

**Europeanization and Welfare State Change in the UK:
Another Case of ‘Fog Over the Channel’?**

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Abstract

Our paper charts the evolution of labour market and welfare policy in the UK since the mid-1990s, with the aim of gauging the impact and influence of European level policy initiatives on the policymaking process. Our main focus is on the ‘welfare to work’ agenda developed by the Labour government after 1997, a programme of changes to labour market regulation, social benefits, and labour activation institutions which in many interesting ways parallels the agenda of the European Employment Strategy. By analyzing the political context and discursive presentation of UK policy changes, we are able to make two paradoxical findings. On the one hand, recent policy in the UK has been remarkably in line with European initiatives to make the welfare state more employment-friendly, whilst at the same time strengthening egalitarian distributive policies. On the other, these policy changes have avoided evoking European initiatives at all costs, and indeed have drawn on other European experiences as a ‘counter-model’ against which UK policy has been framed. The contradictory result of these developments is that Britain has converged substantially with other European countries’ welfare arrangements whilst rejecting Europe as a source of ‘political cover’ for welfare reform.

Introduction

A well-known, but probably fictitious headline in a London newspaper once read ‘Fog Over the Channel, Continent Isolated’. Whether or not such a headline was ever written, it reflects an Anglocentric view of the world which can still be detected in contemporary British politics. A historically documented example is Margaret Thatcher’s claim that ‘during my lifetime most of the problems the world has faced have come, in one fashion or other, from mainland Europe, and the solutions from outside it’ (Thatcher 2002: 320)¹. In other words, Britain has nothing to learn from Europe. As well as underpinning British suspicion of European Union initiatives hostility to further European integration, this view also acts as an obstacle to policy-borrowing from other European countries. The UK would appear to be unpromising terrain for EU efforts to promote policy coordination in welfare and labour market policy.

Our paper charts the evolution of labour market and welfare policy in the UK since the mid-1990s, with the aim of gauging the impact and influence European level policy initiatives on the policymaking process, and the usages of Europe by political actors at the UK national level. We test out the hypotheses relevant to the UK case (ie RH2, the impact of traditions of Euroskepticism or enthusiasm and RH3 the impact of fit/misfit of national with European institutions). Our main focus is on the ‘welfare to work’ agenda developed by the Labour government after 1997, a programme of changes to labour market regulation, social benefits, and labour activation institutions which in many interesting ways parallels the agenda of the European Employment Strategy. This case is of particular importance to the understanding of how Europe impacts on welfare reforms for a number of reasons. First of all, because Britain has undergone quite sharp transformations in its welfare regime over the past three decades, beginning quite soon after the UK join the European Community. This provides an opportunity to gauge what influences have shaped an important case of quite radical welfare reform. Second, Britain is notoriously an ‘awkward partner’ (George 1998) in the EU, with a traditionally Euroskeptic political class and electorate. Assessing how Europe is used in such a crucial case is therefore a key test of theories of Europeanization. Finally, British governments’ attitudes to Europe have varied quite markedly as parties alternated in power, providing us with a large degree of variance in one of the key variables of interest.

Our paper analyzes the political context and discursive presentation of UK policy changes in this area, in the form of a brief historical narrative of the reform process and its political backdrop, and then goes on to address specifically how the European employment-friendly welfare agenda has interacted with recent developments in the UK. What we find is that, paradoxically, the UK has been remarkably in line with European initiatives, yet has been one of the most reluctant to draw on Europe for templates of or inspiration for policy change. Indeed if anything, Europe is seen as a ‘counter-

model' against which UK policy has been framed. The contradictory result of these developments is that Britain has converged substantially with other European countries' welfare arrangements whilst rejecting Europe as a source of ideas or 'political cover' for welfare reform. The next section presents some background on the UK's relationship with Europe, followed by an account of the process of welfare reform, and then by an assessment of the influences and usages of Europe, and other sources of policy ideas, in the UK case. The final section concludes.

1. The Background to the British Case: From 'Awkward Partner' to the 'Heart of Europe'?

The UK is a tough test for 'Europeanization' hypotheses for a variety of reasons. First, and most obviously, it is one of the EU member states with the highest proportion of unfavourable reactions to Europe in opinion polls, a consistent result over time and across surveys (Evans and Butt 2005). This contrasts markedly with more Euro-enthusiastic member states where popular opinion has tended for most of the history of the European project to have positive reactions to the concept of Europe and to European initiatives. Moreover, this generally reluctant attitude towards European integration is shared across the political spectrum, with the possible exception of the Liberal Democrats. The UK chose to remain on the sidelines during the initial discussions on European integration and joined the then European Community only in 1973 under a Conservative government, after a difficult period in which France opposed British membership (George 1992). However, the Conservatives were never wholly the party of Europe, at the time they perhaps just seemed more so than Labour. Both parties, however, have vacillated on Britain's place in Europe and at various times have been riven by internal splits on the issue.

In the referendum held on continuing British membership of the EEC in 1975, the Labour party split starkly between the leadership, in favour, and the membership and trade unions, mostly against. The Labour left, in particular, was hostile to Europe, and in the 1983 election manifesto managed to win a commitment from the party to withdraw from the Community. Labour's crushing defeat in that election, and the resulting moderation of party policy across a range of issues under Neil Kinnock, shifted Labour back to a pro-European position, where it has remained since. The Conservatives in contrast supported continued membership in 1975, but the mood changed in the 1980s. Margaret Thatcher was initially rather favourable to European initiatives, strongly backing the move to deregulatory market integration represented by the Single European Act of 1986, in which the Commission Vice-President Lord Cockfield, another British Conservative, had played an important role. However, the pro-integration activism of Jacques Delors alienated Thatcher, who by the late 1980s began to express increasingly strident criticism of Europe. Her famous Bruges speech in 1988 expressed her strong opposition to what she saw as attempts to 'suppress nationhood and concentrate

power at the centre of a European conglomerate'², and she also rejected moves to monetary cooperation through the Exchange Rate Mechanism.

Importantly for our purposes here, Thatcher's opposition to Europe was not only about nationalism and sovereignty, but also about policy and institutions, particularly in the labour market. In the same Bruges speech she railed against 'new regulations which raise the cost of employment and make Europe's labour market less flexible and less competitive with overseas suppliers' and insisted that 'we in Britain would fight attempts to introduce collectivism and corporatism at the European level'. The UK's objection to further European integration was therefore related to the fact that the British and labour market welfare state is in many ways an outlier, at least in Western Europe. Esping-Andersen's 'Three Worlds' typology (1990) – and, for that matter, Hall and Soskice's LME/CME distinction (2001) - place the UK, with Ireland, in the 'liberal' category of welfare regimes, along with the other most developed English-speaking nations, all of them outside Europe. Although it would be hard to argue a case for British welfare state exceptionalism in the European context, its similarity with other welfare states outside Europe provides a natural non-European policy community on which UK policy makers can draw, and creates particular difficulties in coordinating with other member states in this policy area. Moreover, Britain is quite exceptional amongst European countries for the limited coverage of coordinated wage bargaining and general political weakness of the trade union movement. Its legal emphasis on freedom of contract and consequent individual approach to industrial relations, and its tradition of voluntarism, gives primacy to the workplace as the main determinant of the employment relationship (Hyman 2008). Furthermore, there is a clear institutional separation in Britain between industrial relations on the one hand, and other dimensions of social protection and citizenship on the other (*ibid.*: p.5). Again, this constitutes a structural feature militating against the adoption of European models of EU-wide initiatives in such a politically sensitive area as welfare and labour market policy.

But opposition to European integration amongst British Conservatives was not confined solely to welfare and labour market issues, where problems of institutional 'goodness of fit' were particularly severe. Thatcherites were opposed to macroeconomic coordination (through monetary cooperation) too, as well as extensions of European cooperation to the two new 'pillars' of Justice and Home Affairs and Foreign and Security Policy. For these reasons the Maastricht Treaty was a flashpoint, and although John Major, Thatcher's successor, adopted a more compromising position, he faced open revolt within the Conservative party over the ratification of the Treaty in the 1992-3 (Best 1994). Since then the Conservatives have developed an increasingly hostile platform to Europe, most recently through David Cameron's decision to pull Conservative MEPs out of the European Popular Party group in the European Parliament. At the same time as the Conservatives have become entrenched in more or less Euroskeptic positions, the Labour party, first under Neil Kinnock and then under Tony Blair, became

more and more enthusiastic about Europe. Blair in particular made a commitment to return Britain to the 'heart of Europe', seeking close relations with other centre-left leaders in France, Germany and Italy and even tentatively considering British entry into the Euro. During Blair's tenure as Prime Minister, the UK was not only engaged more constructively with Europe, but even on occasion took on a proactive role, particularly in the development of the structural reform agenda at the Lisbon summit in 2000 (Sapir 2006). However, given a sceptical public, neither party can afford to wholeheartedly embrace the European project, and Blair certainly avoided pushing European issues if they threatened to derail his domestic agenda (Evans 1999, Bache and Nugent 2007).

In addition to the general toxicity of everything reeking of Brussels in the UK domestic debate, there are also other less obvious, reasons why the UK is less likely to provide examples of Europe being used as a facilitator of reforms in the area of welfare and labour markets. The UK is a 'majoritarian' democracy. The 'Westminster model' conceptualized by Lijphart (1999) concentrates political power in the hands of the executive and, in particular, the Prime Minister, who almost always enjoys a comfortable parliamentary majority. Although policy agendas change and various social interests intervene in the policy process, government policy objectives often depend heavily on commitments made by parties during election campaigns and placed in their election manifestos. Much of the policy agenda of the Labour government elected in 1997 was developed while in opposition, and policy commitments present in the election manifesto were taken to be legitimized by popular approval. Such policies were therefore less subject to the kind of negotiation with social actors or coalition parties in which Europe could be evoked. This limited need for negotiation with domestic interest groups (let alone coalition partners) may also explain, why, despite a generally sceptical public and elite attitude towards European integration, the UK nevertheless has a decent record on compliance with EU directives. In their study to the transposition record of member states, Falkner et. al. situate the UK in a world of domestic politics, where domestic concerns prevail in case of a conflict of interest with EU objectives and each EU directive is evaluated individually on its likely effects (2007: 405). But whereas it is certainly true that calls for disobedience with European duties by domestic actors by and large go unpunished, the UK's majoritarian system puts the onus fully on the government to realistically challenge EU legislation. The preference of the party in power and its electoral calculation inform whether 'domestic concerns' dominate compliance debates, not interest group pressure or opposition hackling per se.

In sum, Britain's membership of the 'Anglo' or 'liberal' group of political economies, and its majoritarian political institutions, seem to offer little scope for Europeanization of welfare policy. However, Europe is, of course, not absent from political debate in the UK, and neither does the 'fog over the channel' metaphor entirely preclude policy borrowing or appeal to external constraints to justify politically difficult reforms. Europe intervenes in British policymaking, albeit not in predictable

and obvious ways. Most paradoxically, Europe can be ‘used’ in a wholly negative way by British politicians, emphasizing the limitations and faults of the European ‘social model’, a popular strategy for both Conservative and ‘New Labour’ politicians over the past two decades in seeking to justify the UK’s deregulated economic model. However, this usage has been quite different under the Blair government, keen to engage in European policy debates, than under the recalcitrant Thatcher and Major administrations, and a reluctance to use Europe at all is a constant feature in the British case. The following account of labour market and welfare policy in Britain focuses particularly on the New Labour reform programme, and assesses the role of Europe and other external realities in the Blair and Brown government’s policy development and discourse.

2. The British Trajectory of Reform and European Policy Initiatives *The Employment and Welfare Dilemma in the UK*

The election of a Labour government in 1997 – which coincided with the launch of the European Employment Strategy just a few months later - marked a major change in approach in the area of welfare and labour market policy. The Conservative governments of 1979-97 had overseen a major increase in long-term unemployment, which they addressed with a series of measures designed to ‘free’ the labour market of rigidities: legislation restricting trade union rights, reduction of the reservation wage, abolition of the minimum wage and reduction of employment protections. Although the Conservative period saw two very high spikes in unemployment (around 1982 and around 1992), by the mid-1990s Britain’s employment performance looked relatively good in comparison to the major continental European economies. The OECD’s *Job Study* (1994) identified Britain, along with the US, as models of labour market flexibility and pressed other European countries to follow its deregulatory path. However the British case also suggested a sharp trade-off between employment performance and social justice, as Britain experienced a very sharp rise in income inequality through the 1980s and the early 1990s. The Labour government led by Tony Blair therefore faced a different dilemma to many other European governments: unemployment was not a particularly acute problem by comparative standards, but poverty and inequality were much worse than in most of the rest of Western Europe.

To some extent, the EES – which focused more on job creation than on redistribution – did not match Britain’s specific labour market concerns. The thinking behind the EES was strongly influenced by circumstances prevailing in large continental EU member states such as France and Germany, which faced stubbornly high levels of unemployment, and whose macroeconomic policy priorities were focused on the process of European Monetary Union. By 1997, unemployment in Britain was on a clearly downward trajectory, and the UK already had levels of employment close to the benchmarks established in the EES. Moreover, having opted out of Monetary Union, British policymakers did not

have to pressing need to compensate for the fiscal squeeze imposed by the convergence criteria in the Euro-zone states. However, the content of the EES was broadly speaking consistent with New Labour thinking and compatible with policymaking traditions in the UK. Tony Blair was therefore an enthusiastic backer of the EES, as the strategy fitted neatly with Labour's commitment to the labour rights in the European social chapter, which the new UK government had now signed up to, dropping the opt-out negotiated by John Major's Conservative government.

The election of the Blair government in May 1997 presents us with a methodological hazard: a change in government in a majoritarian system of government implies a 100% ministerial turnover, with a clear shift in power from (in this case) a dominant party of the right to a dominant party of the left. This event usually presages substantial policy change. Just a few months later (November 1997), the European Employment Strategy was formally launched at the Luxembourg European Council. Two competing explanations of policy developments in the UK – a change in government in the domestic sphere and an institutional innovation at the European level – coincide very closely in time. A more nuanced tracing of the processes leading to these events can help us develop a clearer understanding of the extent to which European initiatives influenced British policy developments, but a degree of ambiguity inevitably remains, since these processes are both influenced by broader changes in the ways in which academics and policymakers think about welfare systems. We will attempt to resolve this methodological dilemma by juxtaposing a chronological analysis of policy developments with an attempt to discover the intellectual and political origins of the policies and strategies adopted at the UK and EU levels.

Welfare to Work: Employment-Friendly Welfare Policy, British Style

The ideological and discursive underpinning of Labour's approach was the 'Third Way' doctrine developed by Anthony Giddens (1998), which emphasized the importance of globalization, and critiqued both the market fundamentalism of the right and the over-emphasis on state interventionism of the traditional left. As Blair himself put it in a Fabian pamphlet in 1998, the Third Way located itself between an 'old Left preoccupied by state control, high taxation, and producer interests and a New Right treating public investment, and often the very notions of society and collective endeavour, as evils to be undone' (Blair 1998). This centrist approach also provided a response to Labour's electoral dilemma: in order to win a parliamentary majority, Labour needed to move beyond its natural support base amongst manual workers, public sector workers and welfare dependants and appeal also to the aspirational middle-income groups which had benefited from some Thatcherite reforms. Labour's response to labour market problems was therefore a mix of social concern on the one hand, and pro-market and business-friendly thinking on the other. But the use of the

term 'social exclusion' instead of any reference to fairness or inequality pointed to a reluctance to openly redistribute income from the wealthy to the poor.

In practice therefore, Labour intended to resolve the problem of poverty by encouraging greater participation in the labour market, so that the poor could improve their situation through paid work rather than increased government transfers. As Brown himself clearly stated, 'the best form of welfare is work' (1999, cited in Sloam 2007). This approach ticked a number of boxes for Labour's ambitious political leadership: it covered political fronts on both the left and right, fitted in with the rhetorical and ideological shift the party was seeking to make, and, fortunately, also could inform policies which had a chance of working effectively. This focus on supply-side measures fitted in with the emerging consensus around the possibilities for social democratic interventions in an increasingly globalized economy (Boix 1998), a strategy adopted by the Clinton administration in the US and which therefore achieved a high profile in intellectual and policy circles. This restrictive approach to progressive politics excluded the macroeconomy from consideration, since it was assumed that fiscal or monetary policies would provoke immediate and negative responses from financial markets (the Mitterrand presidency's experience of the early 1980s constituting the key 'stylized fact' in this argument). A supply-side focus was also visible in the EES, with its emphasis on 'employability, entrepreneurship, adaptability and equal opportunities'. With fiscal and monetary policy 'locked in' by EMU, the EES also restricted its attention to supply-side measures, so European-level initiatives did not enter fundamentally into conflict with the objectives and priorities of the Labour government in London.

The rolling out of Labour policies in this area coincided to a significant degree with the European-level initiatives related to the EES. However there is some evidence to suggest that Labour's employment-friendly welfare reforms were in the pipeline before the European level had the chance to influence UK policy. The main features of the EES were laid down at the Luxembourg Jobs Summit and adopted at the European Council of November 1997. By this time the Labour government in London was already in an advanced state of preparation for legislating on labour market issues. Labour's push for a supply-side solution to unemployment built on existing patterns of labour market and welfare state organization, which were at least superficially based upon the principle of active rather than passive support. Conservative reforms in the 1980s had pared back the insurance principle by deindexing and cutting unemployment benefits, culminating in the elimination of passive unemployment compensation in the Jobseekers Act of 1995 (King 1995). The 1995 reform formally made receipt of benefits conditional on 'active' jobseeking, requiring recipients to provide proof of their efforts and placing restrictions on eligibility for benefits if job opportunities were turned down. Although this reform, in the absence of other measures, was not particularly close to the thinking behind the EES, it did constitute an institutional legacy which could easily be adapted to a more 'activation'-based agenda.

Further evidence that the main ideas in the EES had been picked up by Labour well before can be found in the Labour party manifesto of 1997, which made a clear commitment to ‘get 250,000 young unemployed off benefit and into work’, and a more generic commitment to an ‘early Budget to get people off welfare and into work’. Very soon after, policy announcements were made that laid down the basic contours of Labour’s welfare and labour market policies over the successive period. The July 1997 Budget presented by Gordon Brown contained a number of commitments which had a good deal in common with the thinking behind the EES, but preceded European developments chronologically. The Budget speech³ stated that ‘in place of welfare there should be work’, and outlined four work and training options for 18-25-year olds on Jobseekers Allowance, measures to support lone parents and the disabled seeking to work, a National Childcare Strategy, individual learning accounts (lifelong learning), and announced the imminent adoption of a minimum wage and tax credits to support low-paid workers and incentivize employment. Although the subsequent legislation for these measures was spread out over the following years (in particular 1997-2002), the intellectual framework for policy was publicly announced at various points before and immediately after the 1997 elections, and in any case comfortably before the European Employment Strategy was finally decided.

Labour’s welfare and labour market strategy certainly was consistent with the EES. The first move was in the area of active labour market policy: the ‘New Deal’, initially aimed at the young (18-25 years), and subsequently rolled out to other groups of the long-term unemployed or economically inactive. The New Deal provided supplementary guidance and training in job search and interview skills, and a range of options for those failing to find work after this first stage: education, paid voluntary work or subsidized paid work. The option of remaining on benefits, without choosing any of these alternatives, was eliminated for the 18-25 age group. The New Deal for Young People (NYYP) programme announced in 1997 was implemented in April 1998 after the conclusion of pilot projects; it was followed by the New Deal 25 Plus (ND25+) in June 1998 for long-term unemployed people above that age, the New Deal for Lone Parents (NDLP) in April-October 1998 (pilots launched in July 1997), the New Deal 50 Plus (ND50+) was launched in April 2000 (pilots in October 1999) and the New Deal for Disabled People (NDDP) in October 2001 (pilots launched in September 1998) (ECOTEC 2005). These programmes were clearly in syntony with the 1998 Employment Guidelines under the EES which exhorted member states to tackle youth and long-term unemployment, and adopt active rather than passive measures to meet the problem⁴. Yet it is equally clear that the Labour projects were developed before, or at the least contemporaneously with, the development of the EES (see Table One).

(Table One About Here)

The same can be said for other measures which complemented and consolidated the New Deal activation strategy. The national minimum wage was a well established Labour commitment and its introduction was announced in Brown's July 1997 budget, although a commission was established to determine the level at which it would be set and the minimum wage was not implemented until April 1999. Again this is consistent with the EES' insistence in the Employment Guidelines that poverty traps blocking the employment of those out of work should be removed, and again this was a longstanding Labour policy, which effectively dates back to the abolition of the wages councils by the Major government in 1993, opposed by the Labour party at the time. The incentive effects of the minimum wage were particularly relevant to unemployed people without family responsibilities; however, a poverty trap would remain for the unemployed with children, since their higher level of benefits would be removed if they rejoined the labour market.

The response to this was the adoption of 'tax credits', which subsidized the income of low paid workers according to certain criteria to ensure a higher minimum income for families. These credits (Working Families Tax Credit and Child Tax Credit) enabled low-skilled workers to earn enough in the labour market to compensate for the loss of social benefits on achieving employment. Complementary to these measures were moves to provide more widely available and affordable childcare facilities – in which Britain lagged badly behind most of the EU in the mid-1990s – in order to encourage unemployed lone parents to take up paid employment. These measures contributed to the increased attractiveness of employment for workers at the low-wage end of the labour market and were therefore in line with EES guidance for 1998, which advocated 'gradually reducing the overall tax burden and, where appropriate, a target for gradually reducing the fiscal pressure on labour and non-wage labour costs, in particular on relatively unskilled and low-paid labour'. The tax credits were again trailed in Labour policy announcements before the 1997 election and referred to in the July 1997 budget, although design and implementation took rather longer than in the case of the New Deal: the Taylor report recommending these changes was published in 1998⁵, and the Working Family Tax Credit launched in October 1999. The tax credits had the effect of significantly reducing the wage at which an unemployed person with dependent children would be better off in work than on welfare benefits; by 2001 with WFTC a family with one person in full-time employment would be guaranteed a minimum income of £214 a week (a 40 hour week at the minimum wage for 2001 would deliver only £154 per week).

These measures were outlined in some detail in the 1998 budget delivered by Gordon Brown as Chancellor of the Exchequer, under the rubric 'Making Work Pay'. The chronology of welfare reforms in the UK and the development of the European Employment Strategy suggests strongly that the Labour party was already committed to implementing these measures before the EES had taken shape, and certainly before any substantial requirements to adopt these policies had been presented by the

European institutions. Field research by Mikkel Mailand based on interviews concluded that policymakers barely ever referred to the EMS in policy debates (2009: 164). Indeed, there is some evidence that the causal chain was inverted, with Britain claiming some credit for having pushed Europe into adopting British-style reforms (for instance, Gordon Brown's 1997 Pre-budget report stated that 'the Government launched its own Employment Action Plan in October and suggested other EU member states do the same'⁶). However, given the ambiguities involved in establishing the exact temporal causal order of these largely contemporaneous events, we require more evidence before rejecting the hypothesis that European influences affected British policy. The next section reconstructs the genealogy of Labour's welfare to work reforms, and shows how influences from the US, and to an extent from non-EU countries (before 1995) such as Sweden, predate EU-wide developments, and suggests that these experiences were more important in shaping the thinking of UK policymakers.

3. Usages of Europe and Alternative Models: Labour's Reforms in Britain and the British Reform Agenda in Europe

The Third Way and the Progressive Agenda in Europe and the US

If the European Employment Strategy was not the driver of UK welfare and labour market reforms, what was, and what usages of Europe can be discerned? The 'welfare to work' package of measures represents an interesting hybrid, combining elements of the 'flexibility' agenda pushed by the OECD and IMF in the first part of the 1990s (see Howell 2005), but with a much greater 'social dimension', as characterized by the thinking behind the European Employment Strategy and Lisbon agenda which became more prominent from the late 1990s on. The Labour leadership – both Blair and Brown – were longstanding admirers of the US model of capitalism and American employment performance appeared to outclass the major European economies through the 1990s (appearances may be deceptive to some degree; see Howell *et al* 2007). At the same time, the unpalatable inequalities created by US deregulation were inconsistent both with Labour's ideological tradition and with the demands of Labour's electoral base, which demanded action to address the poverty resulting from Britain's own deregulation programme under Thatcher.

The resulting mix, interestingly, uses state intervention – both supply-side and redistributive – to enhance flexibility as an anti-poverty measure. Flexibility could only work as an anti-poverty strategy because of two specific characteristics of worklessness in the UK: the low replacement rates and ungenerous welfare benefits available to the workless, and the very low wages paid at the bottom end of the skills spectrum in the British labour market. This meant that, with a combination of activation and some transfers, large numbers of the poor could be made better off by joining the labour market, whilst their entry into paid work would enhance the efficiency of the labour market and reduce government

spending over all. This very ‘third way’ solution, however, was not easily transferable to other European countries, since in most of the other EU member states wage dispersion was much lower than in the UK, whilst out of work benefits were either more generous, or in some cases, non-existent. The peculiarities of the British labour market were therefore a further limiting factor in Labour deploying European-level political resources to legitimize domestic policy choices, or in ‘downloading’ European policy templates.

What were the policy templates for the welfare reform programme? Here the story becomes complex. On the one hand, the long history of activation-oriented policies developed in small Northern European social democracies (which incidentally partly shared Britain’s Euroskeptic instincts, and in the case of Sweden and Finland only joined the EU in 1995) provided a rich stock of experience in the implementation of these kinds of measures. That these experiences were noted and drawn upon is indicated by the close involvement of experts such as Richard Layard, who had studied the Swedish case at some length, in policy design. On the other hand, Labour had no intention of broadcasting any interest in adopting policies from other European countries. To the extent that any overseas examples served as inspiration, the United States, ironically enough, was the example most frequently invoked. Prior to the 1997 election, contacts between Labour leaders and high level members of the Clinton administration intensified, and the perceived success of Clintonomics encouraged Labour to adopt features of the US economic model of the post-Bush era⁷. Therefore although the Labour tax credits policy was different and generally more progressive than the model adopted in some US states, Gordon Brown’s Treasury played very close attention to the American experience in designing and implementing the British policy (Dolowitz 2003).

Of course Labour could not simply adopt wholesale an ‘American’ line on welfare reform, given the well known dramatic socio-economic divisions in the US. The policy discourse was therefore careful to navigate between established socio-economic models – the ‘third way’ – and between geopolitical sources of inspiration – Europe and the United States. The coincidence of left-of-centre governments being elected in France, Germany and Italy around the time of Labour’s victory in 1997 brought brief and ultimately unsuccessful attempts to bring together a coalition of progressive governments from both sides of the Atlantic which could develop a shared reform agenda. The ‘third way’ summit in Florence in 1998, and Blair’s joint document with Gerhard Schroeder (1999), showed an interest on Labour’s part in developing a European angle to the third way strategy. However, Jospin and Schroeder’s difficulty in adopting the Blairite agenda, and Clinton’s departure from the White House, ended the experiment. For the most part, the political rhetoric underpinning the New Labour reform programme drew on British experiences and arguments, or on the inexorable logic of globalization, to explain and justify their policies to the electorate and social actors.

So how did Labour defend its case? Rather than drawing on Europe as an institutional framework within which policy would be structured, Labour appealed instead to globalization as an external constraint on policy which UK governments would have to cope with. Giddens' *Third Way* provided an intellectual framework for this discourse, which fitted in neatly with Labour's anxiousness to avoid a conflictual relationship with business interests, and particularly the financial interests of the City of London, once in office (Hay 1997). Previous Labour governments had been derailed by currency crises and capital flight due to the mistrust amongst financial interests towards the Labour party and its strong ties to the trade union movement. In order to reassure these interests of Labour's intention to follow 'responsible' economic policies, policy commitments to keep fiscal policy tight and contain tax increases were backed up with a strong rhetoric emphasis on globalization as an ineluctable constraint on contemporary governments. Labour, in other words, bought into a 'logic of no alternative' - there was no alternative to orthodox macroeconomic policy and restraint on government interventionism, because these were the only policies that would prosper under globalization (Hay 1998, Hopkin and Wincott 2006). In such a context, 'supply-side' measures to improve productivity and labour market efficiency became the only possibilities to enhance social justice without jeopardizing economic performance (Boix 1998).

Despite the frequent references to globalization as an external constraint, Labour's policy discourse on welfare and employment paid little attention to Europe, since Europe barely appeared in Labour's political rhetoric about welfare policy and the labour market, except as a counter-model juxtaposed to the Labour project (see final section). British public opinion in the mid-1990s was showing signs of increased scepticism towards the European project, which made appeals to the European constraints an unlikely source of domestic political support. But there were also further reasons for Europe not being invoked in Labour's discourse. By the mid-1990s, Britain was recovering well from the currency crisis of 1992 and unemployment was falling consistently, whilst most of the rest of the EU was suffering slow growth and persistent unemployment. In these circumstances continental Europe appeared an unlikely model for British reforms, and the success stories of welfare-friendly employment generation such as Denmark and the Netherlands were not yet prominent in the public debate. Moreover, Labour was dealing with the difficult dilemma of whether or not to reverse Conservative policy of securing an opt-out from monetary union, and wished to avoid too much focus on European issues. The delicate balance struck by Blair – claiming to 'put Britain back in the heart of Europe' whilst appeasing Euroskeptic opinion in newspapers such as *The Sun* – meant invoking Europe as little as possible in justifying policy choices.

New Labour's Rejection's of Europe as an Aid to implement its Agenda of Welfare to Work

During New Labour's election campaign, Tony Blair promised to 'put Britain back in the heart of Europe', and as soon as Labour took office, Blair signed up to the Social Chapter of the Maastricht Treaty. The following month he signed the Treaty of Amsterdam, which amongst other things formalized the procedures for the European Employment Strategy, without the kinds of polemics associated with earlier Treaty ratifications. All this indicated a new, more pro-European approach, in contrast to the attitude of predecessor Conservative governments which had torn themselves apart over the question of Britain's proper place in Europe.

In spite of this apparent 'step change' in Britain's relationship with Europe, New Labour was in fact rather more interested in removing Europe from the centre of the political debate in the UK than in engaging with the process of European integration. Britain, after all, is the only major member state where the very idea of EU membership itself is seriously questioned by both the political elite and the public (Schmidt 2006), and Labour has its fair share of Euro-sceptics among its backbenchers too. Thus, New Labour embarked on a deliberate effort to neutralize the EU in the British domestic reform debate for fear that any references to the EU, be it positive or negative, would risk sidetracking the reforms. The early commitments to the Social Chapter and the unproblematic ratification of Amsterdam were not followed by other substantive policy changes. Labour's policy toward Europe was to replace the Conservatives' confrontational anti-European agenda with a policy of 'constructive engagement', but this did not mean the adoption of a pro-integration stance: the 1997 Labour party manifesto in fact only differed from Conservative policy in its embrace of the Social Chapter (Bache and Nugent 2007: 532). Although Blair was in favour of British participation in the first wave of European Monetary Union, his Chancellor Gordon Brown was opposed, and their policy differences fudged by the adoption in November 1997 of 'five economic tests' which would have to be passed before Britain joined the Euro. In practice, this amounted to maintaining the British 'opt-out' negotiated by Blair's predecessor John Major, and pushed the UK to the margins of economic policy debates in the EU.

This timid approach meant that there was little hope of changing British public opinion on Europe, which remained firmly sceptical. In fact, Eurobarometer surveys show that if anything voter opinion on UK membership became slightly more negative over the decade of Tony Blair's premiership (Bache and Nugent 2007: 541). The Labour leadership sought instead to downplay the issue and remove it from the domestic political debate, with some success; in 2001 and 2005 Europe figured low on the list of voter concerns (Whiteley *et al* 2005). This strategy was based on the understanding that legitimizing reform proposals by referring to European citizenship duties is not an option for any UK government intent on seeing its reforms actually implemented. By blaming the EU for embarking upon reforms, the government would simply hand the opposition an easy target to undermine its proposals. As Mailand argues 'Euroscepticism (...) represents a barrier to the impact of the EES, because references to it under such circumstances may not be helpful' (2009: 167).

Neither can the government effectively use Europe as a stick or carrot to push its reform agenda. Where in other member states reform coalitions can sometimes be formed against the threat of otherwise missing the boat of European integration (cf Italian and Spanish entry into EMU), Brown's five criteria for membership of EMU effectively ruled out entry into the foreseeable future. Similarly, the UK cannot be spurred into action by reference to compliance with the Lisbon Strategy. The British record on market liberalisation, employment and growth is in fact relatively good; if anything, the UK reformed ahead of the other member states in economic areas. Thus, the need to meet targets agreed at Council level does not carry the same weight in the British domestic debate as it may in some other member states for the simple reason that the UK either is not interested in joining (as in the case of EMU) or because it already outperforms other member states (as on many of the items on the Lisbon Agenda). The European Employment Strategy has had little impact on UK policy simply because the UK was already in compliance before 1997 (Mailand 2009: 167).

Finally, the UK's balance of power between the government and opposition (described with only a little exaggeration as an 'elected dictatorship') obviates the need for the executive to use Europe to strengthen its hand vis-à-vis the parliament. In the Westminster model (Lijphart 1999) governments rest on majority control of the House of Commons, and the fusion of government and parliamentary leadership around the Prime Minister, allied to tight party discipline, gives governments a relatively free hand in normal circumstances to enact legislation. This deprives the British domestic debate of yet another possible usage of Europe, namely as a bargaining asset for the government over legislators with less direct access to discussions in Brussels.

Usages of Europe: The EU as an arena for British Policy Entrepreneurship

Though there appear to be few (or no) incentives for British politicians and policy-makers to evoke Europe in the domestic reform debate, we do not want to claim that there are no usages of Europe in the UK. For example, the same tilted balance of power towards the executive that deprives the government of the need to use the information advantages offered by Europe to improve its position over Parliament, forms part of the explanation for the UK's comparatively good record on the implementation of EU directives. But we find evidence for Europeanization more through 'obligatory' rather than soft channels. It is relatively easy for the British government to get European directives translated and adopted into domestic law through its parliamentary majority, and as Falkner *et al* (2007) find, Britain's complicity with EU measures revolves around domestic politics. But there is no real incentive for the government to be as vigorous on recommendations. Thus, for example, in the area of social policy, Annesley (2003) finds evidence for Europeanization from above (e.g., with the implementation of the working time directive), but not for policy changes emanating from the various

OMCs. The working time directive is an instance of very clear usage of Europe in the policy process, but the difficulties faced by the Blair government in reconciling the European measure with the demands of British employers (and to some extent employees) demonstrate clearly the limitations of ‘downloading’ policies which fit ill with national institutions. Another area is parental leave, where the Labour project of enhancing maternity and paternity rights was facilitated by European level developments. However, these measures were located at the periphery, rather than the core, of Labour’s employment reforms, which focused predominantly around employability and removing obstacles to labour market involvements of the socially excluded.

Another area where we observe evidence for usages of Europe is on the conduct of consultation between levels of government and societal actors. Even if the various OMCs have not had discernible policy effects, they have significantly changed governance structures in the British political landscape. The OMC process, with its explicit involvement of multiple levels of authority and societal actors, and its implicit quest for consensus, was in terms of institutional fit perhaps furthest away from established practices in Britain. However, participation in the OMC processes have transformed the working relationship between central and devolved government and societal actors (Armstrong 2006, Smith 2008), although Bache and Nugent argue that British attempts to influence EU policy-making provide opportunities for the executive branch to centralize power around Whitehall and the Cabinet (2007: 534). The usages of Europe in terms of institutional power balances are therefore ambivalent.

In sum though, we find that participants in the domestic political debate deliberately abstain from invoking European references to introduce, discuss and defend reform proposals. This goes further than a strategic denial of European influences; policy-makers and politicians from both the government and opposition parties simply seem not to have any incentives to use Europe in the domestic arena for fear of creating a backlash among a skeptical public and among its own supporters. Moreover, in the area of employment-friendly welfare reforms, the UK seems to have been ahead of the curve in Europe. New Labour, particularly during its first term in office, has been an early, enthusiastic experimenter with employment-friendly welfare reforms, taking its cues mainly from other Anglo-Saxon countries. It introduced its flagship workfare programme, tax credits for working families, and other programmes to tackle social exclusion when the EES was still nascent and other OMCs were not yet on the horizon. In fact, the UK’s headstart on employment-friendly reforms in addition to its ability to present a coherent platform in Brussels (the strong executive leaves much less room for internecine fighting among various Ministeries) has arguably presented the UK government with an opportunity to upload its preferences to the European level on issues such as a welfare reform and social inclusion.

Here we find stronger evidence of a connection between European initiatives and the British policy process. Part of Blair’s project of putting Britain ‘back into the heart of Europe’ was as a proactive policy leader, persuading European governments of the need for economic reform. There was a

foreign policy rationale behind this policy of engagement, as Blair himself explained: ‘the fact is that Europe is today the only route through which Britain can exercise power and influence. If it is to maintain its historic role as a global player, Britain has to be a central part of the politics of Europe’ (cited in Bache and Nugent 2007: 533). This policy was derailed by the shift in US foreign policy which placed Blair in the awkward position of mediating between an aggressive American president and the main EU members states, hostile to Bush’s approach. However Blair tried hard to use Europe to promote Britain’s international status, and to advance institutional change and structural reform in a liberalizing direction. He was an enthusiastic advocate of the Lisbon agenda as a way of pushing other EU member states in the direction of more flexible labour markets and more market-friendly welfare institutions. In a sense, this was not entirely consistent with the attitude to Europe displayed by previous, more Euroskeptic governments. Where Margaret Thatcher saw Europe as a threat to her achievement of ‘rolling back the state’ in Britain, Tony Blair appeared to want to convince other member states of the virtues of British liberalizing reforms so that they would implement them too.

Rather than ‘enforced’ Europeanization (Rosamond 2003), Labour’s social policy preferences fitted with a process of diffusion of more pro-market institutions, which to some extent were ‘uploaded’ by Britain onto the European stage (Borzal 2002). Blair’s protagonism in the European debate on economic reform provides ample evidence of this. One of the key drivers behind the Lisbon agenda, Blair consistently sought to influence and shape the debate on structural reform in Europe, notably in his speech to the European Parliament in 2005, where he insisted on the need to ‘modernize Europe’s social model’ arguing that ‘the purpose of our social model should be to enhance our ability to compete, to help our people cope with globalisation, to let them embrace its opportunities and avoid its dangers. Of course we need a social Europe. But it must be a social Europe that works’⁸. By placing a British ‘fingerprint’ (Bulmer and Burch 2008: 50) on EU policy initiatives on economic competitiveness, the Labour government was able to head off criticism from other member states for Britain’s traditional obstructionism, whilst protecting itself from criticism at home for ‘caving in’ to European demands and adopting (purportedly) inappropriate European policies.

Domestically, Blair and Brown also used Europe as a countermodel to legitimize their own policy agenda, emphasizing their apparent success at achieving low unemployment. For example Gordon Brown’s Mansion House speech in 2005 argued that ‘just as Britain has to reform to meet the challenges of the new global economy, so must Europe’ going on to berate Europe for its slowness in adopting Anglo-Saxon style policies: ‘facing worldwide competition, this new global Europe has no alternative but to embrace flexibility and liberalisation in product and capital markets (...) with more than 18 million Europeans out of work, a globally orientated Europe must combine a new labour market flexibility with policies that equip people with the skills they need for work’⁹. This kind of discourse was aimed mainly at business interests within the UK, rather than at other EU member states, who

would be likely to resent such sermons; the purpose was to reassure conservative-minded elites in the UK that New Labour was committed to the free market model. Contrasting Britain's virtuous record on open and flexible markets with the purported recalcitrance of the large continental European economies served to showcase New Labour's conversion to the market-liberal orthodoxy.

Conclusion

The adoption of 'welfare to work' by the New Labour government in the UK has paradoxical implications for our discussion of usages of Europe in welfare and employment policy. On the one hand, Labour's policies challenge the traditional view of the UK as a Euroskeptic nation happy to defy European initiatives and content to follow its own distinctive path. The 'welfare to work' programme adopted by Labour fits so neatly with the priorities of the European Employment Strategy that it is tempting to conclude that Tony Blair succeeded in reversing Britain's slide towards 'semi-detached' status in the European Union. On the other, close analysis of the twin processes of policy change in the UK and the development of European initiatives in the field of employment and welfare suggest otherwise. The 'goodness of fit' between UK and European policy is instead the result of British policymakers being influenced by the same thinking that also influenced the European Employment Strategy, drawn from the experiences of non-EU countries such as the United States and Sweden.

The UK and the European Union were influenced, together and separately, by the 'flexibility' agenda promoted by international institutions (particularly the OECD), but this agenda could not be neatly applied to European welfare capitalism without dramatic (and improbable) institutional changes. Instead, labour market flexibility had to be 'crafted' onto existing welfare arrangements, a tall order for EU member states with 'Bismarckian' institutional legacies, high wage and firing costs, and generous welfare benefits. The UK, with its flexible labour market, dispersed wage structure and minimalist welfare provision, was much better placed to adopt 'welfare to work' policies, and not surprisingly did so before most other EU countries. As a result, the UK was ahead of the curve with regard to the agenda of welfare reform which ultimately formed the basis of the European Employment Strategy.

To an extent the coincidence between British and European policy developments is also the result of the UK governments' attempts to influence the content of the EES, and encourage other European countries to adopt British policies. Tony Blair had contradictory objectives in Europe: on the one hand he wished to improve the UK's relations with the other member states and 'put Britain back into the heart of Europe'. Engagement with the EES, even if only to exhort other European countries to adopt British policies, was consistent with that aim. On the other hand Blair, mindful of the explosive nature of the European debate in the UK, deliberately set out to take Europe out of the centre of British politics. For this reason Europe was practically never deployed as political cover or justification for the

adoption of particular policies, for very obvious reasons. In sum, British political leaders, even under a Labour government, have proved reluctant to fully engage with Europe. However, the Labour government, especially under Blair, was interested in pushing a liberalizing agenda at the European level, to an extent seeking to ‘upload’ British policies and institutions to the European level, thus enhancing British leadership in Europe and increasing the ‘fit’ between British and European institutions. When the ‘fog over the channel’ clears, Britain hopes to see a European Union made in its own image.

(Table Two About Here)

With regard to the central hypotheses of this project, the British case offers substantial support to RH2 and RH3 (RH1 not being directly relevant to the UK case, a relatively ‘old’ member state). RH2 predicts that countries with strong traditions of Euroskepticism will see less and less positive usages of Europe in reform processes, and this prediction is amply borne out by the UK case: in Britain, both elites and (especially) public opinion are instinctively at the Euroskeptic end of the scale, and this has been accompanied with at best neglect, and at worse rejection and denial, of Europe in policy discourse. RH3 predicts that institutional ‘misfit’ will also provoke negative usages of Europe, and again the British case offers supporting evidence, although more ambivalent in this case: Britain found it rather easy to adopt the liberalizing measures contained in the European Employment Strategy and Lisbon agenda, since those projects were in part the result of British pressures to push Europe towards policies more amenable to the UK. However, the broad institutional framework of British labour market and welfare policy was rather less well adapted to European initiatives, since measures such as the Working Time Directive clashed with British labour market flexibility and employer autonomy.

Here then, the findings are more ambiguous; even though Labour was enthusiastic in its support for the liberal and flexicurity agendas in Europe, it did not evoke them openly to justify its own reform strategy, even when the ‘fit’ was quite high. In sum, usages of Europe in British labour market reform were broadly negative and often absent, and the dynamics of reform seem to respond to domestic political imperatives on the one hand, and international, even global, economic imperatives on the other. Europe remains the ‘elephant in the room’ in British politics, a problem rather than a resource, and one which will not go away.

Notes

- ¹ Current Prime Minister Gordon Brown is not markedly more enthusiastic about Europe; see for example the speech reported at http://news.bbc.co.uk/1/hi/uk_politics/4117770.stm
- ² <http://www.margareththatcher.org/speeches/displaydocument.asp?docid=107332>
- ³ <http://archive.treasury.gov.uk/pub/html/budget97/speech.html>
- ⁴ The relevant parts of the Guidelines read: ‘every unemployed young person is offered a new start before reaching six months of unemployment, in the form of training, retraining, work practice, a job or other employability measure; unemployed adults are also offered a fresh start before reaching twelve months of unemployment by one of the aforementioned means or, more generally, by accompanying individual vocational guidance’.
- ⁵ Martin Taylor (1998). ‘Work Incentives: A report by Martin Taylor’, number 2 in the The Modernisation of Britain's Tax and Benefit System series. London: HM Treasury.
- ⁶ 1997 Pre-Budget Report, at http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr97/report/prebud_pbr97_rep04.cfm
- ⁷ These contacts are documented, for example, in ‘Tony Blair’s Secret Weapon: Bill Clinton’s Experience’, *Business Week*, July 21 1997.
- ⁸ Tony Blair’s speech to the European Parliament, 23 June 2005, <http://www.number10.gov.uk/Page7714>
- ⁹ Gordon Brown’s Mansion House speech 2005, http://www.hm-treasury.gov.uk/press_56_04.htm (the Mansion House speech is given by the serving Chancellor of the Exchequer to representatives of the City of London annually).

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