

Europeanisation and the Political Economy of Active Labour Market Policies

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Abstract

Previous studies show that reforms in labour market policies differ across countries. This may be partly due to the impact of European integration on these policy reforms. While most of these studies are qualitative case studies, the present study aims at explaining cross national variation in expenditures on active labour market policies (ALMPs) quantitatively. Relying on pooled time series data, the study tests whether and how Europeanisation influenced activation. The analyses lead to the conclusion that the European Employment Strategy (EES) has contributed to shifts from passive to ALMPs. Using new indicators, we trace the impact of specific mechanisms of the EES, resulting in evidence for the influence of mutual learning through the peer review programme.

Keywords: active labour market policies, Europeanisation, European Employment Strategy, Open Method of Coordination, welfare state.

1. Introduction

The impact of European integration is a widely discussed topic in the comparative welfare state literature. This has especially been triggered by the launch of the European Employment Strategy (EES) in 1997 and the Lisbon Strategy in 2000. To contribute to the overarching goal of increasing Europe's competitiveness and social cohesion, the EES aims at higher employment and lower unemployment levels by advocating active labour market policies (ALMPs). In order to achieve this, the EES relies on legally non-binding instruments like guidelines, benchmarking, recommendations and mutual learning organised as a peer review programme, since EU member states are, in line with the principle of subsidiarity, responsible for their own labour market policies. At the Lisbon summit in 2000, the instruments of the EES have been institutionalised as a more general governance means, called the Open Method of Coordination (OMC), which has since then also been applied to other policy areas like social inclusion, pensions and health care.

In this paper, we focus on the Europeanisation, conceptualised as the impact of European integration on member states (Radaelli, 2003), of national labour market policies. Two central questions in earlier research, consisting of national case studies, are *whether* and *through which mechanisms* the EES has influenced national policies. A broadly supported finding in the case studies is that the EES has contributed to increased emphasis on activation in national labour market policies, although its influence on ALMPs varies considerably across countries and over time (Mosher and Trubek, 2003; Zeitlin and Pochet, 2005; Heidenreich and Zeitlin, 2009). In analysing this influence, three types of mechanisms have been identified (Heidenreich and Bischoff, 2008); mechanisms of external pressure, stemming from evaluations and recommendations, exert normative influences (Hamel and Vanhercke, 2009); cognitive mechanisms of policy diffusion such as policy learning (Visser, 2009); and the strategic and selective use of the EES by domestic actors (Visser, 2005).

Compared to the transposition of directives, forming the lion's share of the Europeanisation

literature, assessing the impact of the EES is a methodological challenge, since it cannot be measured directly due to its non-binding character (Zeitlin, 2009). In addition, although the case study literature insightfully depicts country specific factors and developments, not much attention has been paid to the generalisation of the findings through a systematic comparison of the developments across the member states, while controlling for other factors of policy change. Hence, it is difficult to assess to what extent increased emphasis on activation in labour market policies can be ascribed to the EU and how to explain the variation in the impact of European integration. In this regard, Kröger (2009) argues that the OMC-literature is overdetermined. Therefore, the research question of the present study is how to explain the variation in effort devoted to ALMPs across countries and over time.

We aim to complement the existing studies by analysing ALMP expenditure data from 22 OECD countries, allowing us to examine the different relevant mechanisms indicated by the case studies, and controlling for other variables, in a single analysis. Earlier comparative political economy research on the variation in ALMP spending focused on corporatism (Martin and Swank, 2004), government partisanship (Rueda, 2007; Huo et al, 2008), and international economic integration (Franzese and Hays, 2006; Gaston and Rajaguru, 2008). Armingeon (2007) analysed the impact of the EES and found that the EES has led to relatively higher spending on ALMPs in EU-countries. With respect to the latter study, we seek to make three contributions. First, in investigating whether the EES has influenced national ALMPs, we also take the constraining effect of the EMU into account (Dyson, 2000). Second, we examine the normative and cognitive mechanisms through which the EES is expected to influence national policy-making (Heidenreich and Bischoff, 2008). Here, we zoom in at specific governance means like the council recommendations, to analyse the variation in the impact of the EES across countries and over time. Furthermore, we examine the role of domestic actors like social partners in the policy-making process (De la Porte, 2007). Third, the study relies on new data and updates Armingeon's study

from 2002 to 2005.

2. Europeanisation of active labour market policies

2.1 Active labour market policies

ALMPs are policies aimed at increasing labour market participation, whereas passive policies can be understood as policies which entitle unemployed people to benefits (Van Berkel and Hornemann Møller, 2002). The policies through which governments try to get people to work include programs ranging from labour market training, services of employment agencies, youth programmes, and subsidised employment to programmes for the disabled. Although ALMPs are typically oriented towards the supply side of the labour market, some programmes focus on the demand side as well, which is for example the case with subsidised employment. It should be noted that the effectiveness of ALMPs is fiercely debated. In a meta-analysis of approximately 100 European evaluation studies of ALMPs, Kluve (2010) finds positive effects on transitions from unemployment to work for employment services and private sector incentive programmes like wage subsidies, at most modest effects for training programmes, while direct public employment creation has even a detrimental effect. Extending this study with an assessment of about 200 evaluation studies of European and American ALMPs, Card et al. (2010) confirm Kluve's findings and show that employment services have positive effects particularly in the short run, while training programmes are likely to be more effective in the long run. However, even if ALMPs are effective, it is the question whether the benefits offset the costs, such as the tax burden, displacement effects, and dead weight loss. Although the cost-effectiveness of different ALMPs doubtlessly does play a role in the policy-making processes, we leave these kind of labour economics variables out of the study, most and for all because of data availability, and focus instead on variables from the Europeanisation and political economy literature.

2.2 Europeanisation

Generally, Europeanisation can be defined as the impact of European integration on member states (Radaelli, 2003). More specifically, Europeanisation may refer to the impact on policies, politics and politics. Although the focus of the present study is on policies, the result of Europeanisation, it is explicitly taken into account that changes in national policies are the outcome of national policy-making processes and that the process of Europeanisation thus proceeds through politics and politics. National policy-making processes may be influenced through different Europeanisation mechanisms, arising from different types of EU policies. With regard to ALMPs, two types of EU policies are relevant, namely the EES and the EMU.

European Employment Strategy

As an intergovernmental means of EU governance, the EES coordinates national labour market policies, using a set of non-binding instruments like guidelines and benchmarks. It is a comprehensive set of governance instruments that influences national policies as a whole. Instead of one single mechanism, it is the combination of a number of mutually enforcing mechanisms, like mutual learning and peer pressure, that is supposed to affect domestic policies (Zeitlin and Pochet, 2005). These mechanisms can be distinguished analytically to find out how the specific means of the EES are related to national LMPs. Making such a distinction is uncommon in a large share of Europeanisation studies where the EU pressure is treated as a constant factor, for example the implementation of a directive. However, since the EES is an annual process, with iterative monitoring, reporting and learning, its pressure varies across countries and over time (Mosher and Trubek, 2003).

The EES offers specific norms that can affect national ALMPs. First of all, the employment guidelines define targets, for instance with respect to the employment rate, the unemployment rate and the activity rate. Perhaps more importantly, the guidelines provide specific policy norms, stating

that member states should focus more strongly on ALMPs (Heidenreich and Bischoff, 2008). The guidelines support the diffusion of a paradigm of activation through the member states, aimed at influencing the domestic policy-making arenas. This process can trigger and catalyse policy reforms at the domestic level which are in line with the goals of the EES (Büchs and Friedrich, 2005; Ferrera and Sacchi, 2005). Indeed, the case-study literature provides abundant evidence that the EES has contributed to shifts in ALMPs (Zeitlin and Pochet, 2005; Heidenreich and Zeitlin, 2009). Therefore, we hypothesise that the EES has a positive effect on the effort on activation.

To enforce the EES guidelines, member states receive recommendations from the Council on the progression in their policies regarding the guidelines on an annual basis. These recommendations deal with various policy issues, like gender mainstreaming, deregulation for firms and reducing early school leaving. In this study, the recommendations on activation are relevant. While these recommendations are sometimes focused on a specific type of ALMP, like for instance on strengthening the provision of employment services or labour market training, they are also aimed at reinforcing ALMPs in general. Since a recommendation is a form of ‘naming and shaming,’ it creates pressure on politicians from the European Commission, the Council and other member states to comply with the guidelines by reforming national policies, as was the case when Denmark did not fulfil the goal of activating jobless people after 6 or 12 months (Mailand, 2009). Furthermore, recommendations may influence policy reforms by changing domestic opportunity structures. Ministers, opposition parties or social partners may, depending on timing, use recommendations strategically for their own purposes in the policy-making process (Jacobsson, 2005). Tucker (2003: 40) argues that treating each recommendation as a separate source of pressure stretches the concept and that instead “there is evidence that the mere number of recommendations a state receives in the EES-OMC is symbolically more important than a thorough analysis might suggest.” Also Heidenreich and Bischoff (2008: 511) argue that it is the number itself that creates pressure, since “the number of recommendations reflected the relative position of the country.”

Therefore, we test the hypothesis that the number of council recommendations received by a country is positively related to efforts on ALMPs. However, case studies also suggest that over the years the pressure from recommendations has been diminished, because governments have become used to them (Büchs and Friedrich, 2005) and because they can negotiate the content of the recommendations with the Commission (Mailand, 2009).¹

Mutual learning is a second mechanism to diffuse policies in the framework of the EES. In a process that can be conceptualized as mimicking, actors imitate successful policies of others. Policy-makers can extend their repertory of effective policies and avoid costs of learning through trial and error (Hemerijck and Visser, 2003: 26). Regarding the EES, there are two ways in which this cognitive mechanism influences member states. Firstly, policy-makers learn informally from colleagues in their international network and from all EES documents on benchmarks and best practices. In addition to that, learning results from a formally institutionalised setting. In the peer review programme, in which activation of LMP is a major theme, bureaucrats and experts from different countries get together at meetings, to exchange best practices and to learn from the experiences of their international peers. Zeitlin (2009: 229-230) found that mutual learning is ‘among the most widely attested findings about the OMC’s national influence’ and that the progress in identifying effective ALMPs has been mainly achieved through the peer review programme. In contrast, Casey and Gold (2005) concluded that the peer reviews have established a learning process, but that its impact has been limited. This conclusion has been criticized because they conceptualized impact as direct policy transfer from one country to another, (Nedergaard, 2006; Zeitlin, 2009). Instead, following the idea of ‘contextualised learning’, the EES explicitly leaves room for countries to take their domestic situations into account. Therefore, learning through peer review can be expected to create more indirect effects like analogical inspiration or ‘mirror effects,’ learning more about one’s own practices, as Hamel and Vanhercke (2009) found for Belgium and France. Furthermore, policy-makers can combine insights from several participants and adapt them

to domestic LMPs and political contexts. For instance, Visser (2009) illustrates in an examination of peer reviews on modernizing and strengthening public employment services how Finnish reforms towards an individualized approach to re-integrating the unemployed draw on practices from Sweden, the Netherlands, Denmark and Austria. This and other studies (i.e. Büchs and Friedrich, 2005) also indicate that learning occurs mostly among like-minded Member States, which may be strengthened through self-selection of participants in the peer reviews.

Ferrera and Sacchi (2005) found that the frequency of the governance processes of the EES is an important determinant for its influence. In this respect, policy learning is generally more successful when groups meet regularly (Sabatier and Jenkins-Smith, 1999: 146). Hence, Nedergaard (2006: 317) argues that an increasing number of encounters makes mutual learning in the EES more likely. Learning through peer review may not only trigger policy reforms because ‘policy success, breaking the pessimism of failure and offering prospects of job growth, create the political and intellectual precondition for further reforms’ (Visser, 2009: 49). It may also intensify the emphasis on activation in already on-going national reforms (Büchs and Friedrich, 2005). Therefore, we expect that participation in the peer review programme has contributed to an increased emphasis on activation in national labour market policies.

Economic and Monetary Union

The introduction of the EMU is another source of Europeanisation (Dyson, 2000). The literature advanced two central arguments underlying the expected impact of the EMU on national labour market policies. The first one states that the EMU has limited the repertoire of responses to economic shocks available to national policy makers to supply-side strategies because member states are restricted in applying monetary and budgetary policies (Scharpf, 2002: 649). This means that we can expect deregulation, flexibilisation of labour market conditions and more ALMPs. The second mechanism relates to social policy programs in general and implies that the Maastricht

convergence criteria, especially the target of smaller budget deficits than 3% of the GDP, can be expected to lead to cuts in social expenditures. Although governments can choose any combination of retrenchments and tax increases to reach the targets, it can be expected that cuts in social spending are most likely, since these expenditures constitute a large share of the public expenditures. Indeed, case studies indicate that political actors have used the EMU strategically as a lever for welfare state reforms (Featherstone, 2004). Combining the two arguments, the EMU has limited the repertoire of national policy makers to non-expensive supply-side policies. Hence, we hypothesise that the EMU has a negative effect on spending on activation. However, this negative impact may have been mitigated by the launch of the EES. An important reason for introducing the EES was the intention to improve the functioning of labour markets and to bolster economic convergence in the EMU, but also to counterbalance economic integration with a social side. Thus, in the shadow of the EMU, the EES has led to new configurations of policies (Hemerijck and Ferrera, 2004). Under the budgetary constraints of the EMU, the EES is aimed at guiding the member states on which types of policies they could best spend their resources. For example, Van Vliet (2010) shows that member states have changed their policy configurations and that they spent relatively more on employment services.

2.3 Domestic politics

A central insight of the Europeanisation literature is that the influence of the EES and the EMU on national policies depends on the domestic political actors and the institutional conditions in which these actors operate. With regard to the labour market policy-making process, two types of actors are relevant, namely political parties and social partners.

First, a central hypothesis in the welfare state literature states that the direction of a policy reform depends on the preferences of political parties (Allan and Scruggs, 2004). Generally, left-wing parties can be expected to be more in favour of costly ALMPs like training than right-wing

parties. This is particularly the case since social democratic parties have embraced the objective of employment next to decommodification (Huo et al., 2008). Hence, the EES guidelines give leftist politicians a means to back-up their own proposals on costly ALMPs in the domestic arena, like the Dutch social-democratic minister of employment did (Visser, 2005). In line with the general argument regarding social spending, we expect that leftist coalitions increase ALMP spending, while rightist coalitions aim at retrenchments.

Besides political parties, social partners are important actors in the reform processes of LMPs (Martin and Swank, 2004). When governments aim at making LMPs more activating, they can either push reforms unilaterally or they can achieve broad social consensus. Since social partners have considerable veto power, governments prefer the last route. After all, trade unions have the power to call for strikes and influence electoral arenas. On the other hand, social partners have an interest to avoid unilateral state intervention (Ebbinghaus and Hassel, 2000). They offer social acceptance in exchange for influence over the policy reforms. Traditionally, trade unions were compensated for wage moderation with increased welfare benefits. But due to the shift from Keynesian to neoclassical policies of most governments over the last two decades, strengthened by the adoption of the EMU, the need for compensation by governments has been diminished. High wage settlements would be punished by unemployment, resulting in decreasing wages. However, to avoid rising unemployment, it is still in the interest of governments to negotiate with social partners on wage moderation. As the room to negotiate for unions is rather limited, at least they can try to bargain over a price for wage moderation (Hassel, 2003). Hence, expansion of ALMPs is the best compensation employees can get because this is in line with the supply-side orientation of governments (Falkner, 1997; Brandl and Traxler, 2005). Although ALMPs are not directly in the interest of union members due to increasing taxes and wage competition (Rueda, 2007), employers favour an increase in labour supply. The likelihood of achieving a broad social consensus depends on the institutional setting in which the government and the social partners bargain (Martin and

Swank, 2004). A corporatist tradition of a tripartite council increases the chances that the actors reach agreements that are in the common interest (Ebbinghaus and Hassel, 2000). We hypothesise that the presence of a tripartite council has a positive effect on ALMP spending.

Political actors do not only operate in the defined national policy-making institutions, they also participate in the new national processes of the EES. In fact, participation of social partners is an explicit goal of the EES. Earlier research points out that EES processes like drafting National Action Plans are in some countries entirely dominated by governmental actors, while in other countries social partners are seriously involved (De la Porte and Pochet, 2005). Since participation of potential veto-players could contribute to the legitimacy of policy proposals (Heidenreich and Bischoff, 2008: 503), we expect that high involvement of social partners in the national EES processes leads to higher effort on ALMPs.

The ministries of employment are probably the most important actors in the bureaucratic EES process. However, since there is no cross-national variation in the involvement of these ministries, the involvement is high in all countries (De la Porte, 2007), and including them in the analysis does not explain anything. The role of finance ministries, however, does vary across countries. We hypothesise that high levels of involvement of finance ministries lead to relatively lower ALMP spending. There are two reasons to expect this. Firstly, ministries of finance may be more concerned about public finance than ministries of employment and are therefore more reserved in spending on labour market training and subsidised employment. Secondly, finance ministries are more ‘neo-liberal’ oriented than ministries of employment and may therefore prefer activation through other instruments which are not reflected in ALMP spending, such as benefit sanctions and earned income tax credits (Visser, 2005).

3. Data, measures and method

3.1 Data and Measures

Dependent variable

The dependent variable of this study is *ALMP effort*. For ALMP expenditure data, the study relies on the *OECD Social Expenditure Database (2009)*. ALMP expenditure as a percentage of GDP is the most common indicator of ALMP effort. However, this measure may be problematic for two reasons (Armingeon, 2007). First, it does not take into account that ALMP expenditures are directly related to the level of unemployment. Second, ALMP as a percentage of GDP does not provide information about the relative size of passive labour market policies. Therefore, it is not possible to analyse a shift from passive to active labour market policies, which is relevant for analysing the EES's emphasis on activation. Following Armingeon (2007), we use two measures that do not have these shortcomings. First, an indicator for the efforts of governments on activation per unemployed person is included, measured as ALMP expenditures per unemployed relative to GDP per capita, which is a common used indicator for cross-country comparisons (e.g. Scarpetta, 1996). This indicator slightly differs from Armingeon's indicator, ALMP expenditures as a percentage of GDP standardized by the unemployment rate, but we use it because it is easier to interpret.² Second, we include a measure that expresses ALMP expenditures as a share of expenditures on all labour market policies, defined as the sum of active and passive spending. This measure indicates governments' emphasis on activation policies relative to all labour market policies. As will be discussed below, some countries score quite similarly on both indicators, while other countries do not. As a result, the correlation between both indicators does not exceed 0.57.

Independent variables

The analyses are performed to indicate whether and, if so, how Europeanisation matters. Therefore, the EES is treated as a dichotomous variable in the first analyses, while in the following analyses more fine-grained measures are added to examine the variation in the impact of the EES. We expect that the impact of the EES, started in 1997, is visible from 1998 onwards. Hence, the dummy

variable is given a score of 0 for the years before 1998 and a 1 afterwards. In addition to that, we distinguish between *peer review programme* and *council recommendations*, to account for the EES governance processes. The variable *peer reviews* indicates the yearly frequency of countries participating, either as a visitor or as an organiser, in peer review sessions focussed on activation. It is obvious that measuring the frequency only does some justice to the processes of policy learning. However, in order to generalise the effect of the peer review programme across countries and over time, it is the best indicator at hand. As mentioned before, the EES also facilitates informal learning among policy-makers, for which the EES dummy is the only variable that is currently available. The variable *council recommendations* measures the number of received council recommendations on activation per country per year. For both the peer review programme and the council recommendations, the study relies on own data that is collected using documents of the respectively governance processes.

Next, we examine the impact of *the role of national actors in national EES processes*. To test the effect of the involvement of national social partners and the ministries of finance in drafting the National Action Plans (NAP) we use an index constructed by De la Porte (2007). Based on national case studies, EC documents of various years and surveys on national social partner participation, this index ranges from no participation until involvement in the finalisation of the NAPs.

To investigate the impact of the *EMU* on national ALMP spending, we include a dummy variable scored one for Austria and Finland from 1995 onwards and for the other EMU countries from 1993 onwards. In line with the EMU argument, we also examine the effect of public finances on ALMP expenditures, using the government balance as a percentage of GDP (OECD, 2010). To analyse the impact of *domestic politics* on labour market policy changes, we use the percentage of total cabinet posts held by left-wing or right-wing parties, with the centre parties as the reference category, from the *Comparative Political Data Set* (Armingeon et al., 2008). Finally, we investigate

the effect of *corporatist policy making*, using a dummy variable for the presence of tripartite councils. These data are taken from the *Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts* (Visser, 2008).

Control variables

In our models we control for the macroeconomic characteristics of countries. Theoretically, the *unemployment rate* can have two contradictory influences on ALMPs. On the one hand it can be expected that rising unemployment lead to retrenchments in ALMP spending, since financing ALMPs at existing levels becomes more costly. On the other hand, increasing levels of unemployment may lead to stronger political demands for ALMP spending. But since other studies (Franzese and Hays, 2006; Armingeon, 2007) found a negative impact of unemployment on ALMP spending, we also expect that the unemployment rate has a negative impact. The *World Development Indicators* and the *OECD Main Economic Indicators* databases include data for unemployment rates. Furthermore, we control for *GDP per capita*, using data from the *Penn World Table* (Heston et al., 2009). Because more economically developed countries usually have more generous social protection systems and higher social expenditures, a positive impact on ALMP expenditures can be expected. Finally, we control for the effects of the *economic openness* of a country, using Dreher's (2006) *composite index of economic integration*. International economic integration could theoretically lead to a social race to the bottom and thus to lower ALMP expenditures. But, according to the compensation argument, governments should invest more in ALMPs in order to smoothen the adjustment of people to the labour market insecurities due to increased international competition (Rodrik, 1998).

3.2 Method

Isolating the impact of European integration on domestic policy-making from national and global

dynamics is a major issue in the Europeanisation literature (Haverland, 2007). As discussed above, a number of variables is included to control for domestic dynamics. Furthermore, a group of seven non-EU countries - Australia, Canada, Japan, New Zealand, Norway, Switzerland, US - is included to control for any global trend of more attention for ALMPs, in addition to 15 EU countries - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK.³ Since the data measuring the dependent variable are available through the *OECD Social Expenditure Database (2009)*, it is possible to include both EU and non-EU countries, but it does not enable us to include new EU member states. Although these data are available through the Eurostat databases, these datasets do not include data about non-EU countries. This implies that the choice between OECD and Eurostat data is a trade-off between non-EU countries and new member states (Draxler and Van Vliet, 2010). Since the inclusion of the control group of non-EU countries is important to examine whether the EES has influenced national policies, this study relies on OECD data. As a result, we only have data for the period 1985-2005. The selection of this period means that the changes in the EES guidelines and national action plans from 2005 (EC, 2005) are not included in the study. Hence, the EES related variables do not suffer from a break in the time series, but it precludes the possibility to examine the effect of the changes in the EES.

To analyse the time series cross-section data, we employ ordinary least squares estimations. Recognising that the cross-national variation in efforts on ALMP may be related to the variation in un-modelled country specific effects, such as other welfare state institutions in which ALMPs are embedded, educational systems, production regimes and cultural differences, both an F-test and the Breusch-Pagan Lagrangian multiplier test confirmed the presence of these effects. Subsequently, the Hausman test to determine whether a random effects or a fixed effects model is appropriate, informed us to use a fixed effects model. In addition, we use panel-corrected standard errors to correct for panel-heteroscedasticity and contemporaneous spatial correlation (Beck and Katz, 1995).

Since the Wooldridge test for autocorrelation in panel data shows that there is autocorrelation, a Prais-Winsten transformation is applied.

Acknowledging that it may take some time before the dependent variable responds to changes in the independent variables, we lagged the independent variables one year. However, with regard to the political party variables, it is unlikely that the government composition at $t-1$ influences ALMPs at t , while the government composition at an earlier or later stage does not. Following Armingeon (2007), we therefore averaged the cabinet seat shares for the year under study and the two preceding years.

4. Empirical analysis

4.1 Descriptive statistics

Table 1 shows the development of the expenditures on ALMP as a share of expenditures on all LMPs and per unemployed relative to GDP per capita, the participation in the peer review programme and the number of council recommendations received. Interestingly, the average spending on ALMP as a share of total LMP spending increased between 1985 and 2005, while the average ALMP spending per unemployed decreased. Underlying these trends, there is quite some variation across the countries. For instance, while Spain spends 10.7 per cent of all labour market policy expenditure on activation in 1985, in Sweden the share of ALMP expenditure is over 70 per cent. Indeed, the labour market policies of “the best pupil in the class” were already largely in line with the EES before the EES was adopted, and at some points, it has even more ambitious policy goals than the EU (Jacobsson, 2005). Even after substantial reductions of ALMP expenditure from 1985 on, in terms of a share and per unemployed, Sweden ranks among the highest spenders in 2005. However, as an outlier, it influences the analyses only modestly.⁴

Furthermore, the data illustrate how the two variants of the dependent variable differ. In Belgium for example, the expenditures on ALMPs per unemployed increased on average, while the

expenditures on ALMP as a share of the expenditures on all labour market policies decreased. This indicates that although expenditures on ALMPs grew, the expenditures on passive labour market policies raised even more.

Also in governance processes of the EES there is substantial variation. While Ireland participated in total only six times in the peer review programme, the UK participated 17 times since the start of the programme.⁵ With respect to the council recommendations, Greece received over two times more recommendations than the Netherlands and Denmark. Although the descriptive statistics provide some preliminary insights, we continue with regression analyses to examine the relation between the EES and the effort on activation while controlling for other variables.

[TABLE 1 ABOUT HERE]

4.2 Regression results

The results of the regressions are presented in Table 2. Model 1 indicates that the EES is positively and significantly related to ALMP spending as a share of all LMPs, which is in line with our hypothesis. Countries subjected to the EES spent 1.79 percent point of their total expenditure on LMPs more on activation. In terms of real spending at constant 2000 price levels, this implies for example amounts of €813.5m in Germany, €207.3m in Italy, and €227.6m in the Netherlands. However, the insignificant effect for the EES in the model of ALMP spending per unemployed suggests that the EES leads only to more effort on activation relative to passive LMPs. The results for the EMU support the expectation that the EMU has constrained expenditure on activation.⁶ Since the countries participating in the EES and the EMU overlap, the negative effect for the EMU mainly reflects the dynamics in the EMU-countries in the period 1993-1997. Indeed, earlier studies (Featherstone, 2004) have documented substantial welfare state reforms in this period. The negative sign for the EMU in the model of ALMP spending as a share indicates that the cuts in active

spending were even larger than the cuts in passive spending. This is probably due to the fact that in the short run spending on passive programmes is less discretionary than spending on activation programmes. Furthermore, the positive effect for the EES suggests that the introduction of the EES has mitigated the constraining effect of the EMU, leading to an increased emphasis on activation from 1998 onwards.

Among the domestic politics variables, tripartite councils are not related to the share of LMP expenditures spent on activation, but they are positively and significantly related to ALMP spending per unemployed. This relationship suggests that in countries with tripartite councils, governments succeed in getting support from social partners for increasing ALMP expenditures, but not at the expense of passive LMP spending. The results for the effect of government composition indicate that left cabinet parties have supported increases in the activation effort per unemployed. However, this result does not hold for the share of LMP spending used for activation, which is probably due to the preference of left parties for passive LMPs. In this respect, it may be expected that right parties prefer to limit total labour market spending per unemployed and to use these financial resources to activate the unemployed. Contrary to this expectation, the results for left and right parties are fairly similar.

Regarding the control variables, the effect of the government deficit supports our hypothesis that deficits have been followed by retrenchments on ALMP expenditures. In line with earlier studies (Franzese and Hays, 2006; Armingeon, 2007), we find a negative sign for the effect of unemployment. Furthermore, GDP per capita is positively related to ALMP spending, and economic openness is positively related to ALMP spending as a share of total LMP spending, which provides support for the compensation hypothesis.

[TABLE 2 ABOUT HERE]

Whereas the analyses above are devoted to the question whether the EU has influenced ALMP reforms, for which reason a control group of non-EU countries was included, in the next set of regressions we examine the mechanisms and governance means of the EES, focussing on the variation within the EU. Therefore, only EU-countries are included. Furthermore, we only include the ALMP spending as a share of all LMPs, since the results above already suggest that the EES is only related to this measure.

The results presented in Table 3 tend to support the expectation that involvement in the peer review programme is positively associated with a higher emphasis on activation.⁷ On the other hand, there is no evidence for a positive impact of council recommendations on the efforts devoted to ALMP. Instead, the negative sign tends to reflect that countries with higher efforts on activation receive fewer recommendations. As to the role of national actors, Model 5 suggests that higher involvement of social partners in EES processes leads to more support for ALMPs, which is consistent with our hypothesis. Model 6 suggests that a stronger role of finance ministries is related to higher ALMP spending, which does not support the expectation that finance ministries tend to limit ALMP expenditures. The results for the domestic politics and control variables resemble the results presented in Table 2, indicating that the model is quite robust.

[TABLE 3 ABOUT HERE]

To reach the goal of more ALMPs, as advocated by the EES, national policy reforms are required. Therefore, we subsequently examine whether the Europeanisation variables are related to changes in ALMP expenditure. We use an error correction model, which captures both short-term and long-term effects, by modelling levels and changes. Error correction models provide, given the rather high estimates of rho for the models presented above, reliable estimates in case of non-stationarity (Beck, 1991; De Boef and Keele, 2008).⁸ The results of the estimation of the error correction

models are presented in Table 4, confirming the findings for the EES, the peer reviews and the EMU. Interestingly, the EES also reaches significance in the model of changes in ALMP spending per unemployed, which strengthens our argument that the EES has contributed to an increased emphasis on activation. The role of social partners loses its significance, which implies that the results for the role of social partners in Table 3 are not robust. The results for recommendations are replicated, while the role of finance ministries is not significant (not shown for space considerations). Finally, the results for the domestic politics and control variables are largely in line with the estimations of the previous models, albeit generally the short term effects are related to changes in ALMP expenditure, while the lagged level effects do not reach significance.

[TABLE 4 ABOUT HERE]

5. Discussion and conclusions

The empirical evidence available to date regarding the impact of European integration on national ALMPs is largely based on case studies of different countries. This study aims at generalising the findings of the earlier research on whether European integration has influenced the national LMPs and on tracing the explanatory mechanisms of this impact. Relying on a systematic comparison across countries and time that includes a number of control variables to acknowledge that the EES is only one of several factors, our results suggest that the EES has contributed to relative shifts from passive to ALMPs across the member states. This is in line with the goal of the EES, the general impression in the qualitative literature that the EES has supported a paradigm of activation (Zeitlin and Pochet, 2005; Heidenreich and Zeitlin, 2009), and with the findings of Armingeon's (2007) quantitative study. Furthermore, the EES seems to have mitigated the constraining effect of the EMU on the effort devoted to ALMPs. This may have led to new policy configurations, as has been indicated in earlier research (Hemerijck and Ferrera, 2004). Hence, the combined impact of the EES

and the EMU on domestic labour market policy reforms seems to be a promising direction for future case-study research

Furthermore, we examined the interaction processes between the European and the national level. Focussing on the governance means of the EES, our results tend to support earlier findings that the peer review programme has contributed to an increased emphasis on ALMPs (Zeitlin, 2009). Acknowledging the limitations of our indicator, further in-depth research is required to reveal how mutual learning through peer review actually percolates to policy reforms. Moreover, an important alternative explanation for our findings that needs to be considered is that countries participating in the peer review programme are a priori more interested in activation. However, self-selection of participants in the peer reviews may also foster policy-learning (Visser, 2009). Another reason that necessitates us to be cautious with the interpretation of the results is the use of expenditure data. These data give a good indication of the general emphases countries place on activation, and therefore do justice to the concept of indirect learning rather than direct policy transfer (Hamel and Vanhercke, 2009), but activation policies of countries with the same levels of expenditures can vary significantly. Furthermore, activation can also take place with other policy measures like availability requirements, benefit sanctions, or activating tax and benefit schemes.

Regarding the council recommendations, our results do not support arguments that recommendations have created pressure on governments to reform LMPs (Mailand, 2009), but seem to be more in line with findings that the pressure stemming from recommendations has declined over the years (Büchs and Friedrich, 2005). However, since the process of issuing recommendations has changed in 2005, it is important to note that our results are limited to the period before 2005. Therefore, future studies are required to investigate the effect of the change from 2005 onwards. Such additional investigation will also shed a light on the national policy reforms that occurred after 2005.

With respect to the role national actors in the EES processes, the results provide no

systematic evidence that social partners utilize their role to expand activation policies. One explanation for this may be that social partners prefer to influence the policy process in existing national patterns of bargaining. Here they can link the issue of employment policies to the issue of wage negotiations, which is an incentive to move the debate from the EES process to the formal national institutions (De la Porte, 2007). Furthermore, the results suggest that the findings of some case studies that finance ministries tend to use their position to limit the spending on activation (Visser, 2005), cannot be generalised. This also shows that the implicit assumption that actors and interests are treated as homogenous and unidirectional across countries and time, does not always hold.

Finally, the analyses presented here suggest that the EES influences the policy-making of the member states. That the peer review programme seems to contribute to this influence makes a case for paying more attention to the cross-country and cross-time variation in the processes of the EES in examining its impact.

Notes

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versions of this article.

¹ It may also be expected that countries spending less on ALMP receive more recommendations. To account for this, we included the recommendations as a lagged variable in the regression analysis. Furthermore, this inverse effect could be mainly expected with levels or shares of ALMP expenditure as the dependent variable. Therefore, we also examine first differences of ALMP expenditure.

² Note that the indicator ALMP expenditures as a percentage of GDP standardized by the unemployment rate can be understood as spending per unemployed person as a percentage of GDP per member of the labour force, since $(\text{ALMP expenditures} / \text{GDP}) / (\text{unemployment} / \text{labour force}) = (\text{ALMP expenditure} / \text{unemployment}) / (\text{GDP} / \text{labour force})$. Our results also hold for this indicator.

³ As in many studies, some observations are missing. In our dataset, some cases are missing with regard to the dependent variable for Austria, Denmark, Italy, Japan and Portugal in the late 1980's and some cases are missing with regard to government deficit for Luxembourg. The role of social partners and the finance ministry is missing for Luxembourg.

⁴ Estimating Model 2 without Sweden indicates that the result for tripartite councils is influenced by the situation in Sweden, where the withdrawal of the Swedish Employers' Confederation from all tripartite bodies in 1990 introduced the end of central collective bargaining (Jacobssen, 2005: 111). However, when Sweden is omitted in Model 8, the variable is still significant at the five percent level. Furthermore, in Model 2, the EMU variable does not reach a significance level of ten percent without Sweden. Nevertheless, it remains significant when Sweden is omitted in Model 8. Finally, the result for the role of social partners (Model 5) seems to be influenced by Sweden, but Model 10 indicates already that this result is not robust.

⁵ Interestingly, also Norway has participated a few times in the peer review programme. Therefore, we also estimated Model 3 including Norway, confirming the results presented in Table 3.

Furthermore, we estimated Model 1 with a value 1 for the EES variable for Norway, which did not alter the results either. However, because Norway does not fully participate in the EES, we present the results with a value 0 for the EES variable and with only the EU-countries in Model 3.

⁶ Since lower public expenditure may also be due to lower tax revenues, we estimated the models with a variable for total tax revenues as a percentage of GDP. The coefficient of this variable was insignificant and the inclusion of the variable did not alter the results for the impact of the EMU. Note that tax revenues are implicitly included in the models, since government deficits are the sum of revenues and expenditures.

⁷ In analyses available upon request, we included an interaction term of the peer reviews and the cabinet seats to account for the interaction between the EES and domestic political processes (Kröger, 2009). The results were not significant.

⁸ The Fisher test for unit roots (an augmented Dickey-Fuller test), which allows for unbalanced panels, indicates that at least one country may have a unit root. However, estimations with a panel specific autocorrelation structure indicate that only 3 of the 22 countries reach a rho of 0.9. This indicates that the results do not suffer from non-stationarity, which is confirmed by the replication of the results by the error correction model.

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Table 1. ALMP expenditures, peer reviews, and council recommendations

	ALMP as share of LMP					ALMP per unemployed					Total peer reviews	Total council recommendations
	1985	1990	1995	2000	2005	1985	1990	1995	2000	2005	1999-2004	2000-2004
Australia	22.79	16.28	37.85	28.02	40.93	9.45	6.33	17.45	11.74	14.55	-	-
Austria	23.36	25.82	22.76	35.56	35.43	17.55	21.39	20.84	30.16	24.71	14	11
Belgium	26.42	27.56	27.28	27.66	24.47	22.85	29.85	22.14	35.83	29.01	13	22
Canada	24.89	20.57	29.96	35.15	32.25	11.42	11.64	11.58	10.63	8.19	-	-
Denmark	-	15.11	30.10	40.24	38.23	-	15.83	50.69	82.50	66.20	11	11
Finland	36.10	43.71	26.54	28.99	30.59	27.59	51.32	18.92	18.23	21.15	15	13
France	20.54	30.20	42.42	45.12	34.44	14.87	20.43	26.47	30.88	22.43	14	22
Germany	34.32	50.29	41.82	43.40	36.94	15.22	38.44	30.39	31.79	17.44	12	20
Greece	32.97	31.52	49.44	37.44	14.41	5.00	6.64	9.98	5.11	1.59	10	24
Ireland	23.98	38.55	42.61	54.71	41.40	16.99	21.56	27.28	45.36	27.37	6	11
Italy	-	27.76	27.84	58.26	53.57	-	4.76	5.74	12.86	17.33	8	20
Japan	-	50.38	37.71	31.66	43.12	-	30.53	18.90	11.23	11.04	-	-
Luxembourg	33.83	30.23	21.60	34.07	34.34	58.19	36.79	11.17	16.06	24.05	13	14
Netherlands	28.26	33.54	32.54	54.38	46.54	29.85	36.77	40.32	108.99	54.10	14	10
New Zealand	58.80	31.73	37.32	26.63	47.22	50.15	22.38	21.57	16.12	19.42	-	-
Norway	55.29	45.73	53.99	57.34	58.08	46.31	33.85	50.72	33.77	30.82	4	-
Portugal	-	60.45	34.58	48.07	-	-	21.30	14.80	30.30	17.26	14	14
Spain	10.66	19.84	11.89	25.27	25.97	4.17	12.11	4.54	10.83	17.60	9	15
Sweden	70.64	65.48	48.88	55.89	51.78	125.92	169.62	47.40	60.15	32.44	9	10
Switzerland	43.36	65.85	30.57	52.04	44.47	40.12	79.80	24.08	36.73	29.69	-	-
United Kingdom	25.29	43.69	32.09	51.04	67.26	12.77	16.27	9.96	12.79	22.37	17	13
United States	41.19	34.05	34.03	39.64	28.74	7.96	7.86	6.40	7.68	4.71	-	-
Mean	34.04	36.74	34.26	41.39	39.53	28.69	31.61	22.33	29.99	23.34	11.9	15.3

Source: expenditures on ALMPs: OECD Social Expenditure Database (OECD 2009); peer reviews and council recommendations: own calculations.

Table 2. ALMP expenditures in OECD-22 countries, 1985-2005

	Hypotheses	Model 1	Model 2
		ALMP as share of LMP	ALMP per unemployed
<i>Europeanisation</i>			
EES	+	1.79 ** (1.00)	1.91 (2.01)
EMU	-	-1.96 ** (1.05)	-3.78 ** (2.18)
<i>Domestic politics</i>			
Tripartite councils (t-1)	+	-2.41 (2.10)	8.26 *** (2.80)
Left cabinet seats (mean t, t-1, t-2)	+	-0.01 (0.02)	0.10 *** (0.03)
Right cabinet seats (mean t, t-1, t-2)	-	-0.05 *** (0.02)	0.05 ^a (0.02)
<i>Control variables</i>			
Government deficit (t-1)	+	0.30 *** (0.11)	0.65 *** (0.20)
Unemployment (t-1)	-	-0.45 ** (0.20)	
GDP per capita (x 10 ⁻³) (t-1)	+	0.39 ** (0.22)	0.38 * (0.24)
Economic openness (t-1)	+ / -	0.14 * (0.07)	0.09 (0.13)
Constant		14.41 * (8.09)	-16.80 (11.45)
Rho		0.76	0.81
N x T		410	415
Adj. R ²		0.51	0.37

Notes: Unstandardized coefficients; panel-corrected standard errors in parentheses.

* p < .10; ** p < .05; *** p < .01 Two-tailed hypothesis for openness. All other hypotheses are one-tailed.
a: significant, but in opposite direction. Each regression also includes country dummies (not shown here).

Table 3. ALMP expenditures as share of LMP expenditures in EU-15 countries, 1985-2005

	Hypotheses	Model 3	Model 4	Model 5	Model 6
		Peer reviews	Recommen- dations	Social partners	Finance ministry
<u>Europeanisation</u>					
Peer reviews (t-1)	+	0.20 * (0.12)			
Recommendations (t-1)	+		-0.74 ^a (0.29)		
Role social partners	+			0.53 * (0.33)	
Role finance ministry	-				0.48 ^a (0.28)
EMU	-	-2.45 ** (1.07)	-2.44 *** (0.92)	-2.43 ** (1.11)	-2.39 ** 1.07
<u>Domestic politics</u>					
Tripartite councils (t-1)	+	0.36 (2.68)	0.44 (2.62)	0.33 (2.60)	0.30 (2.59)
Left cabinet seats (mean t, t-1, t-2)	+	0.01 (0.02)	0.01 (0.02)	0.01 (0.02)	0.01 (0.02)
Right cabinet seats (mean t, t-1, t-2)	-	-0.03 (0.02)	-0.02 (0.02)	-0.03 (0.02)	-0.03 * (0.02)
<u>Control variables</u>					
Government deficit (t-1)	+	0.24 ** (0.14)	0.22 * (0.14)	0.29 ** (0.14)	0.29 ** (0.13)
Unemployment (t-1)	-	-0.46 ** (0.22)	-0.49 ** (0.21)	-0.35 * (0.24)	-0.39 * (0.24)
GDP per capita (x 10 ⁻³) (t-1)	+	0.50 ** (0.23)	0.68 *** (0.24)	0.56 ** (0.29)	0.50 ** (0.28)
Openness	+ / -	0.16 * (0.09)	0.18 ** (0.09)	0.12 (0.09)	0.12 (0.08)
Constant		5.31 (8.27)	-1.02 * (8.16)	6.24 (10.10)	7.96 (9.88)
Rho		0.78	0.78	0.81	0.80
N x T		280	280	265	265
Adj. R ²		0.44	0.46	0.44	0.45

Notes: Unstandardized coefficients; panel-corrected standard errors in parentheses.

* Significant at the .10 level; ** at the .05 level; *** at the .01 level.

Two-tailed hypothesis for openness. All other hypotheses are one-tailed; a: significant, but in opposite direction. Each regression also includes country dummies (not shown for space).

Table 4. Error correction models of ALMP expenditures, 1985-2005

	Model 7	Model 8	Model 9	Model 10
	Δ ALMP as share of LMP	Δ ALMP per unemployed	Δ ALMP as share of LMP	Δ ALMP as share of LMP
<i>Europeanisation</i>				
EES	0.58 * (0.42)	1.56 * (1.04)		
Peer reviews (t-1)			0.23 * (0.15)	
Role social partners				0.22 (0.18)
EMU	-0.80 ** (0.48)	-1.72 * (1.06)	-0.81 * (0.56)	-0.95 ** (0.57)
<i>Domestic politics</i>				
Tripartite councils (t-1)	0.24 (0.35)	1.83 *** (0.65)	-0.25 (0.64)	-0.09 (0.63)
Left cabinet seats (mean t, t-1, t-2)	0.00 (0.01)	0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Δ Left cabinet seats (mean t, t-1, t-2)	-0.02 (0.02)	0.09 * (0.03)	0.01 (0.02)	0.01 (0.02)
Right cabinet seats (mean t, t-1, t-2)	-0.00 (0.01)	0.01 (0.01)	-0.01 (0.01)	-0.01 * (0.01)
Δ Right cabinet seats (mean t, t-1, t-2)	-0.05 *** (0.02)	0.05 ^a (0.02)	-0.03 (0.03)	-0.03 (0.03)
<i>Control variables</i>				
Government deficit (t-1)	0.02 (0.07)	0.28 *** (0.12)	0.09 (0.08)	0.07 (0.08)
Δ Government deficit	0.16 * (0.12)	0.51 *** (0.22)	0.13 (0.15)	0.07 (0.15)
Unemployment (t-1)	-0.04 (0.07)		-0.04 (0.08)	-0.04 (0.08)
Δ Unemployment	-1.04 *** (0.25)		-1.03 *** (0.28)	-0.92 *** (0.31)
GDP per capita (x 10 ⁻³) (t-1)	-0.04 (0.04)	-0.07 ^a (0.04)	-0.03 (0.06)	-0.04 (0.07)
Δ GDP per capita (x 10 ⁻³)	1.17 *** (0.47)	2.17 *** (0.49)	0.82 * (0.53)	1.26 ** (0.66)
Economic openness (t-1)	-0.01 (0.01)	-0.02 (0.03)	-0.03 (0.02)	-0.04 (0.03)
Δ Economic openness	0.04	0.17	0.02	0.01

	(0.08)	(0.13)	(0.09)	(0.09)
ALMP expenditures (t-1)	-0.08 *** (0.03)	-0.07 *** (0.03)	-0.06 ** (0.03)	-0.05 ** (0.03)
Constant	4.19 * (2.43)	2.03 (1.80)	6.63 ** (2.99)	7.16 ** (3.31)
Countries	22	22	EU-15	EU-15
N x T	405	411	276	261
Adj. R ²	0.20	0.18	0.16	0.19

Notes: Unstandardized coefficients; panel-corrected standard errors in parentheses.

* Significant at the .10 level; ** at the .05 level; *** at the .01 level.

Two-tailed hypothesis for openness. All other hypotheses are one-tailed.

a: significant, but in opposite direction.