

CHALLENGES FACING THE EU: SCOPE FOR A COHERENT RESPONSE

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Abstract

The EU faces a number of major challenges: to shift its support from the industries of the past to the knowledge-based industries of the future; to rescue the Lisbon strategy, designed to build knowledge-based economy but so far achieving little; to re-engage with the European public after the difficulties with the Constitution. The paper argues that these challenges are intimately connected and that it is only by addressing them together that there is any hope for success. It elaborates these connections with particular reference to a reinvigorated Lisbon strategy with a strong social dimension. It concludes by delineating the corresponding challenge that faces the research community: to undertake a fundamental revision of its analysis of social policy in relation to modern economies; and to build a new toolkit for intelligent benchmarking.

1. CHALLENGES FACING THE EU

During 2005 and 2006, the EU found itself facing two major challenges. This paper argues that in both analytical and practical terms, it is only by addressing them together that they can be resolved.

At the start of its Presidency the UK government called for a fundamental re-think of the Community budget, shifting it away from supporting the economic sectors of the past – notably agriculture – and towards the science-based industries of the future. This was in line with the Lisbon strategy – launched in 2000 and re-launched in 2005 – which aims to make Europe the ‘most competitive and dynamic knowledge-based economy in the world’: in particular, emulating the United States. However, the Lisbon strategy itself has been in crisis, with the mid-term review finding that so far delivery has been poor, even if the goals remain of fundamental importance. Targets have been set but not met and there is severe doubt about the commitment of member states to the reforms that are needed. The EU’s response is that targets must be sharper, the whole process must be streamlined and the member states must be whipped into line (European Commission, 2005b).

The second challenge arose in relation to the European Constitution. The French and Dutch referenda prompted a deep soul-searching among politicians and opinion-leaders, ranging beyond those two countries, and seeking to make sense of what was seen as a broader hesitancy among the European public at large. While it may be difficult to get national governments to play to a common European tune, it may be even more problematic to engage the ordinary citizen.

One view was that the public in those two countries – and maybe in others - had not properly understood the aims of the Constitution or of the European project more generally: the need now was to explain the benefits more clearly. A second view was that the public had understood these intentions only too well and had rejected them: whether, as in France, because they regarded the Europe that was being proposed as too ‘Anglo-Saxon’; or, as was expected in any UK referendum that might be held, because they regarded the proposals as too collectivist. In both cases, it seemed, the public wanted to maintain their existing national arrangements and were reluctant to move to any new European order. A third view was that the public had maybe used the referenda to express their displeasure with their national governments, rather than having any clear view, positive or negative, about the European project.

Whichever of these three interpretations one favours, what they have in common is that the public seems to regard the ‘national’ and the ‘European’ as two quite distinct spheres. Across Europe, no major and concerted constituency for economic and social reform has developed,

that would bridge this disjunction, bringing together national reform and wider processes of European modernisation. Hence the *impasse* within EU governance.

I want to suggest that these two challenges for the EU are intimately connected and that they must be addressed together. However, I want also to argue that the direction in which the Lisbon process has been reformed, following the Kok Report, risks taking us in entirely the wrong direction.

2. ATROPHY OF THE LISBON PROCESS

The Kok Report reaffirmed the importance of the Lisbon goals (European Commission, 2004). It also endorsed the strategy: the Open Method of Coordination (OMC). This aims to highlight those countries that are the best performers in developing a knowledge-based economy, take these as benchmarks, and encourage other member states to reform their policies and institutions to catch up with these leaders. Nevertheless, Kok concluded that there had been a deplorable lack of progress: independent commentators agree (Murray and Wanlin, 2005).

This is not to deny that individual countries have made substantial progress: the Scandinavian countries in particular. So have some of the new member states. However, the general level of progress has been limited and the European dimension – the attempt to use the best performers to bring a new dynamic to the rest – has been weak.

The 2005 reform of the Lisbon process involved two main elements. First, the priority is to be economic growth, competitiveness and employment. There remains an OMC concerned with social inclusion, pensions, health care and other traditional areas of social concern, and these are to be handled as a more coherent package than previously; but they are also to a considerable extent separated from the main thrust of the reformed Lisbon process (European Commission, 2005i, section 4; 2005f; 2006). Second, there is to be a sharper focus, with a smaller number of indicators of progress, and countries held more rigorously to account for achieving the agreed goals. I deal with each of these elements in turn.

2.1. Growth, Competitiveness and Employment

I start with the priority given to growth, competitiveness and employment. This priority is unsurprising. However, it does mean that social priorities other than employment are now in some degree marginalised, little more than a luxury when finance ministers say they can be afforded. Against this, the original Lisbon agenda argued that social policy is a productive force, vital to the creation of a knowledge-based economy. This now risks being overlooked. It is therefore important to re-state in what sense social policy can be such a productive force.

One common response is that the move to a knowledge-based economy depends on reassuring people that they will retain a degree of **security** during the transition period, and that the flexibility which a dynamic and innovative economy requires will not come with too high a human cost. These are collective risks which must be managed on a Europe wide-basis and may well require a stronger statement of common social rights across Europe (Ferrera, forthcoming). There must also be public confidence that the **social dividend** of the new knowledge-based industries will be broadly distributed rather than accruing only to a few. This is, for example, recognised in the Commission's recent communication on *i2010 – A European Information Society for Growth and Employment*, which gives a central place to the social dividend of the new information technologies, in terms of social inclusion, public services and quality of life (European Commission, 2005g).

A second common answer is in terms of 'activation': social policies must be re-fashioned so that they provide unemployed workers with the capacities and incentives they need to find work within a flexible labour market. Such activation – or even 'recommodification' - of workers is the inevitable response to neo-liberal economic policies and their manifest triumph, even if there may still be some room for giving this response a social democratic

flavour (Palier, 2006). Activation for flexibility combined with the afore-mentioned security together make for the 'flexicurity' that has become so fashionable in European political debate.

Against this I argue for a much stronger view of social policy as a productive force, and one which questions whether neo-liberal economic policies - and the markets whose virtues they extol - really merit the claims of success that are commonly accorded them. Neo-liberalism posits markets which will deliver growth and prosperity, if only they are left to work freely. The counter-argument is that markets are themselves socio-political creations, working to rules that must be continuously adapted if they are to deliver such growth and prosperity, and that government - at both national and European levels - is unavoidably involved in these processes of adaptation (Fligstein, 2001). And, moreover, that the social dimension of this process of adaptation is of central importance: nowhere more, indeed, than in the building of knowledge-based economies.

First, a knowledge-based economy depends on **human investment and skills**. This is especially important for the demographically challenged societies of Europe, which can ill afford to waste their scarce human resources. However, if our education and training systems are to prioritise these groups, they need to be much more inclusive than at present. At the moment, for example, opportunities for life-long learning are available mainly to those who are already well-educated (European Foundation for the Improvement of Living and Working Conditions, 2001): they need to be opened up to those who are least skilled. Neglecting them helps to produce a bifurcated labour force of high skill and low skill jobs (Esping-Andersen, 1999, esp Chs 6-7). This is neither socially equitable nor economically efficient: for it is investment in the least skilled that can yield the greatest returns in terms of economic growth (Coulombe et al., 2004).

If the least skilled are one group whose participation in the knowledge-based economy must be strengthened, the same goes for **older workers**. However, some fundamental changes are needed in the world of employment, if older workers are to change the balance they strike between work and leisure. In most countries the employment rate of older men has declined steadily since the 1970s: encouragements to early retirement were predicated on the mistaken belief that this would help mitigate the unemployment problem among prime age workers (Nickell, 2005). However, what is also needed is a fundamental re-think of the place of the 65 plus age group in the labour force: not just because of demographic imbalance and concerns over the sustainability of pensions, but also because employment is a major factor in social integration and well-being. This sort of retirement flexibility would however have very different meanings for skilled and knowledge workers on the one hand, less skilled workers on the other, because of the differences in their work situations, in terms of control and autonomy, opportunities for re-training, security of employment (Policy Research Initiative, 2004). Only by reducing the inequalities of working life will it be possible to renegotiate the intergenerational contract so as to enable a wide range of the 65 plus age group to continue employment, albeit part-time.

Public policies for investment in human resources must go far beyond the direct public provision of education and training. Human investment depends also on employers and employees. They will be ready to invest in **skills training and life-long learning** only if they face the right incentives. As Soskice and his colleagues have argued, these incentives depend partly on employment protection and social protection systems, whose differences help to explain why skill and training profiles also differ substantially between countries (Estevez-Abe et al., 2001). These traditional domains of social policy must therefore be re-fashioned, having regard to the context they create for larger patterns of skills and training.

It follows that social policy as a productive force is not just about investing in individuals: it also involves investment in occupational and regional communities. Human capital must be deployed effectively within industrial settings, if the economic growth, competitiveness and employment, to which the reformed Lisbon process aspires, are to be achieved. Innovation in

knowledge-based industries is rarely a matter of new technology alone (nor, indeed, of the volume of R&D *per se*, notwithstanding the EU's insistence on a target for R&D of 3% of GDP, as though this is the magic bullet to solve the EU's economic woes). It also involves human resource management, organisational change and the creative application of new technologies in new contexts (Lundvall and Tomlinson, 2002; European Commission, 2003; 2005e; 2005c, para 4.3.2). It depends on the institutional linkages between enterprise and research – what are sometimes referred to as 'national innovation systems'.

Also important are local and regional agreements which encourage employers to cooperate in creating high-skill labour pools, rather than fearing that this will only lead to rivals poaching their best workers. This means that the social politics of local, regional and national communities can have important implications for their capacity to develop high-skill knowledge-based economies (Kristensen and Zeitlin, 2005). To put it another way, **local and regional social politics** can play a significant role in building the agglomerations of human capital and innovation-friendly institutions that will attract globally mobile capital and enable European countries to appropriate the benefits of global competition, encouraging a 'race to the top' (Porter, 1990; Room, 2002; Crafts, 2004; European Commission, 2005c, para 2.1). Here also social policy can be a productive force in the development of knowledge-based economies.

In short: reaching towards a knowledge-based economy means not only shifting the European budget towards research and building the rights links between research, technology, innovation and enterprise. It also needs a strong social dimension, in terms of skills, social institutions that support a high-skill economy and broad popular commitment to this new economic order (Room, 2005a). *Pace* neo-liberal economic policy prescriptions, this makes an active social policy central to capacity-building in dynamic economies (Room, 2005a).

There are at least two possible objections to what I have been arguing. First, these various social elements of a knowledge-based economy already receive attention in the documentation emanating from the EU institutions and its advisers (European Commission, 2005a; 2005d; Rodrigues, 2005). I acknowledge this. Nevertheless, they are treated in fragmented fashion: they still need to be brought together in a coherent and politically robust vision for the next stage of European development. What is more, the separation within the reformed Lisbon process of growth, competitiveness and employment on the one hand, more traditional social concerns on the other, makes no sense in light of the argument I have presented.

The second objection could be that I am presenting social policy in terms far too broad: not only social protection and health, but also human investment and skills and their deployment in enterprises, and their linkages with organisational change and regional and national innovation systems. Can these really be presented as central to social policy, in both analytical and practical terms? Yes indeed. I am arguing that it is on these interrelated terrains that the critical social policy questions of today are being posed: concerned for example with equity, well-being and social integration. I have provided plenty of examples: the inclusiveness or otherwise of our systems of life-long learning; the relationship between social protection systems and skill profiles; between innovation dynamics and regional social politics. Yet these questions risk being overlooked, if social policy analysts – including those of us concerned with social Europe - leave the new reform dynamics of growth, competitiveness and employment to be analysed by others, while we remain imprisoned on our traditional ground of social protection and social inclusion. And the dilemmas these pose for public policy are then likely to go unexamined, as market solutions are left to dominate.

This does not mean that social policy should be treated as no more than a productive force: rather, that these social policy questions are so important that they cannot be confined to the

narrow terrain of social protection, they must be applied also to the arena of growth, competitiveness and employment and the dynamics of knowledge-based economies.¹

2.2. More Rigorous Accountability

The second reform of the Lisbon process has been to give it a sharper focus, with a smaller number of simple indicators of progress, and countries held more rigorously to account for achieving the agreed goals. To streamline the process is no bad thing, given the proliferation of benchmarking indicators since 2000. Holding countries to account is also a worthy objective (although experience of such efforts within the Stability and Growth Pact hardly gives cause for confidence). Nevertheless, there are dangers if the process is in consequence seen as a one-dimensional exercise, concerned solely with upward accountability to the EU institutions, using this simplified list of targets.

Transparency ‘sideways’ and the dynamics of innovation

The Lisbon strategy, as originally conceived, was concerned not only with accountability upwards, so as to achieve convergence in policy and performance, but also with transparency ‘sideways’, so as to stimulate cross-national policy learning. Benchmarking was meant to accelerate the transfer of best practice across the Community, in all the areas important for the development of a knowledge-based economy. This transfer would extend far beyond national policy makers, to involve local and regional authorities, civil society and business: indeed, the original impetus for benchmarking the knowledge-based economy had come from the European Round Table of Industrialists (1996).

I have already referred to the role of national innovation systems within knowledge-based economies and their consequences for the dynamics of innovation. Cross-national learning through the Lisbon process was intended to enhance this dynamism, forging links between national innovation systems and catapulting the laggards to the levels of the best (European Commission, 2003). This has however taken place to only a limited extent, at least as a result of the Lisbon process. It is therefore not surprising that the Kok Report gave this horizontal dimension much less attention than the need for sharper upward accountability. However, unless this can be re-affirmed, the role which the reformed Lisbon strategy can play in increasing the dynamism of the European economy will be substantially constrained. The recent European Commission Communication on research and innovation reaffirms the importance of cross-national learning, but the instruments by which this is to be furthered are left rather unclear (European Commission, 2005e, paras 4.2-4.3). Moreover, the continued prominence given to the target of 3% of GDP for R&D, as part of upward accountability, as against the promotion of dynamic processes of cross-national innovation, betrays an incoherence of purpose.

Within the social domains of the Lisbon process, cross-national learning has also been rather limited. In some areas – employment, social inclusion, pension reform – there have been discussions between national officials from different countries, comparing policy approaches and undertaking ‘peer reviews’ of particular national approaches. These involve a member state identifying a practice which it considers to be of particular interest and inviting experts from other EU countries to assess the merits and transferability of that practice (Atkinson et al., 2005, Ch 6). The range of actors involved in these ‘good practice reviews’ needs to be widened. More fundamentally still, however, the process needs to be inverted. The starting point for cross-national learning should not be the member state which is proud of an achievement, but the member state that wishes urgently to improve a deficiency, and is

¹ To conceive of social policy in this way is by no means novel. As Goldthorpe pointed out two decades ago, Esping-Andersen and Korpi ‘view social policy as an area in which crucial issues must necessarily arise over the role of markets and politics in shaping distributive processes’, in the labour and housing markets for example, and in relation to national investment strategy (Goldthorpe, 1984, pp 9, 185-190). During the intervening years that larger perspective has been unduly narrowed.

therefore hungry to survey and appraise possible interventions which it might adopt and adapt from elsewhere.² The OMC will become a dynamic force for change only when it is responsive to local, regional and national policy-makers, wanting to learn from experience in other countries, starting from their own immediate agendas. This shift can also serve to embed the OMC process more firmly in domestic policy-making.

Accountability downwards and the dynamics of innovation

There was a third dimension also to the original Lisbon strategy, which involved not only accountability upwards to the EU institutions, and transparency ‘sideways’ in the form of cross-national learning, but also accountability ‘downwards’ to the public at national, regional and local levels. It was meant to do this by embracing a wide variety of national and local stakeholders. This would ensure popular support for the social and economic transformations required by the move towards a dynamic knowledge-based economy. Again, however, this aspect of the Lisbon process has been developed to only a limited extent.

There have been various proposals for opening up the Lisbon process to greater downward accountability. One is to strengthen scrutiny of the benchmarking and reporting process by national parliaments (Atkinson et al., 2005, Ch 6), with member states taking action to improve public awareness (European Commission, 2005f, section 3). Going beyond this, however, I suggest that the OMC would more powerfully engage the support of the public if it enabled them to hold their domestic governments more effectively to account, requiring them to justify their performance by comparison with best practice in other countries (De la Porte et al., 2001). The OMC would, in effect, open up the free trade in political ideas – or at least in ideas about how to address current social and economic challenges – by exposing each national authority to more critical comparison with its neighbours (Leonard, 1999). It would not only be a laboratory for policy innovation: it could also become a lever for enhanced domestic scrutiny of national policies; it could build deliberative democracy (Beck and Giddens, 2005); it might even generate movements for socio-economic reform capable of unblocking veto points within national polities (Ferrera, forthcoming).

This would demonstrate powerfully a commitment to good governance on the part of the EU institutions: good governance at local, regional and national level, as well as at European level. With the crisis of public confidence following the French and Dutch referenda, the potential value of such a demonstration should not be under-estimated. It would moreover transcend the traditional distinction between the national and the European: the importance of the local, regional and national dimensions of policy-making is re-affirmed, but they are rendered more effective, as far as citizens are concerned, by drawing on a wider European experience.³ It would also recognise the place for political choice at national, regional and even local levels, as legitimate elements in the larger European project. It has, I suggest, long been a weakness of political – and maybe also of academic – discussions of EU governance that the relationship between local and national political diversity on the one hand, European integration on the other, has been only poorly articulated: this has left us ill-equipped to address some of the contemporary challenges that the EU faces.

Nevertheless, these two strands of the original Lisbon process – the horizontal and downwards – seem to be marginalised since with the reforms of 2005. The danger is that the

² Only in the interstices of EU programmes have a range of more interesting experiments in cross-national policy learning developed: despite the efforts of the Commission, so to speak (Zeitlin and Pochet, 2005, esp Conclusion).

³ The Commission’s new proposals for promoting democracy, dialogue and debate are very worthy, but they do not further downward accountability and the scrutiny of national policies by reference to European best practice, along the lines proposed here (European Commission, 2005h).

reformed Lisbon process will be an emaciated and somewhat one-dimensional affair that loses much of the vitality originally intended.

3. THE CHALLENGE FOR THE ACADEMIC COMMUNITY

I have hinted that the academic social policy community is also not entirely without blame, in the way that it has framed the social policy debate, and because of its slowness to engage with the new social agenda of a dynamic knowledge-based economy. I want to suggest that there are two lines of work in which this academic community should now engage.

First, we need to flesh out the social dimension of the European project by reference to knowledge-based economies under conditions of globalisation; to re-think the role and scope of social policy; and to articulate its dynamic interrelations with economic policy and policies for technology and innovation. A narrow focus on social protection and social inclusion policies will not do. We must re-examine and re-state the case for social policy as a productive force in a knowledge-based economy.

Second, we can contribute to creative and intelligent benchmarking and policy learning, for public policy makers but also for business and civil society actors. Much of the existing benchmarking process, using a variety of indicators to track progress by reference to common European goals, is of questionable value, in terms of both substance and process. I am referring here to the whole range of indicators that have been used across the policy domains covered by the Lisbon process, ranging from the social inclusion OMC to the European Innovation Scoreboard. We can also contribute to stronger 'downward' accountability of public policies by reference to wider European experience: not just those policies instigated by the European institutions, but the full range of policies developed at national, regional and local levels.

How could creative and intelligent benchmarking more effectively foster policy learning and public accountability? And in what ways do the indicators currently being employed in the Lisbon process require a new approach? I offer two suggestions.

First, the Lisbon process involves comparisons of national performance, by reference to indicators and benchmarks. However, is this intended to track the progress of member states towards a single common future, and one which can be defined by reference to common economic and technological requirements? If so, the role of political leaders is limited to ensuring as rapid and comfortable an adjustment as possible to that future.

Alternatively, are these comparisons intended to provide national policy-makers with an array of different scenarios of potential development, to enrich national political debates about these alternative futures, and to provide guidance as to the policy interventions that might be made, in order to achieve one future rather than another? This suggests a quite different role for political leaders, making real political choices and trade-offs, on the basis of coordinated intelligence about different national experiences. Do higher rates of competitiveness through technological innovation have to be traded against higher risks of social exclusion? Do high rates of social inclusion in the new economy presuppose high rates of investment in human capital (Room, 2005b)?

In general, I suggest, the benchmarking indicators of the Lisbon process are being used rather unthinkingly, and with the implicit assumption that they point to a single future for the countries concerned. The configuration of that future needs to be critically examined; and we must also examine the scope for diverse trajectories and political choices among the countries of the EU, albeit within the social, economic and political goals of the EU as a whole.

This leads me to my second point. If we compare national performances, it quickly becomes apparent that different policy mixes can produce similar outcomes and similar mixes can produce divergent outcomes. Both the Scandinavian countries and the 'Anglo-Saxons' (the UK and Ireland) have achieved high rates of employment growth but with significantly

different social policy mixes (Alber, 2006). At the same time, while Continental European countries such as Germany and France have social spending levels not too different from the Nordic countries, their macro-economic performance is much poorer. Alber draws a conclusion which is of central relevance to any discussion of the Lisbon process and cross-national policy learning: there seem to be two distinct pathways of successful socio-economic development towards knowledge-based economies: one the Scandinavian and the other the liberal Anglo-Saxon. It is 'countries of the middle way that are most likely to face difficulties' (Alber, 2006, pp 413-4). What this also means, of course, is that piecemeal adoption of 'best practices' from the front-runners may merely aggravate problems.

National context matters and variations in performance cannot be easily captured in a few simple indicators. Countries develop along distinctive socio-economic trajectories, involving dynamic feedback and path dependency, which benchmarking indicators are ill-suited to capture. What is needed are indicators which provide insights into the virtuous dynamics by means of which an enterprise, a region or a country can accelerate along the path to a knowledge-based economy, as well as providing early warning of less desirable trajectories. They could also serve to identify opportunities for policy intervention in relation to these various futures: points of leverage which will send a country or sector along a golden trajectory of socio-economic development or at least steer it away from stagnation and decline.⁴

Alongside the positive dynamics of economic take-off are the negative dynamics of social inequality and exclusion, as rapid social and economic transformation unfolds. The social inclusion OMC uses a range of indicators to track the changing circumstances of households in different EU countries. Still more valuable, however, would be indicators which would track these circumstances in relation to wider processes social and economic change, and the negative dynamics of cumulative degradation they can create.

Indicators and benchmarks of dynamic change – whether the positive dynamics of economic take-off or the negative dynamics of social exclusion – are still not well-developed. They remain an important area of future work for policy analysts and researchers. Modelling in terms of complex systems may offer a way forward (Kauffman, 1993; Byrne, 1998), but taking due account of the different institutional mixes we find in different countries and the patterns of path dependency and institutional lock-in these create (Fligstein, 2001; Pierson, 2004). Indicators of these dynamics will need to capture micro-level complementarities at the level of the firm and local community (Pettigrew et al., 2003, esp Part 2)), involving feedback loops and organisational as well as technological change (Kline and Rosenberg, 1986; Orsenigo, 2000; Lundvall and Tomlinson, 2002, p 216). And, not least, they need to capture the social dimension of innovation: what I earlier discussed in terms of social policy as a productive force.

4. CONCLUSION

My argument has been three-fold. First, that social policy is a key element in the mix of 'technologies', hard and soft, that must be brought together, if enterprises, communities and nations are to develop sustainable trajectories of take-off into knowledge-based economies, the goal of the Lisbon strategy. Second, that the stimulation and acceleration of such trajectories on a cross-national basis requires more than the hegemonic 'technologies' of policy convergence: the 'soft' technologies of mutual learning and popular legitimation are also crucial. Third, that indicators as a technology of policy learning and adaptation are still at a rather primitive stage and are ill-equipped to illuminate dynamic trajectories of socio-economic development.

⁴ On the dangers of such stagnation, in the case of at least one member state of the EU, see Petmesidou and Mossialos (2005).

To design such technologies is then a central task for policy makers and for policy analysts. And it is by reference to that task that we should appraise debates on the European Social Model and its reform.

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