SZEMLÉR TAMÁS

ECONOMY AND SOCIETY: A EUROPEAN DILEMMA

Bár gyakran előfordul a kifejezés, nagyjából egyetértés van a szakértők közt abban, hogy nincs egységes „európai szociális modell”. A kifejezés a jóléti állam legfontosabb európai válfajainak jellemzőire utal, amelyek megkülönböztetik azokat a világ más fejlett országaiban alkalmazott modellektől. A változó nemzetközi gazdasági környezetben azonban az öreg kontinens számára egyre nagyobb problémát jelent e sajátosságok megőrzése. Ez a tanulmány négy pontban foglalja össze az „európai szociális modell” legfontosabb sajátosságait, kihívásait, illetve lehetőségeit. Elsőként bemutatja a fogalom hátterét és értelmezési lehetőségeit, másodikként pedig a modellt érő kihívásokat tárgyalja. Harmadikként a közép- és kelet-európai jóléti államok reformjaival kapcsolatos dilemmákat vizsgálja, végül pedig áttekinti a lehetséges megoldási javaslatokat. A tanulmány fő következtetése, hogy bár nem léteznek csodagyógymódok Európa problémáira, vagy konkrétabban az „európai szociális modell” nehézségeire, mégis, a már elfogadott európai szintű politikák következetes implementációja több pozitív eredményt is hozhat. E pozitív eredmények növelhetik a nemzeti és európai akciók hitelességét, ami nélkülözhetetlen az átfogó reformok tervezéséhez és megvalósításához.

INTRODUCTION

Most Western European members of the European Union (EU) are envied by many in the world because of their high level of economic and social development. This level of development is also one of the main attractions for countries that are currently in different stages of the negotiations on joining the EU, just as it was the case for the new members that joined the community in 2004 and 2007. While there are cross-country differences, generally, in a number of social aspects, Western European countries provide much more than Europe's main competitors in the world economy [Rifkin 2004]. This "extra" performance is often expressed by the term "European Social Model".

This term is used very frequently, although most of those who use it, agree that there is no single European Social Model. The term refers to the specificities of the main European versions of the welfare state, making them different from developed countries in other parts of the world. However, while the term covers one of the major achievements of Europe, the old continent is increasingly concerned by the problems of preserving it in a dramatically changing international economic environment.

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The unsatisfactory reactions to the changes in the last decades have also led some analysts to question the "extra" performance mentioned above (and in some cases even the chance of getting to a real European Social Model with such an "extra" performance in the future). Slow growth and high unemployment figures can be evaluated as unsatisfactory results, but they are at the same time two of the most important factors which – on the long run – make the system unsustainable. This is especially true in the era of globalisation, where competition is stronger than ever: the challenge can, in principle, also lead to important systemic reforms (which can have important positive impacts), but most European welfare states have not yet reached this point of breakthrough. With the time passing by without successful responses – especially on the EU level –, the challenge becomes more and more difficult.

This difficulty is clearly reflected in the actual tendencies in the public opinion about the European integration process. The French and the Dutch "No" to the Constitutional Treaty very probably also meant a protest against a Europe which is not able to respond to the challenges it faces, and thus, not able to defend its citizens from these challenges. In most new member states having joined the EU in 2004 and 2007, public opinion about the EU also follows a worsening trend. It is also true, however, that purely national aspects (including biased national communication, presenting the EU often as a scapegoat for internal problems) influence to a great extent the public opinion about the EU.

This last point is a very important reason why the issue of the European Social Model needs a careful analysis. In order to summarise the main features, problems and possible options, this article proceeds in four points. First, it provides a background and different interpretations of the notion "European Social Model". Second, it presents the main challenges to this model in Western Europe. Third, it tackles the specific (but in the enlarged EU very important) issue of reforming the welfare state in Central and Eastern Europe. Fourth, it provides an overview of the possible proposed solutions of the present problems. Finally, some of the main ideas are summarised as concluding remarks.

1. WHAT IS THE EUROPEAN SOCIAL MODEL?

The history of the welfare state has begun in the second half of the 19th century. The institutions created then in some leading (or just rapidly developing) European countries served for correcting some of the undesirable consequences of the highly industrialised capitalist system. While these early traditions are still important (there are categorisations which even today speak about a group of "Bismarck tradition" countries), the present versions of the European welfare state are much more sophisticated both in their objectives and in their functioning.

The foundations of the modern welfare state were first formulated by the Beveridge Report [Beveridge 1942] during World War II. The document listed the main conditions in which welfare states can function. Regarding the age structure, a society, where less than 10 percent of the population is older than 65 years, is conform to the one analysed in the Beveridge Report. The basic unit of the society is the traditional family (practically the only model of households in the society). Societies are characterised by a low level of unemployment (and especially of long-term unemployment), a low share of women having a paid job, while men are full-time employed or unemployed. Social problems (poverty) are due to unemployment or old age, and social problems can be relatively easily and effectively treated by an integral national assurance system.

After World War II, the most sophisticated examples of the welfare state have been developed in Western Europe. Most authors [e.g. Ferrera 1996; Bertola et al 2001; Boeri 2002; Sapir 2005] traditionally distinguish four models: that of 1. the Nordic countries, 2. the Anglo-Saxon countries, 3. the continental countries, 4. the Mediterranean countries. Even if there are debates about this categorisation (see e.g. Alber [2006], who puts the Netherlands and Luxembourg into a fifth group), the four models above can be considered as the main types of European welfare states.

Sapir [2005], using the analysis by Boeri [2002] regarding their results in the reduction of income inequality and poverty, protection against uninsurable labour market risk, and incentives to labour market participation, puts these models into a matrix according to their efficiency and their concerns of equity. In this matrix, the Nordic model shows high efficiency and high equity, the Anglo-Saxon model shows high efficiency, but low equity, the continental model shows low efficiency, but high equity, and the Mediterranean model is characterised by low efficiency and low equity. From the point of view of sustainability – a key question today – only the Nordic and the Anglo-Saxon models can be seen as promising in their actual form. If also equity is considered to be important, the Nordic model can be seen as the optimal solution. Of course, the different models (and also their different country-specific sub-versions) are rooted in different traditions, therefore there is no single success recipe for all countries (to put it simply, "Italy is not Sweden").

With all their differences in structure and performance, these models all add important elements to the “virtual notion” [Sapir 2005] of the European Social Model. The virtual nature of the notion of the European Social Model is clearly expressed by reflections about whether it is "myth or reality" [Diamantopoulou 2003], or, whether we should speak about the "survival of the European welfare state" [Kuhnle 1999], or even about "the end of the European Social Model: before it began" [Wickham 2002].

With this quite complex background, it is not easy to find a clear definition of the European Social Model. In the literature, there are very different opinions about the existence of such a model, and even those who agree that such a model does exist (or at least it is not excluded that such a model will exist in the future), differ very much in their opinion about the main objectives and key features of such a model. Therefore their definitions (if they provide any) also show (sometimes considerable) differences.

With all this in mind, the objective here can only be to find a definition being concrete enough to shed some light on the main specificities of the European Social Model, while being also general (or more roughly, vague) enough to be able to play the role of the highest common denominator between the different views and interpretations. For this, as suggested by Alber [2006], we can choose the definition formulated in the Nice Presidency Conclusions: *"The European social model, charac-*

*terised in particular by systems that offer a high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values.".**

Beyond being concrete in some aspects as well as vague in others at the same time, the above definition has a very important advantage: this is a definition laid down in an official EU document. If one wants to discover what the EU wants to achieve under the slogan "European Social Model", and where the problems hide, it can be a good solution to depart from an official and relatively recent EU definition like the one above.

2. WHAT ARE THE MAIN CHALLENGES?

Welfare states in general, their most sophisticated Western European species in particular must face a number of challenges. These challenges are due to important demographic, social and economic changes. These changes mean that the initial (Beveridge Report) conditions are not met any more by the societies of most developed countries.

The most important demographic change is that they have an ageing population, causing deteriorating dependency ratios. This means that the share of people in their active age continuously decreases, while the share of the elderly increases. This is a well-known phenomenon in the developed economies for a long time, but it is only in the last three decades (characterised by relatively low average economic growth in Europe) that it has become a factor menacing the sustainability of the welfare states in Europe.

Developed welfare states cost a lot. During the three decades between 1945–1975 (the "trente glorieuses" according to the widely used [e.g. Sapir 2005] French term), characterised by rapid and stable growth, this did not constitute a problem. However, with the changes in the early 1970s, this favourable situation has changed, as well; the demographic and social changes referred to above contributed to the deepening of the problem, increasing financial needs of welfare states.

Beyond demographic factors, there is another phenomenon that aggravates the situation of the welfare states – first of all, from the point of view of financing, but looking at the problem in a broader aspect, it also questions the efficiency of the system. It is that not only the share of people in active age decreases, but also that the share of people within this group being really active (having a job or looking for a job) is very low in international comparison. The high unemployment rate (the high share of unemployed within the active population) worsens the situation further.

Among social changes, family models as well as employment patterns are different from those 50 years ago. In the present situation – characterised, as said above,

* European Council, Presidency Conclusions, Nice European Council Meeting, Annex 1, European Social Agenda, § 11.

by continuously worsening dependency ratios –, the increasing importance of atomised families means also new (and costly) tasks for the welfare states. Unemployment is high in many countries, even with relatively low activity rates, which also has important consequences both for society and economy. As a reaction, in many countries new forms of employment (in addition to full-time employment) appeared The growing share of employment forms that have earlier been often called "atypical" (part-time work, fixed duration contracts) also can be interpreted as a challenge for the European Social Model. The main reason to consider these new forms of employment as a challenge is not their consequence on the financing of the welfare state (although it is not negligible, due to the special treatment – in many cases – of "atypical" employment), but in the fact that different country experiences with these new forms show very clearly the differences (in cultures, traditions, wages) within the EU, and thus put national characteristics (and not the European nature) of the welfare state into the foreground.

Rates of economic growth in the most developed countries of Western Europe have become very low, while Europe's traditional main competitors (especially the US) perform clearly better in this field, and also new rivals (among them two giants: China and India) appear with extremely high growth rates and extremely low production costs. Slower growth was coupled in Europe with deeper and longer recession periods. If the first oil crisis put an end to the "trente glorieuses", the recession of the early 1990s made clear that the adjustment strategies of the EU (or, more exactly, what has been realised from them) have been insufficient. Slower growth also means less jobs, but in addition to this, even equal growth rates result in less new jobs in European countries than e.g. in the US. The expression "jobless growth" has become very usual in the 1990s to characterise the situation in Europe.

In the 1970s, the changes washed away the dreams of European leaders about a rapid realisation of an Economic and Monetary Union. In the end of the 1980s and in the beginning of the 1990s, EU leaders wanted to reverse this logic, and the EU intended to respond to the challenges discussed above by the completion of economic integration. The objectives of the Single Market included enhanced competition within the EU and enhanced competitiveness of European enterprises vis-à-vis their extra-EU competitors, and, as a result, more jobs in Europe. The Economic and Monetary Union with the single currency was also expected to contribute to these processes.

Reality is (at least until now) somewhat different. The Single Market is still far from being perfect, and its main deficiencies concern the free movement of services (although this sector represents today about 70 percent of the EU economy [Sapir 2005]) and that of labour. Recent cases of obstacles for M&As in the EU also show that capital movements are still not entirely free either. Transition periods aiming at a delay in the full access of citizens and enterprises of the new member states to the (as we have seen, imperfect) Single Market aggravate this problem further. All these deficiencies of the Single Market weaken its expected positive effects on growth, employment and European competitiveness.

An interesting aspect of the deficiencies of the Single Market is that these shortcomings "model" on the European scale the way globalisation proceeds worldwide. In a rapidly increasing part of the world economy, the flow of products and capital is more or less free, services also tend into this direction, while there are still important (not only financial and technical, but also traditional, cultural, language, etc. barriers) concerning the movement of labour. The strength of the Single Market could be to fully assure the four freedoms in the EU; instead, it reflects the worldwide differences in their treatment within Europe, thus it does not realise the potential gains of its logical construction for Europe in global competition.

EMU was conceived as the coronation of economic integration, but it is also not without problems. The deficiencies in the realisation of the Single Market also mean that some bricks in the construction under EMU are missing. EMU criteria are important, but – in the present situation of some EU national economies – they limit growth, while limited growth aggravates problems of the member states in fulfilling the conditions of the Stability and Growth Pact. Public deficits (especially in three of the biggest economies of the EU, Germany, France and Italy) give ground for concern about economic stability on the one hand, and about growth, employment and the sustainability of the welfare state on the other hand. Delays in reforms concerning this latter aspect only darken the picture.

The EU must face all these deficiencies of economic integration in a period of rapidly intensifying global competition. A smaller part of this competition is "internalised" (but by far not digested) by the enlargements in 2004 and 2007, but the really new challenge for Europe is the emergence of the giant and rapidly growing economies of China and India. These competitors enjoy extremely low production (first of all labour) costs, which was enough for them to take the lead in some labour-intensive industries. The real challenge is, however, that these economies are modernising very rapidly, and they are already highly competitive also in sectors where wages are not the decisive factor (of course, low labour costs are an advantage for them in these sectors, as well). Their market size and rapid development is also attractive for foreign (including European) investors, pushing other regions (not least Europe) into the background.

At the same time, despite ambitious plans (concretised in the Lisbon strategy), Europe is still far in many respects (rates of growth, activity and employment, innovation) behind its traditional main "reference point", the US [see e.g. Sapir 2005; Radło 2006]. This, together with the challenge coming from the Asian "giants" means that the position of Europe in the competition of the development poles of the world economy is continuing to weaken.

It is no wonder that in 2005, under UK EU Presidency, debates about "global Europe" vs. "social Europe" [Brown (2005] have become louder. The terminology of the debate, however, is very interesting, because it is misleading: it looks as "social" and "global" would be antagonistic. In reality, European countries can only preserve their achievements in the social field, if they stand better in global competition; this, in turn, requires a reform of the welfare state on the national level, and, if one aims at a "social Europe", also steps on the EU level. The success of the Scandinavian reforms of the last decade proves that this is not only rhetoric, and thinking "social" and "global" at the same time can lead to well performing and sustainable systems.

3. WHAT DO WELFARE STATES MATTER IN CENTRAL AND EASTERN EUROPE?

Central and Eastern Europe can be treated as one of the external challenges for European welfare states, but the accession of eight Central and Eastern European countries (CEECs) to the EU have deeper consequences for the European Social Model. Despite their relative economic backwardness, by the end of the 1980s, these countries spent a very large share (in some cases around 25–30 percent of their GDP, similarly to Scandinavian countries) on social policy [Fóti 1997]. After the system change, their welfare systems have rapidly been transformed, following generally one of the Western European welfare state models (at the same time, these latter already needed important reforms).

The challenge of maintaining (especially financing) developed welfare systems was too difficult for the transforming CEECs, therefore they were interested in keeping their expenses as low as possible. The rapidity with which these countries opened up their economies to the world in general, and to the EU in particular, did not make the transformation easier. Many of the CEECs (partly as a result of recommendations by international organisations such as the IMF or the World Bank) followed a very liberal approach regarding social issues (in general, their approach was much more liberal than in the case of established Western European welfare states). Foreign investment was (and is) very important for the economic development of these countries, but "uninterested business" and "weak labour" did not help the European Social Model to "travel to the East" [Bohle–Greskovits 2004; Vaughan–Whitehead 2004].

As we have seen, after their accession, these countries were also concerned by the deficiencies of the Single Market. Concerning the EMU, in the case of some CEECs, the need to comply with the Maastricht criteria can further limit the circle and the degree of welfare responsibilities to be taken on by the state. The main overall economic objective of these countries is to catch up to the EU's average development level. EU funds (the Structural Funds and the Cohesion Fund) play a very important role in the financing and in the coordination of this process. On the other hand, while there is a Lisbon Agenda on the EU level, and there are National Reform Programmes in order to implement it, there are no substantial EU level financial resources for this objective. As a result, conflicts between EMU- and Lisbon-related objectives are likely in some of these countries in the coming years. To a lesser extent, such conflicts can also arise between structural operations and EMU objectives (if national co-financing causes a problem from the point of view of public deficit, or vice versa), and between structural operations and Lisbon-related objectives (because of partly competing, partly overlapping priorities and financial bottlenecks). While there can also be synergies between these fields (e.g. a successful public sector reform can have positive results in reducing costs, enhancing efficiency, and thus improving the effects of development transfers), all the potential conflicts can have negative effects on the chances of arriving to a performing and sustainable welfare state in these countries.

With the EU-accession of ten CEECs in 2004 and 2007, this issue has become part of the debates on the European Social Model. Most CEECs do not belong to any category of the Western European welfare state described above. Although the difference in economic development does not necessarily threaten with social dumping (see Guillén–Matsaganis [2000] for the case of Spain and Greece), it can make more difficult to reach important agreements/compromises on developing economic integration and strengthen the "common core of values" (as we already cited from the Nice Presidency Conclusions) of the European Social Model. The long story of the services directive is a very clear indicator of this increasing difficulty.

4. WHAT ARE THE POTENTIAL REMEDIES?

To the problems listed above, no satisfactory solution has been elaborated until now. There are, however, proposals, which can contribute to the improvement of the present situation concerning growth and employment, and thus to the sustainability of the main achievements understood under the notion "European Social Model".

One of the main tasks of Europe is to complete the Single Market [Sapir 2005]. This could strengthen European competitiveness in the world, thus the economic foundations of the European Social Model. The free movement of services (all services from all member states in the whole EU) is of key importance in this respect. Despite cultural and language barriers, cross-country labour mobility (a way of reaction partly replacing the general European choice between being employed or unemployed in the home country) could also be increased in a less imperfect Single Market; for this, regulations concerning intra-EU labour mobility should be further simplified.

Developments regarding the EMU are also crucial. A strong Europe needs a strong currency, and on the long run, it can only be secured if public spending is under control. Economic growth is crucial to reconcile fiscal discipline with the needs of a modern welfare state (taking also into account the different changes listed above); here, the potential role of the (completed) Single Market is obvious. The entry of some older members (first of all, of the UK) into the euro-zone could contribute to increase the weight of the EMU and the importance of the euro in the world economy. On the long run, the same can be true for the entry of the new member states, which, on the short run, however, is considered to bring risks, as well.

Another driving force of the required changes could be the (renewed) Lisbon strategy. Opinions about its chances differ to a large extent, especially with regard to the open method of coordination [see e.g. Hemerijck 2002; Radło 2006; Sapir 2005; Scharpf 2002]. While there is no realistic chance for a rapid step ahead by binding European legislation regarding the European Social Model, alternative (or complementary) approaches (e.g. closer cooperation [Scharpf 2002], as well as using the experiences of "best practice" [Ferrera et al 2000; Trubek–Mosher 2001]) in this field (e.g. the experiences of the welfare system reforms in Scandinavia) are also worth to be considered. In any case, "effective responses" need "policy mixes and institutional reform" [Ferrera et al 2000].

CONCLUDING REMARKS

From the above brief analysis of the "European Social Model", some conclusions can be drawn. These are the following:

- The "European Social Model" is more a virtual notion than a (single) concrete model. National traditions are important; while European action is limited, it is necessary in some fields.
- It is very important to separate national problems from problems stemming from the integration process. This is not easy to do for political reasons, but this distinction can help identify the aspects where joint European action can be more efficient than national responses.
- Before looking for new strategies, it is important to complete unfinished tasks. The most important of them are the Single Market and the Economic and Monetary Union. The full inclusion of the new member states is also part of the unfinished tasks.
- For making European welfare states sustainable, it is of crucial importance to reconcile "global" with "social" – global competitiveness of Europe is a pre-condition of the sustainability of the European welfare state, which has been deeply a part of "being European" for decades. European strategies should aim at both aspects.
- Strategies should be realistic and clear in their objectives and mechanisms, including national and EU responsibilities as well as financing. The mistakes of the first years of the Lisbon strategy should not be repeated.
- At present, only flexible solutions (OMC, best practice) seem to have chances on the EU level in social issues. If, however, they lead to perceptible success, the role of the EU can become stronger in this field. Any strategy should also take into account this option.
- Finally, it is also very important to see globalisation not only as a danger but also as an opportunity: a challenge that can force European leaders to take the reform steps that should be taken anyway, but probably would never (or only much later) have been taken without this external pressure.

It can be seen that while there are no miracle remedies for the problems of Europe in general, and of the European Social Model in particular, the consistent implementation of (at least in principle) already agreed policies can bring positive results. These positive results can lead to increasing credibility of both national and European actions, which is crucial for planning and accomplishing comprehensive reforms, which are to be carried out jointly on national and supranational level.

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