tries to conciliate political governance logic and the logic of a governance by experts; this could work if rules were clear and actors credible, which is not the case. One possible way out would be to increase the role of the Commission and to improve the mode of operation of the Council, as suggested by Pisani-Ferry (2002). The Commission would be allowed to directly address states notices,

recommendations, warnings relative to their economic policy orientations and the problems they may induce, while the Council would be strengthened and be given the capacity to decide in front of difficult situations and have a restricting character.

If credibility were the only objective of the reform, a real audit system could be created (Wyplosz 2002). It could not be the role of the Commission because of her current role in the European system and her proposal force as regards economic policies; it should therefore be conferred to an independent organism submitted to peer-evaluation and constrained to report its conclusions to political institutions of the euro area; it could even suggest sanctions. But of course, such an institutional solution would not solve the problem of incentives, that is the natural tendency for governments of Member States to balance costs and benefits and the various strategic options open to them.

2.2.4. Conclusion

In light of the preceding review of the track record of the SGP, it appears that, although this may sound contradictory, the rules ought to be sophisticated enough to satisfy economic concerns but also simple and relying on hard elements in order for enforcement to be made easier and more credible. Choosing fiscal rules, be it in the quasi-federal context of a monetary union with a strong commitment to subsidiarity in fiscal matters or in the national context, is a highly political choice, and the trade-offs it implies should all be clearly spelled out and carefully considered. In addition, it is probably the case, as suggested in the companion paper on fiscal policy coordination, that the costs of abiding or breaching the rules are not the same for all countries in all contexts, in particular that the incentives may be stronger for large member states not to obey, quite independently of considerations of power or influence within the Council. Because of the prospective increase in heterogeneity of the euro zone, following the enlargement and the desire of some new members to join soon the euro zone, this issue of incentives should be carefully studied before a needed reform of the SGP is proposed.

Given the poor track record of the existing fiscal rules, and the ever more apparent need for improvement in the institutions and procedures for coordination of economic policies, especially amongst Member States of the euro zone, the final version of the Constitutional Treaty adopted in Brussels in June 2004 cannot but elicit mixed feelings: on the one hand, a number of dispositions have been introduced to reinforce the powers of the Council, and to give official existence to the Eurogroup, which could clearly take up the role of an economic government of the euro zone, or at least promote more active forms of economic and fiscal policy coordination; but on the other hand, the SGP, although it is not explicitly mentioned in the new treaty, has been reproduced, almost

untouched, and all the flaws and ambiguities of the 'excessive deficit' concept and procedures are still to be corrected.

2.3. Europeanization Through Policy Coordination? Tracing and Explaining National Adaptation in Member States

More than most other modes of governance in the European Union, policy coordination in the area of fiscal and employment policy relies on an active participation and voluntary adaptation of national political systems. Given the limited degree of legal bindingness, it seeks to promote policy learning through the exchange of information, best practices and policy effectiveness, as well as the achievement of certain policy goals through multi-lateral surveillance and peer review. Yet, compliance with Council guidelines and recommendations cannot be taken for granted in the same way as in the case of EU regulations and directives. Policy coordination relies primarily on voluntary action on the part of national and sub-national decision-makers and intermediary actors, backed up by, what Jacobsson has called 'discursive regulatory mechanisms' (Jacobsson 2002), including peer pressure in the Council and public opinion. In order to achieve their aims effectively, the new instruments of policy coordination require either explicitly or implicitly a high degree of openness, trust and cooperation from political actors, they require changes in the way administrations engage in policy-making processes and which procedures and institutions they use, and finally they expect from civil society and the public at large a receptiveness towards information, ideas, arguments, and criticism from the EU and its member states.

In the framework of the GOVECOR project the empirical backbone of this inquiry were six-monthly reports between 2002 and 2003 conducted by national experts to report on how policy coordination in the two fields has been used in and impacted upon ten member states (cf, the final national reports, Govecor 2004). Drawing on standardized measures of Europeanisation, an aggregate assessment of member states' practice of policy coordination is developed to broaden the view beyond the different cases. The national reports were guided by questionnaires drafted by the Research Consortium.

How can we measure different degrees of Europeanisation in these different areas of national political life in response to economic self-coordination? Drawing on the Europeanisation literature (Héritier and Knill 2001, Börzel 1999, Cowles et al. 2001, Radaelli 2003), we propose to make a heuristic distinction between four possible outcomes of Europeanisation, namely, *inertia*, *absorption*, *upgrading*, and *transformation*. *Inertia* refers to the absence of changes, either because adaptation pressure is very weak or because bringing domestic arrangements in line would be too

costly given a high degree of 'misfit'. *Absorption* can be described as largely superficial forms of change as actors and institutions seek to make domestic arrangements work without changing their core organisational principles, routines and discourses or having to meet substantial costs. *Upgrading* can be seen as a moderate form of adaptation in so far as some aspects of organisation, practice or ideas are changed in a way that is novel, while other parts remain essentially the same. Finally, *transformation* can be witnessed 'when the fundamental logic of political behaviour changes' (Radaelli 2003: 38), when for instance new institutions are being set-up, new policy paradigms are established and implemented, or identity discourses and constructions shift in a way that changes dramatically the behaviour of a given arrangement, actor or system.

The second feature relates to the use of performance indicators of the ten member states, relating to both policy sectors as well as to commonly used macro-economic indicators. While the primary objective of the project is not to explore the issue of policy performance or effectiveness, but the evolution of governing modes, the data are a useful complement to the soft indicators. They help to identify those countries who are lagging behind the quantitative targets of the Lisbon Strategy and may help to explain, why some countries see themselves under less pressure to adapt/change their policies than other member states.

2.3.1. The Pains of the Stability Pact: Adaptation, Contestation and Evasion in Fiscal Policy Coordination

Impact on Procedures and Institutions

Generally speaking, member state administrations have sought to comply with the reporting requirements of the SGP. This is subject to important qualifications. A number of countries' delayed the submission of deficit figures and stability reports, partly because of political expediency (Austria in 2001, Germany in 2003). Another departure from explicit requirements concerns the accuracy of the data submitted by administrations - the Portuguese data revision in 2002 (cf. Courela 2002: 3), but also Germany and France have repeatedly submitted repeatedly markedly overoptimistic budget deficit estimates. But we have also seen that criticism by the Commission and domestic actors can contribute to bring about substantial changes in how a country monitors, analyses and controls its public accounts (e.g. a new revenue management system in Portugal; cf. Cadeiras 2004: 264). Another form of procedural adaptation at least partly attributable to the EMU/SGP framework can be seen in a shift towards multi-annual budgetary programming, which occurred in eight countries (European Commission 2001: 38, Plasschaert and Pochet 2004). This can be interpreted not only as a response to a 'misfit'

with the planning horizon of the Stability Pact, but may also be caused by an ideational reinforcement through EU policy coordination of the argument for sustain-able and anti-cyclical fiscal policy in an era of ageing populations.

Institutional adaptation occurred in the area of monitoring and coordinating fiscal policies of national, regional and local budgetary authorities. Federal states were naturally more strongly affected, given that sub-national authorities' fiscal policy choices are more important for a country's overall budgetary stance. Belgium, Austria Italy, and Germany, have by various means – and with varying success – sought to set budgetary surveillance and enforcement procedures vis-à-vis sub-national entities, going as far as the Austrian National Stability Pact.

Impact on Policies and Actors' Strategies

For the observation period most member states have geared their fiscal policies to heed the fiscal rules, but often not to the extent required, with considerable national variation and lessening over time as SGP compliance became more costly. Generally, speaking we can identify different groups of countries based on their adaptation patterns. The first concerns countries that could continue their budgetary policies without any major adaptation largely because domestic arrangements, institutions, procedures and policy strategies were already in line with the EU rules and recommendations (the golden rule in the UK until very recently, a budget surplus rule in Sweden, a cyclical buffer fund in Belgium, funds to deal with the rising pension liabilities in Ireland, etc.) (cf. Govecor 2004 for details).

Some countries have, however, behaved quite differently. On one end of the spectrum, we have Portugal, which substantially changed its fiscal policies in 2002 and 2003 after it was (almost) given an early warning for its excessive deficit of 2002 (cf. Cadeiras 2004)). If Portugal can be seen as a 'repenting' country coming back into line, others are walking at the margins of the pathway (Italy), constantly putting one foot outside while pronouncing it was not intentional (Germany) and exploring how far they can get away with it before being told off (France). It seems therefore that the constraints of the SGP have failed to induce far ranging changes in national policies and strategies, even though it can be argued that fiscal expansion would have been greater in its absence.

Finally, we found some evidence for differential empowerment. Fiscal policy coordination has certainly strengthened national governments on the expense of parliaments in the budgetary procedure. Another dimension of differential empowerment concerns the position of national finance ministers, which has been politically and institutionalized strengthened in a number of countries.

Impact on Ideas and Discourses

As with other indicators of change, we do not find a uniform pattern of adaptation with regard to ideas and discourses. In three countries, Italy, France and to a lesser degree Germany and Belgium, a certain 'stability fatigue' has been setting in and demands for a 'pay-back' after austerity measures, which some commentators believe to have stifled growth and hindered job creation. Election campaigns in these two countries were partly won on a ticket of tax-breaks and scepticism regarding a 'rigid' or 'inflexible' interpretation of the rules and the need to 'kick-start' the economy and provide a 'stimulus'.

Economic policy coordination provided a new impetus to budgetary consolidation by highlighting the 'demographic time-bomb' and the need to ensure the sustainability of pension systems. This issue did reverberate in national arenas and strengthened the case for the goal of cyclically adjusted budget surpluses. While France, Italy and Portugal (before the change of government) were clearly cases of countries in which the 'stability culture' has been gradually retreating, the majority of countries studied maintain their 'sound money' orientation, such as the Netherlands, Belgium and to a lesser degree Germany.

In sum, in comparison to the preceding and partly overlapping convergence process to EMU, the Stability and Growth Pact has been less successful to maintain the ideational framework underpinning a 'stability culture' and to externalize the political costs of national adaptation to EU institutions. Socialisation processes emanating from fiscal policy coordination largely impinge on the small parts of the administrative sphere and do little to turn political elites away from previous choices or convince the public of the necessity of certain measures. In the ideational and communicative domain, absorption and inertia are the dominant trends to be observed.

2.3.2. The Gains of the Employment Strategy: Peer Review, Learning and Neglect in Employment Policy Coordination

Impact on Institutions and Procedures

With a view to the process of setting up the National Action Plans (NAP) most member states apply central co-ordination procedures with a leading role of the national ministries of labour and a relatively low number of civil servants directly involved. An exception to the centralised national co-ordination process is Germany where the federal structure impacts on the composition of the network. Here more actors are involved, creating a more decentralised process. Furthermore horizontal inter-ministerial working

groups and ad-hoc co-ordination meetings were introduced. Additionally we found a strong role of the ministries of finance in many member states (cf. Plasschaert/Pochet 2004; Thiel 2004). Additionally, with a view to the co-ordination mechanisms at central state level, the NAP process is throughout all EU member states characterised by a very low degree of parliamentarisation. This adds to the problem of its low public visibility and recognition. Only in Ireland the Parliament decided to discuss the NAP in 2001 (cf. Lynch 2004).

Even though the central co-ordination mechanisms under the EES path-dependently follow the decision-making logic of the respective member state, the strategy offered a window of opportunity to actors formerly not directly involved in national employment policy-making (e.g. ministries of education or units for gender mainstreaming). Also with a view to social partner involvement the EES caused institutional innovation in some member states while the procedural modes of consultation largely followed national traditions. National social partner organisations nevertheless concentrate their activities on the involvement in national policy-making and do not perceive the European level as a relevant point of access for national employment policy-making. The EES also added to the establishment of territorial or regional employment pacts.

As a result, we found a varying, but altogether low impact of the institutional innovation potential of the EES on the national policy-making systems, largely due to the path-dependency of administrative developments. Main features of the national institutional structures to deal with the EES are in line with and path-dependently follow national routine co-ordination methods as well as national institutional and decision-making logics. Nevertheless some of them have been partly adapted to the EES even though they have not been entirely re-designed to comply with the structural demands of the EES.

Impact on Policies and Actors' Strategies

General shifts in national employment policies and priorities accompanied the establishment of the EES in the late 1990s. In some countries these shifts went hand in hand with government changes from conservative to social democratic governments like in Germany or the UK (cf. the respective reports). Policy shifts were largely in line with the priorities of the EES even though it is difficult to relate them directly to the establishment of the Strategy. Topics like tax and pension reforms; preventive approach and activation measures; measures to promote gender equality and lifelong learning or to reduce youth unemployment became priorities of all member states' employment and labour market agendas.

Some countries like Sweden or the UK did not have major problems to comply with the EES and its targets as their approaches to employment and labour market policies were similar to those of the EES. Others like Italy had problems to comply because of the fact that “traditional labour policy-making in Italy was rather incompatible with the model inherent in the EES” (European Commission 2002b) with its domestic traditions of hyper-regulation by legislative means, separation of bureaucratic competencies, neglect of the real labour market situation and implementation side and centralisation of the political process. Especially in those countries confronted with special labour market problems the EES might have been gradually supportive to policy changes due to learning from other EU member states’ practices.

Despite the further institutionalisation of social partner contacts the real impact of social partners on the NAPs, according to their own perception, has weakened in some countries like Austria or Italy (cf. the reports on Austria and Italy) over the lifetime of the EES. This might have been reinforced by the fact that social partner did not perceive the EES to strongly add to national employment policy changes. Generally, problems concern its ex-post character and the fact, that the NAP is not negotiated in the same way as national employment policies and has no real connection to the domestic political process.

Impact on Ideas and Discourses

Even if - especially after the Lisbon summit - there was an initial media interest in the EES like in the case of Austria or Italy, it faded during the lifetime of the strategy. This initial interest focused on the discussion of selected labour market indicators such as the employment rate in contrast to the former concentration on unemployment rates. The first Austrian NAP was heavily discussed in the media and also the 1999 NAP was referred to in news coverage, but afterwards and especially with the government change the public debate has become less intensive. Because of its rather technocratic and complex nature the EES found only little attention in the public discourse or was at best event-driven in the context of European events like European Council Summits. Generally, public discourse on employment policies is still mainly influenced by national priorities, reforms and strategies. Real and lasting incorporation of the topic into the national discourse could thus not be witnessed.

Incorporation of new ideas and ideational changes due to the EES is most noticeable in relation to topics such as the increasing relevance of employment levels, gender mainstreaming, education and lifelong learning issues and their connection to labour market policies, policy co-ordination with a broader approach to labour market policies

and evaluation of employment policies. Thus, the EES might have 'made it more popular' to reflect on and introduce certain issues such as gender equality, older workers, flexibility of working arrangements, activation measures with a shift of attention to the individual or the integration of disabled people and ethnic minorities into national employment policy agendas. With a view to the transposition of these ideational changes into national employment policies a main problem for a greater visibility of the EES in the national public discourses seems to be that new policies or reform initiatives are not related to the EES.

2.3.3. The Limits of the coordination of coordination at the domestic level: Formal routines and low level of awareness

The European provisions and procedures on the Broad Economic Policy Guidelines (BEPGs) assign various tasks for the domestic level, at least with regard to the submission of reports (national action plans, stability and convergence programmes, Cardiff reports, etc.). In order to deal with this in a more coherent manner, the BEPGs and the coordination of European coordination procedures has been successively incorporated into the administrative work of the relevant domestic ministries in almost all member states analyzed by the Govecor project (the exception is Italy, cf. the report). While the various ministries deal with the respective separate procedures, coordination is usually ensured by horizontal administrative bodies of inter-ministerial or – in case of larger ministries – inter-departmental coordination. Procedural innovation has thus been – by and large – low. One exception has been Portugal, but the inter-ministerial commission set up for the follow-up of the Lisbon strategy has been abolished again by the incoming new government in the year 2002 (cf. Portuguese report). Nevertheless, in most member states horizontal coordination has intensified over the years, and with the broader approach of the BEPGs has included additional ministries or departments.

Co-ordination procedures vis-à-vis the European level do not seem to have changed substantially. Administrative bodies traditionally in charge of European affairs, in most cases working closely together with the permanent representations in Brussels and associated either to the European and/or Foreign affairs or to the economic and/or finance ministries, have kept their coordinating roles in most cases. As such, the BEPGs are treated as 'yet another' coordination exercise originating from the EU. In some cases, however, on the governmental level the strengthening of Ecofin at the expense of other Council formation has been matched with similar tendencies at the domestic level, certainly with regard to the procedural handling of the coordination procedures. Finance and/or Economic Ministries have gained ground vis-à-vis other ministries. Indeed, the merging of Economics and Employment ministries witnessed in some member states

such as Germany and Italy, were almost certainly aimed at achieving greater coherence between the two policy areas, even though, obviously, clearly not motivated by European incentives or ideas.

What is noteworthy is, nevertheless, that apart from this kind of formal compliance to the procedural aspects of coordination, the timing of decision-making on the domestic level has not substantially been altered, clearly not with regard to the BEPG process and only in some cases with regard to the annual budgetary deliberations and the stability and convergence programmes. In most countries there is no direct link between the submission of the SGP and the national budgetary procedure and the BEPGs are certainly not a reference document for parliaments when deciding on next year's budget. Looking at parliamentary procedures to deal with the BEPGs and/or their implementation on national level, traditional patterns have been applied without inventing specific procedures. There have been very few detailed discussions in the parliamentary committees or in parliament, parliamentary reports are mainly summaries of the BEPGs and the government's response to them. Even where discussions do occur in relation to the BEPGs the impact on the policy making process appears to be extremely limited.

As a conclusion, the implementation of the BEPGs procedure on the domestic level has not led to a novel approach to deal with European coordination policies. The BEPGs have been included in the array of tasks to be handled by national administrations and other bodies in charge of European affairs, in most cases using 'traditional routines', but the guidelines have not affected many other actors or institutions.

Public awareness and public discourse to this mode of European governance has only marginally developed. If happening at all, it has remained remote from their real content – with the exception of the Irish case (cf. Meyer 2004), and, although to a much lesser extent, in 2002 when the French openly opposed a recommendation at the June European Council meeting to further reduce France's structural deficit by another 0.5 percentage point.

Despite the considerable administrative resources invested into reporting and surveillance mechanisms, a direct impact of the BEPG process on national policies remains hardly recognisable so far. Arguably, the limited number of domestic actors involved in the coordination procedures as well as the low awareness of the BEPG process has contributed to this outcome, further facilitated by the low level of adaptational pressure.

2.3.4. Making Sense of the Findings: Comparing Europeanisation Effects across Governing Modes and Countries

This section summarises the findings of the previous sections and highlights differences in Europeanisation effects among the two governing modes as well as among countries. Moreover, it advances some explanations of the observed variations among member states. In order to systematically compare the findings elaborated above, we have asked national rapporteurs to translate their analysis into standardised measures of impact ('Inertia' = 0, 'Absorption' = 1, 'Upgrading' = 2, 'Transformation' = 3). While the scope for the interpretation of such figures is necessarily limited, they do provide a useful complement to the rich empirical analysis in so far as they point to important differences in impact across governing modes and member states.

Generally, we note that absorption and upgrading were the most common phenomena of national adaptation to Europeanisation opportunities and constraints. None of the different dimensions of political change exceeded on average the assessment of moderate Europeanisation in the form of upgrading, some important differences among member states notwithstanding (see further below). The second finding is that hard policy coordination has caused a greater degree of adaptation than its softer counterpart (see Table 1). The national experts' assessment was that fiscal policy coordination has on average led to a mixture of *absorption* and *upgrading* of national systems (average value of 1.71). *Upgrading* was most pronounced in the area of institutions as well as in the area of discourse and ideas. This was primarily due to the establishment of national stability pacts and cyclical funds whereas the second is caused by the intensification of debates concerning compliance with the three percent deficit limit and the excessive deficit procedure. In sum, however, the provisions for fiscal policy coordination have led only to very selective upgrading of national policy-making processes, actors, and institutions, and not to the kind of transformative changes, which would have been needed to make national fiscal policy consistent with the SGP, such as changes in the relationship between Bund and Länder in Germany.

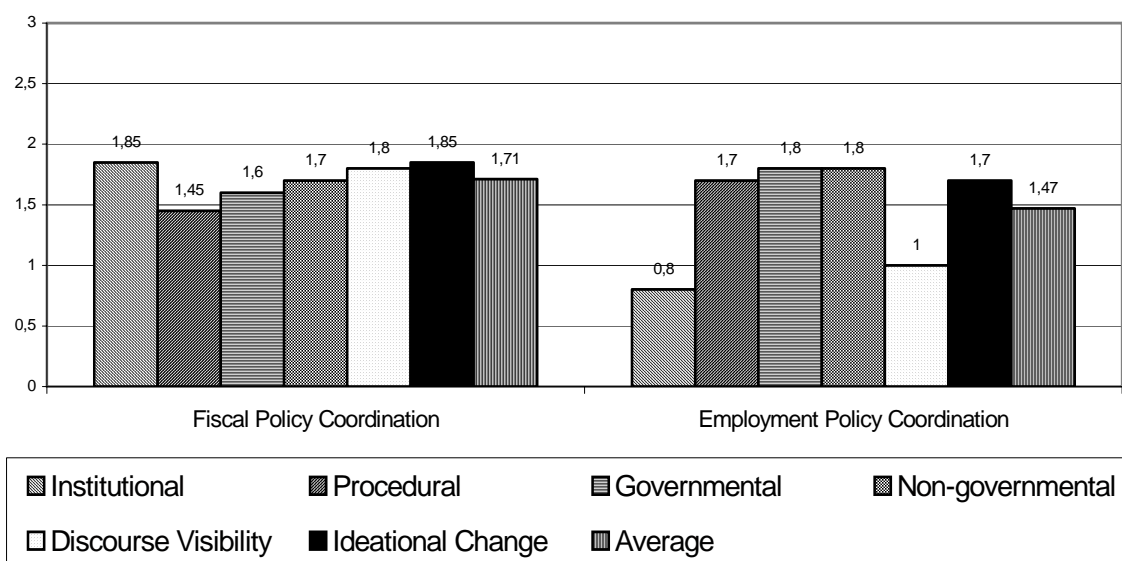
Employment policy coordination was mostly characterised by weak to moderate adaptation trends (average value of 1.47, i.e. more *absorption* than *upgrading*). *Upgrading* was most pronounced in policy-making and coordination procedures, which is largely due to the need to comply with the requirements for inter- and intra-ministerial cooperation for the production and implementation of the NAPs. In contrast to its fiscal counterpart, employment policy coordination hardly led to much institutional innovation. It did, however, encourage greater participation and involvement of social partners and interest groups, even if changes were at best moderate. We could observe also some

ideational changes, but not via public discourse were the impact as very weak, but via the EES's influence on administrative elites and expert networks.

When looking at the coordination of coordination policies at the national level, adaptation can clearly be characterized as absorption (average value of 1.13). While the procedures have very moderately been adapted to the increased demand for coordination between the policy fields, institutional innovation has basically not taken place. Compared to the other two modes, public discourse is even less developed in the case of the BEPGS. The same can be said with regard to adaptations of governmental policies, even if moderate ideational changes have been traced by the national rapporteurs.

When comparing the Europeanisation effects of the governing modes in fiscal and employment policy *across* the dimensions of our inquiry, we see some, but certainly no pronounced differences. Fiscal policy coordination has made on average a stronger impact of half a unit of value (0,34), i.e. the difference from moderate absorptions effects to upgrading trends. Therefore, both policy coordination modes are not worlds apart in their potential to Europeanise member states. Yet, when looking closer, we do note that their 'genetic', especially the hard sanction element, the quantitative targets, and the stronger peer pressure element, did translate into differences in Europeanisation impact. For instance, we saw much stronger effects for fiscal policy coordination in the area of ideas and discourses and institutional changes, whereas soft coordination caused more procedural changes and a greater involvement of non-governmental actors. However, these differences did not translate into more policy-related or strategic change at the level of governmental or non-governmental actors. Indeed, we have found evidence for policy changes in a number of cases even if they were not very costly and went hardly noticed in the broader public. In the area of fiscal policy coordination, policy change is more difficult to trace back to the SGP, but was clearly much more contentious and often resisted by national policy-makers. Therefore, the degree to which the legal DNA of a policy-coordination mode is considered 'harder' does not allow us to make a credible forecast of its impact across all Europeanisation dimensions, but only with regard to some of them.

Table 2. Standardized Europeanisation Measures Across Policy Coordination Modes



Measurement: 0 = inertia, 1 = absorption, 2 = upgrading, 3 = transformation

We also noted that differences between member states were more pronounced than between governing modes (see Table 2). This observation applies particularly to fiscal policy coordination where the standard deviation among member states was much higher than in the case of employment policy coordination. Some member states responded quite strongly to the fiscal policy constraints and reacted through *upgrading* and even in some cases *transforming* in some respects (for instance in Portugal, Germany, Belgium, Ireland, and Italy) whereas in others Europeanisation has been fairly limited (France, Netherlands, Sweden, Austria and the UK). In particular, one can see significant differences in Europeanisation with regard to the institutional/legal dimension of domestic fiscal policy-making, which has been altered in significant ways in Belgium, Portugal, Germany and Italy.

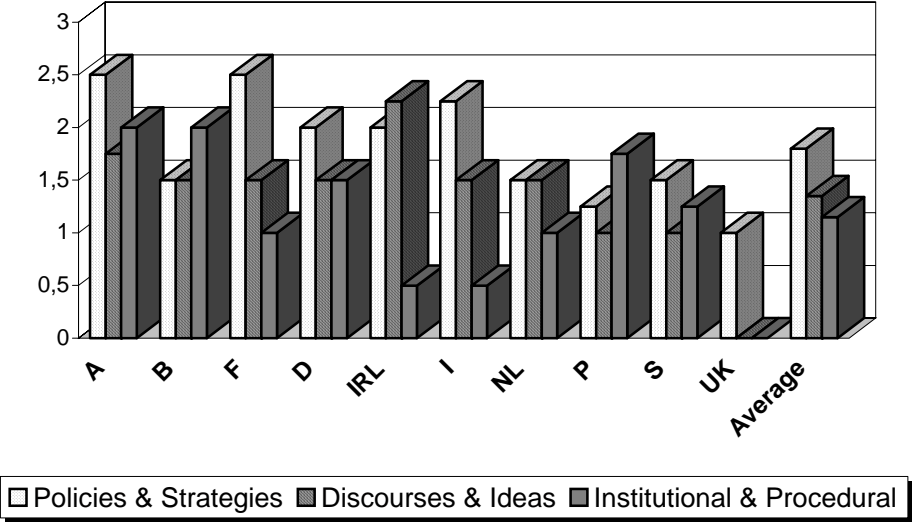
How can one account for these differences? Even though we did not set-out to test the misfit thesis (cf. Börzel/Risse 2000: 5; Risse/Green Cowles/Caporaso 2001:7), according to which the likelihood of change depends on the degree to which national arrangements are incompatible with European demands, we can see their utility as a functionalist starting point for the likelihood of change, which would need to be further unpacked. For instance, one would have to consider the wider implications of certain policy commitments and restrictions, such as the degree to which some countries' fiscal balances were dependent on sub-national authorities' taxing and spending policies. This kind of interdependence increased pressure on authorities to take concrete steps to

introduce new institutions and procedures to bind lower levels of governance into the fiscal discipline requirements of EMU and the SGP. Yet, at the same time, we have seen that the existence of such a misfit does not constitute a sufficient explanation of the strength of change. The impact tended to be stronger in those countries, which had contemplated change already from some time before the coming into force of the SGP and for primarily domestic reasons, as in the case of Belgium. In other countries such as Germany and Italy, weak national stability pacts were introduced without dramatically strengthening central government or constraining sub-national authorities' ability to run deficits because of missing or unworkable sanction mechanisms.

The real puzzle for the misfit thesis concerns the area of fiscal policy coordination: Why did countries like Germany and France come under so much adaptation pressure and why did they chose to evade the constraints at a certain point, instead of implementing costly changes? The answer to this question seems to be asymmetric vulnerabilities: On the one hand, it has been argued by Le Cacheux (cf. Le Cacheux 2005) that larger economies are more vulnerable to restrictions of their fiscal policies within the SGP framework in comparison to small and open economies, which can more easily influence their fiscal balances through trade and benefit more the stability peg of Monetary Union. At the same, larger economies are politically less vulnerable to both formal and informal sanctions. In comparison to small member states, they are less likely to be outvoted and isolated in the Council. A complementing factor is the existence of strong informal or formal veto positions within a political system, which may severely constrain executives' ability to push through certain measures. Strong trade-unions, coalitions governments and joint-decision traps between national and sub-national authorities have hindered also progress in other policy areas in Germany, France and Italy, the ailing founding countries.

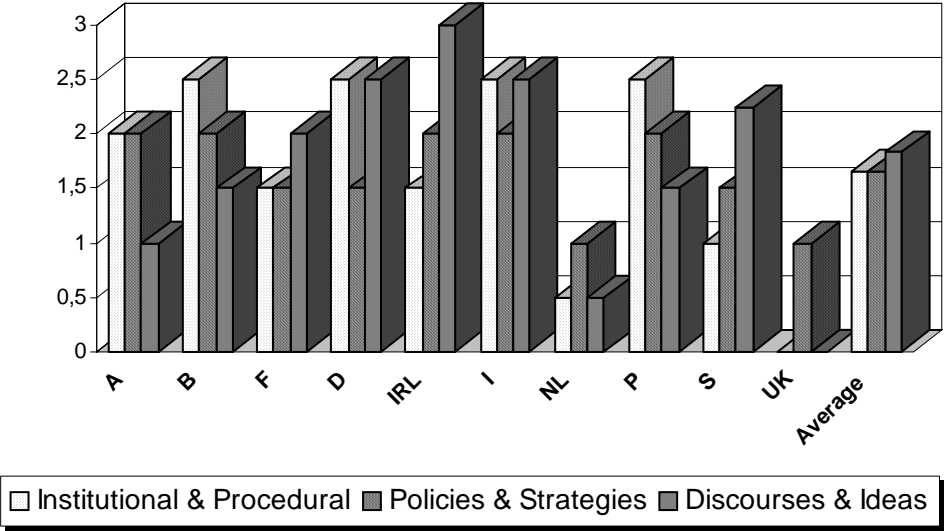
Table 3. Standardized Europeanisation Measures Across Member States

Fiscal Policy Coordination



Measurement: 0 = inertia, 1 = absorption, 2 = upgrading, 3 = transformation

Employment Policy Coordination



Measurement: 0 = inertia, 1 = absorption, 2 = upgrading, 3 = transformation

In the area of employment policy coordination we find that the differences in member states adaptation are considerably less pronounced with the exception of the UK, which has successfully shielded domestic political debates from the few potentially controversial

European recommendations while at the same time having most its policy concepts in the area of employment legislation in line with the EU level. We find almost moderate Europeanisation of employment policy coordination with an *upgrading* of the institutional and procedural dimension only in Portugal and Austria. Both are comparatively small countries with relatively strong involvement of social partners.

2.3.5. Conclusion: Soft Governance, Weak Europeanisation?

The studies do not yield a single, but many answers to the question of member state adaptation as one needs to differentiate between the different policy coordination modes, types/characteristics of countries, and kinds of adaptation and reactions. Yet, there is also scope for cautious generalisations, which indicate that the scope of Europeanisation has been at best moderate, and on balance smaller than those actors who signed the legal provisions for policy coordination 1997 in Amsterdam seem to have expected judging by their public rhetoric. Policy coordination modes have only in a small number of countries led to transformative changes in the administrative set-up, actors' policy preferences and strategies, and domestic public debates and policy ideas. On average therefore, domestic arrangements for economic governance are thus too 'sticky' for the incentives and constraints of these softer governing modes to cause more than a mixture of absorption and upgrading of national political system, their practices and policy ideas. This part of the findings may not come as a surprise and necessarily contrasts with other Europeanisation studies on first pillar issues such as area of labour law, where EU directives have to be transposed into national law, even if some leeway is given how that can be done.

Yet, there are important qualifications to be made. Policy coordination, both in its hard and soft form, has caused upgrading effects with regard to some dimensions of national political systems. For instance, employment policy coordination did help to introduce some changes in national agendas, policies and ideas in a number of countries and with regard to different issues. It also helped to bring about changes in national consultation and policy-making procedures and interactions among political and non-governmental actors. Moreover, the provisions for fiscal policy coordination were capable of contributing to the setting-up of new institutions for the conduct of fiscal policy as well as influencing the course of national fiscal policy - but only in some smaller and medium-size countries. We have accounted for these differences in Europeanisation by highlighting the asymmetric vulnerabilities between large and small countries in Europe, which focuses on their varying ability to comply with the fiscal rules of the SGP on the one hand, and the credibility of threats of political exclusion and sanctions on the other hand. Moreover, we have noted that some countries were generally less able to implement transformative

changes against political resistance given the existences of informal or formal veto positions within the national political systems. Finally, the ideational attachment to European integration in general and the purpose of fiscal policy coordination under EMU was seen as a factor in explaining differences in Europeanisation beyond a 'goodness of fit' test.

This means that stronger Europeanisation phenomena could be found in the small and more federally organised states. Moreover, the impact was strongest in the area of discourses, ideas and to a lesser degree of institutions as national stability pacts (with weak sanction mechanisms) were set-up. Finally, countries traditionally more concerned about a loss of sovereignty found it more difficult to use Brussels as a stimulus for reforms. Since the European interest carried relatively little influence in domestic politics and public discourse, reform through the backdoor of Brussels were hardly ever initiated in these countries, or if they were, they were done so without any reference to the origins of such changes. In marked contrast to the convergence process with the strong incentive of becoming EMU member, we could see that even in the area of hard policy coordination, governments hardly ever used EU guidelines or recommendations to further contentious policy proposals. Given that also soft policy coordination in the field of employment policy has failed to bring about more than moderate changes, our study raises doubts about whether self-coordination modes can be more than a supplement to the national process of formulating, deciding and implementing national socio-economic policies. This should be reason enough to caution against bold statements by the European Council associated with the relaunch of the Lisbon strategy, which seem to aim for bringing about such kind of transformative changes of national economies single-handedly, thereby raising expectations towards policy coordination that can not be met.

3. Six Years of Policy Coordination: Discerning Trends and Testing Theories

3.1. Towards a Communitarisation? Spill-overs between Structural Funds and the European Employment Strategy

The starting point of this research was the fact that the European Employment Strategy is often considered to constitute a separate compartment in the EU system of governance. The research puzzle is the following: Does, five years after its creation, the EES continue to function in a separate compartment of the European system of governance? Or could we observe growing interlinkages and spillover with other EU policies also targeting employment. In financial terms the EU's most important policy instrument to combat unemployment are the structural funds. The question is whether and how a functional relationship between the EES and the structural funds has evolved.

This research question goes beyond the question of spillover because it analyses to what extent and how the EES as an intergovernmental strategy has been linked to supranational policy instrument. The research explored this constitutional asymmetry and asked whether and how the evolving European employment policy is based on a coherent mode of governance or whether it is designed by a loosely linked network of different policies and instruments.

The research has looked at three different levels of policy making: the legal, the strategy formulation and the administrative level. The analysis is based on primary and secondary legislation, NAPs as well as on structural funds related strategy documents such as the Community Support Frameworks, Operational Programmes and Programme Complements. A questionnaire has been developed for the 10 national rapporteurs drafting the country studies. It focused on newly established procedures and interaction between actors involved in drafting and implementing the various strategy documents. But not only formal interaction has been taken into account also informal procedures and a change in routines was taken into account. In addition the project also considered evaluation reports produced in the context of structural funds and the EES.

3.1.1. The Legal-Constitutional Level: Setting the Basis for a Functional Relationship?

At the level of primary legislation, the structural funds and the EES are linked by the EU strategic priority to achieve a high level of employment. This is, however, a rather indirect link which is not limited to the structural funds but refers to all EU policies. Beyond that the Treaty does not include any sector-specific reference to a functional relationship between the EES and the structural funds. In contrast, secondary legislation stipulates a specific functional relationship. The general structural funds regulation calls upon the Member States to take account of the EES when implementing the structural funds. The ESF regulation explicitly tasks every Member State to demonstrate that the ESF priorities are consistent with the NAP. As regards the other three funds, the regulations do not include any reference to the EES.

The following conclusions can be drawn from these findings: Firstly, secondary legislation very clearly establishes a functional relationship between the EES and the ESF. It is thus not a question of whether the ESF should be linked to the EES but only how. Secondly, the legal basis establishes an ambivalent relationship with regard to the funds except the ESF since it does not translate the horizontal priority to achieve a high level of employment into secondary legislation governing the other three funds. The legal-constitutional level does thus not establish a clear approach to the EES. On the one hand

it shows signs of functional spillover and interlinkages between the EES and the ESF. On the other hand it includes deliberate compartmentalisation and separation between the EES and the other structural funds. Given the constitutional asymmetry between the EES and the structural funds, these mixed messages are likely to create frictions or at least different interpretations during the strategy formulation and administrative phases.

3.1.2. The Strategic Level: Synergies or Patchwork?

The European Commission for its part has clearly considered it necessary that the EES and the ESF priorities should be coordinated and that there should be consistency of assistance from the structural funds with employment policy. The plans, drawn up on the basis of common Employment Guidelines adopted by the Council, should serve as the overall framework for measures to support employment policies under the structural funds.

In contrast to the Commission, the Council did follow a more reluctant and a less coherent approach towards linking the ESF with the EES. While the Council showed strong support of the functional relationship in its employment guidelines of 1999 and 2003, it used a much more cautious wording between 2000 and 2002. This changing attitude may be explained by the fact that the negotiations of the structural funds programming documents for the period 2000-2006 were at their height in 2000 and 2001. Consequently, the Member States' representatives in the Council were acutely aware of the Commission's preference for a close link between the structural funds and the EES. They may have opted for a cautious wording in order to rein in the Commission's ambitions and not to give it another means to interfere in the use of the structural funds in the Member States. Another explanation for the Council's almost yearly changing attitude towards the link between ESF and EES could be that the Council itself does not have a clear vision and follows a more ad-hoc approach.

As regards the individual Member States, all of them have implemented the requirement to link the ESF and the EES. Most Member States' structural funds programming documents reflect the EES objectives and include explicit references to them. Since 2000, all NAPs include references to the ESF and outline how the NAP takes structural funds priorities on board. Yet, out of those countries included in this study most of them seem to do this in a rather formal than strategic manner. Consequently, the role of the NAPs in drafting the structural funds programming documents was very limited. Interviewees from Sweden, Italy, Belgium, and the Netherlands confirmed that the NAPs are not seen as a strategic but rather as an ex post document stating what the Member State has

done in the field of employment. The EES is thus not perceived to have a major impact on priorities and the strategy of the current programming documents.

A subsequent comparison of the fund allocation in the previous programming period (1994-1999) with the current one (2000-2006) confirms this conclusion. Although Member States made sure that the ESF programmes are consistent with the NAP and EES objectives, they did not fundamentally modify their ESF allocation. The only exception where some Member States considerably shifted the funds is the equal opportunity pillar. Whether, however, this change resulted from the EES as the Italian, Belgium or Austria reports suggested or whether it was induced by the stronger wording in the structural funds regulations of 1999 on gender mainstreaming remains an open question.

One reason for the limited strategic link may stem from the different strategic orientations of the ESF on the one hand and the EES on the other. Until 2003 the EES was divided in four pillars: employability, entrepreneurship, adaptability, and equal opportunities. In contrast, the ESF regulation stipulates five policy fields of intervention: (1) active labour market policy, (2) social inclusion, (3) lifelong learning, (4) adaptable workforce, (5) women's participation. When drafting the programmes, the Member States allocated their ESF share on the basis of the five policy fields. Only afterwards Member States demonstrated the strategic overlap between the five priorities and the four pillars. This retroactive link between the ESF and the EES may have led to friction losses.

Another reason for the limited link between the ESF and the EES may be that the overall importance of the ESF in supporting Member States' active labour market policy is relatively limited. The study shows that the ESF's role as a financial instrument supporting the EES is particularly evident in the relatively poor countries, e.g. in Portugal where the ESF share of the country's active labour market policy amounts to 40%. The NAP is to a large part financed by the ESF (Cadeiras 2003, p. 17).

Yet, this reasoning does not hold in all countries. For instance in Ireland, we have found a close link between the NAP and the structural funds strategy. Yet, the ESF only contributes to a limited extent, namely to 8,8% to the country's total expenditure on active labour policy. In Ireland the reason for accepting the link between ESF and EES rather seems to be the overall importance attached to the ESF in comparison to the other structural funds. Ireland has consistently allocated an above-average share of its structural funds to the ESF. In the programming period 2000-2006, the ESF share represents 33% of Ireland's total structural funds allocation. The EU-average in Objective 1 regions is around 10 percentage points lower than the Irish share. The great

importance Ireland attaches to the ESF among the structural funds suggests that employment is not only a national priority but also a priority when it comes to allocating the structural funds. Moreover, the public does not seem to perceive the NAP as a document prepared solely to satisfy EU requirements but as a national policy document (Lynch 2003, p. 8).

As regards the Community Initiative EQUAL, the programming documents consistently allocate different amounts to the four pillars than under the mainstream programmes. While the equal opportunity pillar received more funding under EQUAL, the employability pillar received less.

One reason for these differences between mainstream programmes and EQUAL may be that drafting the programming documents for mainstreamed programmes usually involves a wide range of ministries and regional authorities. For Objective 1 and 2, the Ministry of Employment usually plays a much less prominent role than e.g. the Ministry of Economic Affairs or Finance. This is not the case in the EQUAL programming process because it is often solely orchestrated by the Ministry of Employment.

Another reason may be that the European Commission is a more powerful player under EQUAL than under the mainstream programmes. In the EQUAL framework, Member States can allocate the funds only to those priorities identified by the Commission. For the mainstream programmes, the Member States or the regions determine the priorities within the framework of the regulations of course. Therefore, it can be assumed that the EQUAL allocation of funds is not entirely the result of national priorities but also reflects Commission priorities.

3.1.3. The Administrative Level: Towards a European administrative space?

The EES structure clearly differs from the multilevel governance structure of the structural funds. Not least due to the broader scope of structural funds' interventions, their management structure relies on a broader inter-ministerial coordination involving different levels of governance.

During the preparation phase many countries reported some sort of cooperation. Yet in particular Italy and Sweden reported that this cooperation is mostly initiated from the ESF managers and to a lesser extent from the authorities in charge of the NAP. As regards the implementation, coordination is much less developed. Only Austria reported that the same department is responsible for the implementation of the NAPs and the ESF (Huber 2003, p. 15). Other Member States such as Ireland, Germany, and Netherlands

rely on informal coordination in order to ensure consistency in the implementation. In any case responsibility for the NAPs rests with the departments in charge of national employment policy and not with the department in charge of the ESF. The structural funds implementing administration functions thus in parallel to NAP administration. The notable exception is Belgium where upon pressure from the Commission a unit has been created to coordinate ESF and NAP implementation. Thus it can be concluded that not only no new formal institutions have been created to facilitate or serve the cooperation between the ESF and the NAP. Also the existing institutions have not been adapted to respond to new coordination needs.

Given this current weak administrative links in the implementation phase it is remarkable, that a number of Member States seem to accept the link between EES and structural funds when it comes to monitoring and evaluation. For instance, Austria and Ireland reported that they use the data for monitoring and evaluating of structural funds interventions also for the EES. Italy has established a common database for the ESF and the NAP. However, this exchange concerns mostly quantitative data; qualitative data such as the impact assessment or added value of ESF with view to achieving the EES objectives is hardly given (European Commission 2002-c).

3.1.4. Prospects for a Coherent System of Governance

The structural funds reforms of 1999 formally introduced a functional relationship between the ESF and the EES objectives into the *acquis communautaire*. Yet, the legal provisions left open how Member States should implement this functional relationship into the 'non-formalised *acquis*' (Olsen 2003, p. 516). Although this is in line with the EU traditional modest attention to and priority of administrative issues, the study has shown that establishing the legal constitution does not necessarily translate into a living constitution which is consistent with the legal concepts. Yet, the legal provisions seem to function as an incentive for Member States to adapt strategies.

The study has clearly shown that Member States follow a different approach when it comes to implementing the functional relationship at the level of strategy formulation and managing the functional relationship. At the level of strategy formulation, they accept that the EES/NAP strategy and objectives have to be consistent with ESF programmes. This acceptance is reflected in the programming documents of all Member States. Yet, this is only accepted until it conflicts with structural funds priorities previously defined by the Member States. At managerial level this functional relationship is only – if at all – implemented through informal procedures. Hardly any institutions or formal procedures have been adapted to accommodate the functional relationship.

It can therefore be concluded, that it is partly due to the Commission's strong influence during the strategy formulation phase that contributes to the Member States' respecting the functional relationship. During the implementation phase the Commission does not have such a strong influence which allows it to act as an ideational entrepreneur supporting the functional relationship in the Member States. Although Member States respect the functional relationship during the strategy formulation phase, this positive attitude can in general not be attributed to a change and convergence of preferences, norms, or values of actors. In the contrary, it seems that a vast majority of the Member States included in this study does not fully endorse the functional relation between EES and structural funds. They accept the overall principle but most of them do not accept that the link of the ESF and the EES may have consequences on their administrative systems. Rather, Member States continue to perceive the EES as being located in a different sectoral subsystem (Bulmer 1993, p. 377), which links only partly and temporarily with the structural funds' subsystem (Hodson 2003, p. 11). This may result from Member States' interest to guard their administrative autonomy and traditions. This hesitancy on the side of the Member States is fuelled by the fact that there is no 'agreed exemplary organisational model' (Olsen 2003, p. 519). Although the formal *acquis* stipulates the functional relationship it does not exactly make clear what kind of administration and structures are needed. The spillover between EES and ESF is therefore not a political spillover but a functional one (Conzelmann 1998, Olsen 2001, Lindberg and Scheingold 1970, Nye 1971). However, the fact that the EES objectives are taken on board in the structural funds programming documents – even if Member States only fulfil a Commission requirement – may gradually induce a shift of expectations and loyalties. As Burley and Mattly (1995, p. 67) have pointed out, once the rules are established, 'individuals are entitled to rely upon the assumption that social, economic, or political behaviour will be conducted in accordance with that rule'. This development is of course not to be seen as a predetermined automatism.

Why are, on the one hand, the Member States so reluctant to accept the functional relationship and why is the Commission, on the other hand, so eager to implement it? This question leads to the perception of costs and benefits related to this functional relationship. In contrast to some studies which point to the quasi neutral position of the Commission less likely to be captured by special interests (Beyers and Kerremans 2002, p. 7, Majone 2001), this study concludes that the Commission does have a vested interest in political and functional spillover. The Commission benefits from linking the two processes together because it has a much powerful role in the structural funds regime than in the Open Method of Coordination under the EES. While, therefore the Commission can expect clear benefits from a shift of the NAP structure to the structural funds system,

the expected benefits for the national and subnational actors are not as clear. On the contrary, if the ESF was formally linked to the NAP, the structural funds sanction system could equally be linked to the NAP. For instance not implementing the recommendations via the ESF could lead to a reduced funding level. Therefore, with high costs related to policy change and without considerable short-term benefits resulting from it, the inclination to accept or even actively support the functional relationship remains limited (Benz 2000, p. 25, Kohler-Koch 2002, p. 10).

The Member States resistance to introduce the functional relationship into their administrative and institutional structure may not only stem from political reluctance. It may also stem from the 'institutional robustness' confirmed by numerous studies (Olsen 2003, p. 507). This institutional robustness may be supported by the fact that every Member State has a long tradition of employment policy. Linking their institutional structure in this policy area with the structural funds will not only require more time but also a change of actors or their relative powers and their expected benefits (Neyer 1999, p. 395, Pollack 1996, p. 438, Thelen and Steinmo 1992, p. 17).

For the time being, European and national actors continue to be faced with a paradox: the EU has adopted a European employment strategy and provides for a financial instrument to help achieve the objectives of this strategy. But the resulting linkage between its policy strategy and the relevant policy instruments is not codified in the EU governance structure, power relationship, and communicated norms. The Convention's debate on the OMC has made clear that Member States continue to oppose a strengthening of the link between the EES and Community instruments such as the structural funds. The Commission's proposals for the next financial perspective and the third cohesion report however point to an even closer linkage between EES and ESF. Whether the Member States agree to the Commission's ideas is yet an open question.

3.2. Towards a Horizontal Fusion of Governing Structures? Coordination of Coordination Processes through the BEPGs

For the establishment of Economic and Monetary Union (EMU) art. 4 of the TEC foresees the adoption of an economic policy which is based on the close coordination of member states' economic policies. At the centre of European economic policy coordination are the Broad Economic Policy Guidelines (BEPG) provided for in art. 99 TEC. These guidelines are nowa-days considered as the framework and central policy tool for the definition of overall economic policy objectives and orientations and should ensure a coherent and balanced policy-mix. The BEPGs should co-ordinate the various socio-economic coordination procedures that have been established by the Treaty, secondary legislation

and European Council conclusions in recent years. As the GOVECOR project studies the evolution of new modes of governance through self-co-ordination in the area of fiscal and employment policy and their impact on European integration, the BEPGs are at the heart of our research agenda.

3.2.1. European Economic Policy Coordination with the BEPGs

The evolution of the procedure on the European level

The attempt to provide for a broad framework for the development of member states economic policies on the European level has not been an invention of the Maastricht Treaty. In-deed, already in the original EEC Treaty economic (or conjunctural) policy was defined as a “matter of common concern” (art. 103–105 EEC-Treaty) and its coordination a task of the Council (art. 124 EEC-Treaty). Different instruments (programmes, guidelines, recommendations), procedures (mainly Council-based) and institutions (esp. Committees) to reach this common goal have been tested in the decades before the Maastricht Treaty and the revision of relevant treaty article.

The new provisions of art. 99 of the Maastricht Treaty with the re-formulated article on the coordination of economic policy were thus not a novelty. They essentially ‘constitutionalised’ the previously applied instruments of guidelines for the member states and the formerly used recommendations to member states deviating from the principles laid down in the treaty, how-ever by detailing the procedure to be applied. It kept the ‘soft’ character of this mode of governance, hence the implementation of BEPG recommendations is not a legal obligation and the provision do not include any sanction mechanism as does the ‘hard’ coordination of fiscal policy. Nevertheless, in case an ‘early warning’ recommendation is issued by the Council it can be made public based on a specific decision of the Council. The co-ordination mechanism remained based on the politically and psychologically binding nature of the policy process, and, in case of an early warning, it has the potential to lead to public pressure on the member state concerned.

It was in view of the decision on stage III of EMU to be made in 1998 that the procedures and instruments were firstly amended by the European Council based on the understanding that the move to a single currency will require closer Community surveillance and coordination of economic policies among (euro-area) member states. Complementary to this has been the introduction of employment policy coordination and the specification of fiscal policy coordination with the Stability and Growth Pact in 1997, the setting up of the ‘Cardiff Process’ on structural reform in 1998 and of the Macro-Economic Dialogue at Community level in 1999. With three ‘sub-cycles’ to the Broad

Economic Policy Guidelines being in place, horizontal co-ordination between the co-ordination mechanisms at the start of stage III of EMU became even more necessary. As a consequence, the European Council in late 1999 defined the BEPG as the central policy tool for economic policy coordination and amended the procedures by reorganising the preparatory work prior and the decision-making procedure on the BEPGs. Equally important for the evolution of the BEPGs has been the European Council at Lisbon 2000 which formulated a broader long-term strategy for the Union's economic development. With the new instrument of the 'open method of coordination' (OMC), peer review exercises were extended to a number of related policy areas, most specifically in the field of social inclusion, pension reform, information and communications technology, and education and research.

After three years of applying these amended annual procedures, however, the BEPG process and its sub-cycles were once again reviewed and amended at the end of the year 2002, aimed at synchronising the cycles of the BEPGs and of employment policy, and at providing a more coherent framework for complementary policy areas within the BEPGs. The timetables of other policy cycles were brought in line with the that of the BEPGs and, at the same time, the streamlined co-ordination cycles moved away from a strictly annual procedure towards a multi-annual programme by foreseeing a full review only every three years.

Finally, with regard to the legal provisions on the coordination of economic policy, it is note-worthy that the European Convention's draft on the Constitution does not fundamentally alter these provisions. The main difference of Art. III-71 Draft Constitution to art. 99 TEC relate to the 'early warning procedure', separating the 'warning', which can now be issued by the Commission itself without the approval of the Council, from concrete recommendations with regard to the warning, which still have to be adopted by the Council – excluding the vote of the member state concerned – on a recommendation of the Commission. Potentially more far reaching, however, is the new provision in the Draft Constitutional Treaty of the IGC to provide for the adopted of separate "Euro zone BEPGs" – to be adopted only by euro zone member states, as long as these are compatible with the EU-BEPGs (art. III-88).

The evolution of patterns of participation: essentially intergovernmental

As this coordination should facilitate the exchange of best practice and the intergovernmental deliberation on policies rooted in the domestic policy arena, the main interaction takes place between governmental actors of the member states. Nevertheless, other European actors do play a role in the preparation, decision-making

and implementation process of the BEPGs, and also in this respect we have witnessed specific development in recent years.

While the involvement of the heads of states and governments had already been “constitutionalized” in Maastricht with art. 99 TEC, the heads of states and government have not merely ‘rubberstamped’ documents but have actively pursued their own agenda. Mandates were given to the ministers and the Commission with regard to the further development of the procedures and changes were made to the documents presented to them. Furthermore, national positions have been frequently determined by the heads of state themselves. The evolution of the coordination procedures have furthermore had an impact on the level of the Council. The amendments to the procedures since 1999 and more importantly in 2002 have led to a more dominant role of the Ecofin vis-à-vis other Council formations, with a more prominent albeit informal role of the euro group. At the same time, administrative interaction has been reinforced with regard to the Council’s committee structure, leading to increased efforts to coordinate the work and the interactions of these committees. Within these Council committees and the euro group, inter-institutional relations with the ECB have been strengthened.

The 2003 attempt to bring the European Employment Strategy with its Employment Policy Recommendations and the Joint Employment Reports closer to the BEPG cycle has also affected the European Commission. In 2003, i.e. the first year of the synchronised timetable, the attempt to adopt coherent recommendations has proven particularly difficult for the Commission, pointing to different ‘economic philosophies’ or rather ‘doctrines’ cultivated in different DGs. On the other hand, the development has by and large not affected the European Parliament. The role of the EP remains reduced to observing and commenting on the process. The synchronized time tables of the coordination processes since the year 2002 might even further reduce opportunities for the Parliament to influence the guidelines due to the tighter timetable.

The BEPGs on the domestic level

In our analysis of multi-level economic governance and the role of the BEPGs to coordinate coordination policies, the procedural arrangements on the domestic level are conducive to the effectiveness of European macro-economic policy coordination. However, the implementation of the BEPGs procedure on the domestic level has not led to a novel approach to deal with European coordination policies. The BEPGs have been included in the array of tasks to be handled by national administrations and other bodies in charge of European affairs, in most cases using ‘traditional routines’, but the guidelines have not affected many other actors or institutions.

While the non-binding character of BEPGs does not necessitate institutional changes on the domestic level, member states had to adapt to the evolution of the process at least in administrative terms. They did so by successively incorporating the BEPG procedure into the administrative work of the relevant domestic ministries. Coordination has usually been ensured by horizontal administrative bodies of inter-ministerial or – in case of larger ministries – inter-departmental coordination. Procedural innovation has however been – by and large – low and co-ordination procedures vis-à-vis the European level do not seem to have changed substantially. As such, the BEPGs are treated as ‘yet another’ coordination exercise originating from the EU.

What is noteworthy is, nevertheless, that apart from this kind of formal compliance to the procedural aspects of coordination, the timing of decision-making on the domestic level has not substantially been altered, clearly not with regard to the BEPG process and only in some cases with regard to the annual budgetary deliberations and the stability and convergence programmes. In most countries there is no direct link between the submission of the SGP and the budgetary procedure and the BEPGs are certainly not a reference document for parliaments when deciding on next year’s budget. Parliamentary procedures to deal with the BEPGs and/or their implementation on national level have only followed traditional patterns without going beyond the application of formal procedures.

3.2.2. Assessing the evolution and the impact of the BEPGs

During the observation period of our research we have seen numerous attempts by both Euro-pean and member state actors to enhance the effectiveness of the instruments and the efficiency of the procedures linked to the BEPGs. Policy learning as well as the start of stage three of EMU have led to a number of improvements in economic-policy coordination. On the domestic level, administrative adaptation – as opposed to innovation – has ensured that at least the procedural implementation of the BEPG procedure has been successful. Furthermore, although it might be considered as a rather banal statement, the procedures as described in art. 99 have been followed by the actors involved. The Commission and the member states have ‘played the game’. The attempt to achieve a well-balanced macro-economic policy mix has also led to the understanding of the actors concerned that a more encompassing policy-mix should include additional policy areas. Coordination in its softest form has thus been introduced with the various OMCs which can be understood as some kind of functional spill-over. It should not be underestimated that newly established OMCs have brought in key socio-economic policy areas traditionally and previously outside the competences of the European Union.

Yet the gap between publicly stated commitments by the member states and the real implementation of policy adaptations is still wide and, in some areas, has not diminished in recent years. With regard to fiscal policy recommendations in the BEPGs the undisputed conclusion is even that implementation efforts have declined in a number of member states after their accession to the euro zone and the achievement of the convergence criteria. The BEPGs implementation reports are documenting the lack of implementation by the member states, quite often disguised by euphemistic conclusions such as "in progress", "partial" or "there is a risk of not achieving the aim".

If peer and public pressure are elements of soft coordination, the BEPG procedure has clear limitations in both respects. The public commitment of member states in the publicized BEPGs should strengthen the willingness to comply to the commonly agreed recommendations. However, if the 'public' is as small as it is in the case of the BEPGs, it does not create sufficient public pressure on member states. Public awareness and public discourse to this mode of European governance has only marginally developed.

Given the very mixed implementation record of the BEPGs for most of the members states, peer pressure has obviously also not increased the willingness of member states actors to fully implement the BEPGs. While a common explanation for the limits of peer pressure is that 'potential sinners' do not want to criticise 'current sinners', there are also questions to be raised with regard to the recommendations themselves and the ability of member states to implement those recommendations until the next cycle begins. At least in this respect, the new multi-annual BEPGs will prevent the year-on-year repetition of exactly the same recommendations.

Considering the importance of a balanced macro-economic policy mix going beyond the aims of price stability and sound finances but indeed affecting the core of European welfare states, the absence of a public discourse on key economic options available is remarkable. As "the choices and compromises to be reached at the European level are fundamentally political" (cf. Tsoukalis 2003), the absence of national legislators and the EP in these deliberations and decision-making continues to be a major obstacle for the effectiveness and bindingness of the coordination procedures. Neither the streamlining exercise in 2003 nor the provisions in the Draft Constitutional Treaty have however made progress in this respect.

3.2.3. The scenarios revisited: Fusion via the BEPGs or Fragmentation despite the BEPGs?

Based on the analysis presented, it should come as no surprise that we could not identify a common trend towards horizontal (and vertical) fusion or fragmentation in the policy area under consideration. The cautious statement that the two scenarios are ideal-types which might not materialize in the 'living constitution' in a pure form has, quite frankly, simply stated the obvious.

Given the continuous revision of and amendments to the existing rules and the introduction of several new procedures to enhance the deliberation and interaction process on economic policy, we do see attempts of the key actors involved to create some kind of 'economic governance' which goes beyond the provisions of the legal constitution and to merge (or fuse) existing policy areas (horizontal) and policy arenas (vertical) on the European level. On the other hand, the more it has contributed to an increase of political actors participating in these procedures, the less they could rely on "shared commitment" and "common doctrines".

The scope of these attempts has however been limited in many respects mainly on the domestic level. Even though the BEPGs are now established in common by virtually all governmental actors concerned by them, thus creating a kind of 'core network' for socio-economic governance in nucleus, it has not ensured a more positive 'implementation rate' of the guidelines on the domestic level. As the BEPGs offer no real credible alternative to domestic opportunities in national policy-making structures, key domestic actors have had few incentives to change their policy preference structures and to reorientate their attention to European processes. Another conclusion to be drawn from the last years is that in difficult economic situations the cost of compliance increases and leads to an intensification of national debates by parties and especially by interest groups concerned by cuts in public spending. Arguably, tendencies for evasion and non-compliance are also more pronounced in the run-up to national elections.

The ignorance of a number of member states with regard to BEPG recommendations addressed to them, and, more importantly, with regard to the treaty provisions on fiscal policy has demonstrated that there are clear limits to the impact of peer review and peer pressure. It seems however to be too early to conclude that we might see a vanishing of the consensus on the 'sound finances and money' paradigm, which was necessary to establish Monetary Union as this would be in contradiction at least to the rhetoric of the Lisbon agenda and the efforts invested into OMC in related policy areas.

As a conclusion, the first 'real' years of economic policy coordination with the BEPGs after the introduction of the common currency in the year 1999 have not led to a linear development of economic governing modes in the EU as a multi-level system and no 'new' consensus has so far emerged on the future. For the foreseeable future, modes of socio-economic governance are not bound to be moved up the 'integration ladder' which would lead to collective modes of governance. It will remain open if the 'invention' of the OMC indicate that in socio-economic policy softer forms of coordination will rather become the default option, thus also affecting the legal framework of fiscal policy coordination.

3.3. Towards Deliberative Supranationalism? Analysing the role of committee interaction in soft co-ordination

At EU level, a special study dealt with the role of the social-economic EU committees in fostering dialogue between various actors in the employment policy field, namely the Employment Committee (EMCO); Social Protection Committee (SPC); Economic Policy Committee (EPC); Economic and Financial Committee (EFC). These advisory committees are instrumental in the system of governance developed around the EES (and the Open Method of Coordination generally). We were concerned with the potential role of these committees for a deliberative mode of governance. Since, in the case of the soft co-ordination, actors cannot be forced to compliance, we assumed that deliberation gains in importance in the case of soft governance and wanted to investigate if and how the OMC had supported a deliberative mode of policy-making. Empirically, the study addressed the questions: Does modification of outlooks and positions take place, and are there indications that positions are moved by arguments? Are common and shared notions of the needs for action developed and common frames of references adopted, indicating that convictions change? Is arguing rather than bargaining characterising the interactions in the committees? How open is the 'open method of coordination', both in the sense that the discussion is open-ended and in the sense that it is open to insight and contribution from a wider circle of participants?

The role of committees in EU governance has been given extensive attention in recent years. Also the question to what extent committee interaction can contribute to a deliberative mode of governance has been ambitiously addressed. Still, empirical studies from diverse fields are needed to determine if, and in what way, committees and administrative networks can be said to contribute to a deliberative mode of governance. Moreover, since actors cannot be forced to comply in the case of soft co-ordination, we assume that deliberation gains in importance. The study shows that there are indeed indications of the soft co-ordination being supportive of a deliberative mode of

governance. However, there are also structures and factors that limit the scope for deliberative interaction, and there are limits to deliberation as a mode of problem solving and action co-ordination in this case.

There is evidence which points to ways in which the OMC supports a more deliberative mode of governance. However, there are also factors that undermine and limit the possibilities for the committees to function as deliberative forums. This section summarises the main findings.

3.3.1. The OMC - deliberative governance in practice?

Arguing or bargaining?

Are the committee discussions characterised by argumentation aimed at reaching mutual agreement, or by bargaining aimed at the successful defence of pre-determined national positions? Or, put differently, what is decisive: power relations or good arguments? Our results indicate that the committee discussions take on quite different features depending on the issues on the agenda. Generally, discussion is open-ended, where all members can present their arguments and try to find common ground. Except for the EFC, it is not of great importance whether one represents a small or a large country. Instead, the one who presents arguments which build on substantive knowledge and experience on the topic at stake, for instance a country with a good record in economic or labour market policy, gets his or her arguments thoroughly considered. There is also an expressed will to listen to and to learn from the experiences of others. Strategic bargaining is not the general mode of interaction in the committees.

However, contacts to create coalitions with like-minded members before meetings do take place, usually concerning issues that might become politically sensitive and of a more rule-setting character. When it comes down to the formulation of recommendations or the exact definition of indicators, the discussion in the committees or in the bilateral consultations with the Commission, takes the form of pure negotiations and bargaining. The Member States try to influence the exact wordings of the recommendations in order to make them nationally acceptable. Yet, in the first years, the employment policy recommendations were regarded as more sensitive than today. At that time, the Member States wanted to have a stronger say on the issue. This may indicate that the treaty-based notion of employment policy as an 'area of common concern' has gained some understanding, and that it is more legitimate to receive critical comments and recommendations from other Member States. However, it may also indicate that the recommendations are increasingly perceived as harmless because of their non-binding nature.

Although the committees are formally advisory, they have great influence in that their proposals are very often identical to the eventual Council decisions. This has led Member States to use the committees increasingly as forums to place issues on the political agenda. This is especially true for EMCO. Because the committee has in this respect become more political, discussions have become more of negotiations on the basis of national standpoints than open-ended discussions on best practices and exchange of opinions. The demand to produce written statements in order to influence policies also puts some strain on the openness of the discussions as does the limited time frames. These factors seem to have made discussions less open-ended and more focused on bargaining on wordings than openly discussing common problems or different policy choices.

Certain deliberative features seem more prevalent in the discussions taking place in the EPC and the EFC, given the way views are exchanged, a common terminology used and a will to put oneself in someone else's position being prevalent. One explanation is that these committees are much more closed to other actors than the actual members. There are no contacts with social partners or NGOs, and the EFC does not even have regular contacts with the EMCO or the SPC. Moreover, being trained economists, the members of these committees constitute an 'epistemic community' with shared theoretical frames of references, which facilitates discussion. On the other hand, big countries have a greater say, which indicates that power relations rather than the power of the good argument is decisive when sensitive issues are at stake.

Shared frames of references and consensus-orientation?

At a general level, shared notions of common problems and challenges have developed. This is true both of the need for stable public finances, and the need to handle the demographical challenge, including the need for increased rates of employment and the reform of tax and social benefit systems. Common policy approaches, such as a preventive and activating labour market policy and the 'make work pay' principle, have been developed. However, a total consensus does not exist, especially not for concrete measures.

Yet, there is an awareness of the expectations of the others, and that there will be reactions against the failures to respond to the common objectives. Non-compliance must be explained and reasons and arguments provided. Moreover, peer pressure is involved. As described by a senior Swedish official: 'One does not want to be the worst one in the class'. Or as expressed by another: 'Peer pressure is tangible.' This in combination with the confidence building through the close committee interaction has

also led to Member State representatives being willing to 'drop the guard' with respect to criticism.

Our empirical material suggests that the ability for the committees to find common ground and to agree on different proposals is, for the most part, high. As already mentioned, being an epistemic community (of economists) helps. The members in the economic committees studied here seem to agree easier than the EMCO and the SPC and use less bargaining, partly due to this feature of a common professional background and theoretical approach. For instance, members of the economic committees express their satisfaction that they do not have to discuss such 'irrelevant' issues as lifelong learning (interview, national official). What is relevant for discussing and what is not are here partly determined by the theoretical framework or discourse in a Foucaultian sense. The EMCO and the SPC contain more variation in internal views in light of a more differentiated membership in terms of education and national experiences. The agreement reached in the economic committees seems to be achieved at the expense of excluding alternative voices.

Even though the rules of procedure in the committees allow for voting, the ambition is to reach consensus. If the chairman is uncertain about whether there is agreement or not, he makes a round where each member makes a statement. If agreement is not reached, there is usually no decision or the issue is removed to be settled in another forum. On issues of particular national sensitivity, Member States may insist on a wording, but often the representatives are content with making a symbolic remark on the national position and then adjust to a common line. As previous research has also shown, committee members are dedicated to reaching agreement.

However, in sensitive areas and when it comes to written output of the committee deliberations, it is difficult to find evidence of national standpoints actually being modified during committee interaction. Ultimately, the members have political mandates given by the political leadership at the ministries 'back home'. In the OMC areas, proposals must be negotiated and decided at national level. Thus, even if the individual civil servant becomes convinced during committee interaction, this will not necessarily result in actual policy change in the Member State.

Inclusiveness and openness?

As the deliberative ideal prescribes the possibility for all interested parties to have the opportunity to express their standpoints and present their arguments, the question of openness becomes important. Most interviewees perceive of the OMC processes as being rather closed not only to the broader public but also to other interested parties such as

executive agencies and actors at sub-national levels. The overall knowledge within the public administration at national level has in this study and others (Jacobsson/Schmid 2002; GOVECOR 2004) been shown to be very low outside the core group of civil servants at ministry level working directly with the issues. Some also point to the irony of the term 'open method of co-ordination' since it is perceived as being much more closed than the legal method. The individual citizen has less possibilities of holding anyone accountable since the European Parliament has only an advisory role and because it is not possible to take one's case to the European Court of Justice.

As regards social partner and NGO participation, the relations vary considerably between the committees. The SPC and the EMCO are the most open to participants outside the committee. On the financial side, there is no participation of NGOs, while the social partners are heard occasionally. The EMCO and the SPC are more open to other interests, partly because of the formal mandate, according to which both committees are obliged to consult the social partners, but also because of the working methods established with exchanges of 'good practice' and informal meetings where NGOs and others sometimes take part. One explanation for this is that there is, although not formally, a distinct hierarchy between the committees in which the economic ones have a stronger position – a position that makes it possible to ignore demands for the participation of other stake-holders without losing legitimacy. In contrast, the social policy side may need the support of other stakeholders.

It is clear that the Commission officials working with the EMCO and the SPC are more interested in contacts with interest groups and social partners, and they can also see the value of these contacts, compared with the economic committees and their staff. Nationally, through the NAP processes related to both employment policy and social inclusion, there is an expressed will to involve civil society actors. This is much less so on the economic policy side (Foden/Magnusson 2002). Still, the macro economic dialogue, involving the European-level social partners, has been established to ensure consistency between monetary policy, fiscal policy and wage policy in the monetary union.

One major drawback in the committee governance within the OMC is the lack of transparency in the decision-making process. Besides the fact that not all stakeholders have the possibility of presenting their arguments, it is hard for journalists and researchers or others interested in knowing how policy is being made. The EFC is the clearest example, since its meetings are not documented in any way. Even if the committees are formally only advisory, in reality they have a much stronger role in the policy process, which makes the question of accountability pertinent.

It is clear that if the OMC is to contribute to European social and political integration, and for which there seem to be some prospects through the OMC with policy learning and mutual understanding, it is important that this European perspective be spread to a wider public than is the case today. Today, only a small number of officials at national level are aware of the method, which makes the spreading of best practices and good examples from other Member States difficult. Exchange between practitioners is limited. The broader public in the Member States has almost no knowledge of the new policy co-ordination processes taking place and even the national parliaments are only sporadically involved. In order for the OMC to be effective, and ultimately also legitimate, it must affect national debates and policy-making. Accordingly, it would need to be much better integrated nationally and sub-nationally than today.

3.3.2. Prospects and limits of deliberative supranationalism

What conclusions can we then draw on the prospects of deliberative supranationalism, based on our study of the role of deliberation in soft co-ordination?

Enabling features of the OMC

There is some empirical evidence that the OMC in the employment policy field is supportive of a consensus-oriented process of policy-making. Participants enter the committee discussions with the ambition to find points in common in which co-operation can be developed. Participants acknowledge that there are common problems, which require co-ordinated action, and in which the experiences of others may be useful, and they try to present their arguments in such a way as to make them applicable in other contexts. The work of developing common indicators to measure progress is an attempt to develop common frames of references, even though the discussion about indicators has so far been coloured by national positions and negotiations.

The non-binding character seems to facilitate a deliberative mode – openness to be convinced by arguments – and a culture of listening and learning, rather than meeting criticism with defensive attitudes. In the absence of legal force, reason-giving gains in importance – in order to become ‘binding’ on practice, participants must be convinced that a proposal is reasonable and worth implementing. Interviewees report that comments from someone with experience from the field and with well-founded arguments is generally considered more important in the committee discussions, than, for instance, the size of the country. And even if convictions about the right policy course are not changed during committee meetings, what is said during meetings may encourage a reflection process about national policy, which may be important in a longer

term. The Member State representatives increasingly seem to accept the fact that they will receive peer criticism.

The common project of developing and co-ordinating employment policies has been generally accepted. A European perspective is gradually developing in that policy actors – at least at elite level – increasingly ‘think politics’ and policy with European frames of references rather than exclusively national ones. They have begun to rethink national employment policies in the light of ‘common problems’, and redefine it in terms of ‘common concerns’ and something that is legitimately the concern of other states and nationals and requires co-operation (Jacobsson 2004). To this extent it is accurate to speak of a deliberative supranationalism. It is also accurate to say that the OMC contributes to normative integration to the extent that mutual understanding is fostered and convictions about the reasonableness of common guidelines developed, that is a deeper form of social and political integration.

Limitations to openness and agreement

However, there are obvious limits to this open-mindedness. Positions are partly ‘locked’ beforehand because of the political mandates from back home. This becomes clear when the topic for discussion is recommendations or other issues that, in some way, might become more binding to the members. It is then that bargaining instead of open-ended discussions tends to dominate the interaction. If it is the case that the more direct effects on decisions on substantive policy or the allocation of resources, the less open the discussion based on exchanges of experience and knowledge becomes, then there are limits to deliberation as the sole or main action co-ordinating mechanism. On the other hand, deliberation may still be the key to improved legitimacy and justification of decisions.

It seems easier to reach consensus with more technical, and not politicised issues. The sub-committees handling mainly technical issues also fit into this pattern. This may explain Joerges/Neyer’s positive results from a committee concerned with risk regulation in the foodstuff sector consisting mainly of lower level civil servants working on highly specialized issues requiring scientific assessments. It is likely that it is easier to reach consensus in the comitology committees (cf Joerges/Neyer 1997a, 1997b) than in committees in the preparatory phase studied here. As the committees studied here have grown continually more politicised it is far from certain that the personal agreement between committee members is transformed into policy change.

Our results indicate that it facilitates the reaching of consensus if members share the same professional background or theoretical frames of references. Again, this may

explain Joerges and Neyer's positive results from looking at committees working on specific technical, although sometimes politically sensitive, issues in the food sector where the participants due to the scientific discourse focus on the best technical solution rather than on control and distributional matters (Pollack 2003). However, the exchange within epistemic communities, tends to be less open to taking considerations from other perspectives into account, that is it is less open-minded, and instead tends to build on a pre-political consensus. In a strict sense, it would be questionable to allow discussion that is closed to alternative perspectives, to qualify as deliberation at all. Also, committee discussion has limits when it comes to solving political problems and conflicts of interest or value – the type of issues that cannot easily be resolved by scientific evidence.

Moreover, it also seems to be the case that the more closed the forums, the more openness there is in the discussion. Once again highlighting the difference between the economic committees and the EMCO and the SPC, where especially the discussions in EFC seem to benefit from the limited openness of the committee. This means that transparency in the trans-governmental process might increase bargaining rather than arguing. Committee governance, in its capacity to develop a cooperative regime, may thus have an important function to fulfil in a certain phase of the policy-making process, but will-formation in order to be legitimate must ultimately be developed with input from forums with public deliberation. The role that one is prepared to assign to committee governance in EU policy-making, seems partly to be related to which role of deliberation one stresses: to reach consensus, to reach better substantiated decisions or to justify decisions. Public deliberation is supposed to guarantee all three at the same time while non-public deliberation is unable to do so.

Implications of elite deliberation

The committee deliberation identified here, and by Joerges and Neyer as well, is a type of elite deliberation, and sometimes expert deliberation, which hardly fulfils all the requirements of deliberative democratic theory. Yet, this type of deliberation can contribute with other qualities, and improve policy-making in other respects than by itself granting democratic legitimacy. For instance, in the case of the committees in the policy formulation stage studied here, by allowing a wider circle of voices, a more complete picture of various policy options can be gained. Decisions become better founded if many points of views are considered. – something the OMC allows for but that has not been fully exploited. Elster (1998) lists a number of advantages of the deliberative ideal, one being that deliberation can be creative. Policy-making is not just about deciding between available options but to develop alternatives. Moreover, in our case, it is clear that the

committee deliberation has been important in building confidence and consensus between the national officials and the EU representatives in the sensitive OMC areas.

Yet, this is not democracy, and an important question, which we cannot address fully in this chapter, is to what extent open-mindedness in closed forums contributes to democratic governance. Democracy is not conceivable without a public sphere, and for the OMC to improve the democratic character of EU governance, its relationship with the public sphere, nationally and supranationally, must be strengthened. Today, the process is too closed not only in relation to many stakeholders, but also in relation to the European Parliament, to national parliaments and publics. Currently, there is no guarantee or mechanism for the interest of all affected to be considered. The question of accountability becomes very urgent when national policy is, in fact, settled in non-transparent trans-governmental and trans-bureaucratic processes, even if these build on a culture of co-operative inter-administrative partnership (cf Joerges/Neyer, 1997a). In order to be legitimate, committee deliberation must be coupled with public discourses, and in the case of the OMC, it must do so also in order to be effective. Since no binding decisions are taken at supranational level, implementation will not take place unless learning reaches down to lower levels of governance and is developed in public reasoning there.

3.4. A 'Grand Débat Européen' on Economic Governance? Publicised Discourses as Indicators for the Performance of Policy Coordination Modes

In this work package we want to argue that public discourses are relevant for assessing the utility and appropriateness of economic policy coordination processes and investigate empirically what we can learn from their study. Public discourses are the means through which political elites, journalists and societal interests debate and form opinions about problems of collective action within a political entity. Given that both fiscal and employment policy coordination in and through European Union processes cannot be legally enforced, the question of whether European recommendations, guidelines and government commitments made in Brussels are supported in national public discourses is of crucial importance. Moreover, national public discourses are relevant for normative assessments of economic policy coordination modes, which are sometimes accused of blurring lines of accountability, diminishing the scrutiny of national parliaments and the broader public, and thereby hiding real political choices behind a technocratic policy-making process (Europaministerkonferenz 2002, European Convention 2002). We explore these questions by conducting a content analysis of quality press coverage in Germany,

France and Britain between the agreement of the new legal provisions at the European Council of Amsterdam in 1997 and 2003.¹²

By investigating these issues both theoretically and empirically, we also hope to fill a gap in the debate about employment and fiscal policy coordination. The former has been often described as a blueprint for deliberative, bottom-up policy-making processes on the basis of empirical evidence relating to the emergence of governing networks, deliberative modes of problem-solving in committees, and information exchange and peer-review among administrations (Goetschy 2003). We hope that our findings will demonstrate the potential for an increasing intra-European debate on economic issues, which could underpin the emergence of more institutionalised, not to say federal, forms of economic governance (Collignon 2003a) in the not so distant future.

3.4.1. Why Do Discourses Matter for Policy Coordination? The Significance of Regulatory and Compensatory Europeanisation

The degree to which public discourses adapt to the new legal provisions for policy coordination, i.e. the way in which they become 'Europeanised', is relevant for assessing both the effectiveness and responsiveness dimension of policy coordination modes. Europeanisation in our context refers to the 'the impact of European integration and Europeanization on domestic political and social processes of the member states and beyond' (Börzel/Risse 2000: 1). We expect that the legal provisions for policy coordination with their emphasis on consultation, learning from best practices, and peer review represent a new opportunity structure for national actors to make their voices heard not only within the governing process, but also in mediated public discourse.

We can distinguish between two forms of Europeanisation of public discourse, namely *regulatory* and *compensatory Europeanisation* (see table 4.). The first can be called regulatory Europeanisation as it refers to adaptation processes arising from pressures for policy compliance and learning as determinants of the effectiveness of the cyclical governing modes. As for this first aspect, policy coordination modes seek to take

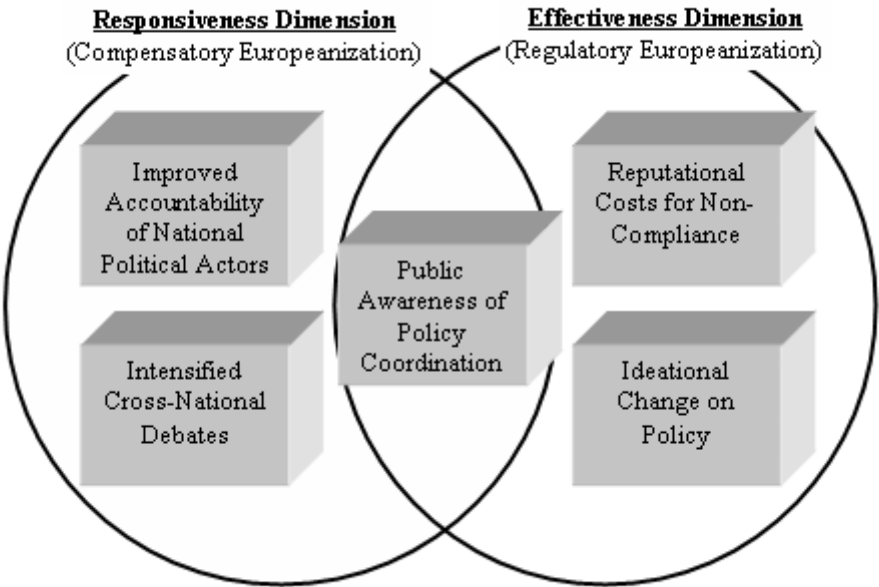
¹² We used a quantitative frequency analysis (Hagen 2001) to identify levels of national media attention for different policy coordination modes as well as for these policy fields in general. We used a keyword scanning approach to identify the relevant set of articles contained in the LexisNexis database, which offers comprehensive access to the selected newspapers. In order to generate a benchmark for our assessment of trends, we also measured the coverage of fiscal and employment policy *in general* in these countries. The searches were limited to the media coverage of six quality broadsheets. For the qualitative analysis of media content we focused on the years 1998 and 2002 and used a random sample of 40 articles per policy field and year only. A codebook was drawn up, tested and applied to a subsection of media coverage on fiscal or employment policy, not just those articles with a European angle. The third approach to the analysis of media content focused on two case studies, the coverage of negative recommendations/reprimands in the field of fiscal policy coordination in Ireland (2001) and Germany (2002).

advantage of the fact that public discourses are not just 'mere talk', but relevant to support the process of voluntary deliberation and adaptation. They are a source of what John Thompson has described as 'symbolic power', the ability to shape linguistically constructed social meaning (Thompson 1995: 13pp). The first reason to explore the Europeanisation of publicised discourses is therefore the issue of policy effectiveness understood as the degree to which the coordination modes reach their policy objectives by relying primarily on processes of social interaction and political communication. In this context, public discourses are relevant in three ways.

Political attention is a scarce resource in the legislative process, but at the same time public discourse in and through the mass media is relevant for 'setting the agenda', for pre-selecting and ordering political issues. Hence, the first question to investigate is whether policy coordination, its substance as well as its processes, has infiltrated national policy debates to the extent that it is increasingly covered. However, the question of issue salience does not automatically translate in political action in line with the jointly set-goals. In the case of deliberate non-compliance policy coordination foresees a mechanism of naming and shaming, which is particularly pronounced in the area of fiscal policy. Thus, the question is, to what extent does public discourse take critical recommendations raised by supranational and foreign actors seriously and thereby make non-compliance more costly for governments?

The third aspect of how public discourses may induce goal attainment for policy coordination is by promoting learning. As each governing mode seeks to promote a certain set of policy ideas, the goal would be to convince political actors and civil society that these policy ideas are appropriate (to avoid collective risks) and beneficial (to improve the problem-solving capacity of government). Hence, to what extent can we identify a spread of these policy ideas in national public discourses over time?

Table 4. The Responsiveness-Effectiveness Matrix of Europeanisation Outcomes



The second major justification for studying public discourses for assessing the performance of economic policy coordination is responsiveness. The question is whether public discourses have adapted along the lines of *compensatory Europeanization*, which holds that a given step upward the integration ladder would lead in due course to the changes in political practices and deliberations at the national level which help to re-establish the linkage between Brussels-based policy-making processes and national civil society (Meyer forthcoming 2005; more generally Hagen 2003, Klein/Koopmanns et al. 2003). Compensatory Europeanization gains importance when reflecting on one of the key criticisms of economic policy coordination: It is feared that they further reinforce the de-facto erosion of national and regional sovereignty in the covered policy fields. Political choices are disguised underneath seemingly scientific terms of benchmarking, best practices and economic assessments and lines of accountability appear blurred as national action plans, multilateral review, and joint-reports and guidelines. Policy coordination may thus de-generate into a process with little opportunity for citizens to influence choices and hold decision-makers accountable for their actions.

In the case of policy coordination, an adaptation of publicised discourses along the lines of compensatory Europeanization could thus help in three respects. First, they would need to reflect the real shift of political activity upwards in so far as policy coordination is identified and increasingly commented upon as a potential source of new government initiatives and goals. A governing process, which is not noted as such is far more open to

charges of secrecy and behind the back-dealing than one which is publicised and critically commented upon. Secondly, blaming the Commission or Brussels in general for uncomfortable policy recommendations and measures may increase governments' ability to overcome domestic oppositions, but would clearly downplay the responsibility of executives in this respect. Hence, we will be looking at the extent which national actors have been increasingly portrayed as participants and actors in the policy coordination process over time. The third aspect concerns the trans-national dimensions of policy coordination. Allowing for national scrutiny and accountability may be a step forward but not sufficient in a decision relying on qualified majority voting in the Council of Ministers, i.e. what Scharpf has called joint decision-making (Scharpf 2000: 8). If the policy coordination process is primarily about peer review and intra-European learning, this practice would need to be reflected to minimum degree in public discourses. Hence, do we not only see a vertical (top-down) Europeanisation of discourses, but also a horizontal synchronisation process across national levels of governance?

If all these conditions were fulfilled, the emergence of such a cross-national, Europeanised debate about these economic issues may even amount to a truly a Grand Débat Européen as on economic governance and thereby legitimise the soft approach taken by policy coordination within a hierarchical monetary policy framework.

3.4.2. Has Policy Coordination Induced Regulatory Europeanisation?

Increasing Media Attention for Economic Policy Coordination?

The curves of media attention for both governing modes do not show a clear intensification trend for the whole of observation period. Only for the first three years, from 1997 to early 2000, did they go through similar and on the whole downward attention curves as public attention focused on special events such as the European Councils of Amsterdam, Luxemburg and Lisbon. Starting from the second half of 2000, however, we see a clear divergence in media attention curves of 'hard' fiscal policy coordination and its 'softer' counterpart in the area of employment policy (See, for the tables and figures, annex 7.3). Coverage was very much driven by conflict between EU and national level over the interpretation of and compliance with the fiscal rules. Yet, while these attention peaks are familiar from other studies of EU media coverage, the level of coverage has risen also in absolute terms since late 2001. Thus, the rules for fiscal policy co-ordination have established themselves in the last three years as a regular topic on the socio-economic news agenda of the quality press. In contrast, European employment policy co-ordination is being covered at best sporadically and usually as part of a wider theme about Europe's competitiveness and the Lisbon strategy.

Reputational Costs through Public Discourses?

Our studies cannot prove the impact of publicised discourse on policy-makers, but it does show that negative recommendations under fiscal policy coordination have had a significant impact on national news media discourse, particularly in Germany, but also in France. The in-depth case study of Ireland (reprimand under the BEPG) and Germany (proposed early warning under the Stability Pact in January 2002) showed that both countries' press devoted considerable attention to the critical recommendations, producing a high number of headline stories, opinion pieces and editorials (Meyer 2004). At least in these instances of first-time application, peer review procedures, which involve the singling out of member states, have proven capable of generating considerable public attention, forcing governments to justify themselves and contributing to a rapid politicisation of decision-making. Yet, even though both governments faced initially quite critical media coverage, the Irish administration largely succeeded in convincing journalists and other opinion leaders to frame the issue in terms of Eurozone economics, national interest and the defence of fiscal sovereignty. In Germany, even though this study cannot prove causality, German officials interviewed stressed that the controversy surrounding the early warning played a facilitating role in coming to an agreement in March 2002 on a, albeit soft, national stability pact between the German federal government and the Länder authorities. In the case of French fiscal policy, we did see that newspaper commentators and opposition leaders launched quite vigorous attacks on national governments. It were particularly newspaper commentators and some business representatives, which criticised the government's open violation of the EU fiscal rules, even if more on political than on economic grounds. Hence, even if France did not fully comply with the fiscal policy rules, reputational costs need to come into the equation when explaining that France did seek a compromise and took some steps towards fiscal consolidation in 2003. For employment policy coordination our studies suggest a low and declining of ability to impose reputational costs on national governments. Moreover, a striking feature of employment policy coverage is that an article on the EES (usually written from Brussels) hardly creates any follow-up by either national political actors or nationally based journalists.

Ideational Change Through Public Discourses?

In our qualitative frame analysis of media coverage in 1998 and 2002 we have seen some evidence for weak instances of ideational change, mainly in the field of fiscal policy. For instance, we found a marked increase in public attention being paid to the need for anticyclical policies, a goal of this governing mode, which has been often forgotten and even used against the application of the 3 percent threshold. At the same time, of

declining relevance in public discourse was the underlying economic philosophy that price stability was good for economic growth. It seems therefore that the Stability Pact was good at focusing attention on the annual public deficit, but not very successful in fostering debates about the reduction of national debts or anti-cyclical policies.

In the case of employment policy coordination, we identify across all three countries a decrease in the attention the press has paid to the key ideas of the EES. This seems to be a disappointing result for a governing process aimed at inducing policy learning. The only exception has been the issue of adaptability of labour markets, which rose substantially in importance in Germany. The European dimension may thus in indirect ways have supported a shift in thinking about labour market reform in Germany. In France, the EES made a difference in educating administrative elites about new concepts and practices, but this link was hardly ever present in public discourse. In British public discourse little attention was paid to the EU recommendations in the field of equal opportunity and employability. However, the employment related findings need to be regarded with some caution given that employment policy coverage declined in importance to very low absolute levels.

Looking at a possible *transnationalisation of news coverage* both regarding the presence of foreign political sources and a synchronisation of news frames used to interpret political reality, at least the frame of performance comparison has increased markedly across both policy fields. It reflects a growing interest in other countries' performances as well as a decline in the ability of governments to insulate 'their' press from 'foreign' news and opinion sources.

3.4.3. Conclusion: Soft Governance and the Limits of Europeanization

If we take the adaptation of public discourses as a yardstick to assess the performance of policy coordination modes, our findings can convey a range of different messages. The first is that regulatory Europeanisation has been moderate (France) or even strong (Germany) in the case of fiscal policy coordination but weak for its counterpart in the employment domain. While the rules of the Stability Pact remain heavily contested and exceeded by some countries, albeit by a small degree, it is also clear that no government can fully insulate itself against peer pressure spilling over to domestic press coverage, not even in France. In some cases, publicised opinion may have played a role in forcing governments to conduct more stability oriented fiscal policies as they would have without such a 'naming and shaming' mechanism. This was particularly the case in Germany, but also France undertook a number of steps aimed at bringing down its structurally adjusted deficit despite its combative rhetoric vis-à-vis the Stability Pact and the Commission. At

the same time, the ideational elements of the fiscal policy framework became increasingly distorted in the political polarisation over the 3 percent limit, fostering an overly legalistic and mechanical discussion about the rules rather than the overall objective of fiscal policy coordination (to ensure the sustainability of public finances as far as they affect the functioning and stability of monetary union). The EES in contrast had virtually no success in imposing reputational costs through public debate, and little with regard to fostering ideational change, except for some measures aimed at increasing labour market flexibility in Germany.

The second major message is that compensatory Europeanisation was virtually absent in the case of the EES and varied between countries with regard to the fiscal policy coordination process. Fiscal policy coordination is increasingly 'hitting home' (Börzel/Risse, 2000), making it a real factor in national press discourses of policy choices, especially in Germany, but also in Britain and France (since 2003). In contrast, media attention to soft employment policy coordination declined dramatically up to the point of extinguishing this governing mode from public awareness. Only in the area of fiscal policy did press coverage become also more 'European' in terms of the representation of news voices even though references concerned more EU institutions and actors than member state ministers and sources. Moreover, press coverage became more similar regarding the use of news frames relating to performance comparison, sovereignty, and sanctions. From the perspective of public scrutiny and political accountability, we see the overrepresentation of the EU-Commission as a worrying sign of the persistence of blame-shifting strategies of governmental actors, particularly in France but also in Germany. European guidelines and recommendations are portrayed as if they had not evolved out of national participation and indeed sometimes based on explicit national commitments to take certain actions. As a result, we have seen the emergence of increasingly vigorous, and sometimes even cross-national debates about national fiscal choices and their appropriateness. In contrast, few home-based journalists and even less citizens will know that there is such a thing as the Luxembourg process. The communicative deficiencies of the EES partly explain why national ownership of this governing mode is so low and implementation is sluggish and opportunistic.

We have also argued that the degree of Europeanization depends on the specificities of the legal provisions and the governing modes, which are derived from it. Intervening variables are the domestic political salience of the policy fields covered by the governing mode, the breadth of the objectives pursued by it and the sanctions that are available to enforce compliance. Whether these hypotheses hold true for media coverage in other countries and for other governing modes is a question for further research. The findings provide, however, provide indications on how to reform some aspects of policy

coordination to foster compensatory Europeanization in the realm of public discourse. For employment policy co-ordination the virtual absence of media coverage does suggest a need to fundamentally rethink a soft governance approach, which may stimulate learning among administrative networks and narrow policy communities, but fails to convey these processes to a wider public. One could either scale these governing processes down to their intention to promote research and learning among key actors and drop bolder aspirations to promote certain policies, or one need to substantially bolder elements of ranking and be more outspoken vis-à-vis those member states who are not tackling labour market reforms and thereby harm Europe's growth prospects. In the area of fiscal policy coordination, the most striking deficiency was the overrepresentation of the EU Commission in the press coverage, despite the fact that member state representatives are responsible for deciding on self-commitments, recommendations and sanctions. A more continuous and strengthened EU Presidency and the creation of a Mr Euro could help to counterbalance this asymmetry in public communication in this area.

IV. CONCLUSIONS AND POLICY IMPLICATIONS

1. Conclusions: Loose Policy Coordination and the Limits of EU Economic Governance

The key question of the Govecor Research project has been: To what extent have the legal provisions for economic policy coordination resulted in the gradual emergence of ever closer, more deliberative, and more binding forms of economic governance and political integration? The main thrust of the findings is clear: Policy coordination modes have not transformed or comprehensively altered economic policy-making on either the Brussels or the national level between 1997 and 2003. The legal provisions have not led to a decisive push towards more integrated forms of economic governance across various dimensions of our enquiry and failed to induce the kind of changes required for member states to generate growth and meet the targets of the Lisbon agenda. Yet, we have also observed evidence for an intensified use, scope extension, proliferation and streamlining of policy coordination processes below the level of treaty change, which will have implications for the future course of EU economic governance.

This chapter will substantiate and elaborate these conclusions by reviewing the characteristics of the intervening variables, assessing the overall evolution, and elaborating the theoretical toolbox for studying governing modes and integration. In particular, it will draw on and refine neo-institutionalist theories to allow a better explanation of why integrative dynamics did not make a stronger impact and why national actors exhibited a pick-and-choose strategy in responding to the new constraints and incentives. It will be argued that neo-institutionalist approaches to the study of integration ought to adopt a multi-level approach in order to specify in more detail under what conditions the interplay of institutions and preferences can be expected to lead to deeper integration. They should also draw more extensively on empirical findings of studies of these institutions and draw on the insights of other disciplines to understand and anticipate the impact of changes in the policy environment on preference formation.

1.1. The Evolution of Self-Coordination: The Results of the Intervening Variables

The following section summarises the key findings presented in part 3 of this final report regarding the evolution of the living constitution of policy coordination modes represented by the Stability and Growth Pact, the European Employment Strategy, and the Broad Economic Policy Guidelines between 1997 and 2003. In doing so, it follows the line of argumentation, including the intervening variables and their operationalisation as

set out in chapter III.1. and will present summarizing policy implications for European economic policy coordination.

1.1.1. Rule Following and Adaptation: Moderate Expansion at the EU level, Shallow and Opportunistic Use at the National Level

Political actors at various levels of EU governance have generally followed and complied with the procedural and institutional aspects of policy coordination such as providing information, reporting and reviewing policies within the Committees. Yet, a divergence in rule following and use between European and national levels of governance can be noted. At the European level, it can be distinguished between an 'expansion phase' (1997-2000), which saw elaboration and increasing detail in the processes, guidelines and recommendations coupled with a proliferation of a range of new 'softer', non-Treaty based coordination processes as part of the Lisbon strategy. This was followed a phase of 'consolidation' (2001-2003), which was marked by efforts to respond to the spreading perception of overlaps and inconsistencies between the different processes at the EU level, and insufficient follow-up and implementation at the national level (see below). A number of modifications in the interpretation and implementation of the unchanged Treaty rules were proposed by the Commission and mostly accepted by the Council: The Stability Pact became more flexible with regard to conditions in member states, paying more attention to structural deficits and the position in the business cycle. Similarly, the five-year review of the EES sparked a number of steps towards a simplification, and a shift to a more long-term perspective. The coordination of coordination was improved by circulating the BEPG to other relevant Council formations and by increasing policy coherence through streamlining the BEPG and the Employment Guidelines in spring of 2003. At the national level, the procedural rules, were generally followed, but procedural and institutional innovation was limited. Relatively small and usually not very senior parts and pre-existing units of national bureaucracies became involved in the reporting procedures and ministerial coordination. Procedural compliance was at times hampered when top-decision-makers intervened to submit grossly overoptimistic budget estimates, postponed the publication of data, and obstructed in problematic ways the implementation of the excessive deficit procedure. Even though National Actions Plans were submitted regularly, they resembled more a ritualistic restatement of what had been done or decided already than the intended plans for future action in line with EU guidelines.

In terms of substantive rule following and use non-Treaty coordination processes spread to ever more policy areas as part of a wider strategy. However, Treaty-based policy coordination modes did become 'harder' through new linkages with first pillar instruments

or Treaty amendments. While the Commission increasingly used EES priorities in Structural Funds programming, the Council was visibly reluctant to explicitly link ESF and NAPs, while national authorities often paid little more than lip service to the EES priorities. The constitutional draft treaty suggests only few changes to the existing provisions, except for the possibility of deepening coordination within the Eurogroup. A constitutionalisation of OMCs was not undertaken. At the national level, compliance and adaptation was sporadic and pointing to a systematic and in some areas widening 'commitment-implementation gap' of policy coordination. Governments departed in several instances from their commitments made at the Council level and ignored substantive individual recommendations for policy change directed to them. They often pursued a pick-and-choose-strategy, implementing only those recommendations in line with their political aspirations, but not the more costly or long term ones. National compliance with budget targets was frequently also obstructed by other national ministries and a lack of support by Prime Ministers, Chancellors etc. EU process may have supported some changes in labour market regulation, pension systems, and the setting-up of procedures for sub-national fiscal surveillance or instruments for anti-cyclical public expenditure.

The third dimension of rule-following focuses on phenomena of differential empowerment. Generally, we note that policy coordination has tended to strengthen both the national Finance Ministries and Commission's DG for Economic and Financial Affairs. They have often used their privileged position as drafters and masters of the BEPGs and the Stability Programmes to extend their governing reach to other ministries' policy agendas. At the national level, however, ownership of coordination processes in other than the Finance and the Employment Ministries is low and measures are often counterproductive and badly coordinated. Despite the Lisbon strategy, heads of government have devoted relatively little and at best fluctuating attention to ensure their compliance with EU soft law. Vertically, we note that the European Commission has not been able to use the policy coordination provisions to substantially increase its leverage over the different Council formations and national interests in general. It also failed to gather sufficient support for a stricter line under the SGP against some member states and was rather cautious in criticising frequent instances of non-compliance with the EES or the BEPGs. While hybrid policy coordination committees such as the EFC or the EMCO have not gained substantive leverage, the Eurogroup has gained in influence, pre-structuring the agenda and voting in the subsequent Ecofin Council.

1.1.2. Impact on Interactions between Supranational, Governmental and Non-Governmental Actors: Some Horizontal, Limited Vertical Fusion

The new provisions have supported the emergence of more deliberative, but delimited forms of governance involving national and supranational actors within key policy coordination committees and top-level informal groupings. Jacobsson and Vifell analysed in their work package how the nature of interaction in key EU level committees, in particular the EFC and EMCO, have allowed for the evolution of common frames of reference, consensus orientation rather than voting, and the power of the good argument rather than guarded bargaining and country size. The participants are generally committed to reaching progress towards 'Social Europe', voting hardly takes place when there is no consensus, and peer pressure motivates actors not to be 'the worst pupil in class'. Yet, when it comes to deciding on country-specific recommendations, hard performance indicators, and particularly salient policy issues, positions can be locked-in, pre-meeting coalition building occurs, and bargaining takes place. The real impact on transforming political preferences is thus hard to assess and probably more long-term. The EES findings indicate, however, that national politicians give increasingly less restrictive instructions and leave EMCO participants more room for manoeuvre. However, this is partly the result of the recommendations being increasingly perceived as 'harmless' in terms of generating negative publicity. In the EFC, potential for deliberation has been initially higher because of shared professional background (economists) and a shared project (Monetary Union). Yet, the EFC's ability of participants to deliberate, to build and sell a consensus at home is gradually diminishing after 2000 (Linsenmann/Meyer 2003). This is partly due to the creation (1999) and heightened role of the Eurogroup consisting mainly of National Finance Ministers of the Euro zone. Here, deliberation is less salient than in the EFC, but participants highlight that peer pressure and socialisation effects are felt and real discussions on substance do take place beyond the regular 'tour de table'.

Policy coordination has drawn in non-governmental actors, but to a lesser degree than one might have expected. Unsurprisingly, it was primarily the EES, which encouraged a greater involvement of social partners and civil society actors. The relevant EU level committees EMCO and the SPC have not only a formal mandate to do so, but showed also real interest in involving other 'stakeholders' and building up impetus for reform. On the economic and financial side, however, committees remain closed to such interests and guarded by a cartel of DG-Ecfin and national Finance Ministries. European level social partners organisations have remained relatively weak actors even in the EES, mostly because of divergent preferences and reluctance on the part of their national members. Social partners organisations of some countries became somewhat more involved in the

drawing up of NAPs, yet given their low significance in the national policy-making process (see previous section), they did not invest many resources or dramatically shift their attention to EU coordination procedures, remaining largely national players. Yet, some gradual changes are observable as changes in the EES incentive structures (consultation requirements, strategic use of the ESF, and Commission funding for actors), empowered some civil society actors and increased the perception of being increasingly affected. One example of such empowerment in the field of gender policy is Ireland, where the Equality Division has criticised the government to live up to its commitments. Generally, the picture of civil society involvement varies substantially between countries, especially according to the pre-existence of a strong consultation culture.

The third dimension of change concerns the intensification of interactions and coordination attempts across policy areas at the same level of governance and as well as across levels of governance. Generally, we found that interactions increased horizontally rather than vertically. From a *horizontal perspective* we saw European level committees such as the EFC and EMCO, as well as the Eurogroup gradually strengthening their coordination efforts. This has led in 2003 for instance to considerable conflict between DG Ecfm and DG Emploi over the drawing up of so-called streamlined BEPGs. At the national level, a parallel development of horizontal fusion has taken place in so far as the National Action Plans strengthened linkage building between ministries and agencies responsible for employment, social policy, education, family, economic affairs and industry. The EES has also contributed to, if hardly quantifiable, the creation of a number of 'super ministries', combining labour market and economic or industrial affairs in Denmark, Sweden, Austria, and Germany. The fiscal policy coordination process in contrast has not dramatically improved coordination between national finance ministries on the one hand, and those responsible for other socio-economic policies on the other hand. As far as *vertical* fusion trends are concerned, policy fields at the European level remain rather closed to other interested political parties such as executive agencies and sub-national authorities. Within national administrations, awareness of the EES remained relatively low and policy knowledge at regional and local governing levels was not systematically drawn upon. In the area of fiscal policy coordination, upward network building concerned primarily the highest European fora with the creation of informal Eurogroup, comprising the national ministers for finance, central bankers, and representatives from the Commission. The requirements for fiscal policy coordination did, however, encourage some degree of vertical strengthening of coordination efforts in the form of the setting up of 'national stability pacts', which sought to bind in sub-national fiscal authorities into the SGP framework, even if with clear limitations.

1.1.3. Public Discourses and Policy Ideas: Opportunities and Obstacles to Debate and Learning

To what extent did the provision for policy coordination lead to an intensification of public discourses on these issues over time? We could not observe a linear increase in public attention *for both* governing modes. Instead coverage was very much event-driven in the first two years and declined significantly after the launch of the Euro and the onset of two years of strong economic growth. Since 2001, however, the picture changes substantially and we see a divergence of impact between hard (Stability Pact) and soft co-ordination (Employment Policy, BEPG). Fiscal policy co-ordination is increasingly 'hitting home', albeit to varying degrees in different member states, as controversies over compliance with the three percent threshold come to the fore. This is particularly the case in countries struggling to meet the criteria such as Portugal, Germany, even though Italy and France are cases where the issue salience was lower despite compliance problems. But also in the UK coverage of the SGP increase substantially in 2001-3. In contrast, publicity for employment policy coordination declined steadily, even when taking the general decrease for the topic in national media coverage into account. Negative recommendations emanating from the EES process were hardly ever picked up and commented upon in domestic debate. As a result, the Luxembourg process and its policy impulses are lost on all but those directly involved in the review process. The communicative deficiencies of the EES partly explain why national ownership of this governing mode is so low and implementation is sluggish and opportunistic (see previous two sections).

Did policy coordination and peer review translate into public pressure and ideational change in member states to support compliance with EU soft law? Again, we need to distinguish between hard and soft coordination when assessing communicative impact. Even though the rules of the Stability Pact were heavily contested, it was also clear that no government could fully insulate itself against peer pressure spilling over to domestic press coverage. Indeed, case studies showed that negative recommendations emanating from the SGP or the BEPG do make an impact on publicised discourses and force governments to justify themselves in public (Meyer 2004). In some cases (Portugal, lesser degree Germany) publicised opinion may have contributed to a degree of policy change (lesser deficits, national stability pacts), but this linkage is difficult to prove. Moreover, we found that peer review was until 2003 a misnomer, given the communicative abstinence of national ministers as compared to the Commission as the main protagonist. As a result, governments could more easily portray criticism as political motivated, not as a consequence of non-compliance with jointly agreed rules and national commitments. The EES in contrast had virtually no success in imposing

reputational costs through public debate. It was only slightly better with respect to inducing some degree of ideational change, presumably through a two-step information flow via other elites and civil society actors. Thus, the EES may have contributed to more debates about elder workers and the desirability of early retirement schemes, preventive measures, and by emphasising participations rather than unemployment rates. Moreover, the EES fed into national discussions by supplying comparative data on participation rates, the gender pay-gap, and the average time required to set-up a business. On the fiscal side we saw increasingly monothematic, mechanistic discussions about the three percent limit rather than debates about other 'messages' of the SGP framework, namely about the sustainability of public finances within the EMU framework and the need for anti-cyclical policies. Yet, the SGP together with the BEPG provided also new justifications for budgetary consolidation and discipline, as the debate about the sustainability of pension systems in the wake of changing demographics got seriously under way in a number of countries.

Finally, we have been interested in the contribution of soft governance to the increasing synchronisation (horizontal fusion) and Europeanisation of national public spheres (vertical fusion). Generally, we found more evidence for the latter than for the former. Especially in the debates about fiscal policy did we observe a growing Europeanisation in terms of colouration and representation of news voices, i.e. more references to EU institutions. Even though national frames of reference usually dominated these debates, European perspectives were also clearly represented both in terms of news selection and commentary. In contrast to horizontal Europeanization, we have found very little intensification of cross-national references and debates in the both policy areas. Foreign national actors as key participants of peer review and co-ordination were hardly ever present in the debates. We did observe, however, a cross-national convergence in the use of news frames relating to performance comparison, sovereignty, and sanctions. The debates about fiscal policy and EMU became thus more interlinked, even though a genuine trans-European debate has not yet emerged.

1.1.4. Loose Coordination and the Limits of Fusion Trends

The story of how policy coordination has worked in different settings of governance in Europe has been analyzed by the GOVECOR project from varying perspectives, evoking a panorama of many colours, shades, and details. These contrasts should be kept in mind, yet when surveying the whole picture, we find that policy coordination has not (yet) evolved in the direction of the ideal-types of tight or collective coordination, which could be seen as a stepping-stone for further political integration (See Figure 1). Especially in the area of soft coordination, the early enthusiasm waned and ritualistic and

opportunistic use of the rules followed. Fiscal policy coordination entered a phase of contention and crisis as the Euro zone's two largest economies exceeded the deficit rules and successfully evaded sanctions. Policy coordination modes have not (yet) fully integrated with domestic structures of policy-making, interest mediation and public deliberation, especially in larger member states. Low levels of national ownership, especially at sub-national level, hindered the kind of adaptations needed to foster sustained compliance. Metaphorically speaking, policy coordination resembles an exercise of a small group of prophets attempting to synthesise a new religious doctrine, while their flock is still very much rooted in different creeds and shows little faith in the new rules. What is, however, remarkable is that policy coordination modes could be and were modified *without requiring Treaty change* to respond to some of these problems. During the consolidation phase (2001-2003) they became more flexible with regard to national conditions, more coordinated and synchronised, less detailed and more oriented towards medium term goals. These changes were usually initiated by the Commission and, as far as necessary, accepted by the Council.

Table 5. Overview of Fusion/Fragmentation Trends: Loose Coordination in Action

	Employment Policy co-ordination		Fiscal Policy co-ordination	
European level of governance				
National level of governance				
Aggregate Assessment	Rule Following and Use	Interactions among public and non-public actors	Public discourses	
Loose Coordination: limited legitimacy & national ownership; little administrative fusion, poly-centric	High degree of procedural compliance, but only opportunistic substantive compliance; dominant compliance by letter, but hardly in spirit, attempts to evade and re-interpret the rules	Moderate moves towards horizontal fusion especially in the area of BEPG and EES Limited vertical fusion tendency in EES, more so in the case of the SGP	Moderate Europeanization of discourse in the case of naming and shaming and reform of SGP, virtually no such trends in the case of EES and the BEPG	

The current debate about new governing modes can benefit from these findings in three ways: First, our studies of coordination in these particular policy fields have highlighted the limits of deliberation to affect preference change and to ensure implementation. In so far as higher political echelons are not sufficiently involved and awareness is generally low at the national level, real learning and preference change is limited to a small group of people, who are bound by a political mandate and cannot shape policy in ways familiar from the operation of the EFC in the run-up to EMU. Indeed, the declining role of the EFC within hard coordination demonstrates that even that kind of deliberation is historically contingent and depends on the shadow of a very strong incentive (membership of EMU). Indeed, preference change and learning may work only in the medium term (from 4 years onwards) and then only in specific national settings and under specific circumstances.

Hence, while discursive regulatory mechanisms have an important role to play in governance (especially when freed of some of the overly demanding bureaucratic processes), hard incentives and 'the shadow of hierarchy' (Héritier 2003) need to come into the picture as background variables for understanding the environment in which deliberation can take place. Similarly, peer review and pressure has often been ineffective with leaders (especially those of large member states) and in areas or times when politicisation and electoral significance was high. Heads of government have overruled their ministers who are more frequently exposed to peer pressure through their monthly Council sessions. At the same time, we have seen that policy coordination modes relying on communicative mechanisms have more easily adapted, with varying success, to changes in their environment than governance through hard law.

Finally, our findings cast doubts over whether policy coordination modes are particularly 'democratic' or enhance the legitimacy of European multi-level governance (Eberlein and Kerwer 2002). Not only did national parliaments show little awareness of and involvement in the policy coordination procedures. Civil society actors exhibited relatively little interest in using the opportunities of policy coordination to increase their voice at the national level, partly because of their perception that national governments do not need to deliver on EU soft law. Furthermore, public debate about the issues raised by self-coordination was deficient from the perspective of sheer quantity as well as from the perspective of promoting peer review and ideational change. Gaps in the governing networks (Kohler-Koch 2002) and accountability mechanisms could be justified from an output perspective to allow the key committees involved in policy coordination to deliberate freely and advance results for the political leadership. However, the problem at the policy preparation stage is that it these structures need to involve national

stakeholders and feed into domestic debates in order to overcome the commitment-implementation gap at the governmental level. And if they do make an impact without such a debate, policy coordination can be accused with some justification of blurring lines of accountability, weakening the scrutiny powers of parliaments, and hiding political choices behind technocratic reasoning. In its current form, self-coordination rests on a rather weak, top-heavy legitimacy of the EU-Commission with occasional injections of political rhetoric and initiatives by the European Council.

1.2. Multi-Level Institutionalism and the Limits of Integrative Forces in Soft Governance

In spelling-out our research design we have initially formed a number of expectations of how the new legal provisions would act together with pre-existing central institutions to result not only in a 'ratchet effect' or a 'locking-in' of the new status quo, but also in an expansion of rule application and leading to deeper integration through Treaty amendments. The causal mechanism to bring about such kind of change were the following:

- 1) Under conditions of qualified majority voting in the Council, the European Commission would use its new monitoring and proposing powers in the new policy fields to advance the scope and depth of policy coordination goals, including strategic linkage-building soft law (EES) and hard law regulation in the area of the structural funds.
- 2) The setting-up of new EU committees for policy coordination would encourage the formation and networking of vertical coalitions of administrations, would gradually Europeanise participants, national preferences, and ultimately build-up support for further institutionalisation.
- 3) New incentives such as ESF funds and gains in knowledge would shift non-governmental actors' attention to the EU level and generate support for deepening commitments, while primarily new sanctions (fines, naming and shaming) would force member states to adapt and comply.
- 4) The publicness of peer review processes would induce a Europeanisation of public debates on the policy issue, which would eventually increase support and legitimacy for upgrading the rules, but also calls for greater democratic participation.

- 5) Unintended consequences from previously communitarised policy areas, particularly the one-size-fits-all interest rate and monetary policy, would prompt member states to consider a move into hard law and a scope expansion.
- 6) Changes in the policy environment, especially economic problems arising from economic cycles or global developments, will manifest themselves in member states' greater willingness to look for European solutions for these problems.

The findings were, however, that the institution of new legal provisions has not encouraged a co-evolution of the policy coordination modes, which would act as a stepping-stone towards deeper integration. We found that even though procedural use was high, national adaptation and compliance was opportunistic and at best moderate; some modification of the non-Treaty based rules of policy coordination was enacted, which aimed for greater coherence of the instruments, but also for less detailed and more long-term perspectives; while open method of coordination modes proliferated outside of the Treaty, the review of primary EU law by the Convention and the IGC brought about no substantial change to the status, depth and scope of policy coordination and no constitutionalisation of OMCs. When reviewing the findings of the intervening variable in the previous section, it is clear that the upgrading scenario has not been met.

1.3. The explanatory capacity of neo-institutionalist approaches

In the following we want to argue that neo institutionalist theories can help to explain these findings, but they need to be adapted in three ways: Firstly, institutionalist theories do not in themselves predict a specific developmental path for European integration; they only predict that 'agency rationality, strategic bargaining, and preference formation are conditioned by institutional context', both formal and informal (Aspinwall/Schneider 2000: 18). Thus, in order to equip new institutionalism with improved forecasting and analysing powers it needs, firstly, to be better informed by empirical findings about its subject area, for instance the role of formal EU institutions, the impact of voting rules, the stickiness of national institutions, and the influence of identities, ideas and discourses at various levels of governance. Secondly, new institutionalism needs to focus on the interplay of European and national levels of governance to understand dynamics and outcomes, given that member states' response and preference formation to new provisions is also mediated through national institutions. Thirdly and finally, in order to better account for changes in the policy environment, integration theory should draw more extensively on the insights of other disciplines to better understand and forecast

changes in the policy environment, which are likely to affect preference formation of political actors across all levels of governance.

1.3.1. Adaptation and Preference Formation at the National Level

Why did member states not adapt more strongly to the requirements of policy coordination and why were they not ready to support a hardening or extension of Treaty based mechanisms? The most important argument from a rationalist institutionalist perspective is that the incentives as well as the sanction mechanisms of soft governing processes were too weak to bring about adaptation if governments found policy recommendations undesirable for political reasons or too costly or difficult to push through against domestic opposition. Given the absence of treaty infringement procedures against member states in this area, policy coordination processes relied on two mechanisms to further compliance: pecuniary and reputational. The linkage between the EES and the ESF was difficult to implement, because of opposition of the Council. The funds involved were also too small to seriously influence national authorities' interest calculation. Similarly, the threat of fines under the Stability Pact was not sufficiently credible to force adaptation because, firstly, the fine itself was considered counterproductive in case of a country having severe fiscal consolidation problems and, secondly, implementation depended on the repeated qualified majority voting in the Council to impose sanctions. This second condition would have been more easily fulfilled if the policy environment had not changed, in other words, a cyclical downturn coupled with idiosyncratic and structural problems had placed not only the two largest EU member states, but also two smaller ones on the course of rule violation. Otherwise, veto coalitions would have been more difficult to construct. Moreover, larger member states were less likely to comply, because they come up against stronger formal and informal veto players in their domestic institutions, be it strong trade-unions and street protests (France), fragile coalition governments (Italy), or a upper chamber with strong veto powers (Germany). Smaller countries' political systems have proven to be better at implementing the kind of reforms suggested by policy coordination. Therefore, policy coordination allowed governments to pursue a pick-and-choose strategy of compliance. The perception that governments were not taking compliance seriously was also an important factor in explaining why social partners and interest groups were not shifting their attention to the EU level.

Sociological institutionalism can help to understand why the normative force of soft law coupled with reputational costs did not bring about adaptation across the board either. Generally, we found that a general insight of Europeanisation/implementation studies applies also in our study, namely that differences in national compliance cultures can

explain some of the variations in adaptation (Falkner/Treib 2004). Our finding of stronger compliance by the Scandinavian countries and the UK is consistent with this perspective. But why did 'naming and shaming' or public deliberation not effect the other countries with hybrid or weak compliance cultures? First, the EES did not make much of a public impact because it did not provide for the singling out of member states for 'naming and shaming'. Moreover, a combination of member state opposition and Commission caution vis-à-vis 'naming and shaming' led to the watering down of recommendations and the avoidance of stronger wording. We found only few instances of civil society actors transporting the ideas of policy coordination in national arenas, partly due to a lack of awareness and information about the existence of policy coordination. Soft policy coordination lacked the necessary media exposure to make a difference to the national formation of policy ideas and frames of references. But even if strong criticism was proposed under the excessive deficit rules and made public and if such a proposal found the necessary qualified majority in the Council to be adopted, only few member states' publics reacted in ways to support such compliance. This has mainly to do with the deficits in national publics defining themselves as European and national political discourses being oriented towards a European collective good. Moreover, the stability pact rules commanded little public support in most member states to start with. Differences in the informal institutions between member states come into play as in countries like Germany and Italy, 'Europe' has generally a positive connotation in public discourse even if it plays less a role in elections. Germany is a somewhat idiosyncratic case because EU criticism carried some weight (as the postponement of the deficit figures during the election campaign shows), the Stability Pact enjoyed some support, but yet, critical public opinion could not prevent that the government violated the rules. Here, the unique mixture of problems arising from Germany federalism and the reunification come into play as additional factors.

Historical institutionalism contributes not only a greater openness for changes in the policy environment or unintended effects of the delegation of power to institutions, it also illuminates how the conditions and preferences, which led to the emergence of the institutions in the first place, can help to explain their subsequent evolution. In contrast to many other Treaty revisions, where delegation of power is aimed to avoid certain risks and generate clear benefits for all member states, policy coordination did not bring about a transfer of competences to the EU level, and more importantly, was motivated by efforts to build public support for EMU in a very difficult phase of the convergence process (1996/1997). The negotiation of the Amsterdam Treaty, including the Stability Pact and the EES, is well documented by now, and the interests of the different member states are transparent. To simplify matters a little, the Stability Pact in its particular form

was a concession of France and other countries to the German government's acquiescence to EMU, which in turn depended on convincing sceptical German public opinion that EMU meant 'sound money'. The three percent limits was not the best functional solution to the problem of free riding in Monetary Unions, but was specifically designed with this symbolic concern in mind (Heipertz/Verdun 2003). Similarly, the constitutionalisation of the Essen process (the predecessor of the EES) was seen as a pay-off to countries concerned with the threat to welfare states as a result of a monetarist, de-regulatory policy framework, a concession to build 'Social Europe'. Therefore, given that the Stability Pact as well as the EES were introduced within what Pierson calls a logic of 'discounting long-term effects' (Pierson 1996: 135), i.e. for relatively short-term symbolic gain, the successful introduction of Monetary Union by 1999 meant that member states felt subsequently less bound to their initial commitment. France did never believe it had to comply with fiscal rules it regarded as against its interests, whereas in Germany and Italy little attention was paid to complying with EES guidelines and recommendations.

1.3.2. The Integrative Impact of European institutions

The first observation concerns economic spill-over dynamics or what historical institutionalist would call unintended effect in areas of 'high issue density' (Pierson/Leibfried 1995). These could persuade governments of the need to allocate more authority to EU-institutions or make the EU policy-making legally binding in order to ensure that the initial policy objectives of EMU can be accomplished. In the area of economic and fiscal policy coordination, the early attempts led by the French, the German, and the Belgian Finance Ministers, Strauss-Kahn, Lafontaine, and Reynders, to develop the Eurogroup into the core of an economic government, to influence interest rate policy of the ECB, and to harmonize taxes in order to address the political asymmetries and neo-liberal bias of the EMU set-up, came up against strong opposition by the ECB, a number of member states, and even segments of the concerned governments themselves. The row came to be regarded as counterproductive for both economic and political reasons and clearly influenced the willingness of political actors within the European Convention to reopen what was seen as 'a can of worms'. This can be interpreted in line with historical institutionalist assumptions about the structuring influence of first-time applications of rules and the subsequent path-dependency for the potency of functional spill-over effects to effect political mobilisation for Treaty amendments.

Partly as a result of the failure to advance on the 'hard issues' within the EMU context, soft, non-binding policy coordination modes were introduced under the Lisbon strategy.

Lisbon with its aspirations to overtake the United States in terms of competitiveness was not only the result of the political exuberance during times of strong economic growth (see section on policy environment), but also an attempt to tackle with the increased salience of structural problems within an ever more integrated single market governed by single currency. There was, for instance, new concern over whether collective goods could be harmed by countries' problems with the sustainability of their social security systems, the impact of ageing as well as deteriorating growth rates. Given that the Stability Pact and the existence of EMU made competitive devaluation, interest rate adjustment, and fiscal stimulation either impossible or very difficult, structural adjustment was seen as the key goal to foster through European level measures. Rationalist choice institutionalism can help to explain why political actors chose non-treaty base instruments, i.e. the open method of coordination and not harder or supranational instruments, to address these spill-over pressures and unintended effects (Ioannou/Niemann 2003: 25). In essence, member states' were not prepared to relinquish control over policy areas with high electoral significance for rather uncertain gains or even potential costs from a European approach aimed at convergence of national economies. Therefore a flexible, non-binding governing mode was advanced, within which member states expected to benefit from gains in knowledge about best practices and the possibility to adapt in different ways while steering clear of hard compliance pressures in sensitive policy areas. Even more than that, national executives are increasingly realising how little room for manoeuvre has been left to them under the current legal framework and are keen to preserve or even extend their leeway for national action and adaptation by interpreting the rules in an opportunistic and more flexible manner. There is a creeping, largely informal process of reverse spill over, which is driven by political actors' growing realisation of the real consequences of a previous integrative step (the creation of monetary union); some member states are trying to recuperate policy autonomy by re-interpreting rules, making them de-facto less binding.

From a sociological institutionalist perspective there are a number of reasons why the newly set-up committees could not bring about strong socialisation effects on a large enough group of actors. In the area of soft governance in employment and social policy, we have seen that group cohesion has been comparatively low. Participants lack the kind of similar professional background known from members of the Economic and Finance committee. While deliberative problem-solving played an important role within EMCO, we found evidence that governments can successfully prevent 'executive slack' by giving instructions on what kind of recommendations would be acceptable to the country concerned. This has partly to do with the fact that the members of EMCO are not as close to national decision-making as the member of the EPC and particularly the EFC.

Moreover, we also found clear evidence that the enthusiasm among the participants of the EES has clearly diminished over the years amidst complaints about too much paperwork and too little room for substantive discussion. The EFC in contrast can draw on its tradition as a linchpin of the convergence process towards Monetary Union. However, even here 'esprit européen', group cohesion, and sense of a shared project is gradually dissipating given the advent of new and more EMU sceptical members, the growing political salience of the issues, and the creation of alternate committees to deal with the rising workload and growing issue agenda. Yet, socialisation dynamics do to come into play with the Eurogroup, which has developed some 'club dynamics', including a degree of peer pressure and a shared frame of reference. At the same time finance ministers do not have leeway as they used to have before the completion of Monetary Union. Fiscal policy has been thoroughly politicised with the effect that one can observe heads of government/state intervening and renouncing their ministers' commitments in EU fora. Therefore, socialisation processes do not sufficiently cover and affect those actors, which matter most for socio-economic policy-making in contemporary Europe.

Finally, the ability of institution to build vertical policy networks and Europeanise actors within them is also shaped by events in line with a path-dependency logic. Cohesion and mutual trust suffered from the row between large and small countries over the suspension of the early warning against Germany and Portugal in January 2002, but more importantly, over the November 2003 decision to stop the deficit procedure against Germany. We can even see polarisation and de-socialisation dynamics spilling over from these policy fields to broader institutional questions about the share and influence of small and large member states and the role of the Franco-German alliance, which is no longer covering the middle group in these policy fields, but has shifted to one extreme. Generally, socialisation dynamics have been badly affected by the phenomenon of an increasing politicisation of EU decision-making and integration in general and it is likely to suffer even further as the number of participants increases with enlargement. The politicisation of European politics is also affecting the ability of the European Commission to set the agenda and advance the scope and depth integration as it used to in the past. Moreover, the Prodi-Commission lacked the ability to communicate effectively from the top because of leadership deficiencies and struggled to resolve an identity and performance crisis though internal reforms following the resignation of the Santer-Commission (Meyer 1999, Spence 2000).

1.3.3. Economic Changes in the Policy Environment

Integration theory has always struggled to anticipate the impact of changes in member states policy environment, from the stalling impact of the oil price shock in the 1970s to the integrative impetus of globalisation pressures coupled with recession in the early 1980s. Given that the majority of EU governing modes aims at enhancing national economic performance, the negligence in mainstream political science for integrating insight of economic analysis is problematic. It is true that economic effects arising from events such as September 11, 2001 in the US or March 11 2004 in Spain cannot be anticipated. Yet, economic analysis could have helped to forecast the evolution of policy coordination as a governing mode particularly affected by events in the real world given political actors greater leeway for implementing preference change. Historical institutionalism assumes that changes in the policy environment can create 'punctuated equilibria' (Pierson 1996), resulting in institutional change through Treaty amendments. However, not all kinds of economic changes would have this effect. In our study, the strong decline in economic growth rates after 2000 in a number of member states (not all), has had a clear effect on member states' preferences for rule following and expansion. Conversely, the climate of economic growth in 1999 and 2000 was clearly conducive to the formulation of the Lisbon strategy with its ambitious targets and comprehensive policy scope. Beyond the difficult task of forecasting the timing of business cycles in Europe, economic analysis can help to better understand long-term trends in member states' economic environment.

The institutional design and functioning of EMU and the SGP created a policy environment in which particularly large member states were likely to face problems with complying with the deficit limits. It was also a policy environment in which fewer avenues for adaptation of national economies to asymmetric as well as to symmetric shocks would be possible. Given the European limitations to factor mobility, the stickiness of wages and relative prices as well as the size of the federal budget available for transfers, the pressures on national governments to initiate and implement structural reforms was likely to rise substantially. In addition to the EMU related spill-over problems, pressures for reforms of national security systems were also likely to mount across Europe because of the effects of the ageing workforce coupled with early retirement schemes, particularly in member states with pay-as-you-go systems and large pension liabilities. Moreover, Europe has been facing problems of gradually slowing growth rates as compared to the United States for more than two decades (Sapir et al. 2000); European initiatives for increase spending on education, research and development, as well as steps to bring about the right kind of policy mix, could be therefore seen as rational European

responses to European problems. A widening of the policy scope of policy coordination instruments to include areas such as pensions and educations was therefore likely, even if the particular kind of policy instruments was not clear.

The problems of adapting to this new environment were also likely to be particularly great in the case of Germany, a country whose economic policy-making framework could rely for decades on the ability to set interest rates largely independent from the rest of Europe through the Bundesbank as well as other associated gains from the strong positions of the Deutschmark in European and International Currency Markets. Economists have known already in the late 1990 that German unification would continue to cause long-term problems and constitute a drain on federal resources and economic growth prospects, given that transfers to the East were higher than growth (estimates vary between 2.5 and 4 percent of GDP). If the largest economy and traditionally one of the most integration minded was on the path towards a grave economic crisis, the pattern of successive German governments' 'lubricating' negotiations on further political integration through side-payments and higher net-contributions was unlikely to persist. Particularly astute observers might have forecasted already in 1997 that Germany would face considerable problems when trying to comply the SGP.

Finally, economic analysis could help to better understand the impact of globalisation on European welfare states and governments' policy preferences. Even though the controversy of whether globalisation is eroding or rescuing the European national state is far from resolved (and may in fact be irresolvable, see Gentschel 2003), a few developments are relatively undisputed. Firstly, that the economy of European countries will face adaptation pressures towards more innovation and knowledge-based services given that some labour intensive industries are likely to re-locate or settle in regions or countries with better unit/labour costs. And secondly, that member states' tax revenues from capital are at risk of decline as capital has become more mobile and is likely to migrate to regulatory frameworks offering the highest returns and the least tax. Hence, one would have expected to see initiatives aimed at reducing 'harmful' (in OECD terms) tax-competition as occurred in 1999, initiated by Germany and France.

1.4. Theorising the Consequences of Treaty Amendments

A comprehensive empirical investigation into the impact of new legal provisions such as ours should lead to theoretical innovation beyond the subject area covered. Theoretical eclecticism is a good thing as long as one knows when to use which kind of theory and methodology under what circumstances. In our study we deliberately chose an inductive approach to our subject area, employing different bodies of theories to inform our

research, but it should have become equally clear, that not all theoretical approaches have been similarly useful and applicable. We suggest how rational choice (RI), historical (HI), and sociological institutionalist (SI) tenets can be usefully combined to improve our theoretical toolbox for assessing the potential consequences of newly set-up European institutions; if new Treaty/constitutional provisions are agreed, what is the best way to investigate and forecast their likely use and broader impact on integration? The following is not a parsimonious theory of integration, but a manual of theoretical approaches and methodological 'best practices', which may yield forecasts that are more likely to stand the test of time than those originating from our initial research design.

As a starting point for such a type of investigation, HI would lead us to ask about the context and the preferences, which led to the agreement among national governments about the legal provisions. Differences in member states interpretations and interests are likely to shape how and to what extent governments as the key political actors will play by the new rules. If these contexts or preferences change substantially since then (see the next variable), so does the readiness of actors to follow the rules agreed in a specific environment unless their behaviour becomes locked-in due to new institutions or new constraints and incentives.

The study has also confirmed the centrality of an RI approach, which explores how powerful the incentives and constraints are from the perspective of the different types of actors likely to be affected by them. Are governments, social partners or specific interest groups likely to adapt to them, either as a credible threat or an attractive opportunity? Moreover, how are these incentives and constraints likely to be applied and distributed? In particular, what do the voting provisions imply for the likelihood that particular actors are outvoted? How easy/difficult is it to construct veto positions under the particular legal provisions and with a given set of participants?

What we did not fully anticipate is that EU incentives and constraints may take on quite a different value depending on pre-existing national institutions. Different kinds of institutions, formal as well as informal, play a key role not only in shaping political preference aggregation, they will shape the response of political systems beyond such preferences. Some member states' policies and institutional arrangements would require more adaptation (are most costly within an RI logic) in order to comply, some member states will find it much more difficult to actually implement required changes because of domestic veto players, and some other member states are culturally more attuned (SI perspective) to comply with EU law in the first place.

Moreover, legal provisions are ambiguous and are open to interpretation and contention, the outcome of which is hard to forecast. From a HI perspective, we would highlight the importance of the first time application of the rules as crucial for the further use. If they fail the first time to be applied and if political polarisation and investment is high, subsequent rule following is likely to be problematic and upgrading is unlikely. If possible try to assess under what circumstances the rules will be for the first time tested and construct possible interest coalitions and outcomes.

Sociological institutionalism has been useful for considering the longer-term effects of socialisation mechanisms, including new committees, consultation processes and governing networks. But we found that their impact is limited in cases of moderate to high politicisation affecting the ministerial level or above. Socialisation processes are likely to become less effective as the number of participants and the heterogeneity of their social and professional background increases (consider the impact of enlargement) and the current and long-term trend towards a politicisation of EU politics continues.

From both RI and HI perspective, European institutions matter for advancing integration by shaping actors strategies and exploiting gaps in control. Our findings suggest, however, that European institutions and actors generally hold relatively limited sway over national preference formation. Depending on the incentives and constraints, however, EU criticism can induce quite vigorous debate in some member states and force governments to justify themselves. The course and outcome of such discussion will depend on the degree to which national public spheres and identities are already Europeanised. In all circumstances, however, short-term government preferences change is unlikely.

Complementing the previous point, we also found that the ability of the European Commission to widen the policy scope, elaborate the procedures and manufacture political support, particularly by drawing in other EU institutions, is more limited than often portrayed in the literature. The heyday of Commission activism seem to be over after the completion of the last grand project, EMU, and problems of internal adaptation. Member states are gradually taking over some control via the strengthening of the Council of Ministers and the European Council. Consider the increasing impact of the European Parliament in asking for further powers to bolster legitimacy and accountability.

HI as well as neo-functional theories have generally proven useful for highlighting the potential integrative implications of unintended effects arising from interdependencies with issue areas previously communitarised. The question is, however, whether they are always likely to strengthen the case for further integration in the given policy area or

whether they cannot make member states even more wary of agency-slack, motivating them to reclaim control and use expiry legislations, open coordination, rather than move to hard law instruments? We found some evidence for the latter case.

Finally, disciplinary cooperation is extremely value for better anticipating changes in member states policy environments as well as for assessing dynamics of preference aggregation and spill-over effects. Anticipating changes in the policy environment may be the most difficult and in many cases impossible task, but it is highly advisable to incorporate as far as possible other disciplines' insights into whether, for instance, tax evasion, immigration, environmental risks, terrorism or other issues relevant to the policy field are likely to pose a greater or smaller problems in the future. Furthermore, these insights are also indispensable for assessing whether European solutions to these problems are likely to be superior to national ones, and if so whether coordination, intergovernmentalism, community method, or supranational delegation are the most efficient responses to a problems. However, there are limits to such an approach in so far, as one need to factor in that central institutions will have a powerful interest in framing such problems in a way that encourages the greatest possible transfer of competences.

2.The Future of Economic Governance after the Convention and Enlargement

Based on our project results on the evolution of modes of economic governance between 1997 and 2003, some tentative conclusions can be drawn with regard to both the development of these specific governing modes and to the impact this might have on EU multi-level governance in general. With the enlargement of the Union in spring 2004 and the still to be ratified Constitutional Treaty, new challenges will be added to the list of deficiencies we have analysed throughout our research.

At the current stage it is doubtful, that the modes of economic governance analyzed in this project are a decisive step in the ratchet fusion process of European integration leading to a communitarisation in these policy fields in the foreseeable future. The history of economic coordination since the beginning of the integration process tells us that with the exception of monetary policy the path chosen by the member states has not been one-directional and we have also seen that certain policy approaches and instruments had been abandoned, sometimes even without being replaced by alternatives. Yet, in the era of the single currency both economic doctrine and political analysis demand at least some kind of macro-economic coordination at the European level. At the same time, economic challenges, for instance the fiscal implication of the demographic developments of the European societies, the increased integration of the international market in which

Europe has to situate itself, and, especially, the integration of the new member states into the euro zone, will not diminish but rather accentuate the need for further cooperation.

While supranational and national actors have tried to make the different coordination modes more effective during the period considered by this report, OMC spin-offs have extended the scope of deliberation on various other policy fields, and we have seen some if limited improvement of economic performance of the member states, there are still important procedural deficiencies on the domestic and the EU-level and the European Union and its member states will almost certainly missed the self-binding targets set within the Lisbon strategy. But as interdependences increase across several dimensions, governing modes are needed that establish a common approach while allowing differential adaptation at the national and regional level.

2.1. New paths in the Draft Constitutional Treaty?

The European Convention as well as the Intergovernmental Conference in mid-2004 have amended the legal provision of the current Treaty only to a limited extent. While the deliberations in the European Convention have once more demonstrated that there is no consensus on how much coordination there needs to be, the outcome of the IGC – rejecting some of the proposals of the Convention and keeping the status-quo – underlined the position of the member states' governments that political choices on these vital policy fields of the European welfare states should remain in their hands. The IGC softened the wording on economic coordination in part I of the Constitutional Treaty which now only refers to the coordination of the economic policies of the member states, a status quo wording similar to the current TEC. Furthermore, the IGC did not adopt all the suggestions of the Convention to (slightly) strengthen the role of the European Commission within the Excessive Deficit Procedure. This approach has not been disputed by the SGP-ruling of the ECJ. The judges have underlined that it is the member states that decides on the application of sanctions, even if the procedure applied in November 2004 was judged to be against the wording of the EC-treaty.

The new provisions on the euro group as well as on the separate euro zone BEPGs, however, have at least the potential to increase policy coordination between euro zone countries and seem to acknowledge the necessity to ensure that an coherent economic framework is provided for the setting of monetary policy by the ECB.

For the first time the euro group has been incorporated in the European treaties as the euro group was merely set up by a decision of the European Council. Once and if the Constitutional Treaty comes into force, the meetings of the finance ministers of the euro

zone member countries, as well as participants from the European Commission and the president of the European Central Bank, will be formalised. Certain tasks have been allocated to the euro zone members, in particular and consistent with the special role the euro zone with regard to common positions on the international monetary system and the international representation of the single currency but also with regard to economic policy coordination.

Even more important are the provisions to establish additional "euro zone BEPGs" and to install a chairperson of the euro group, to be elected for 2,5 years. The special role of the "euro zone BEPGs" are be open for interpretation, especially as they have to be in line with the EU-wide economic guidelines. The euro zone BEPGs will be adopted solely by the ministers of the euro area. Given the poor implementation record of the member states as documented by our research, additional recommendations addressed to the euro zone countries will not strengthen the legitimacy of the procedure, even if the impression is given that these special BEPGs might be more binding than the EU recommendations. This has been underlined by the provision that the euro zone can adopt measures to advance the coordination and surveillance of fiscal policy. Rather, it might open the door for a more coherent policy-mix, as the monetary policy of the ECB can be better taken into account. At the same time, the pressure on the ECB might intensify with this new procedure, as the euro zone finance ministers could seize the opportunity to put their comments on the ECB's policy stance into the document (cf. also Linsenmann/Meyer 2003). While so far the deliberations with the ECB took place within the euro group meeting and the Euro group presidencies, with a few exceptions, have refrained from openly criticizing the ECB, the special BEPGs could lead to a more pronounced and public view on monetary policy issues vis-à-vis fiscal policy. If the new provisions are understood as providing the instruments for a 'gouvernement économique' demanding some kind of ex-ante coordination, it might lead to further frictions and bargaining with the bank.

Even if the Constitutional Treaty will enter into force not earlier than 2007, for the time being the 'euro zone' will now constitute a minority within Ecofin (with 12 countries 'in' and 13 member states 'out') and, since May 2004, the current 12 countries having adopted the euro do not have a qualified majority any more within the Council. The special euro zone provisions on the BEPGs as well as on the international representation of the euro, even if formal voting will still take place during normal Ecofin plenary meetings, seem to have been designed to strengthen the perception of the euro zone as a single economic entity.

The same concept has been adopted with regard to the provisions on the President of the euro group. It will not be necessary that the president will be a finance minister of one of the euro zone countries, other options, such as the Commissioner responsible for economic and monetary affairs, are possible if currently unlikely. Again, while on the one hand it should enhance the visibility of the euro zone, it might lead to increased institutional competition with the ECB President about the informal role of 'Mr. Euro'.

Nevertheless, the increase role and possibly the increased visibility of the euro group might again raise further expectations with regard to the capability of the EU institutions to contribute to economic growth and to the sustainability of public finances. The already quoted 'capability-expectation gap' might even increase if the euro group tries to act as a 'gouvernement économique' without however having the means to implement the necessary policies on the national level and without administrating the small budget of the Union itself.

2.2. A hybridisation of economic governing modes

Based on our research, and contrary to our initial expectations, for the next years we do not expect a linear development of governing modes within economic policy coordination. For instance, the introduction of 'hard' sanctions in employment policy is neither feasible nor economically sensible. On the other hand, we might see the introduction of more binding arrangements in related policy areas which have strong repercussions on fiscal policy, for example in the social security systems and in the area of the regulation of financial markets.

The ruling of the European Court of Justice on the November 2003 decision of Ecofin to put the Excessive Deficit Procedure against Germany and France in abeyance as well as the obvious deficiencies of the SGP in its current form will necessitate an in depth debate between the national and European actors on how to amend the Pact, not only to make it less 'stupid', but actually workable. Both economic arguments as well as political considerations will have to be taken into account but the current provisions have lost their credibility as they are both economically counterproductive and the sanction mechanism has proven to be ineffective. As documented in the results of the work package on fiscal policy coordination, the inherent flaws of the Pact, coupled with a monetary policy set by the European Central Bank that might have favoured smaller economies (with higher than average inflation rates) has so far not led to the desired outcomes, that is annual national budgets below the reference value of 3 percent of GDP, let alone budget 'close to balance or in surplus' in most of the countries.

It can also be argued that with the failure of this particular 'hard' coordination mode, it will not serve as a model for other policy areas in which a tightening of rules could be envisaged. How this new configuration of the Stability Pact will be legitimised and later on implemented will be central to European economic governance. But, in the light of monetary union, it will have to include some kind of sanction mechanism within the SGP to be applied if member states do not comply with newly calibrated criteria which take into account specific conditions for growth periods as well as for economic downturns. For some institutional actors, in particular the European Central Bank but also some member states' governments the current budget deficits of the larger member states demonstrate once more the importance to have strict rules for national fiscal policies. This revision should not be understood as a watering-down, but rather as an upgrading of the legitimacy of the Pact. Furthermore, incentives and constraints have to be carefully chosen due to the increase in heterogeneity of the euro zone, following the enlargement and the desire of some new members to join soon the euro zone.

It is to be expected that amendments to the Stability Pact will be restricted to changes below the level of treaty changes. The two regulations which are part of the SGP and the (unchanged) protocol to the Treaty defining the reference values are 'protected' by the requirement to reach a consensus within the Council and the two regulations can only be changed based on a proposal of the European Commission (cf. art. 104.14 TEC). If the member states cannot agree on a revision, the 'straitjacket' of existing procedures will continue to erode the legitimacy of the coordination mode on fiscal policy, as obviously some member states cannot (or even should not) comply to them in certain economic situations.

In any event, the path to be chosen for fiscal policy coordination will continue to diverge from governing modes utilized in employment policy coordination, and, with respect to non-budgetary matters, in the BEPG process. The outcome of the Convention deliberations and the IGC negotiations demonstrated that the legal provisions with regard to these two procedures will remain to be based on soft policy coordination on the European level. In addition, as we have documented in this report, these two governing modes have not developed in the same direction, even though the streamlining exercise of the year 2003 has brought the European Employment Strategy procedure closer to the BEPGs. It is doubtful that the BEPG process will encompass a larger number of actors involved in the process than the EES already has, and it will thus remain rather a top-down governmental process. Given the necessary broad approach of these guidelines it is also unlikely that they will be better integrated into domestic policy-making procedures, and, as stated above, the BEPG process might also become more complex again with the introduction of separate euro zone BEPGs. Our research has furthermore clearly

documented that converging trends with regard to adaptations on the national level are limited and in the light of continuing divergent economic conditions and welfare state arrangements are not to be expected in the foreseeable future.

As stated above, the diversification of governing modes in the area of socio-economic policy coordination beyond the three coordination procedures analysed by GOVECOR has increased further by the introduction of Open Methods of Coordination in neighbouring policy fields. Even though the European Convention and the IGC 2003/4 have not introduced the OMC as a formalized governing mode in the Draft Constitutional Treaty, the instruments associated with the OMC, for example common guidelines agreed by the member states and supervisory functions for the European Commission, have been included in a number of policy areas. In many cases they will replace existing non-treaty based OMCs and will thus put some policy fields closer to the EU arena, however without a 'standard OMC-mode'.

Hence, governing modes will not converge towards a single model, but become ever more hy-brid and complex as particular elements spread across policy fields. This flexibilisation will be enhanced by the length of the transition period during which numerous new member states will have (or deliberately choose) to stay outside the euro zone.

V. DISSEMINATION AND EXPLOITATION OF RESULTS

1. Dissemination activities

The dissemination strategy of the GOVECOR consortium included the appearances at conferences and workshops as well as the organisation of semi-public workshops and two review meetings, publications in academic and semi-academic journals, publications and appearances in the mass media, and the presentation of the project and its results on the internet at the GOVECOR website.

1.1. Conferences

The preliminary findings and the results of the project have been presented and discussed at a number of workshops and conferences during the lifetime of GOVECOR.

Major events for the GOVECOR Consortium have been two international conferences of political scientists. First, at the 1st Pan-European Conference on European Union Politics of the *European Consortium for Political Research (ECPR)* in September 2002 in Bordeaux, Govecor researchers presented their preliminary findings to a distinguished research audience of about 25 researchers at a separate GOVECOR panel. The most important event from the perspective of dissemination was, secondly, the *EUSA conference in Nashville, Tennessee, March 2003*, where a panel on the GOVECOR theme was accepted. The core group researchers Christoph Meyer and Ines Hartwig presented papers "The Europeanisation of Economic Public Discourses" and on "Spill-overs between the structural funds and the employment strategy", which were both well received. In addition, Iain Begg, closely linked to the Govecor project via the assistant contractor Federal Trust for Education and Research, presented an additional paper. The EUSA conference participation was a valuable substitution for the foreseen deliverable 'participation at the Congress of the International Political Science Association' which had to be abandoned.

The GOVECOR project has also been discussed at the biannual Presidency Conferences of the Principal Contractor TEPSA. This included both progress reports delivered to the conferences and the Assembly of TEPSA and paper presentations by GOVECOR researchers. GOVECOR was presented at the following TEPSA presidency conferences: Madrid (November 2001), Copenhagen (June 2002), Athens (November 2002), Rome (June 2003), and Dublin (December 2003). Apart from the TEPSA conferences, Consortium members delivered individual presentations of research results at various conferences organised by a number of well-known and established associations and institutions, e.g. College of Europe in Bruges, ESCA-Germany (AEI), the German Association for Political Science (DVPW), European University Institute, Swedish

Sociological Association, ETUI, SALTSA, OSE, Real Instituto Alcano Madrid, NYU in London and UACES, Wissenschaftszentrum Berlin für Sozialforschung (WZB), or the French Association of Economic Science. For a full list of presentations delivered by GOVECOR, see annex VII. 2.2. Thus, GOVECOR research results were not only presented to a great number of academics, but also to other 'end users' such as representatives of Central Banks, Governments and Administrations, Trade Unions, Employers Organisations and Non-Governmental Organisations working in the fields of Economic, Monetary, Fiscal, Employment and Social policy.

Furthermore, GOVECOR itself was responsible for the organisation of semi-public workshops and two review meetings. At the kick-off meeting in October 2001 and at the review meeting in April 2002, the project was discussed within the Consortium, with the core group, national rapporteurs and a number of invited academics and practitioners participating. A review workshop in July 2003 was however restricted to the principle contractors.

The two main events were however the mid-term and the final review meeting organised in Brussels. The midterm review meeting on 10-11 January 2003 constituted a very welcome opportunity to present the preliminary findings of GOVECOR to a high profile group of experts and practitioners. The meeting helped to establish or strengthen contacts among the participants, pointed to publications and other sources of data, helped to arrange research interviews and to agree on forms of cooperation about extending the website. For instance, Professor Jonathan Zeitlin of the European Centre of the University of Wisconsin agreed to add links to the GOVECOR-Online homepage on the Centre's website dedicated exclusively to new modes of governance, including the open method of coordination. Klaus Regling, Director-General at the European Commission, delivered a dinner speech to the reviewers group. At the same time, reviewers made a number of suggestions on how to adapt research design, scope, methodology, and empirical research in the coming months in order to generate innovative and relevant results.

The last stage of the project was marked by the final review meeting (16-17 February 2004). The invited experts and practitioners discussed the results of the project and commented on the papers presented by the Govecor team. Reviewers commended the project for its remarkable output and empirical analysis as well as for its innovative approach to study and compare developments in two vital areas of socio-economic policy-making in the EU. In particular, the interdisciplinary approach of the project team consisting of political scientists, sociologists and economists was considered as one of the major assets of GOVECOR. The results of the projects will be highly relevant to both academics and practitioners, especially in the context of the debate on the Stability and Growth Pact and

the future of the Lisbon Strategy as well as in view of enlargement. The publication of the proposed edited volume was highly recommended, as it would be the first book to analyse the three most relevant modes of economic policy coordination, the Broad Economic Policy Guidelines, the European Employment Strategy and the Stability and Growth Pact. A further asset would be the clear research-guiding thesis and the coherent research design of the contributions.

For a full list of external participants to the review meetings, see below, chapter VII .

1.2. GOVECOR Homepage

A very important relay for the exchange of information, the coordination of research activities and the communication of research results was Govecor-Online – www.govecor.org, the project' web page with update information on the projects activities, contact addresses, working papers etc. Project partners could take advantage of the user-friendly backoffice function to update the website with dates, documents and other relevant material themselves, establishing a non-hierarchical system of information management and communication. All relevant publications and material was put on this site.

Going beyond the initial dissemination strategy envisaged, a weekly newsletter service had been set-up by the website administrator to alert interested researchers not only about the projects activities but also about development in the real world relevant to the economic governance, i.e. the results of European Councils, press releases of the European Commission, as well as major conferences and other relevant publications. Visitors to the website could easily subscribe to this newsletter, while sensitive project-relevant information was placed in the restricted password protected section. Almost 80 weekly newsletters were produced, sent to a mailing list of up to 100 addresses.

The following table gives an overview on the internet statistic of www.govecor.org. Traffic on the website increased substantially after the publication of an article in the Financial Times by Christoph Meyer, which contained a reference to the website's address, as well as towards the end of the project, not least due to the Final Review Meeting in February 2004 and the publication of the final round of national reports, traffic on the Website GOVECOR-online has even more increased in the final months of the project. The seven months from September 2003 to March 2004 all appear in the top eleven months with the highest number of visits per month, with February 2004 marking an all time high.

Table 6. Internet Statistics

www.govector.org	
First hit	22.04.02 13:19
Last hit	31.03.04 23:01
Total Number of days considered	710
Hits	364995
Page views	28872
Visits	9070
Number of single visitors	1997 (72%)
PageViews per day	40,66
Visits per day	12,77
Total number of pages viewed	503
Total duration of visits	345:18:42
Total bytes sent	1,21 GB

The coordinator, following the suggestions of the core group meeting in February 2004, will make sure that the website remains online at least until April 2008. However, the updating of Govector online has been stopped in mid-April 2004 which affects in particular sections such as EU-press releases and links. Furthermore, links to external sites might not work anymore at some point in time. Also the weekly newsletter mailing has been terminated in April 2004.

We will therefore expect, not least after the publication of the final report as well as the proposed edited volume with Palgrave (see below), that the project website will continue to be a reference point for University professors, researchers and students, politicians and civil servants of EC/EU related administrations, practitioners in business and finance, and trainers of civic education institutions. Website of follow-up projects (see below) will include links to the GOVECOTR homepage, thus ensuring that the content of the site can still be used effectively.

1.3. Publications

Members of the Consortium published widely in research journals and edited volumes, including leading peer-review journals for the study of the European Union, such as the *Journal of Common Market Studies*, the *Journal of European Public Policy*, the *Journal of European Social Policy*, *Integration*, *Politique européenne*, *L'économie française*, *Revue de l'OFCE*, *National Institute Economic Review*, and *Osteuropa*. Furthermore, GOVECOTR related articles were published in the *Financial Times* and the *European Voice*. For a full list of publications, see below annex VII.2.1.

1.4. Informal dissemination and spin-off

Beyond these formal means of disseminations members of the consortium have used their informal contacts to other research communities in economics, sociology, communication studies and political sciences to spread information about the thrust and findings of the research project. These efforts have been reinforced substantially since the project's website has been set-up, which has helped to disseminate not only the results of the research project, most notably the State of the Art Report and the National Reports, but also provided information on scheduling, information exchange, internet links as well as opportunities for feed-back from experts and the wider public.

The research consortium sought to feedback its results to policy-makers through various fora. Prof. Wolfgang Wessels and Ingo Linsenmann have participated as members of a high profile expert group of the Chancellory of North Rhine-Westphalia, submitting a paper on the open method of coordination, which was used as the basis for an article published in the Journal "integration". Professor Wessels has also been in close contact with representatives of the European Convention, most notably the chair of the working group on Economic Governance and member of the presidium, Klaus Hänsch. For instance, during the work of the European Convention in October 2002, a special debate on economic governance with Hänsch was organised on the premises of the assistant contractor IEP. Furthermore, the project co-ordinator, in cooperation with two of the principle contractors, i.e. TEPSA and CATT (Prof. Jacques Le Cacheux), have carried out two studies for the European Parliament on the implementation of the Broad Economic Policy Guidelines in 2001 and 2002. Both were published in the ECON Working Paper Series of the European Parliament's General Directorate for Research.

2. Follow-up activities and exploitation intention

2.1. Follow-up activities

The two main follow-up activities are linked to projects and networks funded by the 6th Framework Programme of the European Union. GOVECOR Coordinator Wolfgang Wessels is cluster leader and member of the Steering Committee of the NEWGOV project (New Modes of Governance - CONTRACT No CIT1-CT-2004-506392), an integrated project coordinated by the European University Institute. The aim of this integrated project is to produce a deeper conceptual, empirical and normative understanding of all aspects of governance within, and beyond, Europe, giving special attention to the emergence, execution, evaluation and evolution new and innovative modes of governance. The research consortium engages political scientists, economists, lawyers, sociologists and practitioners to collect data on and to map and analyze innovations and transformations

in the instruments, modes, and systems of governance operating at the multiple levels and arenas of the still evolving, and enlarging, European polity and economy. The results of GOVECOR form an important basis for the research activities pursued within the NEWGOV project, especially as economic governance and the open method of coordination feature as important topics in many of the NEWGOV projects.

Furthermore, in 2003 the Coordinator has submitted a proposal for the establishment of the "Constructing Europe" Network (CONSENT). "EU-CONSENT" as a network of excellence for joined research and teaching will look at the construction of a new Europe especially from 2005-2008. It will address the question of the mutual reinforcing effects of deepening and widening by developing and working with three sets of expectations for analysing the past and developing an innovative framework for the future integration beyond Western Europe. Within such a conceptual framework 25 teams will test lessons from the past in view of their academic and political validity for discussing visions and scenarios for the future. The major *leitmotiv* is that the Union is in the full process of reinventing itself – a development which is however difficult to grasp and explain. Apart from the coordinator, other GOVECOR partners, most notably TEPSA and many of the assistant contractors, are part of this proposed Network. Also within EU-CONSENT, GOVECOR research will be advanced in the area of economic governance and the results of the project exploited.

2.2. Exploitation Intention

The GOVECOR Consortium has submitted a book proposal incorporating the project's key findings to the leading academic publishing house Palgrave. After the book proposal received a very positive review by an external evaluator, Palgrave offered the editors in Cologne a book contract. The publication "Towards an Economic Government for Europe? A Balance Sheet of New Modes of Policy Coordination", scheduled for 2005, will substantially boost the impact of GOVECOR research on different audiences, most notably scholars and advanced students in the area of political science, economics and sociology, who are interested in the working and evolution of Economic and Monetary Union, in the EU's influence on member states' employment and fiscal policies, as well as in broader questions relating to the dynamics of European integration and the appropriateness of new modes of governance. It will also be relevant to practitioners working in the field of Fiscal Policy Coordination (Stability Pact) and the European Employment Strategy. Since the research project on which this book is based pursues an interdisciplinary agenda, the different contributions aim to be accessible to non-specialists in both substance and writing. The core research question is best situated in the field of political science with its sub-disciplines of comparative government and European Studies.

A Technological Implementation Plan will be submitted to the European Commission in order to obtain the authorisation to publish the manuscript. It does not constitute a pre-defined deliverable.

VI. REFERENCES AND BIBLIOGRAPHY

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VII. ANNEXES

1. Overview of Project Deliverables

Deliverable		Workplan Date in month	Completion Date in month
Projects Internet homepage (WP VII)	http://www.govecor.org	3-30	6-30
State of the Art Report (WP VII)	State of the Art Report, April 2002	6	8
National Reports I (WP V)	1st National Interim Report, May 2002	6	9
National Reports II (WP V)	2nd National Interim Report, November 2002	13	15
National Reports III (WP V)	3rd National Interim Report, July 2003	23	23
National Reports IV (WP V)	Final National Report, April 2004	29	30
Semi-standardized Questionnaire (WP V)	Circulated to the national rapporteurs before each national report	3, 9, 17, 25	4, 10, 17, 24
Progress report I (6 months) (WP I)	Date of Issue: 05 March 2002. Reference Period: 01.09.2001 to 28.02.2002	6-8	7
Progress report II (12 months) (WP I)	Date of Issue: 30 October 2002. Reference Period: 1.9.2001 to 30.9.2002	12-14	14
Progress Report III (18 months) (WP I)	Date of Issue: 30 April 2003. Reference Period: 1.9.2001 to 28.2.2003	18-24	20
Progress Report IV (24 months) (WP I)	Date of Issue: 30 September 2003. Reference Period: 1.09.2002 to 31.8.2003	24-26	25
Semi-public workshop I (WP VII):	Kick Off Meeting, 8-9 October 2001 at TEPSA, Brussels	2	2
Semi-public workshop II (WP VII):	Review Meeting, 8-9 April 2002 at TEPSA, Brussels. Meeting Core group, 26 September 2002 at ECPR, Bordeaux	8	8, 13
Semi-public workshop III (WP VII):	Midterm Review, 10-11 January 2003 at TEPSA, Brussels	14	17

Semi-Public Workshop IV (WP VII):	Review Workshop, 30 June – 1 July 2003 at Stockholm	20	23
International Conference 1 (WP VII):	TEPSA presidency conference, November 2001 at Madrid	4	3
International Conference 2 (WP VII):	TEPSA presidency conference, 15 June 2002, Copenhagen. TEPSA presidency conference, 16 November 2002, Athens. Summary of the project progress by Prof. Wessels	12	10
International Conference 3 (WP VII):	ECPR Conference, 26-28 September 2002 at Bordeaux. Papers by Jacobsson/Vifell, Meyer, Hartwig. TEPSA presidency conference, 28 June 2003, Rome. Summary of the project progress by Prof. Wessels. TEPSA presidency conference, 5-6 December 2003, Dublin. Summary of the project progress by Prof. Wessels	18	13, 22, 28
International Conference 4 (see milestones IPISA etc) (WP VII):	EUSA Conference, 27 – 31 March 2003 in Nashville, Tennessee. <i>Panel on the GOVECOP theme, papers by Begg, Hartwig, Meyer.</i>	26	19
Article on Fiscal Policy Co-ordination (WP II):	Le Cacheux, Jacques (with Jérôme Creel) (2003) 'Le Pacte de stabilité et de croissance', in: <i>L'économie française 2003</i> , OFCE, Editions La Découverte.	16/19	21
Article on Employment Policy Co-ordination (WP III):	Jacobsson, Kerstin (2004) 'Soft Regulation and the Subtle Transformation of States: The Case of EU Employment Policy', forthcoming in <i>Journal of European Social Policy</i> , (3) or (4) 2004.	16/19	19
Paper on theoretical approaches by EIPA/Cologne (WP VI): on website	Hartwig, Ines/Meyer, Christoph O. (2002) 'Towards Deliberative Network Governance? Theorising Socio-Economic Policy Coordination in the European Union' (Revised Version)	8	10

<p>Paper on public discourses in fiscal policy by Cologne (WP VI): previous version on website, appears in JEPP</p>	<p>Meyer, Christoph O. (2004) 'The Soft Side of Hard Policy Co-ordination in EMU: Peer Pressure and Publicised Opinion in Germany and Ireland', <i>Journal of European Public Policy</i> Vol. 11, No 5.</p>	<p>10</p>	<p>12</p>
<p>Paper on networks in employment policy by EIPA (WP VI):</p>	<p>Hartwig, Ines (2002) 'The Luxembourg Process and the Structural Funds: Two Tracks of One Employment Strategy?', in: Best, Edward/Bossaert, Danielle (eds) <i>From Luxembourg to Lisbon and Beyond: Making the European Employment Strategy Work</i>, Maastricht: EIPA. Hartwig, Ines/Nicolaides, Phedon (2003) 'Elusive Solidarity in an enlarged European Union', in: EIPASCOPE No. 3/2003.</p>	<p>14</p>	<p>15</p>
<p>Paper on networks/discourses by EIPA/Cologne (WP VI):</p>	<p>Meyer, Christoph O. (forthcoming, March 2005) 'The Europeanization of Publicised Debates: A Study of Quality Press Coverage of Economic Policy Coordination since Amsterdam', accepted for publication by <i>Journal of Common Market Studies</i>.</p>	<p>26</p>	<p>19</p>
<p>Selected National Studies (WP VI):</p>	<p>Meyer, Christoph O. (2002) 'The "Soft" Side of Hard Co-ordination: Analysing Publicised Discourses on Fiscal Policy in Germany and Ireland'. Paper for the first pan-European ECPR-Conference 26-28 September in Bordeaux. Meyer, Christoph O. (2003) 'Towards a Europeanisation of Socio-Economic Discourses? How the Coordination of Economic Policies is reflected in the Quality Press of Selected Member States'. Paper delivered at the EUSA International Conference, 27-29 March 2003, Nashville, USA. Meyer, Christoph O. (2003) 'The Soft Side of Hard Policy Co-ordination in EMU: Peer</p>	<p>14, 18, 25</p>	<p>13, 19, 21</p>

	Pressure and Publicised Opinion in Germany and Ireland'. Paper for NYU-London funded conference on the Stability Pact, 25-27 April 2003, London.		
Results of Content Analysis (WP VI):	on website (Publications → Reports)	22	25
Codebook for Content Analysis of News Media (replaces Thesaurus) (WP VI):	on website (Publications → Reports)	25-29	25
Semi-Standardized/Semi-Structured Interviews + Transcripts (WP VI):	conducted mostly in Brussels	7-12	16, 23-25
Report on the Results of the semi-structured interviews (WP VI):	restricted	14	23-25
Article on Co-ordination of Co-ordination (WP IV):	Linsenmann, Ingo/Meyer, Christoph O. (2002) 'Dritter Weg, Überführung oder Teststrecke? Theoretische Konzeption und Praxis der offenen Politikkoordination', in: <i>Integration</i> , Vol. 25, No. 4, pp. 285-296. Meyer, Christoph O. (2003) 'Konvergenz nationaler Wirtschaftspolitiken durch europäische Koordinierungsverfahren?' - Erklärungsansätze und erste Ergebnisse', in: Caesar, R./Lammers, K./Scharrer, H.-E., (eds) <i>Konvergenz und Divergenz in der EU?</i> , Baden-Baden: Nomos. Linsenmann (2005) 'Towards a Horizontal Fusion of Governing Structures? Coordination of Coordination Processes through the Broad Economic Policy Guidelines', to appear in: Linsenmann/Meyer/Wessels (eds) (forthcoming) <i>Towards an Economic Government for Europe? A Balance Sheet of New Modes of Policy Coordination</i> , Palgrave.	22	13, 28+30

Publication of Final Research Results (at final workshop) (WP VII):	Final Review Meeting, 16-17 February 2004 at TEPSA, Brussels. Edited Volume: Linsenmann, Ingo/Meyer, Christoph O./Wessels, Wolfgang (eds) (forthcoming) <i>Towards an Economic Government for Europe? A Balance Sheet of New Modes of Policy Coordination</i> , to be published by Palgrave	29/30	30 (+Palgrave)
Evaluation of the Results of the different workpackages (restricted) (WP I):	Meetings of the core group in Brussels, 12-13 December 2003; 17 February 2004	29/30	30
Final Report		29/30	30

2. List of Output: Publicised work and conference presentations

2.1 Publicised work

Begg, Iain (ed.) (2002) *Europe: Government and Money – Running EMU: The Challenges of Policy Co-Ordination*, London: The Federal Trust.

Begg, Iain/Hodson, Dermot/Maher, Imelda (2003) 'Economic Policy Coordination in the European Union', *National Institute Economic Review*, No. 183, 70-81.

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GOVECOR (2002) State of the Art Report. Edited by Christoph Meyer and Andreas Maurer. <www.govecor.org>

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GOVECOR (2002) Second Synthesis Report of the Govecor Project: Selection of National Reports (November), edited by Christoph Meyer. <www.govecor.org>

GOVECOR (2003) Third Synthesis Report of the Govecor Project: Selection of National Reports (November), edited by Christoph Meyer. <www.govecor.org>

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Hartwig, Ines (2004) The Agenda 2007 proposals: reform or revolution?, *Eipascope* No. 2/2004.

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Hartwig, Ines (2002) 'La mise en oeuvre à double voie de la stratégie européenne pour l'emploi: un monstre de papier après l'élargissement?', *Eipascope* No. 2/2002, Maastricht: EIPA.

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Jacobsson, Kerstin (2004) 'Trying to reform the "best pupils in the class"? The open method of coordination in Sweden and Denmark', in: J. Zeitlin, P. Pochet and L. Magnusson (eds) *Opening the Open Method of Coordination*, Brussels: PIE Peter Lang (forthcoming).

Jacobsson, Kerstin (2004) 'Soft Regulation and the Subtle Transformation of States: The Case of EU Employment Policy', forthcoming in *Journal of European Social Policy*.

Jacobsson, Kerstin (with Borrás, Susana) (2004) 'The open method of coordination and new governance patterns in the EU', to appear in *Journal of European Public Policy*, 11 (2), 185-208.

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Jacobsson, Kerstin & Åsa Vifell (2003) 'Integration by Deliberation? On the Role of Committees in the Open Method of Coordination', in E. O. Eriksen, C. Joerges & J. Neyer (eds) *European Governance, Deliberation and the Quest for Democratisation*, Oslo: Arena report no 2/2003.

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Le Cacheux, Jacques (2004b) 'Démocratie et marché: Politiques macroéconomiques, règles et modes de prise de décision' in D. Damanne (ed.) *La démocratie en Europe*, Paris, L'Harmattan.

Le Cacheux, J. and Lechevalier, A. (2004) 'Analyse critique du projet de traité constitutionnel de l'UE: Institutions et politiques économiques et sociales', in: Beaud et alii (eds) *L'Avenir de l'Union européenne. Pour un bilan critique de la Convention*, Brussels: Bruylard.

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Euro. Law, Politics, Economics, British Institute of International and Comparative Law, 2003, pp. 487-498.

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Le Cacheux, Jacques (2002) 'The First Year of Circulation: Enthusiasm, Fears and Newly Discovered Constraints', in: Louis, Jean-Victor (ed.) *Eurospectator* 2002.

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Wessels, Wolfgang (2003) 'Beamtengremien im EU-Mehrebenensystem. Fusion von Administrationen', in: Kohler-Koch, Beate/Jachtenfuchs, Markus (eds) *Europäische Integration*, 2nd edn, Opladen: Leske + Budrich, pp. 353-83.

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Wessels, Wolfgang (2003) Reassessing the Legitimacy Debate, in: Weiler, J.H.H./Begg, Ian/Peterson, John (eds) *Integration in an expanding European Union. Reassessing the Fundamentals*, Oxford, pp. 103-108.

2.2. Conference presentations, papers and other contributions

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Hartwig, Ines (2003) 'Towards a Coherent Mode of Governance in European Employment Policy?', presented at EUSA conference in Nashville, 27-29 March, 2003.

Hartwig, Ines (2003) 'Path Dependency in Employment Policy: Comparing the EU and the US Experience', presented at EUSA conference in Nashville, 27-29 March 2003.

Hartwig, Ines (2002) 'Network Analysis: Incremental Synergies or a Growing Fragmentation between the Open Method of Coordination and EU Cohesion Policy?'. Paper for the first pan-european ECPR-Conference 26-28. September in Bordeaux. <www.govecor.org>

Hartwig, Ines/Meyer, Christoph O. (2002) 'Towards Deliberative Network Governance? Theorising Socio-Economic Policy Co-ordination in the European Union'. GOVECOR-Working Papers. <<http://www.govecor.org>>

Jacobsson, Kerstin/Vifell, Åsa (2003) 'Integration by Deliberation? On the Role of Committees in the Open Method of Coordination'. Paper presented at the workshop on 'The Forging of Deliberative Supranationalism in the EU' Florence, 7-8 February 2003.

Jacobsson, Kerstin/Vifell, Åsa (2003) 'Employment Policy Coordination: Between deliberation and discipline'. Paper presented at Midterm Review meeting of GOVECOR project, 10-11 January in Brussels. <<http://www.govecor.org>>

Jacobsson, Kerstin/Vifell, Åsa (2003) 'Integration by Deliberation? On the Role of Committees in the Open Method of Coordination'. Paper presented at ARENA research seminar, Oslo 3 December 2002.

Jacobsson, Kerstin (2002) 'The open method as a system of governance: Achievements and problems so far'. Paper presented at research seminar on 'The Open Method of coordination in the EU', Roskilde University 3 May 2002.

Jacobsson, Kerstin (2002) 'Soft Regulation and the Subtle Transformation of States: The Case of EU Employment Policy', SCORE research report 2002: 4.

Jacobsson, Kerstin/Vifell, Åsa (2002) 'Integration by deliberation? On the role of Committees in the Open Method of Coordination'. Paper presented at the conference of the Swedish Sociological Association, Orebro January 30-31 2003.

Jacobsson, Kerstin/Vifell, Åsa (2002) 'Integration by Deliberation? Dynamics of Soft Regulation in the Case of EU Employment Policy'. Paper presented at the ECPR Conference, Bordeaux 26-28 September 2002.

Jacobsson, Kerstin (2002) 'The Methodology of the EES: Comments', Presentation at a seminar organised by ETUI, SALTSA and the HBS on 'The European Employment Strategy after five years', Brussels 13 May 2002.

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Jacobsson, Kerstin/Schmid, Herman (2002) 'The European Employment Strategy at the Crossroads: Contributions to the Evaluation'. Paper presented at Nordic Sociology Conference, Reykavik, 15-17 August 2002. Forthcoming in ETUI publication on the five year evaluation of the EES.

Jacobsson, Kerstin (with Susana Borrás) (2003) 'The open coordination method and the new governance patterns in the EU'. Paper presented at workshop on the OMC, Roskilde University 20-21 February.

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Le Cacheux, Jacques (2003) 'Presentation and discussion on European Tax and social competition and the fiscal situation', Real Instituto Alcano, Università San Pablo, Madrid, March 3.

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Le Cacheux, Jacques (with Creel, Jérôme) (2003) Session of the European Political Economy Workshop on the Stability and Growth Pact, Sciences Po, Paris, April 7.

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Le Cacheux, Jacques/Touya, Florence (2003) 'The Dismal Record of the Stability and Growth Pact'. Paper presented at Midterm Review meeting of GOVECOR project, 10-11 January in Brussels. <<http://www.govecor.org>>

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Paper presented at Final Review meeting of GOVECOR project, 16-17 February 2004 in Brussels, URL: <http://www.govecor.org>.

Meyer, Christoph O. (2003) 'Towards a Europeanization of Socio-Economic Discourses? A Study of Quality Press Coverage of the EU's Provisions for the Co-ordination of Economic Policies since Amsterdam'. Paper presented at the International Conference on the 'Europeanisation of Public Spheres? Political Mobilisation, Public Communication, and the European Union', Wissenschaftszentrum Berlin für Sozialforschung (WZB), June 20-22, 2003, available as working paper at www.govecor.org.

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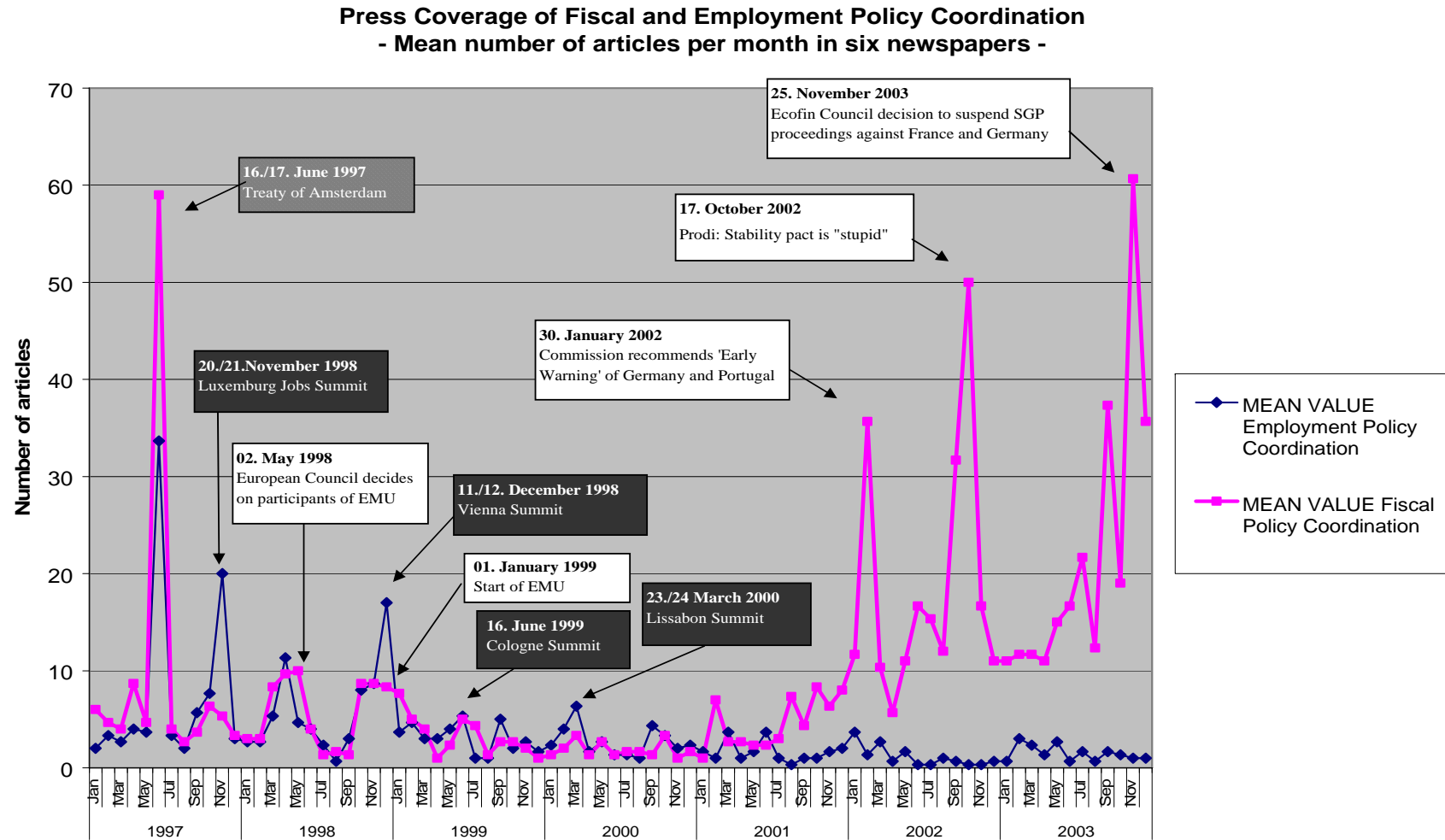
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3. Figures referred to in chapter III.3.4.

The following figures refer to the media content analysis summarised in chapter III.3.4.

Figure 3. Press Coverage of Fiscal and Employment Coordination

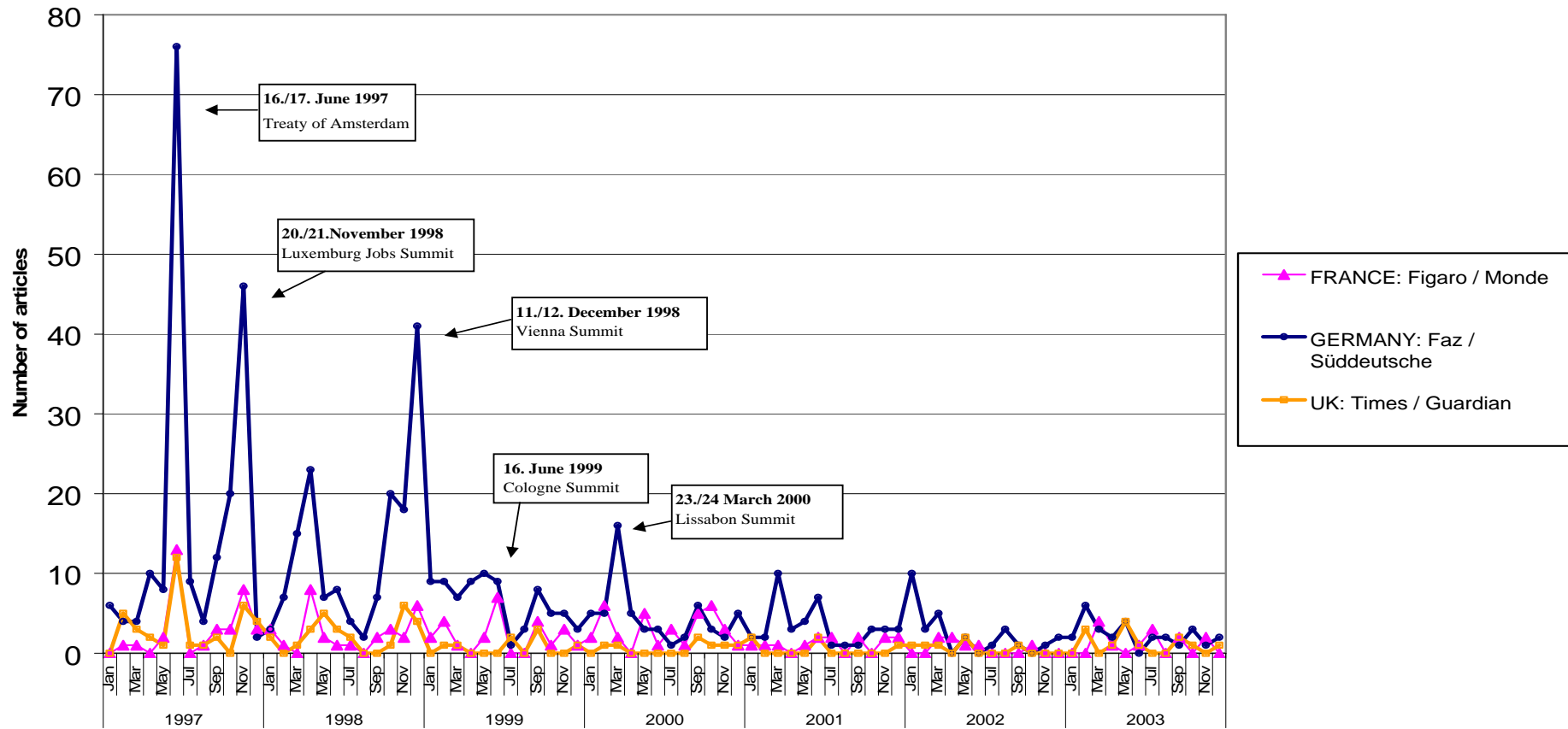


Newspapers examined: **United Kingdom:** London Times, The Guardian; **France:** Le Figaro, Le Monde; **Germany:** Frankfurter Allgemeine, Süddeutsche Zeitung
For LexisNexisDatabase search criteria, please see graphs of the respective policy fields

Stand: Dec 31, 2003

Figure 4. Media Coverage of Employment Coordination

Media Coverage of Employment Policy Coordination, 1997 - 2003



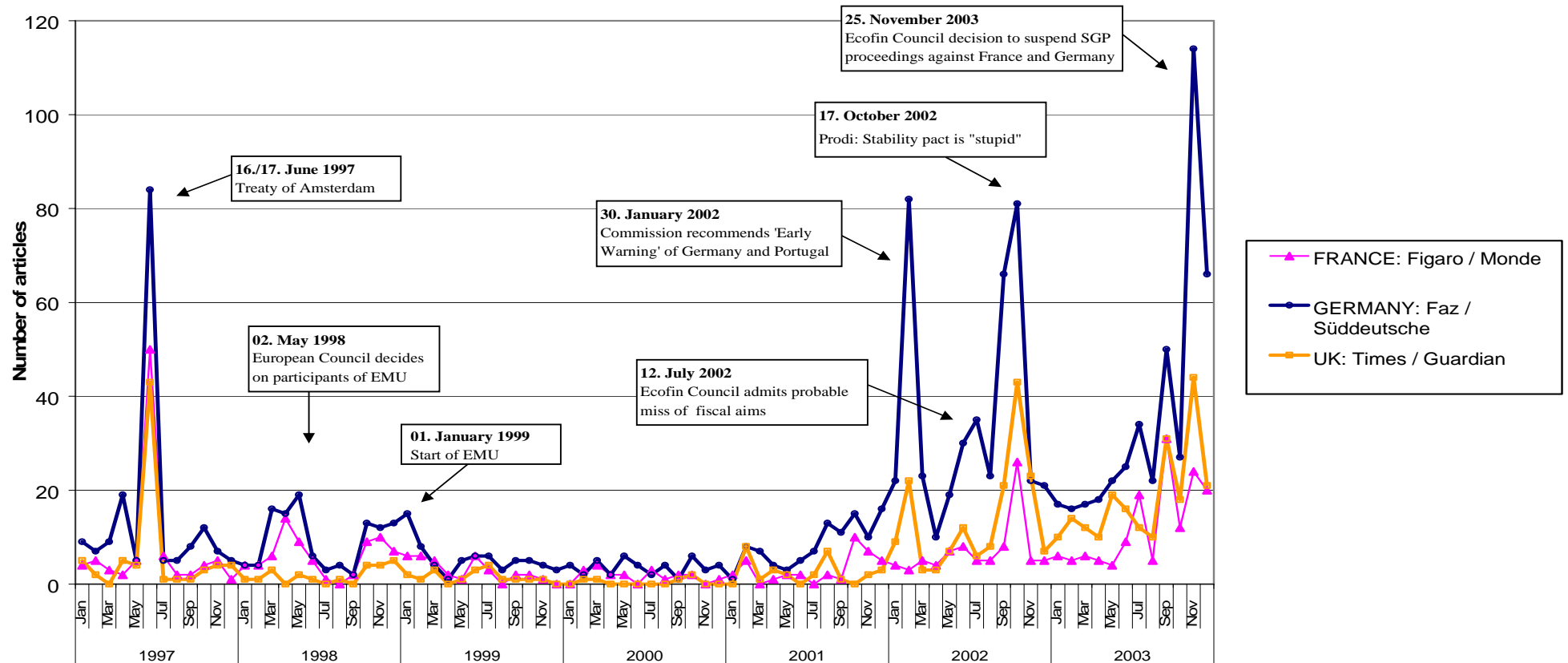
LexisNexis Database search criteria:

United Kingdom [London Times, Guardian]: *EU AND employment strategy OR employment guidelines OR employment policy*
 France [Figaro, Monde]: *L'Union europeenne AND politiques de l'emploi OR Plan d'action national OR (lignes directrices AND l'emploi)*
 Germany [Frankfurter Allgemeine, Süddeutsche]: *EU AND Beschäftigungspol! OR Beschäftigungsleitlin! OR Beschäftigungsstrateg!*

Stand: Dec 31, 2003

Figure 5. Media Coverage of Fiscal Policy Coordination

Media Coverage Of Fiscal Policy Coordination, 1997 - 2003



LexisNexis Database search criteria:

United Kingdom [London Times, Guardian]: *EU AND stability pact OR "stability and growth pact" AND NOT balkan!*

France [Figaro, Monde]: *l'Union Europeenne AND pacte de stabilite OR pacte de stabilite et de croissance AND NOT balkan!*

Germany [Frankfurter Allgemeine, Süddeutsche]: *EU AND Stabilitaetspakt OR "Stabilitaets- und Wachstumspakt" AND NOT Balkan!*

Stand: Dec 31, 2003

Table 7. Employment Policy Coverage in Selected Member States (1998 – 2002)

		Properties of 1998 Employment Policy Coverage in %				Properties of 2002 Employment Policy Coverage in %			
		D	FR	UK	MEAN	D	FR	UK	MEAN
<i>I. Share of EU Articles</i>									
	Dominant EU reference	20,7	33,3	18,5	24,2	2,6	10,7	18, 8	10,7
	Non-dominant reference to EU	0	6,7	3,7	3,5	0	14,3	6,3	6,9
	One sentence reference to EU	20,7	3,3	11,1	11,7	21, 1	14,3	6,3	13,9
	No EU reference	51,7	56,7	66,7	58,4	73, 7	57,1	68, 8	66,5
<i>II. Horizontal Europeanization</i>									
	Reference to other MS' policies	6,9	23,3	29,6	19,9	2,6	17,9	25	15,2
	Reference to foreign MS politicians	20,7	33,3	22,2	25,4	0	14,3	0	4,8
	Reference to MS news sources	0	0	3,7	1,2	0	0	0	0
	Reference to foreign (EU) Social Partners/Interest Groups	0	16,7	7,4	8,0	0	32,1	6,3	12,8
<i>III. Vertical Europeanization</i>									
	Reference to Commission	24,1	20	7,4	17,2	2,6	7,1	18, 8	9,5
	Reference to Council	6,9	13,3	7,4	9,2	0	3,6	0	1,2
	Reference to European Council	13,8	6,7	0	6,8	0	7,1	0	2,4
	Reference to European Parliament	6,9	10	0	5,6	0	3,6	0	1,2
	Reference to ECB	3,4	6,7	7,4	5,8	5,3	0	12, 5	5,9
	Other EU actors	6,9	20	3,7	10,2	2,6	10,7	0	4,4
<i>IV. Synchronisation of Interpretative Frames</i>									
	Solidarity with EU goals	0	23,3	3,7	9	0	0	6,3	2,1

	Criticism of other Member States	6,9	6,7	0	4,5	0	0	18,8	6,3
	Sanctions	0	3,3	0	1,1	0	0	0	0
	Performance comparison	0	10	11,1	7,0	7,9	14,3	25	15,7
	National Sovereignty	0	3,3	14,8	6,0	0	0	0	0
	Peer Learning	0	6,7	3,7	3,5	0	0	6,3	2,1
	<i>Total number of sampled articles</i>	29	30	27	86	38	28	16	82

Table 8. Fiscal Policy Coverage in Selected Member States between (1998 – 2002)

		Properties of Fiscal Policy Coverage in 1998 in %				Properties of Fiscal Policy Coverage in 2002 in %			
		D	FR	UK	MEAN	D	FR	UK	MEAN
<i>I. Share of EU Articles</i>									
	Dominant EU reference	26,5	36,4	28,6	30,5	41,7	45,7	33,3	40,2
	Non-dominant reference to EU	20,6	24,2	14,3	19,7	19,4	17,1	13,3	16,6
	One sentence reference to EU	20,6	9,1	7,1	12,3	22,2	11,4	6,7	13,4
	No EU reference	32,4	33,3	39,3	35	13,9	17,1	43,3	24,8
<i>II. Horizontal Europeanization</i>									
	Reference to other Member States' policies	14,7	24,2	28,6	22,5	19,4	25,7	50	31,7
	Reference to foreign MS politicians	2,9	12,1	17,9	10,9	8,3	14,3	26,7	16,4
	Reference to Member State news sources	0	0	0	0	0	0	0	0
	Reference to foreign (EU) Social Partners/Interest Groups	0	3	0	3	0	40	0	13,3
<i>III. Vertical Europeanization</i>									
	Reference to Commission	5,9	12,1	7,1	8,4	36,1	34,3	20	30,1
	Reference to Council	0	12,1	14,3	8,8	19,4	8,6	6,7	11,6
	Reference to European Council	2,9	9,1	7,1	6,4	0	11,4	3,3	4,9
	Reference to European	0	6,1	0	2,0	8,3	0	0	2,8

	Parliament								
	Reference to ECB	17,6	33,3	21,4	24,1	16,7	31,4	20	22,7
	Other EU actors	5,9	9,1	0	5	5,6	11,4	3,3	6,8
<i>IV. Synchronisation of Interpretative Frames</i>									
	Solidarity with EU goals	2,9	9,1	21,4	11,1	5,6	20	10	11,9
	Criticism of other Member States	8,8	0	17,9	8,9	11,1	0	20	10,4
	Sanctions	2,9	3	0	2,0	11,1	2,9	10	8
	Performance comparison	0	6,1	3,6	3,2	5,6	2,9	20	9,5
	National Sovereignty	2,9	6,1	10,7	6,6	8,3	2,9	26,7	12,6
	Peer Learning	2,9	0	10,7	4,5	2,8	0	10	4,3
<i>Total number of sampled articles</i>		34	33	28	95	36	35	30	101

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5. List of Abbreviations

BEPGs	Broad Economic Policy Guidelines
DG	Directorate General (of the European Commission)
DG ECFIN	Directorate General Economic and Financial Affairs
EAGGF	European Agricultural Guidance and Guarantee Fund
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EES	European Employment Strategy
EFC	Economic and Financial Committee
EG	Employment Guideline(s)
ELMC	Employment and Labour Market Committee (1997 - 2000)
EMCO	Employment and Labour Market Committee (from 2000 on)
EMU	Economic and Monetary Union
EP	European Parliament
EPC	Economic Policy Committee
ERDF	European Regional Development Fund
ESF	European Social Fund
FIFG	Financial Instrument for Fisheries Guidance Fund
GDP	Gross Domestic Product
GNP	Gross National Product
HI	Historical Institutionalism
IGC	Intergovernmental Conference
LAP	Local Action Plans
MS	Member State
NAP	National Action Plan
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
OCA	Optimum Currency Area
OMC	Open Method of Co-ordination
QMV	Qualified Majority Vote
RI	Rational Choice Institutionalism
R&D	Research and Development
SGP	Stability and Growth Pact

SI	Sociological Institutionalism
SPC	Social Protection Committee
TEC	Treaty establishing the European Community
UMTS	Universal Mobile Telecommunications System

European Commission

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