# Convergence and Europeanisation : the political economy of social and labour market policies

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*Convergence and Europeanisation*
*The Political Economy of Social and Labour Market Policies*

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# Convergence and Europeanisation

## The Political Economy of Social and Labour Market Policies

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# Preface

European welfare states are constantly changing and it seems justifiable to predict that this pattern will continue in the near future. Although welfare state reform is primarily a domestic matter, the role of the European Union has become more and more important over the past two decades. I had the privilege of spending more than four years doing research on such an intriguing subject. The result of this research is a dissertation that consists of a collection of refereed journal articles and one paper that is under review.

I am grateful to the Department of Economics at Leiden University for providing an excellent environment of academic freedom. I would like to thank my supervisors and all colleagues of the Stichting Instituut Gak funded research programme 'Reforming Social Security' and the Department of Economics for their support and critical yet constructive comments on my work. Our numerous discussions on welfare state reform, the EU and research in general were inspiring and helpful. I am also much indebted to my colleagues at Marquette University for making me feel welcome in Milwaukee during the fall semester of 2010. Studying the Europeanisation of welfare states in the US was a rewarding experience.

Many thanks go to my friends and family for their support and patience throughout the project. I thank my parents for their love and encouragement, from which I have benefited so much. Ilka, these years were wonderful. You reminded me, sometimes literally, that there is more to life than doing research. I dedicate this book to you.

Olaf van Vliet
Leiden, April 2011

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# List of Abbreviations

| | |
|---|---|
| ALMP | Active Labour Market Policy |
| CEE | Central and East European |
| CEEC | Central and East European Countries |
| EC | European Commission |
| ECHP | European Community Household Panel |
| EEC | European Economic Community |
| EES | European Employment Strategy |
| EMU | Economic and Monetary Union |
| ESM | European Social Model |
| EU | European Union |
| GDP | Gross Domestic Product |
| LMP | Labour Market Policy |
| NMS | New Member States |
| OECD | Organisation for Economic Co-operation and Development |
| OLS | Ordinary Least Squares |
| OMC | Open Method of Coordination |
| SILC | Statistics on Income and Living Conditions |
| UK | United Kingdom |
| US | United States |

# 1 Introduction

## 1.1 Welfare states and European integration

Since the 1980s, many welfare state reforms have taken place in European countries. The progressing European integration may have been one of the factors that triggered or influenced these welfare state reforms. Although social convergence has been an objective since the Treaty of Rome in 1957, it was only in 1997 and 2000 that the European Council adopted labour market and social policies, respectively. Consequently, it was not before then that European integration became a relevant factor in the comparative welfare state literature and that social and labour market policies entered the Europeanisation literature as interesting policy areas. However, in both strands of the literature, it is still unclear to what extent European integration influences welfare state policies, whether European integration has contributed to the convergence of welfare state policies, and how it may explain the variation in welfare state reforms across European countries.

European integration may have a number of effects on national social and labour market policies. These effects follow from two types of European integration, namely negative and positive integration, which is a conventional dichotomy in the European integration literature. Negative integration refers to 'measures increasing market integration by eliminating national restraints on trade and distortions of competition', whereas positive integration refers to 'common European policies to shape the conditions under which markets operate' (Scharpf, 1996: 15; Tinbergen, 1965: 96-100).

The process of negative integration gained momentum with the adoption of the Single European Act in 1986, putting forward a schedule to complete the internal market. Many regulations were adopted in order to create a Single Market by 1993, in which people, goods, services and money could move freely across the borders of the EU's member states. In contrast, the positive integration with regard to welfare state policies has taken place at different speeds. Although convergence of social standards is an important and explicit goal of the EU, it was not until 1997 that a major step was taken to achieve this goal by formulating welfare state policies at the EU level. In 1997, The European Employment Strategy (EES) was adopted at the Amsterdam Summit and further operationalised at the Luxembourg Summit later that year. This strategy is aimed at improving labour market performances in terms of lower unemployment and higher employment levels. The launch of the EES was based on two motivations (Pochet, 2005). On the one hand, the EES was intended to enhance a process of converging labour market policies to smoothen the functioning of the Economic and Monetary Union. A more flexible European labour market and more similar labour market conditions across the member states provide a more univocal base for monetary policy. On the other hand, the EES was considered as a social counterbalance for the progressing economic integration.

Inspired by and based on the governance principles of the Broad Economic Policy Guidelines of the EMU, the EES consists of a set of legally non-binding means of governance, such as guidelines, targets, benchmarks and recommendations. The EES is a form of 'soft law'. Instead of exerting traditional regulation based on institutional compliance, as is the case with 'hard law' such as directives, this new mode of governance is intended to influence national welfare states by relying on mechanisms as policy learning and peer pressure. At the Lisbon Summit in 2000, the instruments of the EES were formalised as a more general governance means, which was called the Open Method of Coordination (OMC). From this moment onwards, the OMC has also been applied to other policy areas such as social inclusion, pensions, health care, and care for the elderly. In sum, since 1997 the OMC has been the primary EU policy tool that is supposed to influence domestic welfare state policies in the EU member states.

In this study, the influence of positive and negative European integration on domestic welfare state reforms will be examined. A first question that will be analysed is whether European welfare state policies have actually converged. It is a topic of scholarly debate whether welfare state reforms have contributed to more similar social protection systems across the advanced capitalist societies (Pierson, 2001; Hvinden, 2004; Montanari, 2001). Due to the path-dependent character of welfare state institutions, the possibilities for welfare state reform are limited and therefore few convergence could be expected (Pierson, 2000). However, it has been well documented that despite high levels of path dependence, major welfare state reforms have actually taken place (i.e. Kuipers, 2006; Marier, 2008). The convergence analyses also contribute to a broader empirical and methodological debate on the precise degree and form of welfare state reforms (see Vis, 2010). Furthermore, if welfare state policies have converged, should this be attributed to the impact of European integration, or to domestic or global dynamics?

With respect to positive European integration, the impact of the OMC on national social and labour market policies has been analysed in many studies (i.e. De la Porte and Pochet, 2002; Zeitlin and Pochet, 2005; Kvist and Saari, 2007a). These studies have inductively identified a number of mechanisms through which the OMC influences the national policy-making, such as policy learning and external pressure. Nonetheless, the results in the OMC literature are rather inconclusive with regard to the question whether and how this new means of governance has influenced domestic welfare state reforms and how to explain the variation in the impact of European integration across countries and over time.

Another characteristic of the OMC literature is that the possible influence of negative integration on national policies seems to be forgotten. This is remarkable, because the OMC has been regarded as a social counterbalance against the economic character of European integration, and because in the early days of the single market the influence of negative integration on social policies has received considerable attention in the welfare state literature (Pierson and Leibfried, 1995; Scharpf, 1999). Generally, economic integration could have two effects on national welfare states. First, increased competition among firms could lead to policy competition among governments, in which they reduce non-wage costs in order to attract mobile production factors, resulting in lower levels of social protection (Scharpf, 1999; Sinn, 2002). Second, social protection systems may become more generous in order to compensate the increased risks on the labour market (Rodrik, 1998). The results of empirical analyses on the impact of economic integration in the current literature are mixed, which is probably due to difficulty of disentangling both effects and to a lack of data. Furthermore, due to the fact that negative European integration and globalisation are both forms of international economic integration, it is a methodological challenge to separate these effects empirically.

In sum, there is still a number of theoretical, empirical and methodological questions with respect to the impact of European integration on welfare states in the convergence, comparative political economy and Europeanisation literature. This study tries to contribute to the formulation of answers to these questions. In addition to the *scientific relevance*, analysing the domestic influence of European integration has also *policy and societal relevance*. In June 2010, the European Council adopted the European 2020 strategy. Following up on the Lisbon goals for 2010 and reacting to the world's most severe recession since the 1930s, the European Commission has put forward a strategy for 'smart, sustainable and inclusive growth' (EC, 2010). Again, the Commission has put forward the OMC as governance means for the achievement of this strategy. Insight in the functioning of the OMC may contribute to improving its effectiveness.

## 1.2 RESEARCH QUESTIONS

The aim of this study is to provide insight into whether and how social and labour market policy reforms in the member states of the European Union are influenced by European integration. The study attempts to identify to what extent welfare state policies have converged over time and to explain the patterns of differences and similarities in policy reforms. In sum, the research questions of this study are as follows:

*Main question:*

What is the influence of European integration on national social and labour market policies across European Union member states and what factors can explain differences in the extent to which member states have changed their policies accordingly?

*Subsequent questions:*

1 To what extent have national social and labour market policies in European Union member states converged?
2 What is the influence of European Union policy initiatives and European economic integration on reforms of national social and labour market policies?

To answer the research questions satisfactorily, the study consists of two parts. In the first part, that is guided by the first sub-question, it will be examined whether the occurred reforms have resulted in patterns of welfare state convergence across the EU, or whether European welfare states show continuing diversity. For that reason, convergence tests on several policy areas will be employed. The second part of the study addresses the explanation of the variation in policy reforms, guided by the second sub-question. Using econometric methods, the relative importance of different European factors, stemming from both negative and positive European integration, from globalisation, and from national factors will be assessed.

This dissertation is a collection of refereed journal articles, published in *Journal of Common Market Studies* (Chapter 2), *Journal of European Integration* (Chapter 3 and Chapter 4) and *European Union Politics* (Chapter 5) and of a paper that is under review (Chapter 6). The remaining sections of this introductory chapter will outline how these articles together provide answers to the research questions.

## 1.3 THEORETICAL FOCUS

To understand the influence of European integration on domestic welfare state policies, this dissertation draws from different strands of literature. The convergence analyses are embedded in the convergence literature. With respect to welfare state convergence, the study mainly focuses on the convergence of policies, but also the convergence of welfare state regimes and the convergence of policy outcomes such as poverty rates will be taken into account. Policy convergence can be conceptualized as a tendency of policies to become more alike over time (Bennett, 1991). As in most convergence studies, the units of analysis in the convergence analyses of this study are countries, but they could also be municipalities, regions, or other jurisdictions. Convergence has occurred when the variation across countries is smaller at the end than at the beginning of a period. This implies that the concept of convergence does not require that policies have become completely identical, although this could be the end result of a convergence trend. In other words, convergence is a dynamic concept that refers to a change in the degree of variation or similarity instead of a static situation of either similarity or variation.

Convergence of welfare state policies across European countries requires that welfare state reforms result in more similar policies. An important reason to expect more similar policies is the influence of European integration on these domestic reforms. The interaction between the EU-level and the member states has been studied in two bodies of literature, namely the literature that deals with European integration and the literature that is concerned with Europeanisation. The European integration literature is focused on the development of policies and institutions at the EU-level, thus on the progression of further European integration (Vink and Graziano, 2007). In the field of welfare state policies, this strand includes for example studies on why and how member states have decided to develop social policy initiatives at the EU-level such as the OMC (i.e. De la Porte, 2011). Subsequently, Europeanisation can be generally conceptualized as the impact of European integration on member states (Green Cowles et al., 2001; Radaelli, 2003; Börzel and Risse, 2003), or more specifically, as the influence of EU-level policies on the domestic policy-making. To put it differently, while the bottom-up process is the central object of study in the European integration literature, the Europeanisation literature is focussed on the top-down effect of the EU on the member states.

Since member states are obliged to implement EU regulations, most of the theoretical work in the Europeanisation literature on the domestic impact of positive European integration aims to explain the cross-national variation in the implementation of EU-policies. Due to the legally non-binding character of the OMC, in contrast, theories on the impact of the OMC also account for the question whether the OMC influences member states at all. In this study, three non-judicial compliance mechanisms through which the OMC could influence the domestic policy-making of the EU member states will be examined. First, the policy goals and targets of the OMC may have a normative influence on the member states. The performances of the countries with respect to these policy goals may cause external pressure on governments to change domestic policies. Second, the OMC can influence the domestic policy-making through cognitive mechanisms of policy diffusion. The exchange of information and solutions for policy problems by policy makers, facilitated by the OMC, may trigger or influence policy reforms. Third, the OMC can influence the domestic policy-making by providing constraints and opportunities in the policy-making arena. In this regard, actors such as politicians and social partners could use the OMC strategically and selectively in domestic decision making processes. In the analysis on the influence of the OMC, the OMC is embedded in a more general theoretical approach to welfare state reform, including political, institutional and macro-economic variables. Since these variables are less usual in the Europeanisation literature but more common in the comparative political economy literature on welfare state reform, this study connects the Europeanisation literature explicitly to the political economy literature.

For the theoretical approach to the impact of negative European integration, the study builds on the political economy literature regarding international economic integration. As outlined above, international economic integration can trigger two opposing effects on welfare states. First, the reduction of restrictions on international flows of goods and capital, and the increased trade and capital mobility can lead to increased strategic behaviour of governments. In order to increase employment and economic growth, governments aim to attract firms by reducing non-wage costs and so social protection levels, resulting in policy competition among governments. This proposition is known as the efficiency hypothesis or as a 'social race to the bottom'.

Although international economic integration may enhance a country's economic growth, it may also damage the labour market position of some individuals. In this respect, a second effect of international economic integration on welfare states may be that governments expand social protection systems in order to compensate the increased economic uncertainty of people. International trade and foreign investments make the demand for labour more volatile, which leads to a higher demand for social insurance. This proposition is known as the "compensation hypothesis". A synthesis of the efficiency and the compensation hypothesis suggests that economic integration leads to a situation in which governments face an increased demand for social protection, while they are simultaneously competing with other governments to reduce non-wage costs. In the globalisation literature, scholars have referred to this situation as the 'globalisation dilemma' (Rodrik, 1997). The resulting level of social protection reflects the decision of the government in this dilemma and empirical studies measure the net effect of economic integration on welfare states. To isolate the effect of policy competition, earlier research focused on the funding of welfare states. International economic integration may lead to lower taxes on corporate profits and social security and payroll taxes (Swank, 1998; Slemrod, 2004; Devereux et al, 2008). However, little efforts have been made to isolate the impact of international economic integration on the demand for social insurance to test the compensation hypothesis. In order to isolate the relationship between economic integration and the demand for social security, this study focuses on private social security. The voluntary purchase of private social security arrangements provides a direct indication of the demand for social security. Other than in the case of public social security, political mechanisms are not expected to interfere in the relationship between economic integration and the demand for voluntary private social insurance.

As a private variant of the compensation hypothesis, it will be argued that international economic integration leads to an increased demand for private social insurance. In contrast, the theoretical influence of European economic integration on the demand for social security is on beforehand less univocal. The reduction of trade barriers within the EU has increased the trade volumes among EU countries. Hence, it could be expected that also European economic integration leads to higher economic insecurity and increases the demand for social protection. However, intra-EU trade is mainly intra-industry trade. In line with the Heckscher-Ohlin and the Stolper-Samuelson theorems, it could be expected that intra-industry trade leads to smaller economic adjustments than inter-industry trade and so to less economic insecurity for employees. Therefore, trade with other European countries may lead to relatively less insecurity for people on European labour markets than trade with low-wage countries. In other words, it could also be expected that trade among EU countries leads to a relatively lower demand for social protection than trade in general.

In addition to economic integration, other factors that will be taken into account to explain the variation in the participation in private social insurance plans across countries are the generosity of public welfare state arrangements and policy changes which open up the markets for providers of private social insurance schemes.

## 1.4 Empirical approach

European integration may influence several types of national welfare state policies and also the generosity of a country's social protection system as a whole. Therefore, the study starts with analysing trends of convergence for a broad range of welfare state programmes, such as old age programmes, incapacity-related benefits and family programmes.

Subsequently, the study focuses on a specific policy area, labour market policies, in order to trace the impact of EU policies more directly. As discussed above, the OMC has been used for the coordination of several welfare state policy areas, including for instance employment, social inclusion and pensions. Although all the OMCs are based on the same type of legally non-binding governance instruments such as guidelines, benchmarks, recommendations and peer review programmes, the precise institutionalisation of the OMCs varies. Thus, the toolkit of the EES differs from that of the social inclusion OMC, and the governance processes of the social inclusion OMC differ from those of the pensions OMC (Zeitlin, 2005: 21). For instance, the European Commission and the Council are authorised to issue recommendations to Member States on their progression regarding the implementation of the EES and the Broad Economic Policy Guidelines, but they are not in the case of other OMCs. Furthermore, while in most other OMCs only common objectives are formulated, the EES and the Broad Economic Policy Guidelines also provide detailed guidelines for the realisation of the policy agendas. Another example is that the EES has fixed employment rate targets, whereas in the case of the social inclusion OMC the member states are invoked to formulate national targets for poverty reduction. Among the different OMCs on social and employment policies, the EES is regarded as the one that is strongest institutionalised (Armstrong and Kilpatrick, 2006). This makes the EES a most-likely case for examining domestic influence. If the OMC influences domestic policy reforms, this influence is most likely to be found in the case of the EES. Therefore, the study examines the link between the EES and national labour market policies.

With the adoption of the EES in 1997, labour market policies were in fact the first welfare state policies coordinated at the European level. Basically, the rationale of the EES is that member states should make their domestic labour market policies more activating in order to reduce unemployment and to increase employment. As a result, national labour market policies should converge towards common EU objectives. Several indicators will be used to analyse whether and how member states have reformed their labour market policies.

Whereas the largest part of the study is focused on public welfare state policies, one part of the study is devoted to analysing the cross-national variation in private social security. This type of social security consists of social insurances which are provided by private institutions. From a theoretical and methodological perspective, the investigation of private social security might contribute to a better understanding of the influence of international economic integration on welfare states, as has been discussed above. In addition, analysing private social protection is also interesting from a purely empirical point of view. Given that private arrangements have gained increased importance in a number of western welfare states, the scholarly attention for the developments in private social security has remained surprisingly limited.

The study covers western EU countries and a number of other advanced industrialist countries from the beginning of the 1980s to halfway the 2000s, which is common in the comparative political economy and the Europeanisation literature. This time span covers the period before and after the launch of the EU-level policy initiatives, allowing us to compare the developments across the different periods in order to trace the impact of these policies. In addition, many welfare state reforms have taken place during these years. With respect to the sample of countries, the member states which entered the EU after 2004 are firmly underrepresented in the current literature. With respect to the quantitative methods oriented political economy literature, this is due to the limited availability of quantitative data. However, also in the case study oriented literature on the Europeanisation of welfare state policies the interest in newly-acceded member states has been confined. As a result, little is known about the impact of European integration on welfare state reforms in these countries and whether the existing theories and empirical findings also hold for this country-group. In addition, a pressing question is also whether the accession of the new member states to the EU has led to convergence between the old and new member states. Therefore, in one part of the current study, the welfare state developments in the member states which have entered the EU in 2004 are investigated too.

## 1.5 Methodological approach

In the comparative political economy literature, there is a lively debate going on about the type of research design that should be used to examine and explain the variation in welfare state reforms across countries (i.e. Shalev, 2007; Rothstein, 2007; Swank, 2007). A first point of disagreement is about the detection of causality. Proponents of a small-N approach are mainly focussed on the causes of an effect, and on tracing causal relationships with an in-depth analysis of a small number of cases, typically countries. In contrast, proponents of a large-N approach analyse a relatively large number of cases, for instance with regression analysis, in order to generalise the results, and they are more focused on the effects of a cause. Both types of research have benefits and drawbacks, and they contribute each in their own way to solving different parts of the theoretical and empirical puzzles. Hence, it is cross-fertilisation that may bring welfare state research further.

The existing literature concerning the Europeanisation of welfare states consists almost entirely of small-N studies. To gain insight in the functioning of the relatively new means of governance, scholars have investigated the impact of the OMC on domestic policies in case studies, typically including one to three countries. Based on process tracing, causal mechanisms through which the OMC influences national policy reforms, such as mutual learning and external pressure, have been identified inductively. The current study relies on a large-N approach in order to examine whether the EU has influenced domestic policies, what mechanisms are more or less important, and how to explain the variation in the impact of European integration. In this regard, a large-N approach makes it feasible to test whether the findings of the case studies can be generalised across EU countries.

In the first part of the study, convergence analyses are employed to analyse whether European integration may have contributed to the convergence of welfare state policies across EU countries. In an ideal research design, one would have a “large number of European Unions” with variation in the degree of internal convergence on the one hand, and with different scopes of negative and positive integration on the other, to capture the links between European integration and convergence. Facing the reality of only one EU, the study first relies on controls for global and domestic factors to assess whether trends of convergence are EU-specific. In the second part of the study, pooled time series cross-section regression analyses will be employed to investigate the links between positive and negative integration and the cross-country and temporal variation in welfare state programmes, while controlling for other factors of policy change as much as possible.

In addition, the large-N approach of this study aims to address the selection biases in the OMC literature. Apart from the issue of the underrepresentation of the new member states as discussed above, also among the old member states there seems to be a selection bias against some countries, such as Portugal, Ireland, Luxembourg and Greece. De la Porte (2010) has inventoried the country-coverage in the case study literature, and found that Denmark, Finland and Sweden were included in 23 studies, Germany in 20 studies, France and the United Kingdom were also very well covered, and Belgium, Italy, the Netherlands, Poland and Spain were included in five to seven studies.[1] This skewed distribution of cases is problematic, since it may influence the state of knowledge regarding the domestic impact of the OMC (Van Vliet, 2008).[2] For instance, it is well documented that the impact of the EES has been limited in Sweden, because the pre-existing policies already met the objectives and targets of the EES (i.e. Jacobsson, 2005). A disproportional contribution of the results of case studies on Sweden could therefore lead to a bias in the more general conclusions concerning the impact of the OMC, which might have been different if for example more southern member states had been selected.

In sum, given the fact that almost all existing research on the impact of European integration on welfare states relies on a small-N design and is focused on a select group of countries, the large-N approach of the current study is at least complementary to the existing literature.

A second issue of debate in the welfare state literature is the selection of the measures to compare welfare states with. This is known as the 'dependent variable problem' (Clasen and Siegel, 2007). In the current study, several social expenditure measures for the variants of the dependent variable will be used. These measures make it possible to compare welfare states across a relatively large number of countries and over a considerable period of time. The use of social expenditure measures in international comparisons has been criticised, since they do not reflect all qualitative characteristics of welfare state policies (Siegel, 2007; De Deken and Kittel, 2007). First, a technical difficulty with the use of expenditure measures may be that changes in public expenditures not only reflect discretionary adjustments, the policy changes we are interested

1 Although this overview actually refers to studies on the Social OMC rather than to research on the EES in particular, the representation of countries in the research on the EES seems quite similar. A simple reason for this is that many case studies (i.e. Zeitlin and Pochet, 2005; Heidenreich and Zeitling, 2009) take both the Social OMC and the EES into account.

2 In Chapter 5, it will be discussed that for certain variables, Sweden could be regarded as an outlier. Following the logic that outliers are interesting cases for in-depth studies, this might justify the attention for Sweden in the case-study literature. However, since this justification has actually not been given in the case studies, it is unlikely that Sweden is overrepresented because it has been regarded as an outlier.

in, but also non-discretionary dynamics, driven by cyclical and demographic trends. However, the non-discretionary part of the expenditure can be addressed with control variables on the right-hand side of the equations, or with direct corrections to the spending measure itself.

More importantly, given the research question and the theoretical approach of the current study, social expenditure indicators are accurate measures for the dependent variable to capture trends at a higher abstraction level. In the case of the EES for instance, governments have committed themselves to make labour market policies more activating. However, due to the character of the EES, countries are explicitly allowed to make those policy reforms that fit their domestic situation, in terms of pre-existing policies and labour market conditions, best. Thus, labour market policies varied across countries before the introduction of the EES and, different from a case of harmonisation of regulation, they will continue to vary after the introduction of the EES. Countries can use different labour market policy instruments that are aimed at activation and they can choose different configurations of large numbers of policy instruments. To map the different configurations of policy instruments for which governments have opted, and to assess whether policies are converged, a range of non-expenditure indicators will be analysed. Subsequently, to analyse to what extent these different policy configurations, consisting of large numbers of policy instruments, are more activating, a more abstract measure of expenditure on active labour market policies can give a good indication of the general emphasis governments put on activation. In other words, a higher abstraction level is needed to see the forest through the trees.

## 1.6 OUTLINE AND MAIN FINDINGS

The first three chapters of the dissertation, Chapter 2, Chapter 3 and Chapter 4, are focussed on assessing to what extent welfare state policies and expenditures have converged across the EU, and on analysing whether patterns of convergence are EU-specific or not. Trends and patterns which are specific for EU member states may indicate an impact of European integration. The remainder of the study, Chapter 5 and Chapter 6, examines the factors that may explain these patterns of similarities and differences across countries and over time. Here, Chapter 5 is related to positive integration, while Chapter 6 focuses on negative integration.

Chapter 2, *Patterns of Welfare State Indicators in the EU: Is There Convergence?*, co-authored with Koen Caminada and Kees Goudswaard, deals with the evolution of welfare states over longer periods (1980-2003). First, it is discussed why and how European integration, and also a legally non-binding EU governance means as the OMC, can be expected to lead to convergence of social policies across EU Member States. Subsequently, the chapter provides a review of the existing body of literature on convergence of European welfare states.

It appears that indicators used in earlier research are difficult to compare across countries, due to various problems such as differences in the tax treatment of social benefits. The empirical part of this chapter aims to correct for most of these problems, by using a variety of indicators. Several convergence tests are employed for welfare state indicators at the macro level, for measures of social programmes including for instance old age, disability, unemployment and active labour market policies, and for individual level indicators, such as minimum social assistance levels. Also poverty rates are included, to examine the development of social cohesion in the EU. The results indicate rather strong convergence of public social expenditure in EU countries, corrected for cyclical and demographic factors. However, when other factors, such as the impact of the tax system and private arrangements, are taken into account, the picture becomes less clear cut. This offers a starting point for the more detailed research, tracing the different influences of European integration, in the successive chapters.

Chapter 3, *European Social Model: No Convergence From the East*, co-authored with Juraj Draxler, focuses on welfare state changes and convergence in Central and East European countries, and addresses the selection bias against new member states of the EU in both the convergence literature and the OMC literature. The convergence analyses employed in this part of the study include 25 EU countries, both old (15) and new (10) member states. Focussing in particular on West and East European countries, the results indicate that social protection levels have not converged between these two country groups in the period 2000-2006. This leads to the subsequent question whether only generosity levels differ between West and East European countries, or whether welfare states differ more fundamentally. A cluster analysis illustrates that not only social protection levels, but also policy configurations differ across east and west. An interesting finding with respect to the older member states is that not only social protection levels and individual policy programmes have converged, as will be shown in Chapter 2 and Chapter 4, but that there has also been convergence in the configurations of several types of welfare state policies.

In Chapter 4, *Divergence within Convergence: Europeanisation of Social and Labour Market Policies*, the convergence analyses are focussed on the specific period in which the EES and the OMC were adopted. The analysis starts with another measure to correct social expenditures at the macro level for cyclical and demographic factors than in Chapter 2, indicating that the results presented in Chapter 2 are robust for the use of an alternative indicator. Then, the study zooms in at labour market policies, because if the EES is effective, its influence will be most directly visible in this policy area. A number of indicators is included for total expenditure on active labour market policies, and for specific programmes such as employment services, labour market training, youth programmes and subsidised employment. Furthermore, the study includes a number of policy measures such as the level, duration and qualifying conditions of unemployment benefits, availability requirements and benefit sanctions. The results indicate that most EU member states have made shifts towards more activating national labour market policies, which might have been influenced by the EES. Two other interesting findings emerge. First, the results show that within this focus on activation, the member states have opted for different configurations of labour market policy instruments, which is actually in line with the subsidiarity principle of the EES. Second, some countries reformed their labour market policies more than others. The analysis presented in the next chapter is focussed on the explanation of this variation.

Chapter 5, *Europeanisation and the Political Economy of Active Labour Market Policies*, co-authored with Ferry Koster, aims at explaining the variation in effort devoted to ALMPs across countries and over time. Chapter 2 and Chapter 4 indicate that policy changes in member states have resulted in an EU-specific trend of convergence towards more ALMPs. In this chapter, the study proceeds with testing the impact of the EES on national labour market policy reforms, using pooled time series cross-section regression analysis. Building on the existing case-study literature, new indicators are proposed and investigated, to analyse the variation in the impact of the EES across countries and over time. In line with the findings of the convergence analyses carried out in the foregoing chapters, the results presented in this chapter suggest that the EES has contributed to increased emphasis on activation in national labour market policies.

In Chapter 6, *Private Social Security and International Economic Integration*, the impact of international economic integration on welfare states is examined. A review of the large body of existing literature on this topic illustrates that evidence has been found that economic integration may lead to both retrenchments and expansions of public social protection. This ambiguity is troublesome, and it is due to the largely indirect relationship between economic integration and public social protection reforms. This relationship is indirect because it is implied that economic integration influences the behaviour of voters, which eventually results in policy changes. Instead, the impact of economic integration could be analysed more directly by focussing on private social security, where political mechanisms are not expected to interfere. Hence, this chapter analyses the cross-country and longitudinal variation in the participation in private social security plans, relying on pooled time series cross-section regression analysis. Rather than tracing the direct impact of European integration on European welfare states, this chapter relates to international economic integration more generally. However, among other indicators of international economic integration, also an indicator is included to measure the impact of European economic integration explicitly. The findings of the study lend support for the fiercely debated hypothesis in the political economy literature that international economic integration triggers expansion of welfare state arrangements through an increased demand for social protection.

In Chapter 7, *Conclusions: Main Findings, Implications and Outlook*, the dissertation ends with a summary of the main results, and with a discussion of their implications for the scholarship of the Europeanisation of welfare states.

# 2 Patterns of Welfare State Indicators in the EU Is There Convergence?

*Abstract*

Convergence of social protection objectives and policies in member states is an explicit objective of the EU. Earlier research has shown that there has indeed been a tendency of convergence of social protection levels over the last decades. However, comparative studies frequently use indicators which may not be representative as measures of the welfare state. In this article we have done several convergence tests with the most recent data, using a variety of indicators of social protection: social expenditures, both at the macro and at the programme level, replacement rates of unemployment and social assistance benefits and poverty indicators. Together, these indicators provide a broader picture of the evolution of social protection. Our results are less clear cut than earlier findings. We still find convergence of social expenditure in EU countries over a longer period. However, this trend seems to have stagnated in recent years. The evidence is mixed for the other indicators. Replacement rates of unemployment benefits converged to a higher level, but social assistance benefits did not. Poverty rates and poverty gaps have converged since the mid-1980s, but the levels of both indicators have developed in the opposite direction.

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## 2.1 INTRODUCTION[1]

Social progress has been a European objective since the Treaty of Rome in 1957. The founding fathers of the EU believed that economic integration would promote progress in social protection across participating countries, such that convergence of social protection systems would follow more or less spontaneously. However, the welfare state literature indicates that economic integration may also be harmful to social protection systems. Fears for a social race to the bottom have been expressed. In the 1990s both the European Council and the European Commission adopted a more active convergence strategy: they proclaimed the objective of a convergence of social policies of member states and the development of common objectives of social policies. In 2000 the European Council adopted the goal that besides economic growth, social cohesion should also be strengthened in the EU (the Lisbon Agenda). The open method of coordination was introduced as the means of spreading best practice and achieving greater convergence towards the main EU goals. Social indicators were developed to monitor the improvements with respect to the social cohesion. This Lisbon Agenda has renewed the interest in patterns of social protection across member states. Thus, Europeanization may contribute to social convergence.

In this article we will test the convergence hypothesis. Earlier research has shown that there has been a tendency towards rather strong convergence of social protection systems in the EU countries over the last decades (Cornelisse and Goudswaard, 2002). However, the indicators used in earlier studies – mostly public expenditure on social benefits – may not be representative for the social security system at large. Indeed, there are several problems. Expenditure ratio's are determined to some extent by unemployment rates and by the demographic structure in a country and thus do not fully reflect protection levels. Also, most analyses of social protection are focused on public arrangements only. But social effort is not restricted to the public domain; all kinds of private arrangements can be substitutes for public programmes (Caminada and Goudswaard, 2005). Also, differences in the tax treatment of social benefits make international comparisons of social protection systems much more difficult. The OECD did a comprehensive study on social expenditure, in which they account for private social benefits and the impact of the tax system on social expenditure (Adema, 2001; Adema and Ladaique, 2005). But adjusted aggregate expenditure data can only provide a rough indication of the degree of social protection offered by different welfare states. More indicators, also at the programme level or at the microlevel are necessary

1 We thank Barbara Wolfe, Maroesjka Versantvoort, Michael Kaeding, Bart van Riel, Steffen Osterloh and two anonymous referees of the Journal of Common Market Studies for their helpful comments and suggestions on earlier drafts of (part of) our research.

to make an adequate comparison across countries and to test the social convergence hypothesis.

In this article we will do several convergence tests using recent data on social protection. To that end we use a variety of social indicators: (a) at the macro level: total public social expenditure and total public and private social expenditure (accounting for the impact of private arrangements and for the impact of the tax system); (b) at the programme level: expenditures on various social programmes, including old age, disability, unemployment, health, family, active labor market programmes and various other social policy areas; and (c) at the individual level: replacement rates of unemployment benefits, minimum social assistance levels and poverty rates after social transfers. This poverty rate is an official EU social cohesion indicator.

The article is organized as follows. In section 2.2 we discuss the Europeanization of social policies and the hypothesis of social convergence. In section 2.3 we introduce and discuss the welfare state indicators used, the data and the σ and β convergence tests. Section 2.4 presents the results of several cross-country analyses. Section 2.5 concludes the article.

## 2.2 THE CONVERGENCE HYPOTHESIS

*Effects of economic integration*

Should we expect social convergence in the EU? Theoretically, convergence of social protection may occur both as a consequence of European economic integration and more in particular the creation of a single market, and as a consequence of the implementation of EU social policies (Leibfried, 2000). In this section we discuss the effects of economic integration. The traditional opinion – already expressed by the founding fathers of the EU – is that economic integration promotes progress in social protection across participating countries, such that convergence of social protection systems follows more or less spontaneously. Theoretically, however, economic integration can be both beneficial and harmful to social protection systems. On the one hand, it can be argued that economic integration leads to more economic development in relatively poor countries and economic development in turn strengthens the need for an extended system of social protection as well as the opportunity to fund it (Goudswaard and Van Riel, 2004). To insure themselves against the increased dynamics of the labor market due to international economic integration, people desire higher levels of social protection (Agell, 1999: 154). On the other hand, internationalization goes along with higher mobility of production factors. An increase in migration can cause adverse selection problems: individuals who expect to be net beneficiaries will be attracted to countries with generous social programmes, while net contributors are deterred by the high tax burden in these countries. This puts pressure on the generosity of social security systems, because the social expenditures rise and the tax base narrows (Sandmo, 2001). In the end, this results in convergence to lower social protection levels (Sinn, 2002). This is a standard argument for centralizing redistribution policies in an economic union, although it can be demonstrated that centralization is not an inevitable consequence (Wildasin, 1991). A second argument says that the competitive position of countries with relatively generous protection systems may be damaged through higher labour costs, especially in a single market (Sinn, 2003). Consequently, competition leads to lower standards of social policies, the so-called 'social race to the bottom' or 'social dumping' (Scharpf, 1999). This effect could even be strengthened by the fact that because of the EMU criteria, countries can only increase their competitiveness with supply-side strategies (Scharpf, 2002: 649). As a consequence, again social protection may converge to lower levels.

At the national level, the indirect effects of European economic integration can be explained by changing domestic opportunity structures. According to this mechanism of Europeanization, domestic policies are not affected by prescriptive EU requirements, but by redistribution of powers and resources between domestic actors (Knill and Lehmkuhl, 2002). This shift in national political arenas may eventually lead to policy changes. The pressure on labour costs due to international competition may limit certain actors to bargain on expansions of social protection, while it may provide actors who are in favour of retrenchments with more political power.

From the above discussion it can be concluded that theory does not tell us clearly whether economic integration leads to more or less social protection and whether there will be spontaneous convergence of social protection systems.

*Europeanization*

What is the role of EU policies as far as social convergence is concerned? In the literature, several authors have pointed out that Europeanization and convergence are not interchangeable concepts (Graziano and Vink, 2007). Whereas Europeanization can generally be regarded as domestic change caused by European integration (Vink, 2003: 63), convergence refers to a decrease in variation across countries over time. Hence, convergence can occur as a result of Europeanization (Radaelli, 2000), but Europeanization could lead to continuing divergence as well and it is therefore an empirical question whether Europeanization leads to convergence.

In principle, member states of the EU are still autonomous when it comes to the design and generosity of their social protection systems. Still, member states have accepted a certain degree of commitment in terms of social protection. This commitment is embodied in two recommendations accepted by the European Council in 1992. The first recommendation, of June 1992, dealt with common criteria concerning sufficient resources and social assistance in social protection systems (92/441/EEC). The second recommendation, of July

1992, explicitly addressed the 'convergence of social protection objectives and policies' (92/442/EEC). The motivation was that convergence seeks to guarantee the continuation and stimulate the development of social protection within the context of the completion of the internal market. And also that member states face common problems, such as ageing of the population, unemployment, changing family structures and poverty; common objectives must act as pointers to the way social protection systems are modified to take account of these problems. The desirability of convergence of member states' policies has been reconfirmed in several reports of the European Commission, such as the White Paper on European Social Policy of 1994 (Commission, 1994) and reports on Social Protection in Europe. The 1998 Employment Guidelines, as a result of the Jobs Summit in Luxembourg at the end of 1997, can partly be seen as an implementation of the convergence strategy.

A new and important step was taken at the European Council in Lisbon 2000. For the EU the strategic goal was set for the decade ending in 2010 to become the most competitive and dynamic knowledge-based economy with sustainable economic growth and greater social cohesion. To achieve these aims, the social model needs to be modernized. To ensure long-term sustainability of the social security systems in the light of the ageing process, participation rates should be increased.

The Treaty of Nice of 2001 took the social agenda forward. It was agreed to advance social policy on the basis of the open method of coordination (OMC), first employed with respect to employment policies. The method recognizes that social policy remains the responsibility of member states, under the principle of subsidiarity. It implies that member states define and evaluate common objectives and learn from each other how to best reach these objectives. Best practices are disseminated and benchmarking is used. Coordination is based on evaluation and peer pressure, but does not offer the option of sanctions. In Nice it was decided that member states should implement action plans for combating poverty and social exclusion and to define common objectives on social indicators. The indicators encompass financial poverty, income inequality, long-term unemployment, regional variation in employment rates, life expectancy and poor health.

Some consider these common indicators and the national action plans for social inclusion as significant progress towards integration along the social dimension (Atkinson, 2002). Others question this form of coordination (Leibfried, 2002).

Because of the non-binding character, the impact of this new mode of governance on national policies is highly debated in the literature (Zeitlin and Pochet, 2005; Kvist and Saari, 2007b). Instead of Europeanization based on institutional compliance (Knill and Lehmkuhl, 2002), the structural coupling between the European and national level brought about by the OMC relies on other mechanisms. Firstly, the OMC may have a normative influence on national policies. Objectives are normatively formulated and targets are defined. In addition, guidelines provide specific policy norms, stating that member states should focus more on certain policies. To enforce these guidelines, member states receive comments and recommendations from Commission services annually on the progression in their policies regarding the guidelines and objectives. By means of these norms, the OMC diffuses a paradigm of activation and inclusion through the member states, aimed at influencing the domestic policy-making arena's.

A second Europeanization mechanism effected by the OMC is mutual learning. In the peer review programme, an institutionalized setting of policy learning, country representatives learn from the experiences of their international peers. Policies regarded as best practices will be imitated by policy-makers, called policy mimicking. Recently, Heidenreich and Bischoff (2008: 516) even argued that this cognitive dimension is the prevailing influencing mechanism of the OMC.

Although the differences in social protection systems across countries are explicitly taken into account in the OMC, this new mode of governance can certainly be expected to trigger convergence in social policies across the member states. Following the idea of 'contextualized learning', the OMC does not prescribe specific policy instruments, leaving room for countries to opt for policy instruments that suit their domestic situations best. Therefore the OMC will not lead to convergence in specific policy instruments, but as policy-makers get influenced by the normative and cognitive mechanisms of the OMC, policy areas may shift towards a certain direction, leading to a form of convergence in the end. At least, this new mode of governance and the Lisbon agenda in general, have renewed the debate on convergence patterns across EU member states.

In line with the discussion above, we hypothesize that Europeanisation has led to convergence of social protection systems across European countries. This social convergence hypothesis we develop here has two components. Firstly, we expect the dispersion across countries to decrease over time, leading to convergence. The second component is the direction of convergence. As a consequence of the policy initiatives at the European level, we expect convergence of social protection and social inclusion at least to the middle, or to higher levels.

*Earlier findings*

Over the past decades the attention for analysing convergence of social expenditures has grown steadily. Early scholars as Wilensky (1975) show that from the 1950s social expenditures have grown in rich countries. The hypothesis is that due to similar developments such as industrialization and economic growth public expenditures on welfare of modern societies will converge. Montanari (2001: 470) called this the 'old convergence' hypothesis. O'Connor's (1988) study, however, does not confirm this old convergence hypothesis empirically. She concludes that there is minimal convergence in social transfers and social expenditures among 17 countries in the period 1960-1980.

From the mid-1990s, the central argument is that globalisation and Europeanisation led to a downward convergence of social expenditures. This argument is what Montanari (2001: 470) called the 'new convergence' hypothesis. Empirically, scholars found no evidence supporting this hypothesis. Greve (1996) assesses the impact of European integration on social policies and he finds upward convergence of the expenditures on social protection in 12 EU countries in the period 1980-1993. Cornelisse and Goudswaard (2002) find not only an upward convergence in social benefit expenditures, but also in gross replacement rates of unemployment benefits. Their study shows that EU countries as well as non-EU OECD countries converged between 1960 and 1980, but that between 1980 and 1999 only the EU countries converged. Goudswaard and Caminada (2006) also find a strong upward convergence in European social spending and gross replacement rates of unemployment benefits. Castles (2004: 37) found for social expenditures upward convergence across 21 OECD countries between 1960 and 1998. Whereas for social expenditures controlled for ageing and unemployment he found downward convergence in the period 1980 and 1998. Bouget (2003) divides the period 1980-1998 into three sub periods. He finds in an EU-14 sample as well as in an OECD-21 sample convergence between 1980 and 1990, divergence between 1990 and 1993 and again convergence between 1993 and 1998. Pestieau (2006) concludes that there was a limited tendency towards convergence in spending during the period 1980-2001. Adelantado and Calderσn Cuevas (2006) found that European welfare states were converging towards the middle in terms of public expenditure, social protection expenditure, income inequality and the risk of poverty between 1992 and 2001. Alsasua et al (2007) show a picture of convergence across EU-member states between 1985 and 1999. Van Vliet (2010a) found convergence of social expenditure controlled for unemployment and ageing across the EU between 1995 and 2002, while he found divergence across seven non-EU OECD countries. These results possibly demonstrate an effect of European integration.

All in all, although many qualitative guided researchers favour arguments that show continuing national diversity (Pierson, 2001; Taylor-Gooby, 2001; Daguerre and Taylor-Gooby, 2004; Hvinden, 2004; Martinsen, 2005), the overall result of quantitative studies seems to be that there is convergence in social expenditures across European countries over the last 25 years.

## 2.3 RESEARCH DESIGN

*Expenditure indicators*

Most comparative and convergence studies of social protection use social expenditures as a measure of the level of social protection in different countries. We use data from the most recent OECD Social Expenditure Database

(2007b). This database contains aggregate and disaggregated data on social expenditures. The main social policy areas included are old age, survivors, incapacity-related benefits, health, family, active labor market programmes, unemployment, housing and some others. Both cash benefits and benefits in kind are included. In this study we will perform convergence tests both at the aggregate level and at the programme level. At the aggregate level, the social expenditure indicator has its limitations (Kühner, 2007). Changes in expenditure ratio's may not be caused by policy changes, but simply by the number of beneficiaries as a result of an ageing population or changes in unemployment levels due to cyclical factors. For this reason, we will control for cyclical and demographic factors. When the data are controlled for cyclical and demographic effects, it seems more plausible that patterns of convergence can be attributed to policy changes which are influenced by processes of economic integration or Social Europe. However, several methods to 'standardize' total social expenditures to control for changes in welfare demand (the number of beneficiaries) are criticized because of bias.[2] An attractive method put forward in the literature by Kühner (2007: 16) is simply to include independent variables measuring the unemployment rate (for cyclical factors) and the ratio of the elderly population (for old age pensions) in respective regression estimations to control for cyclical and demographic factors.

To indicate whether it is Europeanization rather than globalization that has had any impact on the convergence of social expenditures, we include not only EU member states, but also other OECD countries. These non-EU OECD countries control for the effects of globalization.

Other problems with social expenditure as an indicator for differences in social protection across countries are related to differences in the public/private mix in the provision of social protection and differences in tax features. Adema (2001) has developed indicators that aim to measure what part of an economy's domestic production recipients of social benefits really draw on – net total social expenditure. This requires capturing private social benefits and the impact of tax systems on social effort. For private programmes to be considered 'social', they need to have a social purpose and contain an element of interpersonal redistribution.[3]

The impact of the tax system on the social effort is threefold. In some countries cash benefits are taxable as a rule, in other countries they are not.

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2 See for example Castles (2002), Castles (2004), Clayton and Pontusson (1998), Van Vliet (2010a).

3 Private social programs can be mandatory or voluntary. Mandatory private benefits are often incapacity related. For example, in several countries employers are obliged to provide sickness benefits. Occupational injuries and accidents are sometimes covered by mandatory private insurances. A number of EU-member states have supplementary employment-based pension plans with mandatory contributions, based on a funding system. Voluntary private social security covers a wide range of programs, of which private pension plans and private social health insurance constitute major components.

In the former countries net social effort is less than suggested by gross spending indicators. Indirect taxation of consumption by benefit recipients is another factor that may blur the picture. When indirect taxes are higher, benefit recipients have less effective purchasing power. And thirdly, the tax system can be used for social purposes. Tax deductions (for example, family tax allowances) replace direct expenditures in some cases. The Earned Income Tax Credit in the United States is a good example of a tax break, which has the features of a social protection programme. To control for the impact of tax systems on social spending, we will use the OECD data on net social expenditure. Unfortunately, these data only cover a relatively short time period (1993-2003) and are not available for all EU member states.

*Generosity and poverty indicators*

Several comparative studies of social security systems have turned to the use of replacement rates as measures of the level of benefits in different countries and therefore of the degree of social protection offered by different welfare systems (Caminada and Goudswaard, 2001 and 2002). However, replacement rates can also only be seen as limited indicators of the generosity of benefit systems (Whiteford, 1995). Some of the limitations are: (1) replacement rates are based on entitlement rules and often represent only the maximum payment available in the circumstances specified; (2) benefits are often not fully indexed, implying that benefits represent a decreasing percentage of wages; (3) not all relevant benefits may be reckoned with (such as housing subsidies or health care); and (4) taxation can blur the picture. To monitor social policy developments, one should ideally calculate a variety of replacement rates (differentiated by, for example, earnings levels, family situations and duration of spells). The basic approach adopted by the OECD to measure replacement rates is to compute the total benefit payable in a year of unemployment for a variety of 'typical' worker and household cases (for example, OECD, 2002, 2004, 2006). We use the mean of these gross replacement rates, which is taken to represent a summary measure of benefit entitlements.

The OECD also calculates net replacement rates. Unfortunately, these data are only available for a few data years (2001-2005), so we cannot use them for our time series analysis. But we do have another time series of net replacement rates, based on Cantillon et al. (2004). They calculated replacement rates for the basic social benefits: net social assistance benefits, as a proportion of average earnings.[4] These figures, available for the period 1992-2001, give a good indication of the generosity of the welfare systems at the minimum level in different countries.

Next, we use an important EU indicator for social cohesion: the at-risk-of-poverty rate after social transfers. This rate is defined as the share of persons with an equivalised disposable income below the risk-of-poverty threshold,

4 The figures are derived from standardized calculations from national informants.

which is set at 60 percent of the national median equivalised disposable income. For this indicator Eurostat data are available for the period 1995-2006, but not for all member states. This poverty rate reflects the extent to which welfare states offer protection against poverty, although obviously poverty rates are also influenced by other factors than welfare state programmes. Finally, for a further comparison, we will also use the OECD poverty indicators: the poverty rate and the poverty gap. The OECD poverty rate is defined as the proportion of individuals with equivalised disposable income less than 50 percent of the median income. The poverty gap is the percentage difference between the average income of the poor and the 50 percent of median income poverty threshold. These OECD poverty data are available from the mid-1980's until the mid-2000s.

*σ- and β-convergence tests*

One of the most simple methods for estimating convergence of social protection levels is using the standard deviation as a statistical yardstick (σ-convergence). With this method it is possible to examine how the dispersion between social protection levels, or other social indicators, has changed. A property of the standard deviation is that its value rises with the average value of the data set to which it is applied. To account for this, we also use the so-called coefficient of variation, defined as the standard deviation divided by the value of the mean of the corresponding data set. Cornelisse and Goudswaard (2002) apply the term relative convergence (divergence) when observing a drop (rise) in the value of the coefficient of variation and the term absolute convergence (divergence) when using the standard deviation as criterion.

We also employ β-convergence tests. β-convergence implies that convergence occurs when the regions with lower social protection levels tend to record a greater rate of growth in social protection.[5] In other words, the relatively backward regions tend to catch up with the relatively advanced regions on the indicator of interest.

It should be noted that β-convergence has a twofold connotation, absolute and conditional convergence.[6] The absolute convergence hypothesis is usually tested for homogeneous groups of economies such as the EU, where characteristics such as preferences and institutions are relatively similar. Therefore, we employ the absolute convergence hypothesis. We test β-convergence on social

5 Usually, the concept of β-convergence refers to the speed at which the income per capita of a poor region approaches the level of a rich one. The 'economic convergence literature' is typified by the seminal papers of Barro and Sala-i-Martin (1992 and 1995), exploring β-convergence. See also Sala-i-Martin (1996a and 1996b) survey on this literature, and Quah (1993, 1996a, and 1996b) for criticism.

6 The former implies that the process of convergence can be observed regardless of other socio-economic characteristics of the regions that are compared. The observed process is defined 'conditional convergence' in case convergence is observed holding constant a number of other 'conditioning' variables; see Quah (1996b) and Sala-i-Martin (1996b).

protection levels as follows. In line with the work of Sala-i-Martin (1996a and 1996b), we linearly regress the annual growth rate of several social protection indicators on the initial level of the social protection indicator at the beginning of the period. The coefficient for absolute β-convergence is estimated using an ordinary least square regression model of cross-sectional data. If the coefficient β is negative (positive), we say that there is absolute convergence (divergence) in social protection levels across countries. The higher the value of β, the faster the social protection indicator in the poor region converges toward the level of the rich one. The hypothesis to test is that coefficient β is negative.[7]

Table 2.1 Gross public social expenditure (% GDP)

| | 1980 | 1990 | 2000 | 2003 | change 1980-2003 |
|---|---|---|---|---|---|
| Australia | 10.9 | 14.1 | 17.9 | 17.9 | 7.0 |
| Austria | 22.6 | 23.7 | 25.3 | 26.1 | 3.5 |
| Belgium | 23.5 | 25.0 | 25.3 | 26.5 | 3.0 |
| Canada | 14.1 | 18.4 | 16.7 | 17.3 | 3.1 |
| Denmark | 25.2 | 25.5 | 25.8 | 27.6 | 2.4 |
| Finland | 18.4 | 24.5 | 21.3 | 22.5 | 4.1 |
| France | 20.8 | 25.3 | 27.6 | 28.7 | 7.9 |
| Germany | 23.0 | 22.5 | 26.3 | 27.3 | 4.3 |
| Greece | 11.5 | 18.6 | 21.3 | 21.3 | 9.8 |
| Ireland | 16.8 | 15.5 | 13.6 | 15.9 | -0.8 |
| Italy | 18.0 | 19.9 | 23.2 | 24.2 | 6.2 |
| Japan | 10.3 | 11.2 | 16.1 | 17.7 | 7.4 |
| Luxembourg | 23.6 | 21.9 | 20.4 | 22.2 | -1.4 |
| Netherlands | 24.1 | 24.4 | 19.3 | 20.7 | -3.5 |
| New Zealand | 17.1 | 21.8 | 19.1 | 18.0 | 0.9 |
| Norway | 16.9 | 22.6 | 22.2 | 25.1 | 8.2 |
| Portugal | 10.8 | 13.7 | 20.2 | 23.5 | 12.7 |
| Spain | 15.5 | 20.0 | 20.4 | 20.3 | 4.8 |
| Sweden | 28.6 | 30.5 | 28.8 | 31.3 | 2.7 |
| Switzerland | 13.9 | 13.5 | 18.0 | 20.5 | 6.6 |
| United Kingdom | 16.6 | 17.2 | 19.1 | 20.6 | 4.1 |
| United States | 13.3 | 13.4 | 14.6 | 16.2 | 2.9 |
| Mean OECD-22 | 18.0 | 20.1 | 21.0 | 22.3 | 4.4 |
| Standard deviation | 5.16 | 4.94 | 4.07 | 4.23 | -0.93 |
| Coefficient of variation | 0.287 | 0.245 | 0.194 | 0.189 | -0.098 |
| Mean EU-15 | 19.9 | 21.9 | 22.5 | 23.9 | 4.0 |
| Standard deviation | 4.94 | 4.27 | 3.85 | 3.86 | -1.08 |
| Coefficient of variation | 0.248 | 0.195 | 0.171 | 0.161 | -0.087 |

*Note:* EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

*Source:* OECD Social Expenditure Database (OECD 2007b); and authors' own calculations.

7 β-convergence is a necessary, but not a sufficient condition for σ-convergence (see Barro and Sala-i-Martin, 1992; Sala-i-Martin, 1996a and 1996b).

## 2.4 RESULTS

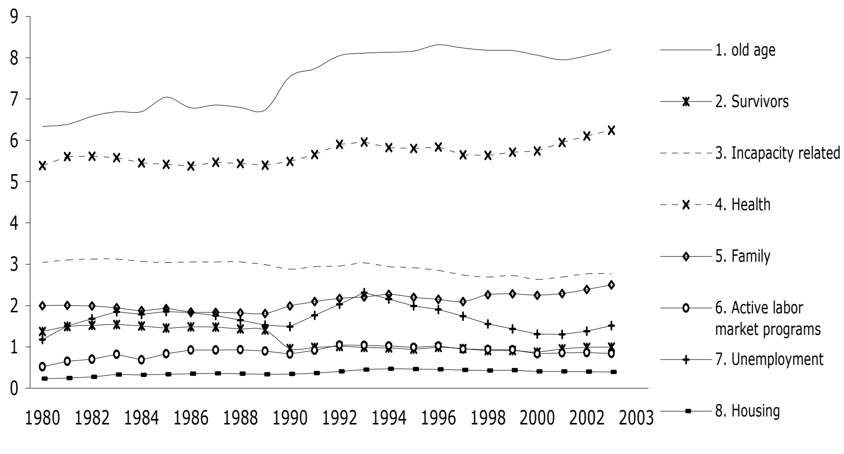
*Gross public social expenditure*

Table 2.1 indicates a strong σ-convergence of gross social protection expenditure, both relatively and absolutely, especially within the European Union. Between 1980 and 2003 the standard deviation of public social spending of EU countries declined by 22 percent, while the coefficient of variation showed a decrease by 35 percent. The EU average level of social spending increased by 4.0 percent points of GDP in the period 1980-2003, which does not indicate a social race to the bottom. On the contrary, especially the Mediterranean countries, with rather low levels of protection in 1980, caught up rapidly in terms of social expenditure, in particular Portugal. This largely explains the rather strong social convergence in the EU. However, convergence seems to have slowed down in recent years. When other OECD countries are included, social expenditure levels converge to a slightly lesser extent than within the EU only.

*Social policy areas*

We also show social expenditures on the various programmes; see Figure 2.1 and Table A2.1 in the appendix. Expenditures on most social security functions have increased quite smoothly, except disability and survivors benefits. Expenditures on public old age pensions show a rather strong divergence from 1980 to 2003. Apparently, governments respond in different ways to the common problems of ageing of populations. However, expenditures on health care, which are also related to ageing of populations, have converged over the last two decades. Also for other functions a convergence tendency can be observed. Expenditures on active labor market programmes and on unemployment, both related to labor market developments, converged rather strongly.

Figure 2.1 Average gross public expenditure by social policy areas in EU15 (% GDP), 1980-2003




*Source*: OECD Social Expenditure Database (OECD 2007b); and authors' own calculations.

Table 2.2 β-Convergence of gross public social expenditure as % of GDP, 1980-2003

| | | intercept | β | adj. $R^2$ |
|---|---|---|---|---|
| Total | OECD-22 | 0.516** (4.92) | -0.018** (-3.24) | 0.311 |
| | EU-15 | 0.755** (4.16) | -0.023** (-3.06) | 0.375 |
| 1: Old age | OECD-22 | 0.111 (1.62) | -0.007 (-0.62) | -0.030 |
| | EU-15 | 0.112 (1.15) | -0.005 (-0.34) | -0.068 |
| 2: Survivors | OECD-22 | 0.009 (1.15) | -0.019** (-3.49) | 0.348 |
| | EU-15 | 0.012 (0.97) | -0.021* (-2.83) | 0.334 |
| 3: Incapacity related | OECD-22 | 0.042* (2.37) | -0.015* (-2.41) | 0.187 |
| | EU-15 | 0.033 (1.45) | -0.015* (-2.17) | 0.209 |
| 4: Health | OECD-22 | 0.218** (6.77) | -0.033** (-5.29) | 0.563 |
| | EU-15 | 0.191** (4.21) | -0.029** (-3.48) | 0.442 |
| 5: Family | OECD-22 | 0.046** (3.08) | -0.012 (-1.62) | 0.072 |
| | EU-15 | 0.052* (2.88) | -0.015 (-1.89) | 0.154 |
| 6: Active labor market programmes [a] | OECD-22 | 0.025** (4.39) | -0.029** (-3.24) | 0.311 |
| | EU-15 | 0.032** (3.87) | -0.034* (-2.95) | 0.355 |
| 7: Unemployment [b] | OECD-22 | 0.036** (3.66) | -0.026** (-4.13) | 0.434 |
| | EU-15 | 0.045** (3.20) | -0.028** (-3.63) | 0.465 |
| 8: Housing | OECD-22 | 0.011* (2.69) | -0.023* (-2.14) | 0.145 |
| | EU-15 | 0.012* (2.27) | -0.022 (-1.57) | 0.095 |
| 9: Other social policy areas [c] | OECD-22 | 0.009* (2.85) | -0.008 (1.64) | 0.075 |
| | EU-15 | 0.015** (4.58) | -0.028** (-3.85) | 0.497 |

a: "1980" data refer to the year 1985 for Austria, Belgium, Germany, Greece, Ireland, and Norway.
b: "1980" data refer to the year 1985 for Ireland.
c: "1980" data refer to the year 1985 for Denmark.

*Note:* OLS-regression; t-statistics in parentheses. ** Significant at the 0.01 level; * significant at 0.05 level

Source: OECD Social Expenditure Database (OECD 2007b); and authors' own calculations.

We also estimated β-convergence of public social expenditure. This is done by regressing the annual growth of gross public social expenditure as percentage of GDP on the initial level of social spending as percentage of GDP. The results, which are presented in Table 2.2, indicate a β-convergence of 1.8 percent per year for the period 1981-2003 for OECD-22, and a β-convergence of 2.3 percent per year for EU-15. This means that the difference of a country with respect to the OECD or EU average declines by 1.8 rep. 2.3 percent per year. For the EU, the functions survivors, incapacity related, health, active labor market programs, unemployment and others show statistically significant β-convergence.

Table 2.3 β-Convergence of public social expenditures in EU-15 controlled for cyclical and demographic effects, 1985-2003

| | (1) | (2) | (3) |
|---|---|---|---|
| Initial level public social expenditure 1985 (β) | -0.029*<br>(-2.42) | -0.032*<br>(-2.86) | -0.035**<br>(-3.67) |
| Unemployment rate | | 0.440*<br>(2.65) | 0.460*<br>(2.95) |
| Population aged 65 and above | | 0.213<br>(0.49) | |
| Intercept | 0.730*<br>(2.75) | 0.837*<br>(2.66) | 0.942**<br>(4.23) |
| adj. $R^2$ | 0.258 | 0.502 | 0.534 |

*Note:* OLS-regression; t-statistics in parentheses. ** Significant at the 0.01 level; * significant at 0.05 level

*Source:* (a) Gross public social expenditures: OECD Social Expenditure Database (OECD 2007b);
(b) Population aged 65 and above as percentage of total population: The World Bank: World Development Indicators;
(c) Unemployment rate: the number of people unemployed as percentage of the labor force: The World Bank: World Development Indicators; Unemployment rate Germany (1985), New Zealand (1985) and Switzerland (1985): OECD Labour Force Survey; and own calculations.

*Control for cyclical and demographic effects*
As discussed before, convergence of social expenditure ratio's may simply be caused by the number of beneficiaries as the result of ageing of the population or changes in unemployment levels due to cyclical factors, rather than by globalization or Europeanization. To control for these factors, we again estimate β-convergence of gross public social expenditure by regressing the annual change of gross public social expenditures on the initial level of gross public social expenditures (1985), the annual change of the unemployment rate (1985-2003) and the annual change of the percentage of population aged 65 and above (1985-2003).[8]

The estimations are presented in Table 2.3. In the second column we see that although we controlled for cyclical and demographic effects, we still find a pretty good fit of β-convergence. Note that the coefficient of changes in the unemployment rate – as a proxy for cyclical factors – is significant, but the effect of the percentage of population aged 65 and above does *not* significantly differ from 0. This means that parallel developments in the unemployment rate across countries partly explain the growth in social spending, while the ageing of populations, in contrary to what usually is assumed in the literature (Castles, 2004; Kühner, 2007), cannot. These results are in line with the results of our analysis of the individual social protection programs as presented above, which show a strong convergence of unemployment benefits, and divergence of public old-age pensions.

*Net total spending*
Table 2.4 presents figures on the net social expenditure as percentage of GDP, based on the figures of Adema (2001), Adema and Ladaique (2005), and the 2007 edition of the Net Social Expenditure data. The table shows all countries for which information is available on net social spending indicators for the period 1995-2003. The data indicate that accounting for the impact of taxes and of private social expenditure has an equalizing effect on levels of social effort across countries. Net social expenditures declined on average in the period 1995-2003, especially in the EU member states included in Table 2.4. The countries also show a substantial divergence of expenditures. This surprising result can partly be explained by the fact that the Mediterranean welfare states are not included. Interestingly, the net social expenditures of the Scandinavian countries decreased sharply.

*Replacement rates*
Compared to expenditure data, replacement rates are a better indicator of the generosity of welfare systems, although certainly not a perfect indicator. Table 2.5 shows that gross replacement rates of unemployment benefits increased

8 Due to missing data for several countries in the early 1980's, we used data for the period 1985-2003.

on average by 4.9 points in the EU in the period 1981-2005. The figures indicate a quite strong σ-convergence of gross replacement rates, both relatively and absolutely, more within the EU than in the OECD. Between 1981 and 2005 the standard deviation of gross replacement rates of EU countries declined by 35 percent, while the coefficient of variation showed a decrease by 45 percent. Again, especially the Mediterranean countries, with rather low levels of protection in 1981, caught up rapidly in terms of gross replacement rates. Denmark and the Netherlands, the two countries with the highest replacement rates in 1981, show the sharpest decreases, which partly explains the trend of convergence. The upward convergence of replacement rates means that the upward convergence of public social expenditure on unemployment (see Table A2.1) not only depends on the number of unemployed people, but is also related to the level of protection for each unemployed individual.

Table 2.4 Net total social expenditure in % GDP, 1993-2003

| | 1995 | 1997 | 2001 | 2003 | Change 1995-2003 |
|---|---|---|---|---|---|
| Australia | 20.3 | 20.4 | 21.1 | 20.6 | 0.3 |
| Austria | 25.7 | 22.0 | 21.8 | 22.2 | -3.5 |
| Belgium | 25.3 | 25.4 | 23.2 | 26.0 | 0.7 |
| Canada | 20.6 | 18.9 | 20.3 | 21.2 | 0.6 |
| Czech Republic | 16.6 | 17.2 | 18.5 | 19.8 | 3.2 |
| Denmark | 24.5 | 23.5 | 22.5 | 21.6 | -2.9 |
| Finland | 23.6 | 22.1 | 20.0 | 20.6 | -3.0 |
| Germany | 25.7 | 26.1 | 27.6 | 27.6 | 1.9 |
| Ireland | 17.9 | 16.5 | 12.5 | 14.3 | -3.6 |
| Korea | 5.7 | 8.3 | 10.0 | 8.0 | 2.3 |
| Netherlands | 22.5 | 21.5 | 22.1 | 23.1 | 0.6 |
| Norway | 22.8 | 21.7 | 20.9 | 21.7 | -1.1 |
| Sweden | 28.1 | 27.3 | 26.0 | 26.1 | -2.0 |
| United Kingdom | 23.3 | 21.8 | 23.3 | 24.6 | 1.3 |
| United States | 22.4 | 21.8 | 23.1 | 25.2 | 2.8 |
| Mean OECD (15) | 21.7 | 21.0 | 20.9 | 21.5 | -0.2 |
| Standard deviation | 5.18 | 4.44 | 4.38 | 4.79 | -0.39 |
| Coefficient of variation | 0.239 | 0.212 | 0.210 | 0.223 | -0.016 |
| Mean EU-15 Members (9) | 24.1 | 22.9 | 22.1 | 22.9 | -1.2 |
| Standard deviation | 2.68 | 3.01 | 4.01 | 3.75 | 1.07 |
| Coefficient of variation | 0.111 | 0.132 | 0.181 | 0.164 | 0.053 |

*Source*: Adema (2001), Adema and Ladaique (2005), OECD (2007b); and authors' own calculations.

Table 2.5 Average gross replacement rates unemployment benefits, 1981-2005

| | 1981 | 1991 | 2001 | 2005 | change 1981-2005 |
|---|---|---|---|---|---|
| Australia | 22 | 26 | 25 | 22 | -0.1 |
| Austria | 29 | 31 | 32 | 32 | 2.5 |
| Belgium | 45 | 42 | 38 | 41 | -3.8 |
| Canada | 18 | 19 | 15 | 12 | -6.2 |
| Denmark | 54 | 52 | 51 | 49 | -5.3 |
| Finland | 24 | 39 | 35 | 35 | 11.6 |
| France | 31 | 38 | 44 | 39 | 7.7 |
| Germany | 29 | 29 | 29 | 24 | -5.1 |
| Greece | 6 | 13 | 13 | 13 | 7.3 |
| Ireland | 28 | 29 | 30 | 34 | 5.5 |
| Italy | 1 | 3 | 34 | 33 | 31.8 |
| Japan | 9 | 10 | 9 | 8 | -1.0 |
| Netherlands | 48 | 53 | 53 | 35 | -12.6 |
| New Zealand | 29 | 30 | 28 | 26 | -2.3 |
| Norway | 29 | 39 | 43 | 34 | 4.6 |
| Portugal | 9 | 34 | 41 | 40 | 31.0 |
| Spain | 28 | 34 | 36 | 36 | 8.1 |
| Sweden | 25 | 29 | 24 | 24 | -1.3 |
| Switzerland | 13 | 22 | 38 | 33 | 19.9 |
| United Kingdom | 24 | 18 | 17 | 16 | -8.6 |
| United States | 15 | 11 | 14 | 13 | -1.1 |
| | | | | | |
| Mean OECD-21 | 24.5 | 28.6 | 30.8 | 28.5 | 3.9 |
| Standard deviation | 13.26 | 12.94 | 12.15 | 10.85 | -2.41 |
| Coefficient of variation | 0.540 | 0.452 | 0.394 | 0.381 | -0.159 |
| | | | | | |
| Mean EU-15 Members (14) | 27.2 | 31.6 | 34.0 | 32.1 | 4.9 |
| Standard deviation | 14.69 | 13.33 | 11.04 | 9.48 | -5.21 |
| Coefficient of variation | 0.539 | 0.422 | 0.325 | 0.295 | -0.244 |

*Note:* A simple average of replacement rates is taken to represent a summary measure of benefit entitlements. In all cases benefit entitlements have been estimated for two earnings levels (average earnings and two-thirds of average earnings of an Average Production Worker), three family situations (single, with dependent spouse, with spouse in work) and three durations of unemployment spells (one year, 2 to 3 years, 4 to 5 years out of work). The columns show the unweigthed averages of these replacement rates. The computations assume standard circumstances such as 40 years of age, involuntary loss of the former job, long previous work record. etc. For further details, see OECD (1994). Pre-2003 data have been revised.

*Source:* Tax-Benefit Models, OECD (2010b).

Also our β-convergence test implies that convergence occurs (see Table 2.6). The coefficient for absolute β-convergence indicates a significant convergence of 2 percent per year during the period 1981-2005.

In Table 2.7 we show net replacement rates of social assistance benefits. Perhaps surprisingly, welfare benefits have declined rather substantially in a number of countries: Germany, Ireland, the Netherlands, Sweden and the United Kingdom. Also average welfare benefits have fallen between 1992 and 2001. The data on the computed average of the net replacement rates of social assistance benefits do not show a σ-convergence.

Table 2.6 β-Convergence of mean gross replacement rates unemployment benefits, 1981-2005

| | intercept | β | adj. $R^2$ |
|---|---|---|---|
| OECD-21 | 0.715**<br>(3.97) | -0.022**<br>(-3.48) | 0.357 |
| EU-15 | 0.965**<br>(4.67) | -0.028**<br>(-4.18) | 0.559 |

*Note:* OLS-regression; t-statistics in parentheses. ** Significant at the 0.01 level; * significant at 0.05 level
*Source*: Tax-Benefit Models, OECD (2010b).; and authors' own calculations

*Poverty rates*

Finally, we investigated trends in several poverty indicators; the poverty rate and the poverty gap. Table 8 shows that the poverty indicator used by the EU as a measure of social cohesion did not decline on average between 1995 and 2006. Poverty rates after social transfers even rose in Denmark, Finland, Luxembourg, Spain, and Sweden between 1995 and 2006. The dispersion in poverty rates between EU-15 countries declined by 29 percent according to the coefficient of variation during this period. Since the adoption of the Lisbon Agenda in 2000, poverty rates after social transfers in the EU-15 rose on average, but show a rather strong converging trend.[9]

9 This result should be interpreted with caution, because there is a disruption in the time series of poverty indicators presented in Table 2.8. Until 2001, data were provided by the European Community Household Panel survey (ECHP). Since 2005 all EU-15 countries provide data from the new European Union Statistics on Income and Living Conditions (EU-SILC). During the transitional period poverty indicators were provided by national sources which were harmonized ex-post as closely as possible with EU-SILC definitions by Eurostat. Despite the fact that most EU-SILC variables are defined in the same way as the corresponding ECHP variables, some differences arise; see Guio (2005). See for more details the paper on 'The continuity of indicators during the transition between ECHP and EU-SILC' by Eurostat (2005).

Table 2.7 Net social assistance as % of net disposable income at average wage level, 1992 and 2001

| | Couple, active | | Lone parent + children, active | | Couple, senior | | Lone parent, senior | | Computed average | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1992 | 2001 | 1992 | 2001 | 1992 | 2001 | 1992 | 2001 | 1992 | 2001 |
| Austria | 51 | 51 | 57 | 61 | 66 | 70 | 49 | 53 | 56 | 59 |
| Belgium | 45 | 42 | 59 | 56 | 45 | 44 | 38 | 37 | 47 | 45 |
| Denmark | 49 | 76 | 76 | 66 | 108 | 79 | 59 | 80 | 73 | 75 |
| France | 32 | 32 | 37 | 37 | 56 | 57 | 34 | 34 | 40 | 40 |
| Germany | 39 | 34 | 58 | 53 | 45 | 34 | 25 | 24 | 42 | 36 |
| Ireland | 45 | 39 | 43 | : | 59 | 38 | 34 | 26 | 45 | 34 |
| Luxembourg | 54 | 61 | 56 | 57 | : | : | : | : | 55 | 59 |
| Netherlands | 66 | 49 | 63 | 46 | 66 | 56 | 50 | 43 | 61 | 49 |
| Norway | 56 | 50 | 56 | 50 | 62 | 67 | 40 | 42 | 54 | 52 |
| Portugal | : | 45 | : | 51 | 40 | 45 | 20 | 23 | 30 | 41 |
| Spain | : | : | 31 | 30 | 35 | 36 | 20 | 22 | 29 | 29 |
| Sweden | 72 | 58 | 70 | 58 | 83 | 55 | 76 | 48 | 75 | 55 |
| United Kingdom | 38 | 23 | 43 | 33 | 53 | 41 | 34 | 27 | 42 | 31 |
| Mean (9) | 44.8 | 41.5 | 51.9 | 46.0 | 58.4 | 50.3 | 40.5 | 38.8 | 48.9 | 44.2 |
| Standard deviation | 12.4 | 14.8 | 11.4 | 10.3 | 18.9 | 13.7 | 14.6 | 15.7 | 12.5 | 12.5 |
| Coefficient of variation | 0.28 | 0.36 | 0.22 | 0.22 | 0.32 | 0.27 | 0.36 | 0.41 | 0.26 | 0.28 |

*Notes:* Figures are derived from standardized calculations from national informants. They were asked to calculate incomes, taxes and child benefits for 4 model families (single, couple, couple with 2 children, lone parents with 2 children) at different earnings levels in their countries in 1992 and 2001.
Computed average: unweigthed averages of the presented replacement rates for active couples, lone parents with 2 children, senior couples and senior lone parents.
Mean (9): Austria, Belgium, Denmark, France, Germany, Netherlands, Norway, Sweden, and the United Kingdom.

*Source:* Cantillon et al. (2004: 33); and authors' own calculations.

Table 2.8 EU at-risk-of-poverty rate after social transfers, 1995-2006

| | 1995 | 2000 | 2003 | 2006 |
|---|---|---|---|---|
| Austria | 13 | 12 | 13 | 13 |
| Belgium | 16 | 13 | 15 | 15 |
| Denmark | 10 | 10 | 12 | 12 |
| Finland | 8 | 11 | 11 | 13 |
| France | 15 | 16 | 12 | 13 |
| Germany | 15 | 10 | 15 | 13 |
| Greece | 22 | 20 | 21 | 21 |
| Ireland | 19 | 20 | 20 | 18 |
| Italy | 20 | 18 | 19 | 20 |
| Luxembourg | 12 | 12 | 10 | 14 |
| Netherlands | 11 | 11 | 12 | 10 |
| Portugal | 23 | 21 | 19 | 18 |
| Spain | 19 | 18 | 19 | 20 |
| Sweden | 8 | 9 | 11 | 12 |
| United Kingdom | 20 | 19 | 18 | 19 |
| Mean EU-15 Members | 15.4 | 14.7 | 15.1 | 15.4 |
| Standard deviation | 4.80 | 4.16 | 3.70 | 3.44 |
| Coefficient of variation | 0.312 | 0.283 | 0.245 | 0.223 |

*Notes:* Poverty rates are measured as the proportion of individuals with equivalised disposable income less than 60 percent of the median income of the entire population. Slightly different data years for Denmark 2000 (2001), Finland 1995 (1996), Italy 2003 (2004), Sweden 1995 (1997), Sweden 2000 (2001), and Sweden 2003 (2004).

*Source*: Structural Indicators EU - Social Cohesion (Eurostat: ECHP/EU-SILC)

Next, we also include several non-EU-15 countries into our analysis to indicate whether it is Europeanisation rather than globalisation that has had any impact on the convergence of poverty rates. We use the OECD definition of poverty (threshold of 50 percent of median income). Poverty rates in the EU show a rather substantial increase from the mid-1980s until the mid-2000s (Table 2.9). From the mid-1980s to the mid-1990s the unweigted average of poverty rates across OECD countries increased by 0.6 percentage point. In the decade from the mid-1990s to the mid-2000s poverty rates increased again on average by 0.6 point to almost 11 percent of the population.

Over the entire period from the mid-1980s to the mid-2000s, poverty increased in most of the OECD countries. Across the OECD countries for which data are available, the cumulative increase was around 1.1 points. Also, we find a convergence of poverty rates in EU countries: both the standard deviation and the coefficient of variation have fallen during this period. After including a number of other OECD countries, we find the same pattern: on average higher poverty rates, but a convergence trend. So, the OECD data on poverty rates do not show evidence for the theory of Europeanisation.

The poverty gap on the other hand has on average been reduced in the EU from the mid-1980s until the mid-2000s. The reduction of the poverty gap has been smaller in OECD countries outside the EU. Also, we find convergence

– more in the EU-15 than in the OECD group of countries – which is in line with our hypothesis that Europeanization has led to convergence, at least at a constant level; see Table 2.9.

As far as poverty is concerned, our data show mixed results. Both poverty rates and poverty gaps clearly converged since the mid-1980s; however, the levels of both indicators have developed in the opposite direction (see OECD, 2008: 129).

Table 2.9 OECD poverty rates and poverty gap

| Poverty rates | mid-1980s | mid-1990s | mid-2000s | change mid-2000s - mid-1980s | change mid-2000s - mid-1990s |
|---|---|---|---|---|---|
| Austria | 6.1 | 7.4 | 6.6 | 0.6 | -0.7 |
| Belgium | 14.6 | 10.8 | 8.8 | -5.8 | -2.0 |
| Canada | 10.7 | 9.5 | 12.0 | 1.3 | 2.5 |
| Denmark | 6.0 | 4.7 | 5.3 | -0.7 | 0.6 |
| Finland | 5.1 | 4.9 | 7.3 | 2.2 | 2.4 |
| France | 8.3 | 7.5 | 7.1 | -1.2 | -0.4 |
| Germany | 6.3 | 8.5 | 11.0 | 4.8 | 2.5 |
| Greece | 13.4 | 13.9 | 12.6 | -0.8 | -1.2 |
| Ireland | 10.6 | 11.0 | 14.8 | 4.2 | 3.8 |
| Italy | 10.3 | 14.2 | 11.4 | 1.1 | -2.8 |
| Japan | 12.0 | 13.7 | 14.9 | 2.9 | 1.2 |
| Luxembourg | 5.4 | 5.5 | 8.1 | 2.7 | 2.6 |
| Mexico | 20.7 | 21.7 | 18.4 | -2.3 | -3.3 |
| Netherlands | 3.5 | 7.1 | 7.7 | 4.2 | 0.6 |
| New Zealand | 6.2 | 8.4 | 10.8 | 4.6 | 2.4 |
| Norway | 6.4 | 7.1 | 6.8 | 0.4 | -0.3 |
| Spain | 14.1 | 11.8 | 14.1 | 0.0 | 2.3 |
| Sweden | 3.3 | 3.7 | 5.3 | 2.0 | 1.7 |
| Turkey | 16.4 | 16.2 | 17.5 | 1.1 | 1.4 |
| United Kingdom | 6.2 | 9.8 | 8.3 | 2.1 | -1.5 |
| United States | 17.9 | 16.7 | 17.1 | -0.8 | 0.4 |
| | | | | | |
| Mean OECD-21 | 9.7 | 10.2 | 10.8 | 1.1 | 0.6 |
| Standard deviation | 4.8 | 4.5 | 4.0 | -0.8 | -0.5 |
| Coefficient of variation | 0.500 | 0.439 | 0.374 | -0.127 | -0.065 |
| | | | | | |
| Mean EU-15 (14) | 8.1 | 8.6 | 9.2 | 1.1 | 0.6 |
| Standard deviation | 3.7 | 3.3 | 3.0 | -0.7 | -0.3 |
| Coefficient of variation | 0.460 | 0.378 | 0.325 | -0.135 | -0.053 |

| Poverty gap | mid-1980s | mid-1990s | mid-2000s | change mid-2000s - mid-1980s | change mid-2000s - mid-1990s |
|---|---|---|---|---|---|
| Austria | 27.6 | 20.7 | 27.4 | -0.2 | 6.7 |
| Belgium | 37.3 | 38.8 | 20.4 | -16.9 | -18.4 |
| Denmark | 19.4 | 20.2 | 24.3 | 4.9 | 4.1 |
| Finland | 25.9 | 21.8 | 20.3 | -5.6 | -1.5 |
| France | 42.7 | 28.2 | 24.4 | -18.3 | -3.8 |
| Germany | 28.4 | 32.9 | 29.7 | 1.4 | -3.2 |
| Greece | 32.8 | 29.9 | 26.7 | -6.0 | -3.2 |
| Ireland | 18.3 | 7.4 | 25.7 | 7.5 | 18.3 |
| Italy | 42.2 | 35.5 | 33.3 | -8.9 | -2.2 |
| Luxembourg | 18.1 | 17.7 | 20.1 | 2.0 | 2.4 |
| Mexico | 36.4 | 37.3 | 37.9 | 1.6 | 0.7 |
| Netherlands | 22.4 | 18.9 | 20.9 | -1.4 | 2.1 |
| New Zealand | 41.2 | 34.3 | 33.6 | -7.6 | -0.7 |
| Norway | 22.0 | 29.0 | 29.4 | 7.4 | 0.4 |
| Spain | 41.4 | 36.0 | 32.0 | -9.4 | -4.0 |
| Sweden | 25.7 | 30.7 | 24.8 | -1.0 | -5.9 |
| United Kingdom | 16.2 | 19.9 | 24.8 | 8.6 | 4.9 |
| United States | 33.6 | 34.1 | 38.3 | 4.7 | 4.2 |
| | | | | | |
| Mean OECD-18 | 29.5 | 27.4 | 27.5 | -2.1 | 0.1 |
| Standard deviation | 8.9 | 8.4 | 5.6 | -3.3 | -2.8 |
| Coefficient of variation | 0.301 | 0.306 | 0.204 | -0.097 | -0.102 |
| | | | | | |
| Mean EU-15 (14) | 28.5 | 25.6 | 25.4 | -3.1 | -0.2 |
| Standard deviation | 9.1 | 8.6 | 4.1 | -5.0 | -4.5 |
| Coefficient of variation | 0.319 | 0.334 | 0.161 | -0.158 | -0.174 |

*Notes:* Poverty rates are measured as the proportion of individuals with equivalised disposable income less than 50 percent of the median income of the entire population. Poverty gaps are measured as the percentage difference between the average income of the poor and the 50 percent of median income poverty threshold.

*Source:* OECD (2008); and authors' own calculations

## 2.5 Conclusion

Convergence of social protection systems may occur both as a consequence of the implementation of EU social policies and Europeanization mechanisms and as a consequence of economic integration. Theoretically, however, economic integration may be beneficial or harmful to social protection systems. The former theory says that economic convergence will be followed by social convergence, while the latter theory says that policy competition and migration flows will put social protection systems under increased pressure, resulting in a social race to the bottom. Thus, empirical research should shed some light on the actual patterns of social protection.

Earlier research concluded that social protection levels in the EU have shown a pattern of convergence to higher levels since the early 1980s. The convergence of EU welfare states has been stronger than in other OECD countries, indicating a specific EU trend. No empirical evidence for a race to the bottom has been found. However, the welfare state indicators used in earlier studies are difficult to compare across countries and entail various problems. In this article we have done several σ- and β-convergence tests with the most recent data, using a variety of indicators of social protection: social expenditures, both at the macro and at the programme level, also corrected for the impact of the tax system and for private social arrangements, replacement rates of unemployment benefits and social assistance benefits and three poverty indicators. Together, these indicators should provide a broader picture of the evolution of social protection.

Our results are less clear cut than earlier findings. We still find a quite strong convergence of social expenditure in EU countries over a longer period (not caused by cyclical or demographic factors). However, this trend seems to have stagnated in more recent years, possibly under the influence of welfare state reforms. For net total social expenditure (public and private), we even find divergence since 1995 for nine EU member states for which these data are available. Replacement rates of unemployment benefits clearly converged to a higher level, but net social assistance benefits have fallen in several countries since 1992 and do not show convergence. As far as poverty is concerned, our data show dissimilar results. Both poverty rates and poverty gaps clearly converged since the mid-1980s; however, the levels of both indicators have developed in the opposite direction. Only poverty gaps converged to a lower level, which is in line with our hypothesis.

So our analysis provides rather mixed evidence on social convergence, especially for recent years. It is too early to conclude that a trend to lower protection levels and higher poverty rates has started. But our results do suggest that recent EU initiatives regarding social protection and inclusion are not very effective yet.

APPENDIX 2A

Table A2.1 Mean and σ-convergence tests of gross public expenditure by social policy areas (% GDP), 1980-2003

| | | 1980 | 1990 | 2000 | 2003 | change 1980-2003 |
|---|---|---|---|---|---|---|
| Total | Mean OECD-22 | 18.0 | 20.1 | 21.0 | 22.3 | 4.4 |
| | Coefficient of variation | 0.287 | 0.245 | 0.194 | 0.189 | -0.098 |
| | Mean EU-15 | 19.9 | 21.9 | 22.5 | 23.9 | 4.0 |
| | Coefficient of variation | 0.248 | 0.195 | 0.171 | 0.161 | -0.087 |
| 1. Old age | Mean OECD-22 | 5.8 | 6.8 | 7.2 | 7.4 | 1.6 |
| | Coefficient of variation | 0.340 | 0.332 | 0.362 | 0.378 | 0.039 |
| | Mean EU-15 | 6.3 | 7.5 | 8.1 | 8.2 | 1.9 |
| | Coefficient of variation | 0.301 | 0.290 | 0.335 | 0.352 | 0.050 |
| 2. Survivors | Mean OECD-22 | 1.1 | 0.8 | 0.8 | 0.8 | -0.3 |
| | Coefficient of variation | 0.782 | 0.709 | 0.817 | 0.832 | 0.050 |
| | Mean EU-15 | 1.4 | 1.0 | 0.9 | 1.0 | -0.4 |
| | Coefficient of variation | 0.691 | 0.655 | 0.766 | 0.762 | 0.071 |
| 3. Incapacity-related benefits | Mean OECD-22 | 2.5 | 2.6 | 2.5 | 2.7 | 0.1 |
| | Coefficient of variation | 0.580 | 0.543 | 0.462 | 0.505 | -0.075 |
| | Mean EU-15 | 3.0 | 2.9 | 2.6 | 2.8 | -0.3 |
| | Coefficient of variation | 0.468 | 0.476 | 0.398 | 0.446 | -0.022 |
| 4. Health | Mean OECD-22 | 5.1 | 5.3 | 5.7 | 6.3 | 1.2 |
| | Coefficient of variation | 0.219 | 0.183 | 0.128 | 0.121 | -0.098 |
| | Mean EU-15 | 5.4 | 5.5 | 5.7 | 6.2 | 0.8 |
| | Coefficient of variation | 0.219 | 0.181 | 0.146 | 0.144 | -0.074 |
| 5. Family | Mean OECD-22 | 1.7 | 1.8 | 2.1 | 2.3 | 0.6 |
| | Coefficient of variation | 0.576 | 0.607 | 0.476 | 0.455 | -0.121 |
| | EU-15 | 2.0 | 2.0 | 2.3 | 2.5 | 0.5 |
| | Coefficient of variation | 0.516 | 0.546 | 0.407 | 0.385 | -0.131 |
| 6. Active labor market programmes [a] | Mean OECD-22 | 0.5 | 0.7 | 0.7 | 0.7 | 0.2 |
| | Coefficient of variation | 0.836 | 0.575 | 0.581 | 0.529 | -0.307 |
| | Mean EU-15 | 0.6 | 0.8 | 0.8 | 0.8 | 0.2 |
| | Coefficient of variation | 0.739 | 0.501 | 0.502 | 0.446 | -0.293 |
| 7. Unemployment [b] | Mean OECD-22 | 1.0 | 1.3 | 1.1 | 1.3 | 0.2 |
| | Coefficient of variation | 1.110 | 0.775 | 0.700 | 0.676 | -0.434 |
| | Mean EU-15 | 1.2 | 1.5 | 1.3 | 1.5 | 0.3 |
| | Coefficient of variation | 1.110 | 0.750 | 0.639 | 0.609 | -0.443 |
| 8. Housing | Mean OECD-22 | 0.2 | 0.3 | 0.4 | 0.4 | 0.1 |
| | Coefficient of variation | 1.240 | 1.087 | 1.043 | 0.977 | -0.263 |
| | Mean EU-15 | 0.2 | 0.3 | 0.4 | 0.4 | 0.2 |
| | Coefficient of variation | 1.280 | 1.025 | 0.981 | 0.961 | -0.319 |
| 9. Other social policy areas [c] | Mean OECD-22 | 0.4 | 0.4 | 0.5 | 0.5 | 0.1 |
| | Coefficient of variation | 1.167 | 1.161 | 1.007 | 0.848 | -0.319 |
| | Mean EU-15 | 0.3 | 0.3 | 0.4 | 0.4 | 0.2 |
| | Coefficient of variation | 1.217 | 0.803 | 0.615 | 0.500 | -0.626 |

*Notes*: [a] 1980 data refer to the year 1985 for Austria, Belgium, Germany, Greece, Ireland, and Norway. [b] 1980 data refer to the year 1985 for Ireland. [c] 1980 data refer to the year 1985 for Denmark.
*Source:* OECD Social Expenditure Database (OECD 2007b); and authors' own calculations.

# 3 European Social Model: No Convergence from the East

*Abstract*

Quantitative evidence based on social expenditure suggests that since Esping-Andersen's seminal study on welfare regimes, there has been a certain general convergence towards a European Social Model (ESM). The data, controlled for cyclical and demographic effects, shows that in recent years, social expenditures of EU-15 member states have converged, whereas in the mature non-EU welfare states this has not been the case. In this long-term quantitative view, a tentative suggestion would be that Europeanisation might be prevailing over path dependence of distinct models. However, the data also show a certain deviation from the model – the post-communist new member states (NMS) form a distinct group. This is confirmed by a cluster analysis based on social benefit generosity. To provide a background to these findings and, especially, to highlight the avenues for further investigation, the paper also looks at the institutional arrangements in the NMS. In particular, it draws attention to pension systems as a particularly sizeable component of the welfare state to illustrate how far most of the post-communist EU members diverge in terms of the institutional arrangements of their welfare systems. It seems, then, that while the 'deepening' of European integration in other policy areas has been accompanied by a convergence towards a ESM in the EU-15 countries, the 'widening' of the EU has meant, at the same time, that there is now a group of states within the EU that diverge significantly from the dominant model.

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## 3.1 Introduction

Is there convergence in social policy in the EU? In particular, following two recent waves of enlargement, in 2004 and 2007, have the convergence efforts of the newly acceded member states in the legislative and economic sphere, driven by hard policy making (the adoption of *acquis communautaire*) been accompanied by social policy convergence?

In this paper, we subsume three relatively distinct areas of scholarly interest – Europeanisation/convergence, social policy regimes, and social policy in Central and Eastern Europe – under the general theme of *EU deepening* and *widening*. The paper summarizes the changes taking place in the East – in the post-communist new member states (NMS) – and discusses the results in terms of EU integration processes.

Traditional social policy models in the West have been in flux and seem to be converging (Cornelisse and Goudswaard, 2002; Bouget, 2003; Starke et al., 2008; Caminada et al., 2010; Van Vliet, 2010a). Moreover, one of the most quoted social policy hypotheses of recent years, the 'race to the bottom' proposition,[1] has not been borne out by evidence. The countries in the older part of the EU have converged in their social expenditure more by 'racing to the top' than anything else (Cornelisse and Goudswaard, 2002; Bouget, 2003; Starke et al., 2008).

However, a puzzling phenomenon has emerged. The NMS exhibit levels of social expenditure well below those of the EU-15 area. In this paper, we provide updated empirical evidence for this. We analyze social expenditure data, controlled for demographic developments and unemployment, and add a cluster analysis based on social benefit generosity to identify convergence and divergence patterns.

We examine the issue in the context of European integration and regime convergence. The first question is how much the EU dimension ('Europeanisation') may have influenced social policy formation in the post-communist NMS. Both the Open Method of Coordination (OMC), which was introduced to achieve convergence towards EU goals, and the economic integration may have influenced the social protection systems of the NMS – not necessarily in the same direction.

The OMC is an intergovernmental method of cooperation. To achieve common objectives, the individual member states evaluate each other (using benchmarking and discussion of best practice) to achieve peer pressure. The European Commission's role is limited to the surveillance of the process. The OMC was originally developed as part of the Luxembourg (employment policy)

1 'Race to the bottom' refers to the notion that due to the pressures of international economic integration, states will engage in competitive cutting of tax rates, with the natural outcome that they will also have to decrease social protection, which they will not be able to finance at previous rates.

process, starting in 1997. In 2000 the OMC was defined as one of the instruments of the Lisbon strategy. It is used for the areas where the member states retain strong national competences, especially employment, social protection and education.

Secondly, we try to relate our findings to broader literature on welfare regimes. The empirical welfare regime literature has focused mainly on West European (EU-15) and other Western countries (Bonoli, 1997; Gough, 2001; Saint-Arnaud and Bernard 2003; Powell and Barrientos, 2004; Jensen, 2008). Only two recent empirical studies examined the emergence of a Central and East European (CEE) welfare regime. The evidence presented in them is inconclusive: Vasconcelos Ferreira and Figueiredo (2005) found evidence for converging welfare regimes, whereas Fenger (2007) found evidence for a distinct CEE welfare regime in the same period.

Welfare regime studies have continued to be a popular research area ever since Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990). 'Welfare regimes' refer to institutional arrangements between the market, the state and the family, in which the state has a central role by enacting social policies to protect individuals against market risks.

In this paper, we deal with social policy only. We do not include any discussion on industrial relations and other wider arrangements. When we refer to welfare regimes, we mean regimes as proxied by social policy.

Our analysis contributes to the existing studies that look at both old and new EU member states (Vasconcelos Ferreira and Figueiredo, 2005; Fenger, 2007) in three ways. First, it aims to improve the reliability of the results by correcting the spending measures for cyclical and demographic effects. Secondly, it increases the robustness of the results by including all 25 countries.[2] Thirdly, data from the period after the accession capture better the EU effect and update the results.

## 3.2 Deepening and widening in the context of social policy

*Europeanisation and convergence studies*

In the context of EU integration studies, 'deepening' tends to be defined as a process of 'gradual and formal vertical institutionalisation' (Schimmelfennig and Sedelmeier, 2002: 502). 'Widening', on the other hand, is 'a process of gradual and formal horizontal institutionalization' (ibid.). The latter is usually interpreted as 'enlargement', in the geographical sense, in other words as something coterminous with the neo-functionalist geographical spill-over (Faber, 2006: 4). It is this interpretation that we will be using here.

2 From the EU-25, the following countries are not included in Fenger (2007): Cyprus, Ireland, Luxembourg, Malta, Portugal and Slovenia; in Vasconcelos Ferreira and Figueiredo (2005) these are: Cyprus, Malta and Luxembourg.

In this paper, we try to identify whether the EU member states have converged toward a certain European Social Model (ESM). The ESM is usually defined as an ideal type that 'refers to the institutional arrangements comprising the welfare state (transfer payments, collective social services, their financing) and the employment relations system (labour law, unions, collective bargaining)' (Ross and Martin, 2004: 11). Various authors have come up with precise definitions focusing on the minimum generosity of the system and the existence of particular minimum social protection mechanisms. However, we use the term simply as denoting a common model which shows (or does not) in the analyses of convergence/divergence. In other words, rather than being concerned with defining an ideal type, we are concerned with the question whether a certain dominant model has come into existence as a result of convergence processes. This is because our main research question concerns the deepening and widening dimension of social policy in the EU.

EU enlargement has been noted as a potential complicating factor to the gradual emergence and stabilization of a common ESM (Scharpf, 2002; Vaughan-Whitehead, 2003). Changes effected by deepening and widening bring with them new governance challenges or, indeed, they change the 'identity' of Europe as perceived by its citizens and other audiences. European integration has so far mostly been analysed in terms of explanations why national governments have been ceding sovereignty to the European level (Faber, 2006: 4). In contrast, the analysis of the dual processes of deepening and widening (Faber and Wessels, 2006; Faber, 2006) is less concerned with the nation-state and more meant to determine how the heterogeneity and complexity of the EU as a whole changes as a result of EU integration.

The effect of, specifically, widening on the EU's heterogeneity and complexity has to date mostly been dealt with in the growing body of 'Europeanisation' literature. Europeanisation usually denotes the 'top-down' effects of enlargement, i.e. the impact of the Union on its member states. This can mean the general impact of the Union on member states' political processes (Goetz and Hix, 2000; Featherstone and Radaeli, 2003; Vink, 2003; Börzel, 2005). A different strand of Europeanisation studies looks at the 'top-down versus bottom-up effect', assessing the compliance of the member states with centralized EU rule-setting (Falkner et al., 2006; Mastenbroek and Van Keulen, 2006).

Some studies have looked at the effect of Europeanisation specifically on the acceding CEE states (Lippert and Umbach, 2004; Goetz, 2005; Schimmelfennig and Sedelmeier, 2004; Schimmelfennig and Sedelmeier, 2005). Some have looked at social policy harmonisation (Falkner, 2006; Linos, 2007). And some have even specifically analysed the case of Europeanisation and social policy in the NMS (Vatta, 2001; Lendvai, 2004).

The general conclusion of these studies is that the EU has clearly played the standard-setting role through hard policy making in certain welfare-related policy areas, e.g. gender and elderly anti-discrimination legislation as part of labour standards. But what has been the impact of Europe on, specifically, social policy? Here, authors usually point out that on the one hand, the project of social policy harmonisation has long been abandoned (Hantrais, 1995), while, at the same time, national welfare states are constrained by 'European rules of economic integration, liberalization, and competition law, and they must operate under the fiscal rules of the Monetary Union' (Scharpf, 2002).

Nevertheless, the EU level does play a role, most famously through such soft-policy measures as the OMC. However, to date, only a small number of studies in the Europeanisation literature examined the impact of the OMC on the social security systems of the NMS (Ferge and Juhász, 2004; Potůček, 2007; Wóycicka and Grabowski, 2007). These studies have found little evidence for the OMC to be influencing national social policy making.

Some areas of social policy are also affected by regulation spill-over from common market policies – this is notably the case of funded pensions, which are regulated according to the free flow of capital principle. The EU also plays a role in coordinating transferability of pension rights in publicly administered systems. And, last but not least, the EU level is also important in promoting common research and sharing of expertise (Draxler, 2009). Nevertheless, since Europeanisation in terms of soft policy making (the OMC), seems to be a weak force, our initial expectation is that of weak or no convergence.

*Welfare regimes*

In 1990, Esping-Andersen analysed the role of the state according to the level of decommodification of risks and social stratification that the welfare state produces. His main focus was on the way societies develop their own ways of dealing with personal risks (which can be left to market forces or, instead, decommodified and handled at the aggregate, social level). The implication of his exercise is that regimes are subject to certain institutional inertia and path-dependency.

Since Esping-Andersen, others have produced or reproduced similar typologies. Most of these exercises used cluster or factor analysis, based on either social expenditure (Bonoli, 1997) or on a range of characteristics (for a summary and meta-analysis, see Arts and Gelissen, 2006). Following the addition of the Southern model to the widespread Esping-Andersen's three-world typology (Ferrera, 1996), recent debates in Europe have focused, for example, on the question whether the Netherlands belongs to the Continental or the Nordic regime. One of the most recent classifications has been drawn up by Sapir (2006). He identifies four European welfare regimes: Nordic countries (Denmark, Finland, Sweden and the Netherlands), Anglo-Saxon countries (Ireland and the United Kingdom), Continental countries (Austria, Belgium, France, Germany and Luxembourg) and Mediterranean countries (Greece, Italy, Portugal and Spain).

These classification exercises have had their critics, who pointed out that identification of models might carry little analytical information about the socio-economic context (Baldwin, 1996; Abrahamson, 1999; Kasza, 2002). Here, we concur with the view that the stability and the path-dependency of regimes should not be *a priori* assumed. This is particularly true of fast-reforming regimes which exist in a socio-economic context that is generally in flux, as has been the case with the post-communist NMS.

Indeed, one complication of identifying models, particularly in the context of fast-changing socio-economic environments, such as the NMS, is that complex measurements will often include pre- and post-reform characteristics in the same measure. In the cases, where the reform has created a sharp break with the past, this might be problematic. This is most dramatically the case of pension reforms, where the NMS have *en masse* adopted a model specifically designed to contain future social expenditure. An analysis that tries to capture the institutional characteristics of the system might end up using the characteristics of the new system (for example whether it is funded or not), with the characteristics of the old system (current benefits). This has happened, for example, with Soede and Vrooman's recent study (2008). In that case, the authors compared all pension regimes in the EU. Here, since we want to focus largely on social policy in the NMS, we use current social expenditure and discuss institutional characteristics separately.

But, methodological and epistemological difficulties notwithstanding, we consider classification exercises to be a useful starting point for a comparative analysis of social policy. Moreover, the issue of regimes has a special pertinence in connection with EU integration studies, since the existence of a particular dominant model influences how EU integration, and indeed the wider identity of the EU, is viewed.

*Social policy in the New Member States*

The evolution of the post-communist welfare state has always been a little bit of a puzzle. In the early stages of transition, some authors have hypothesized that after a transition period the post-communist welfare regimes would gravitate towards some of the Western models (Deacon, 1992). In fact, many have focused on the transient use of social policies in this period to balance out the radical economic reforms (Lipton and Sachs, 1990a; Lipton and Sachs, 1990b; Åslund, 2007).

However, first, as we have seen, the Western models themselves have been in flux, making it harder to see towards what particular models the NMS would have the option to gravitate. And, secondly, the governments in the region have, in the later stages of transition, actually often carried their economic radicalism over to social policy. This has raised the question whether post-communist welfare regimes were really a transient phenomenon, or whether they have acquired certain particular characteristics, which might be here to stay (Draxler, 2007).

To some extent, the expectations on the development on the post-communist welfare states have been informed by wider debates on how much the transition to capitalism was influenced by path-dependencies (Pierson,

2000) – in other words how it could be viewed as a series of reconfigurations and recombinations of pre-existent structural features of society (Hausner et al., 1995; Stark and Bruszt, 2001). Advocates of the path-dependency view such as Beyer and Wielgohs (2001), rejected suggestions that the transition to capitalism was happening in an 'institutional vacuum', as had been proposed by Karl and Schmitter (1991).

As mentioned before, in trying to determine the level of convergence of NMS social policy, two research papers based in the welfare-regimes tradition of cluster analysis have come up with slightly contrary outcomes. Vasconcelos Ferreira and Figueiredo (2005) found evidence for converging welfare regimes; Fenger (2007), on the other hand, has confirmed the existence of a distinct NMS model.

Using a more descriptive approach, Manning (2004) found that the CEE countries are catching up with the West while simultaneously the variation between these countries has increased. Cerami (2006) has simply described the post-communist welfare state as a distinct model with pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist (market-based schemes) components. Myant and Drahokoupil (2010) also concentrate on the mixed nature of social policies in the region. Despite these recent efforts to analyse social policy regimes in the NMS, some of the recent comprehensive literature on social policy regimes still tends to overlook the region, ignoring the enlargement (Clift, 2007).

## 3.3 Institutional characteristics of CEE social policy and its EU context

### *The social policy mix in the region*

In order to understand the long-term development of the welfare regimes in the region, one needs to look at the particular institutional arrangements in place, to estimate how much the regimes are driven by inertia and path-dependencies and how much by various pressures to reform.

An analysis taking into account all aspects of institutional arrangements of social and healthcare policies would be too complex to undertake here. We provide a synthesis based on existing literature. We particularly draw attention to the most distinct part of the post-communist welfare regimes – the pension system.

In terms of institutional mechanisms employed, these countries present a mixed picture (Berglund et al., 2004). First, their healthcare policies are fairly uniform (Rys, 2001). This means that they retain the typical features of pre-transition, universalist approach. Market-based provision of healthcare is very limited, almost all the population is covered by public healthcare and all, in theory, entitled to the same level of treatment (Bite and Zagorskis, 2003; Golinowska et al., 2003; Gál et al., 2003; Cerami, 2005). One notable short-term exception to the rule was Slovakia. Its healthcare reforms of 2003-2004 introduced modest but widely applied patient co-payments and, more significantly, transformed the non-profit health insurance companies into profit-making joint-stock companies, thus introducing a model unique in the EU. This reform, however, proved to be clearly the least popular of all public sector reforms introduced by the reformist government of 2002-2006 (Jevčák, 2006). The new government quickly abandoned the co-payments and changed the legal status of health insurance companies back to not-for-profit bodies. Similarly, in the neighbouring Hungary, co-payments were enacted in a 2007 reform bill, to near-universal opposition from the public, and the reform bill was quickly revoked in 2008 (Edelényi, 2008).

Other policies, on the other hand, exhibit a wide intra-regional variability. Unemployment benefit generosity, entitlement periods and access requirements differ widely (Cerami, 2005; Myant and Drahokoupil, 2010). Family policies and social assistance present a similar diverse reform patchwork, with governments trying out new mechanisms, such as tax credits or negative income taxes, and the picture on active labour market policies is also somewhat mixed.

However, there is one area of social policy where the post-communist NMS exhibit an almost uniform pattern, and that is pension policy. All of the post-communist NMS, except for the two richest, Slovenia and the Czech Republic, adopted the World Bank-sponsored 'multi-pillar model'. The World Bank involvement has been threefold: in some cases (e.g. Poland, Hungary) limited to providing an inspiration and a blueprint, in others extending to technical assistance (e.g. Slovakia); and, in yet other cases, the reform was linked directly to further financial assistance (e.g. Bulgaria).

In fact, the eight post-communist NMS which have implemented the radical multi-pillar reforms[3] are the only reformers, besides Sweden, in the EU to take such a radical, 'paradigmatic' measure (Draxler, 2009). Or, formulated differently, these eight, and Sweden, are the only EU member states that have divided their public pension schemes into two pillars, the first remaining publicly administered and pay-as-you-go, the second offering funded individual accounts (Social Protection Committee, 2008).

This flies in the face of path-dependency theory. Why such a region-wide policy shift? One way of approaching this question would be to list the exogenous (globalisation, Europeanisation) and endogenous (policy transfer mechanisms, reform capacity, stakeholder preferences and balances of powers, etc.) conditions for the adoption of the particular policy mechanisms. Some areas would not even neatly fit the exogenous-endogenous axes (e.g. search for a stable economic growth model). We cannot provide a detailed analysis here, but outline some of the most important considerations in the next section.

3 Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia.

*Endogenous and exogenous pressures to reform*

The economic framework offered by the European Union is pinned on two institutional mechanisms: (a) the Maastricht convergence criteria/Stability and Growth Pact and (b) the OMC. Prior to the entry to the Economic and Monetary Union, the EU member states are constrained in their spending by the limits of Maastricht criteria, after their entry by the Stability and Growth Pact. In striving to contain their spending, the NMS do not have much leeway to extend their social protection programmes. The Integrated Guidelines for Growth and Jobs, issued within the OMC, on the other hand, act as the instrument of the Lisbon Agenda, which, particularly with the re-launch in 2005, is primarily concerned with promoting employment and growth.

The OMC is generally sparse on social protection policies. It stipulates certain conditions on social standards, for example in terms of social exclusion and minimum pension adequacy. On the other hand, the OMC does not serve to impose particular institutional mechanisms. It also omits some areas of social policy, for example childcare (Ferrera, 2005a).

What key considerations play a role in the NMS in assessing whether to adopt a certain radical policy reform? We suggest two conditions: policy mechanism variability and policy success. Healthcare and unemployment, social assistance and family policies do not present a range of discrete, clearly identifiable policy tools. Pension policies, on the other hand, have for some time been packaged as choices between defined-contribution and defined-benefit, pay-as-you-go and funded, public and private solutions.

In the case where no clear 'paradigmatic' policy recipes have been offered, the NMS have either stuck to old approaches (healthcare) or have been trying out from the panoply of new mechanisms offered in policy recipes, none of them dominant (family policies and social assistance, unemployment benefits, active labour market policies).

In the case of policy recipes that are, in contrast, clearly delineated and put forward as fostering economic growth, the NMS have been eager to embrace them. It is the adoption of these recipes, rather than actual results (which will not be visible for many years until the payout phase), which is considered a policy success (in the case of pension reform on the basis of contained projected social expenditure). Commentators have focused on the influence of international organisations, mostly the World Bank (Deacon, 2000; Sengoku, 2004; Orenstein, 2008). In social policy, this is the case with pension reforms, widely promoted by the World Bank precisely as the tool for assisting general economic growth (Stiglitz and Orszag, 1999; Barr, 2001; Draxler, 2009).

In the matrix of paradigmatic reforms, radical pension policy reforms correlate with the other radical public policy reform adopted in the region, the flat rate personal income taxation – almost all of those countries that undertook radical pension reforms have also joined the 'flat rate revolution' (Hungary, Bulgaria and Poland being the exception). This suggests, again, that these reforms are chosen as part of the process of fumbling for high growth and convergence (Draxler, 2007; Myant and Drahokoupil, 2010).

The NMS might change course in the future. One possible pressure from deeper integration might come from the completion of the internal labour market – in May 2009, only Germany and Austria chose to continue constraining access to their labour markets to the 2004 enlargement citizens. Wider limitations still apply to the citizens of Bulgaria and Romania, which joined in 2007.[4] Also, the EU provides a forum for mutual policy comparison and learning not only at the stage of the OMC but among wider stakeholder groups and the public, and this could ultimately also influence social policy.

Social policy remains dominantly controlled by the individual nation-states. It is only marginally subject to hard laws, mostly as a result of regulatory spillovers, for example when investments by funded pension schemes are regulated under the common market principle. At the same time, the soft policy-making mechanisms, such as the OMC, remain focused on policies for growth. The post-communist NMS have, in recent past, rapidly opened up their economies to foreign investment and trade. They also remain constrained by the rules guiding accession to and the membership of the European Monetary Union. Under these circumstances, 'Europeanisation' effects in the area of social policy are weak.

Viewed from this institutional perspective, our expectation is that the 'widening' of the EU has also meant that the convergence towards an ESM has been complicated by enlargement. The addition of the NMS may have dampened the prospects for creating a 'pan-European solidarity space' (Ferrera, 2005b: 217). As we have seen, this expectation had been supported by our summary of literature suggesting that 'Europeanisation' and convergence effects have been weak, while, on the other hand, empirical analyses so far have been inconclusive. Let us now see the results of a quantitative exercise to identify general convergence processes in the EU and, specifically, to whether there has or has not been a convergence towards the ESM among the NMS.

## 3.4 CONVERGENCE

*Data and measures*

Social expenditures are widely used as a measure of the level of social protection in different countries in comparative and convergence studies in the welfare state literature. This study relies on the most recent Eurostat (2009a) data, which includes aggregate and disaggregate data on social expenditures.

4 With each recent enlargement, existing member states could apply a transitional period of up to 7 years of curbing access to their labour market to the citizens of newly acceding countries.

Table 3.1 Total social expenditures (% GDP)

| | 2000 | 2002 | 2004 | 2006 | Change 2000-2006 |
|---|---|---|---|---|---|
| Austria | 28.40 | 29.20 | 29.30 | 28.50 | 0.10 |
| Belgium | 26.50 | 28.00 | 29.30 | 30.10 | 3.60 |
| Cyprus | 14.80 | 16.30 | 18.10 | 18.40 | 3.60 |
| Czech Republic | 19.50 | 20.20 | 19.30 | 18.70 | -0.80 |
| Denmark | 28.90 | 29.70 | 30.70 | 29.10 | 0.20 |
| Estonia | 14.00 | 12.70 | 13.00 | 12.40 | -1.60 |
| Finland | 25.10 | 25.60 | 26.60 | 26.20 | 1.10 |
| France | 29.50 | 30.40 | 31.30 | 31.10 | 1.60 |
| Germany | 29.30 | 30.10 | 29.80 | 28.70 | -0.60 |
| Greece | 23.50 | 24.00 | 23.50 | 24.20 | 0.70 |
| Hungary | 19.30 | 20.40 | 20.80 | 22.30 | 3.00 |
| Ireland | 13.90 | 17.50 | 18.20 | 18.20 | 4.30 |
| Italy | 24.70 | 25.30 | 26.00 | 26.60 | 1.90 |
| Latvia | 15.30 | 13.90 | 12.90 | 12.20 | -3.10 |
| Lithuania | 15.80 | 14.00 | 13.30 | 13.20 | -2.60 |
| Luxembourg | 19.60 | 21.60 | 22.20 | 20.40 | 0.80 |
| Malta | 16.90 | 17.80 | 18.60 | 18.10 | 1.20 |
| Netherlands | 26.40 | 27.60 | 28.30 | 29.30 | 2.90 |
| Poland | 19.70 | 21.10 | 20.10 | 19.20 | -0.50 |
| Portugal | 21.70 | 23.70 | 24.70 | 25.40 | 3.70 |
| Slovakia | 19.40 | 19.10 | 17.20 | 15.90 | -3.50 |
| Slovenia | 24.20 | 24.40 | 23.40 | 22.80 | -1.40 |
| Spain | 20.30 | 20.40 | 20.70 | 20.90 | 0.60 |
| Sweden | 30.10 | 31.60 | 32.00 | 30.70 | 0.60 |
| United Kingdom | 26.40 | 25.70 | 25.90 | 26.40 | 0.00 |
| Mean EU-25 | 22.13 | 22.81 | 23.01 | 22.76 | 0.63 |
| Standard deviation | 5.29 | 5.57 | 5.87 | 5.93 | 0.64 |
| Coefficient of variation | 0.24 | 0.24 | 0.25 | 0.26 | 0.02 |
| Mean EU-15 | 24.95 | 26.03 | 26.57 | 26.39 | 1.43 |
| Standard deviation | 4.51 | 4.06 | 4.09 | 3.96 | -0.56 |
| Coefficient of variation | 0.18 | 0.16 | 0.15 | 0.15 | -0.03 |
| Mean CEEC-8 | 18.40 | 18.23 | 17.50 | 17.09 | -1.31 |
| Standard deviation | 3.25 | 4.19 | 4.05 | 4.30 | 1.04 |
| Coefficient of variation | 0.18 | 0.23 | 0.23 | 0.25 | 0.07 |

*Note*: EU-15 are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
CEEC-8 are Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

*Source:* Eurostat (2009a); and authors' own calculations.

The included policy areas are healthcare, incapacity-related benefits, old age, survivors, family, unemployment, housing and social inclusion. An important advantage of the Eurostat database is that social spending data are available for twenty-five EU countries. To date, most studies which used social spending measures relied on OECD databases, which contain only four NMS.[5] An advantage of the OECD data, compared to Eurostat data, is that also a number of non-EU countries are included. This makes it possible to examine whether patterns of convergence may indicate an effect of European integration (Cornelisse and Goudswaard, 2002; Caminada et al., 2010; Van Vliet, 2010a). In sum, the choice between Eurostat and OECD data is a trade-off between NMS and non-EU countries. Since the present study is focused on the NMS, this study uses Eurostat data. For the reason of data availability, the dataset includes data for all twenty-five EU member states in the period 2000-2006.

One limitation of the social expenditure indicator is that changes in social spending indicate changes in the number of beneficiaries rather than policy changes. Especially trends of convergence may be attributed to symmetrical trends of ageing populations and of unemployment across countries. As put forward by Clayton and Pontusson (1998) and Castles (2004), social expenditure ratios can be corrected for these trends by dividing them by the sum of the unemployment rate and the percentage of the population aged sixty-five and above. It seems more plausible that changes in social expenditures reflect policy changes when these are corrected for cyclical and demographic effects.

In order to assess whether social protection levels have converged across member states, the study relies on simple variance measures. Changes in the standard deviation and the coefficient of variation indicate to what extent the dispersion of social protection levels has been decreased, as an indication of sigma convergence. The coefficient of variation controls for the sensitivity of the standard deviation for the value of the mean of the corresponding dataset.

*Results*

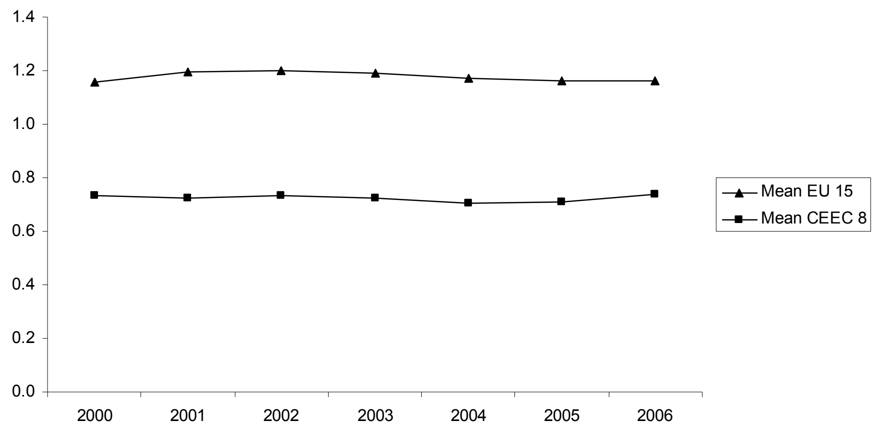
Table 3.1 shows that the average level of social spending in the CEE member states is considerably lower than in the old member states and the variation within the EU-15 is, over the whole period, smaller than the distance between the EU-15 mean and the CEE member states. Furthermore, social expenditures increased by 1.43 percentage points in the EU-15 between 2000 and 2006. Countries with large increases are, for example, Belgium, Ireland, The Netherlands and Portugal. In contrast, the average level of social spending has fallen in the CEE countries by 1.31 percentage points and has not converged towards the level of social spending of the old member states. Neither did the old member states converge towards the NMS. In fact, the enlargement of the EU

5 Another remarkable difference is that the total public social expenditures measure of the OECD includes spending on active labour market policies, whereas the Eurostat measure does not.

has led to divergence of social protection systems in the EU as a whole, which can be seen from the increases in both the standard deviation and the coefficient of variation for all twenty-five member states. However, the variance measures indicate that the fifteen old member states have converged, which means that the converging trend of the 1980s and the 1990s has continued. Within the group of the eight CEE member states, in contrast, there has been divergence.

Figure 3.1 shows that when social expenditures are corrected for the unemployment rate and for the share of the population aged sixty-five and older, to control for cyclical and demographic effects, the results still hold. Firstly, the social protection systems in the CEE member states are less generous than in the old EU member states. Secondly, the level of social spending of the group of CEE member states has not converged towards the social spending level of the older EU member states.[6] Furthermore, the correction for cyclical and demographic effects seems to have offset the decline in social spending across the CEE countries.

Figure 3.1 Total social expenditures (%GDP) corrected for cyclical and demographic trends




*Source*: Eurostat (2009a) and authors' own calculations.

6 However, slight declines in the variance measures for the corrected data for the 25 countries in the last two years (not shown here), may indicate a start of a converging trend.

## 3.5 WELFARE REGIMES

*Data, measures and method*

The convergence analysis has shown that the generosity of the social policies of the NMS differs strongly with the generosity level of the old member states and that the social policies of the NMS did not converge towards the policies of the old member states. This raises the question whether the NMS form a new welfare regime within the EU. To examine whether the NMS can be categorised along the lines of the existing European welfare regimes or whether the enlargement has led to a distinct welfare regime within the EU, this study uses a hierarchical cluster analysis. Based on patterns of similarities and dissimilarities, this method aims to explore groups of cases (countries) in a dataset.

Therefore, hierarchical cluster analysis is particularly useful in identifying welfare regimes empirically and, as such, it has often been used in the literature (Saint-Arnaud and Bernard, 2003; Powell and Barrientos, 2004; Jensen, 2008). Concerning the cluster analysis, three further methodological choices have been made. First, the values are computed into $z$-values in order to create a common scale across the variables and to neutralise the impact of the absolute values. In the hierarchical cluster analysis, the clustering process starts with combining cases that are closest together into a cluster. Thereupon, these clusters are merged further until all cases are joined in one cluster. As a measure for the distance between the cases within a cluster, the second decision, the squared Euclidean distance has been used. Thirdly, the Ward method is used for the clustering of the cases. This method maximises the homogeneity within groups and the differences between groups (Everitt et al., 2001: 60).

As discussed above, in the present study we are mainly interested in the impact of the accession of the EU on social policy changes in the NMS. This means that in the conceptualisation of welfare regime, we focus on the public policy dimension. The decision of which variables to include in the cluster analysis is guided mainly by the limited availability of comparable data for both the old and the NMS. As a result, the analysis is based mainly on social expenditure data. The use of social expenditures is quite conventional in the empirical welfare regime literature, although many studies additionally use some policy indicators (Gough, 2001; Saint-Arnaud and Bernard, 2003; Powell and Barrientos, 2004). However, in other studies (Bonoli, 1997; Jensen, 2008) only two social spending variables are used to cluster welfare regimes.

The present study uses ten social spending variables and one policy setting variable. First, as an overall indicator for the generosity of a country's social protection system, the same total social expenditure indicator is included as in the convergence analysis. Then, disaggregated spending data at the programme level are included, indicating the configuration of social policies. Variables are included for the policy areas of healthcare, incapacity-related benefits, old age, survivors, family, unemployment, housing and social inclusion. Furthermore, spending on active labour market policies (ALMPs) is included. Although ALMPs do not, strictly speaking, fall under social protection, Powell and Barrientos (2004) found that ALMPs are an important feature to distinct welfare regimes. In addition, ALMPs take a central place in the social and employment policies of the EU. If the European Employment Strategy influences the national welfare states, then labour market policies can be expected to converge (Van Vliet, 2010a).

Finally, a policy setting indicator is included, namely the pension income replacement rate. This is the ratio of the median individual gross income from pensions of persons aged between sixty-five and seventy-four years and median individual gross income from work of persons aged between fifty and fifty-nine years.

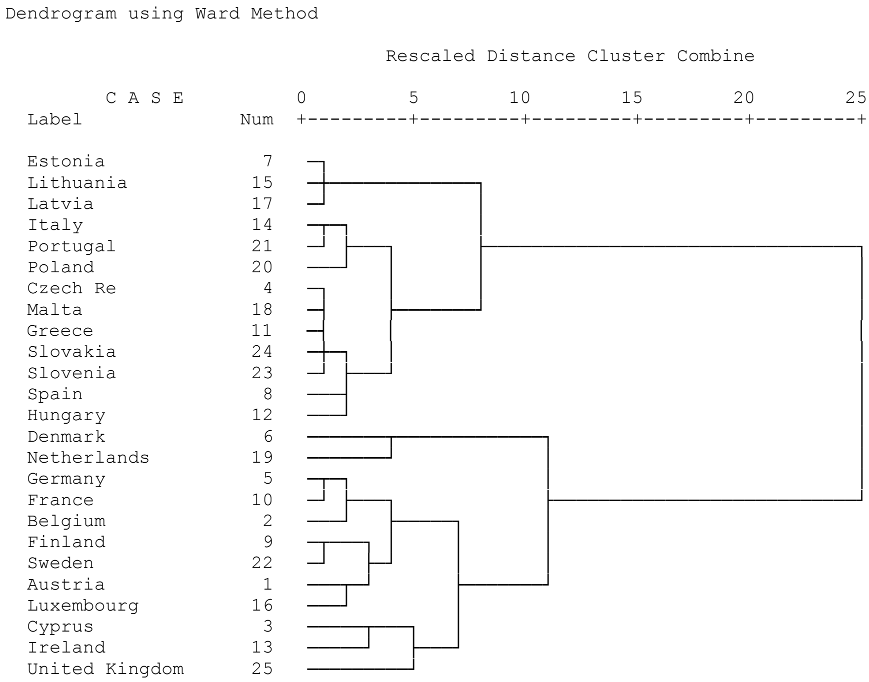
Again, the spending indicators, all measured as a percentage of GDP, are corrected for cyclical and demographic effects. The total social expenditures indicator is corrected in the same way as in the convergence analysis. The expenditures on old age are corrected for ageing by dividing them by the percentage of the population aged sixty-five and above. To correct for cyclical effects, the expenditures on unemployment and active labour market policies are divided by unemployment rates.

The study relies for all measures on Eurostat (2009a; 2009b) data. The values of the variables are averages of the values for the years 2005 and 2006. These years are selected because they reflect the situation of the welfare regimes in the EU after the enlargement. Averages are used to improve the robustness of the results.

*Results*

Figure 3.2 shows the results of the hierarchical cluster analysis. In the procedure of this analysis cases are joined into clusters, starting with as many clusters as cases. Going from the left to the right, this clustering process can be represented graphically with a dendogram. While a vertical line in a dendogram represents a cluster, the horizontal lines connect the different clusters. The longer a horizontal line, the larger the distance between two clusters and the greater the dissimilarity. Since the clustering process finally results in one large cluster, an essential decision is when to stop the clustering and consequently the number of resulting clusters. Acknowledging that hierarchical cluster analysis is an exploratory method, this decision is informed by both the statistical results and the theoretical interpretability of these results.

Figure 3.2 Hierarchical cluster analysis 2005-2006




*Note:* Dendogram is based on Ward Method as amalgation method; distance measure: squared Euclidean distance

Figure 3.2 indicates that the structure in the data can be best represented by two clusters, because here the distance between the two clusters is clearly the largest. More substantively, the NMS and the old member states are merged into two separate clusters. Also at a lower aggregation level, subgroups of countries are recognisable. Within the NMS cluster, there is a clear division between the three Baltic states (Estonia, Lithuania, Latvia) and the other countries. Interestingly, the four countries of the Southern welfare regime (Italy, Spain, Portugal and Greece) are all in the NMS cluster. Another interesting observation that can be made about the Southern countries is that they are not grouped together. Also, welfare regimes are observable in the old member state clusters. The continental welfare states (Germany, France, Belgium, Austria, Luxembourg) are all grouped together. The Nordic countries are not merged into one subgroup, but the Netherlands do not seem to belong to the continental regime anymore, supporting Sapir's recent typology (2006). Further-more, an Anglo-Saxon (or, more precisely, Anglo-Irish) regime (United Kingdom and Ireland) can be observed – with Cyprus, which is the only NMS in the old member state cluster.

The most important finding is that the cluster analysis generates two clusters with old and new member states, which supports our earlier findings from the convergence analyses. However, this might simply be due to the fact that in both the convergence and the cluster analyses the same indicator of total social spending has been used. Therefore, we also performed the cluster analysis without the variable total social expenditures, as a robustness check. The results of this analysis (not shown here) are quite similar to the results of the original analysis. The only difference is that now also Cyprus and Ireland also belong to the NMS cluster.[7] In sum, the cluster analysis shows that not only the aggregated level of generosity, but also the policy configurations of the social protection systems differ strongly across the old and new member states.

## 3.6 Discussion and conclusions

Our key finding is that the social protection level in the NMS is considerably lower than the social protection level in the old member states and that these two levels have not converged between 2000 and 2006. At the same time, social spending levels have converged across the old member states, meaning that the converging trend of the 1980s and 1990s has continued. In sum, the results indicate that the widening of the EU has at least slowed down the process of deepening.

Earlier studies (Caminada et al., 2010) found that the converging trend is stronger within the EU than across the mature welfare states in general. The effect might therefore be attributed to European integration. On the other hand, the absence of a converging trend of the social protection level of the NMS to the old member states may indicate that the social policy initiatives at the EU level, like the OMC, have not influenced the national policies of the NMS much. Some scholars would argue that this lack of influence is in line with the results for a number of old member states. An explanation more strongly focused on the NMS could be that the NMS gave priority to the implementation of the hard law of the *acquis communautaire*, rather than to the soft law. After all, the NMS have participated in the Lisbon process only since 2004, ten years after the Copenhagen criteria of accession (Potůček, 2007: 140). Another possibility is that the NMS have converged towards the old member states in the 1990s, for which no comparable data is available.

As noted above, the results for the old EU member states indicate that the converging trend of the last couple of decades has continued. In fact, relative

7 More precisely, Cyprus and Ireland are in the sub cluster of Spain and Hungary.

to the foregoing decades the converging trend seems to have accelerated. This is demonstrated by the declines in the standard deviation and the coefficient of variation of respectively 0.56 and 0.03 points in a period of only seven years. Compared to the findings of Caminada et al. (2010) – declines of respectively 1.08 and 0.09 points in a period of twenty-four years (1980-2003) – the results of the present study indicate a rather strong converging trend. Since the examined period 2000-2006 of the present study coincides with the period in which the new means of EU governance as the OMC were effectuated, the accelerating trend of convergence may indicate an effect of the EU policy initiatives.

A second notable finding is that when a broad range of social policy areas are included, the NMS appear to differ strongly from the old member states. This result of the cluster analysis is in line with Fenger's (2007) study. In our cluster analysis too, the old and new member states were grouped into two separate clusters. Furthermore, the Baltic states were grouped together, as in the present study. However, an important difference between Fenger's and the present study is that in Fenger's study the South European countries are grouped as a sub-cluster in the old member states' cluster.

One possible explanation for this difference is that Fenger's study includes data from five years earlier. A second explanation might be that Fenger's study also includes indicators for two other dimensions of welfare regimes, namely societal situation and political participation. This would imply that with regards to social policies the Mediterranean countries share the most similarities with the NMS. But if the societal and political dimensions are included, the Mediterranean countries have more characteristics in common with the other old member states.[8]

The results of the cluster analysis replicated the European welfare regimes. However, the Nordic and continental countries seem to have been merged into one welfare regime. When Nordic and Continental countries belong to the same welfare regime, this solves the debate in which regime The Netherlands should be counted. This merging of welfare regimes might be the result of the ongoing process of convergence within the EU-15. This would break a trend, since Bouget (2003) has found that convergence did not distort the distinction between the welfare regimes in the period 1980-1998.

This continued convergence of the EU-15 welfare regimes is thus accompanied by an addition of the group of the CEE (the post-communist NMS) states that tend to operate along different lines. It is clear that much more detailed analysis is needed to identify the individual reasons, and combinations of them, of this East-West schism. We have already suggested that social policy reforms in the CEE operate in the space opened up by EU's accent on promoting the common market and economic growth. The NMS are in the periphery

8 A third difference between the two studies is that in Fenger's study Slovenia, Cyprus, Malta and Portugal are not included.

position to the advanced economies and they have been trying to adopt policies offered to them as high-growth, convergence policies. These entail fast fiscal consolidation that might make it difficult to expand social policy at the time when funds are still needed for other projects (e.g. infrastructure). Or, it might simply be that a certain level of economic development is a precondition for certain social policies and that the NMS will start converging at some later stage.

We have also noted that one reason why social convergence can be expected is production factor mobility and price equalization due to migration. However, an argument might be built: it might be that due to the constraints of access to the labour markets of the old member states, this factor price equalization has not taken place.

Another line of analysis could look at social relations in the old and new member states. It might be that the two groups have fundamentally different employment relations, domestic politics or voter preferences. Also, social transformations in the CEE might have produced a power distribution in the society where actors favouring one institutional arrangement have a 'hegemony' over those favouring another. This would be, for example, the argument along Marxist lines where the small entrepreneurial elite favours *laissez-faire* solutions and is able to impose them, in cooperation with international institutions imposing 'neo-liberal' policies. Of course, the complication is explaining away not only the near-uniform imposition of some solutions across the region (the introduction of funded pension schemes) but, at the same time, the entrenchment of other mechanisms (old-style, universal healthcare) and large intra-regional differences in others (for example in unemployment benefit generosity).

These explanations would need to look at several key variables that might yield some clues. For example, *at the expense of what* exactly is social policy neglected in public finances? In other words, a comparison of the composition of state budgets in old and new member states might be helpful. And so would be a look at the distribution effect: which social groups are the main beneficiaries of social policies? One explanation could be there is no 'middle class capture' in the CEE since there is no well-defined middle class in the region. Therefore the key constituency for the expansion of the welfare state in the West (as some authors argue) is lacking in the East,

Conversely, it is not at all clear what is behind the seemingly weakening path dependencies in the old member states. Is the regime convergence in this group the result of commonly shared internal developments or have they become more sensitive to exogenous pressures?

Our analysis based on expenditure data, then, confirms that the post-communist EU member states tend to show certain resilience to convergence with a generalized ESM. They spend less on social policy. At the same time, most of them have reformed the biggest component of social policy – the pension system – in a very radical way designed to contain expenditure in the future.

Future convergence of these two groups is, of course, possible. NMS might find their priorities changed as their economies converge more strongly with those of the EU-15 group, and as they find it convenient to spend more on social protection in proportion to other projects, for example on infrastructure. However, for the time being, it seems 'Europeanisation' is a weak force and that the widening of the EU has complicated the process of social policy convergence.

# 4 Divergence within Convergence Europeanisation of Social and Labour Market Policies

*Abstract*

Since the adoption of the European Employment Strategy and the Lisbon strategy, convergence of social protection goals and labour market policies across EU countries features prominently on the European agenda. Embedded in convergence, Europeanisation and welfare state literature, this paper examines the role of European integration in changing social policies. It shows that since 1995 social expenditures of EU member states have converged and increased on average, whereas those of non-EU countries have diverged, corrected for cyclical and demographic effects. This EU-specific convergence pattern of social expenditures leads to the subsequent question whether or not national policies have also converged. Relying on disaggregated expenditure data and policy indicators, this study shows an EU-specific trend of increasingly active labour market policies. However, within this scope of activation, countries have opted for different mixes of policy instruments.

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## 4.1 INTRODUCTION[1]

Over the last decade, the European Commission has revitalized the debate about convergence patterns across EU member states. Policy initiatives like the European Employment Strategy (EES) and the Lisbon strategy were launched to strengthen social cohesion within the EU. The underlying, relatively new and intergovernmental means of EU governance, the open method of coordination (OMC), is based on voluntary cooperation of its member states. It is expected to facilitate the convergence of national social policies towards the common EU goals. These European goals are intended to function as a double-edged sword. On the one hand, governments should increase the level of social protection to reduce poverty and to combat social exclusion. On the other hand, increasing labour market participation supports Europe's competitiveness, while converging labour market policies (LMPs) smooth the functioning of the single market.

Earlier quantitative research has shown a convergence of social protection systems in the EU countries over recent decades (Greve, 1996; Bouget, 2003). However, it is not clear to what extent this convergence can be attributed to any European influences, because most scholars have not taken into account domestic and global dynamics. This study extends the existing research by examining whether these patterns of convergence can be attributed to the process of European integration or not. It combines a set of tools to account for the overall question of how countries have adjusted their social security policies to an integrating economy in a globalising world. By correcting social expenditures for cyclical and demographic factors, we try to separate the effects of parallel but independent domestic developments from globalisation and Europeanisation effects. The selection of EU and non-EU countries corrects for the effect of European integration more specifically (Caminada et al., 2010). These data illustrate that the degree of convergence has been more pronounced in EU countries than across other OECD countries.

This EU-specific convergence pattern of social expenditures gives rise to the subsequent question of whether national policies also have converged. With the adoption of the EES in 1997, LMPs became in fact the first social policies to be coordinated at the European level. Basically, the rationale of the EES is that member states should use more active labour market policies (ALMPs) in order to reduce unemployment and to increase employment. As a result, national employment policies should converge towards common EU objectives. Countries can use a broad range of policy instruments to increase the labour market participation of unemployed people. Therefore, this study

1 I thank the participants of the Dutch ESPAnet Research Day, Tilburg 2009, and Koen Caminada, Kees Goudswaard, Beryl ter Haar, Michael Kaeding, Ferry Koster, Willem Molle, Barbara Vis and two anonymous referees of the *Journal of European Integration* for their helpful comments on earlier drafts of this article.

includes indicators for many instruments in order to assess the convergence of ALMPs. This approach allows the identification of different approaches to the achievement of the same goal. In contrast to the findings of the expenditure studies, many qualitatively oriented researchers favour arguments that show continuing national diversity (i.e. Daguerre and Taylor-Gooby, 2004). This study's goal is to narrow the methodological gap between large-n, quantitative expenditure studies on the one hand and qualitative policy studies on the other, by relying on quantified characteristics of LMPs as well as expenditure data.

## 4.2 Social Convergence in the European Union

*Direct and indirect Europeanisation of national social policies*

In the field of social policy, Europeanisation of national social security entails direct and indirect effects (Leibfried, 2000). Direct effects refer to the implementation of EU social policies, while indirect effects refer to the impact of the creation of a single market on national social policies.

In 2000, the European Council adopted the goal that besides economic growth, social cohesion should also be strengthened within the EU. The open method of coordination (OMC) was introduced as the means of spreading best practice and achieving greater convergence towards the main EU goals. Taking the differences of the European welfare states into account, the OMC is a set of non-binding instruments, like the adoption of guidelines, indicators, recommendations and national action plans.

Indirect effects of European integration on national social security systems refer to the effects of economic integration. Three of these effects are distinguishable. First, European integration leads to the increasing mobility of production factors. Migration of employees may be harmful when it is triggered by differences in generosity of welfare systems. Countries with generous social benefits accompanied by a high tax burden stimulate net payers to go abroad and at the same time attract net receivers from abroad resulting in convergence to lower social protection levels (Sinn, 1990). Second, increased international competition forces governments to reduce their social standards to offer attractive, competitive conditions for companies in order to keep them within their borders and stimulate employment. This leads to a policy competition between governments, resulting in a social race to the bottom (Scharpf, 1999). Empirically, scholars have found no evidence supporting this hypothesis. In contrast to these first two effects, a third indirect effect of European integration may be that social protection systems become more generous in order to compensate for the increased dynamics of the labour market (Rodrik, 1998). And economic growth stimulated by European integration makes it possible to finance more generous social security systems (Cornelisse and Goudswaard, 2002).

*Europeanisation of active labour market policies*
ALMPs are policies aimed at labour market participation of citizens. Hence, passive policies can be understood as policies that entitle unemployed people to benefits (Van Berkel and Hornemann Møller, 2002). Governments can intervene in the labour market with several ALMPs, such as labour market training and services of employment agencies, like job search guidance. Nevertheless, passive policies could be made more active by changing tax and benefit schemes. Whereas the foregoing instruments are oriented at the supply side of the labour market, ALMPs can also be focused on the demand side, for instance through wage subsidies for employers.

According to the guidelines of the EES, which are mainly focused on ALMPs, activation is not only aimed at reducing unemployment, but also at increasing employment and combating social exclusion. Like the OMC, the EES is a set of non-binding instruments such as guidelines and recommendations. Because of the emphasis of the European Commission on ALMPs, it is hypothesised that national LMPs are shifted from a passive towards a more active approach and that national ALMPs have converged. Therefore, the first way in which national policies may have been influenced is through European employment policies.

The second path of European influence on national LMPs is via European monetary integration. Since the Maastricht convergence criteria have come into effect, the members of the European Monetary Union (EMU) are constricted in the application of economic policies to boost their economies in order to reduce unemployment levels. First of all, for national authorities of euro countries it is no longer possible to stimulate the economy by increasing their competitiveness via monetary policies. Second, the EMU criteria limit budget deficits and inflation rates, meaning that member states are limited in the application of budgetary policies. To summarise, the EMU has limited the repertory of the responses of policy makers to economic shocks to supply-side strategies such as ALMPs, lower tax burden deregulation, flexibilisation, wage differentiation and welfare cutbacks to reduce the reservation wage (Scharpf, 2002: 649). Therefore, since governments will use more ALMPs to combat unemployment, an increase in ALMPs due to the EMU may be expected.

*Policy convergence*
Generally, convergence can be understood as a decrease in variation of policies across countries over time. This paper focuses on convergence of policy outputs, referring to the policy programmes adopted by governments with which policy makers attempt to actively influence society and the economy (Holzinger and Knill, 2005). Within the scope of outputs, convergence can be measured at different levels, ranging from abstract policy goals to detailed specifications in law.

There is no consensus in literature regarding the question at what policy level convergence is most likely to occur. On the one hand, authors argue that changes in the settings of policy instruments are easier to achieve than adopting new policy goals, because the latter requires a politically demanding major shift in the policy paradigm of a whole polity (Hall, 1993). On the other hand, Radaelli (2005) argues that it is easier to adopt new policy ideas across countries than to converge on the implementation of policy instruments, because the implementation depends on diverging national political contexts.

Publications on the Europeanisation of social protection also debate the relationship between changes of policy goals and policy instruments. In the EES, formal targets are set by the European Commission and the choice of the instruments to achieve these ends is left to the member states. Therefore, many authors did not find instrumental changes in LMPs on the national level as a result of the EES. Instead, they found changes of goals, paradigms and discourses. For example, Serrano Pascual (2004) found that most of the European countries have incorporated the concept of activation, but that methods and principles diverged, due to different political and welfare state institutions. Since countries can choose several instruments to make a shift towards ALMPs, it is possible that although all countries activate their LMPs, these policies do not converge. Furthermore, to assess the degree of convergence across the EU, all EU countries should be included. However, most studies concerning convergence of LMPs focus only on a small number of countries, probably due to data availability.

Although changes in policy goals do not necessarily lead to congruous changes in policy instruments, it is quite imaginable that convergence of policy goals across member states ultimately leads to convergence of policy instruments. After all, mechanisms of the EES like mutual learning on best practices and the yearly council recommendations on national performance are focused on policy instruments. Therefore, Europeanisation of LMPs may lead to convergence of ALMP instruments. However, we should note that convergence is not the same as Europeanisation (Radaelli and Pasquier, 2007: 39). Convergence of national policies could be a consequence of Europeanisation. After all, in the convergence literature transnational communication, which is a mechanism in the EES, is considered an important explanatory mechanism for convergence (Holzinger and Knill, 2005). However, convergence is not necessarily the equivalent of a European impact, and divergence does not necessarily mean the absence of Europeanisation. After all, policy convergence could also be the result of globalisation, influences of international organisations such as the OECD, or equivalent but independent responses of political actors to parallel problem pressures (Holzinger and Knill, 2005: 786). Therefore, to examine the extent to which Europeanisation may be related to convergence of social and employment policies, the study corrects for global and domestic dynamics.

## 4.3 Measures and method

*Social expenditures*

Firstly, the level of social expenditures as a percentage of GDP indicates the financial efforts of social provision.[2] Secondly, the expenditures on ALMPs are used as a measure of the effort countries make to avoid high levels of unemployment. Data from the OECD Social Expenditure Database (2007b) is used. This database contains data at different aggregation levels. In comparative and convergence studies of welfare states, the level of social expenditures is a widely used indicator of the financial efforts of social provision. However, social expenditures as indicators for policy outputs have their limitations.

First, since expenditures are measured at a high level of aggregation, it is not clear which policies trigger the changes in expenditures. Therefore, four indicators of ALMP expenditures at a lower abstraction level, guided by the content of the EES, are also included. They are public employment services, special programmes for youth when in transition from school to work, labour market training and subsidised employment. Second, changes in levels of expenditures expressed as percentages of GDP not only indicate changes in social expenditures, but also in GDP, which is called the denominator effect. Therefore, ALMP expenditures are also expressed as a percentage of total LMP spending, including both passive and active LMPs, indicating shifts in efforts that countries make between passive policies and ALMPs.

Third, changes in expenditure ratios may be due to changing numbers of recipients resulting from changes in unemployment levels or ageing populations, rather than policy reforms. To correct for these changes in demand for benefits, social expenditure ratios are divided by the unemployment rate plus the percentage of people aged 65 and over (Clayton and Pontusson, 1998; Castles, 2004). An obvious deficiency of this indicator is that it seems that only two groups of beneficiaries influence the social spending levels (Castles, 2004: 36). However, the reason to correct for these two groups is that in European countries ageing and unemployment often follow the same trends simultaneously, probably leading to convergence in social expenditures. Hence, a convergence pattern would then erroneously be ascribed to Europeanisation. Although other groups of welfare recipients, such as disabled people, certainly also influence social expenditures, there are no reasons to assume that these groups simultaneously follow the same trends across EU countries, leading to convergence in social spending.

Since ALMP expenditures are sensitive to unemployment levels, two indicators are included. First, expenditures on ALMPs are expressed as a percentage of total LMPs, since passive LMPs and ALMPs are both influenced by unemploy-

2 These expenditures include the following nine social policy areas: old age, survivors, incapacity-related benefits, health care, family, ALMPs, unemployment, housing, other social policy areas.

ment levels. Second, an indicator is included that corrects ALMP spending for unemployment levels by dividing the expenditures by the unemployment rate.

A fourth limitation of social spending indicators is that the impact of the tax system on social spending differs across countries, because in some countries cash benefits are taxable, while in other countries they are not. This complicates the comparability of the net social efforts. Furthermore, tax instruments like earned income tax credits can be applied for purposes of activation. Although the study includes an indicator for income tax rates, which will be discussed below, specific tax instruments are neither captured by ALMP expenditures nor by tax rates indicators.

*Characteristics of unemployment benefits*

Governments can use unemployment benefit schemes to activate unemployed people. Less generous benefit schemes increase the incentives to work, because the reservation wage of an unemployed person will be lower. This study includes several policy indicators for changes in benefit schemes. First, the number of weeks of insurance required to qualify for unemployment benefits is used to indicate the qualifying or entitlement conditions. When this number is higher, it is more difficult to receive benefits and people will accept jobs sooner, in order to ensure an income. Second, the waiting period is measured as the number of days people must wait to start receiving benefits after becoming unemployed. The rationale of a waiting period such as this is that it discourages people from quitting their jobs and becoming unemployed (Schmid, 1995). Third, the duration is indicated by the number of weeks of benefit entitlement.[3] Shortening the duration may encourage unemployed people to accept jobs sooner (Layard et al., 1991). For the above-mentioned three indicators the study uses the Welfare State Entitlements Data Set (Scruggs, 2005). A limitation of these indicators is that differences due to work history are not taken into account.

Next, the level of benefits is important. High levels of unemployment benefits function as disincentives for unemployed people to find work. As an indicator of the benefits level, replacement rates are used, indicating the proportion of income from work replaced by unemployment benefits. In most studies, replacement rates are used as measures of benefit generosity. However, replacement rates can only be seen as limited indicators of the generosity of benefit systems (Whiteford, 1995): not all relevant aspects of benefit systems (i.e. housing subsidies) may be taken into account, taxation can complicate the comparability across countries,[4] and replacement rates are based on entitlement criteria and often represent only the maximum payments available in

3 This excludes periods of means-tested assistance. When relevant, it was assumed that the worker is aged 40 years and has paid insurance for twenty years.

4 Net replacement rates are therefore more accurate, but data are only available from 2001 onwards.

the circumstances specified. Although the latter limitation is indeed problematic for measuring benefit generosity, it is less problematic for this study, since here the interest actually lies in changes in the underlying policies like entitlement criteria. Gross replacement rates from the OECD (2006) are used, representing a variety of previous incomes, households and durations of unemployment.

*Income tax rates*
Besides ALMPs like training, fiscal instruments like income tax credits are effective activation measures (Whitehouse, 1996). The rationale behind fiscal instruments is to increase the attractiveness of work by increasing the difference in income levels between working and being unemployed, often referred to as 'making work pay'. Ideally, specific tax instruments and reductions in payroll taxes targeted at low-income groups should be included as indicators. However, due to data availability, the study relies on OECD (2005) data on income tax plus employee contributions less cash benefits as a percentage of gross wage of a single-earner family with two children and an 'average production worker' wage.

*Availability requirements and benefit sanctions*
An important characteristic of ALMPs is that people have to comply with certain conditions to receive benefits, usually entailing that people have to be available for the labour market. Therefore, people have to actively seek jobs, they have to participate in training programmes, and they have to accept suitable job offers. These requirements can be enforced through benefit sanctions, implying temporary reductions in benefit payments. To compare availability requirements across countries and over time, this study includes an index of availability requirements constructed by the Danish Ministry of Finance (Ministry of Finance Denmark, 1998; Hasselpflug, 2005). The index is composed of a weighted average of scores on five indicators, measuring the demands concerning job search activity, occupational mobility, geographical mobility, acceptance of job offers and participation in activation programmes. The index ranges from 1 to 5. The higher the score on the index, the stricter the conditions.

To measure changes in benefit sanctions, another index from the same dataset is included. This index is composed of a weighted average of scores on three indicators, measuring benefit sanctions applied in cases of voluntary resignation from jobs, refusal to participate in activation programmes and refusal of job offers without valid reasons. Like the availability requirements index, the benefit sanctions index ranges from 1 to 5 and the higher the score, the stronger the sanctions.

*Analysing convergence and Europeanisation*
Since a main problem in the Europeanisation literature is how to examine whether domestic changes have been caused by EU-level factors rather than global or domestic dynamics (Haverland, 2006), this study includes not only EU but also non-EU countries. These non-EU countries correct for the effects

of globalisation and influences of other international organisations.[5] Like the EU countries, these non-EU countries are advanced societies and capitalist economies. Unfortunately, the new EU member states cannot be included due to lack of data availability. However, since the study runs until 2003 and the new member states entered the EU only in 2004, there is no real substantive reason to include these countries either (but see Draxler and Van Vliet, 2010).

The study covers the years from 1994 up till 2003, for two reasons. First, a period starting a few years before the introduction of the EES in 1997 and ending a few years after the introduction of the EES and OMC (in 2000) makes it possible to trace the effect of the EU governance means most clearly. Second, the study is constrained by the availability of data years.

Several types of convergence can be distinguished. The most common type is σ-convergence, analysing the decrease in the variation of domestic policies. Since this study is interested in the variation of social policies over time, β-convergence is used. To assess the development of convergence, the standard deviation and the coefficient of variation[6] are calculated for several years. A decrease over time in these variation measures indicates convergence, while an increase indicates that the settings of the policy instrument diverged. Furthermore, the development of the mean signifies the direction, more or less active, of the convergence or divergence. To increase the robustness of the results, three-year averages are presented wherever possible.

## 4.4 Analysis

*Total social expenditures*

The left-hand columns in Table 4.1 present total social expenditures. The right-hand columns show expenditures divided by the sum of the unemployment rate and the percentage of people aged 65 and over. The resulting ratios give 'a crude measure of welfare generosity, theoretically to be interpreted as the percentage of GDP received in welfare spending for every 1 per cent of the population in need' (Castles, 2004: 36). Although the decreasing average levels of raw social spending seem to indicate a race to the bottom between 1995 and 2002, the corrected data indicate a race to the top in both the EU and non-EU countries. Furthermore, the corrected data illustrate an interesting difference between EU and non-EU countries with respect to the convergence patterns. Both the standard deviation and the coefficient of variation indicate that the EU countries have been converging since 1995, while the non-EU countries are diverging.

5 However, European non-EU countries such as Switzerland or Norway may also be influenced by European integration, for example via policy competition.

6 The coefficient of variation is defined as the standard deviation divided by the mean of the corresponding data set. Because the standard deviation rises with the mean of the data set, it is valuable to use both the standard deviation and the coefficient of variation.

Table 4.1 Total social expenditures (%GDP), three-year averages

| | Total social expenditures | | | Total social expenditures controlled for ageing and unemployment | | |
|---|---|---|---|---|---|---|
| | 1995 | 2002 | Change | 1995 | 2002 | Change |
| Australia | 16.83 | 17.59 | 0.76 | 0.84 | 0.95 | 0.11 |
| Austria | 26.60 | 25.74 | -0.86 | 1.40 | 1.30 | -0.11 |
| Belgium | 26.56 | 26.11 | -0.45 | 1.05 | 1.08 | 0.03 |
| Canada | 19.25 | 17.28 | -1.96 | 0.88 | 0.85 | -0.03 |
| Denmark | 28.83 | 26.96 | -1.87 | 1.28 | 1.39 | 0.11 |
| Finland | 27.87 | 21.92 | -5.95 | 0.94 | 0.90 | -0.04 |
| France | 28.36 | 28.04 | -0.32 | 1.03 | 1.10 | 0.07 |
| Germany | 26.60 | 26.86 | 0.26 | 1.11 | 1.04 | -0.07 |
| Greece | 19.44 | 21.64 | 2.20 | 0.80 | 0.79 | 0.00 |
| Ireland | 16.18 | 15.28 | -0.90 | 0.66 | 1.01 | 0.35 |
| Italy | 20.83 | 23.77 | 2.94 | 0.74 | 0.85 | 0.10 |
| Japan | 13.70 | 17.35 | 3.65 | 0.77 | 0.74 | -0.03 |
| Luxembourg | 23.46 | 21.20 | -2.26 | 1.42 | 1.28 | -0.13 |
| Netherlands | 22.73 | 20.02 | -2.71 | 1.14 | 1.17 | 0.03 |
| New Zealand | 19.11 | 18.28 | -0.83 | 1.03 | 1.07 | 0.04 |
| Norway | 23.42 | 24.28 | 0.86 | 1.12 | 1.28 | 0.16 |
| Portugal | 18.01 | 22.20 | 4.19 | 0.82 | 1.02 | 0.20 |
| Spain | 21.67 | 20.24 | -1.43 | 0.57 | 0.73 | 0.16 |
| Sweden | 33.15 | 30.33 | -2.82 | 1.23 | 1.35 | 0.12 |
| Switzerland | 17.67 | 19.56 | 1.89 | 0.98 | 1.06 | 0.08 |
| United Kingdom | 20.32 | 20.30 | -0.02 | 0.82 | 0.98 | 0.16 |
| United States | 15.28 | 15.79 | 0.50 | 0.85 | 0.89 | 0.04 |
| Mean OECD-22 | 22.08 | 21.85 | -0.23 | 0.98 | 1.04 | 0.06 |
| Standard deviation | 5.00 | 4.10 | -0.90 | 0.22 | 0.19 | -0.03 |
| Coefficient of Variation | 0.23 | 0.19 | -0.04 | 0.23 | 0.18 | -0.05 |
| Mean EU-15 | 24.04 | 23.37 | -0.67 | 1.00 | 1.07 | 0.07 |
| Standard deviation | 4.55 | 3.79 | -0.75 | 0.25 | 0.19 | -0.06 |
| Coefficient of variation | 0.19 | 0.16 | -0.03 | 0.25 | 0.18 | -0.07 |
| Mean OECD-7 | 17.89 | 18.59 | 0.70 | 0.92 | 0.98 | 0.05 |
| Standard deviation | 2.91 | 2.55 | -0.36 | 0.11 | 0.16 | 0.05 |
| Coefficient of variation | 0.16 | 0.14 | -0.03 | 0.12 | 0.17 | 0.04 |

*Notes:* EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
OECD-7: Australia, Canada, Japan, New Zealand, Norway, Switzerland, United States.
Means of t-1, t, t+1.

*Source:* (a) Total social expenditures: OECD Social Expenditure Database (OECD 2007b);
(b) Population aged 65 and above as percentage of total population: The World Bank: World Development Indicators;
(c) Unemployment rate: the number of people unemployed as percentage of the labour force: The World Bank: World Development Indicators; and own calculations.

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Table 4.2 Expenditures on active labour market policies, three-year averages

| | Expenditures on ALMP as % of GDP | | | Expenditures on ALMP as ‰ of GDP divided by the unemployment rate | | | Expenditures on ALMP as % of expenditures on LMP | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2002 | Change | 1995 | 2002 | Change | 1995 | 2002 | Change |
| Australia | 0.7 | 0.4 | -0.3 | 0.8 | 0.6 | -0.2 | 34.7 | 32.0 | -2.7 |
| Austria | 0.4 | 0.6 | 0.2 | 0.9 | 1.5 | 0.6 | 22.1 | 38.0 | 15.9 |
| Belgium | 1.3 | 1.2 | -0.2 | 1.4 | 1.7 | 0.3 | 29.6 | 27.3 | -2.3 |
| Canada | 0.6 | 0.4 | -0.2 | 0.6 | 0.5 | 0.0 | 29.1 | 33.5 | 4.4 |
| Denmark | 1.8 | 1.7 | -0.1 | 2.5 | 3.7 | 1.3 | 28.5 | 35.6 | 7.1 |
| Finland | 1.6 | 0.9 | -0.7 | 1.0 | 1.0 | -0.1 | 28.7 | 30.0 | 1.3 |
| France | 1.3 | 1.1 | -0.1 | 1.1 | 1.3 | 0.2 | 43.2 | 41.0 | -2.2 |
| Germany | 1.2 | 1.1 | -0.1 | 1.5 | 1.3 | -0.1 | 41.4 | 40.7 | -0.8 |
| Greece | 0.3 | 0.2 | -0.1 | 0.3 | 0.2 | -0.1 | 41.2 | 32.2 | -9.0 |
| Ireland | 1.6 | 0.7 | -0.9 | 1.2 | 1.7 | 0.5 | 44.5 | 44.5 | 0.0 |
| Italy | 0.2 | 0.6 | 0.4 | 0.2 | 0.7 | 0.5 | 24.4 | 58.4 | 34.0 |
| Japan | 0.3 | 0.3 | 0.0 | 1.0 | 0.6 | -0.4 | 44.9 | 37.2 | -7.7 |
| Luxembourg | 0.2 | 0.2 | 0.0 | 0.7 | 0.9 | 0.3 | 28.5 | 23.2 | -5.2 |
| Netherlands | 1.1 | 1.1 | 0.0 | 1.6 | 3.5 | 1.9 | 28.4 | 45.0 | 16.6 |
| New Zealand | 0.7 | 0.5 | -0.3 | 1.1 | 0.9 | -0.2 | 38.1 | 33.1 | -5.1 |
| Norway | 1.3 | 0.8 | -0.5 | 2.5 | 2.0 | -0.6 | 54.7 | 56.7 | 2.0 |
| Portugal | 0.8 | 0.7 | -0.1 | 1.1 | 1.3 | 0.2 | 43.6 | 42.5 | -1.1 |
| Spain | 0.5 | 0.7 | 0.3 | 0.2 | 0.7 | 0.5 | 12.8 | 25.2 | 12.4 |
| Sweden | 2.4 | 1.4 | -1.0 | 2.5 | 2.7 | 0.1 | 50.9 | 55.1 | 4.3 |
| Switzerland | 0.5 | 0.6 | 0.1 | 1.3 | 1.9 | 0.5 | 29.0 | 45.2 | 16.2 |
| United Kingdom | 0.5 | 0.5 | 0.1 | 0.5 | 1.1 | 0.6 | 34.3 | 60.8 | 26.5 |
| United States | 0.2 | 0.1 | -0.1 | 0.4 | 0.3 | -0.1 | 35.2 | 25.6 | -9.6 |
| Mean OECD-22 | 0.9 | 0.7 | -0.2 | 1.1 | 1.4 | 0.2 | 34.9 | 39.2 | 4.3 |
| Standard deviation | 0.6 | 0.4 | -0.2 | 0.7 | 0.9 | 0.2 | 9.8 | 10.8 | 1.0 |
| Coefficient of variation | 0.7 | 0.6 | -0.1 | 0.6 | 0.7 | 0.1 | 0.3 | 0.3 | 0.0 |
| Mean EU-15 | 1.0 | 0.9 | -0.2 | 1.1 | 1.5 | 0.4 | 33.5 | 40.0 | 6.5 |
| Standard deviation | 0.6 | 0.4 | -0.2 | 0.7 | 1.0 | 0.3 | 10.0 | 11.3 | 1.2 |
| Coefficient of variation | 0.6 | 0.5 | -0.2 | 0.6 | 0.6 | 0.0 | 0.3 | 0.3 | 0.0 |
| Mean OECD-7 | 0.6 | 0.4 | -0.2 | 1.1 | 1.0 | -0.1 | 38.0 | 37.6 | -0.4 |
| Standard deviation | 0.3 | 0.2 | -0.1 | 0.7 | 0.6 | 0.0 | 8.5 | 9.5 | 1.0 |
| Coefficient of variation | 0.5 | 0.4 | -0.1 | 0.6 | 0.7 | 0.1 | 0.2 | 0.3 | 0.0 |

*Source*: (a) Expenditures on ALMPs: OECD Social Expenditure Database (OECD 2007b).
(b) Unemployment rate: The World Bank: World Development Indicators; and own calculations.

*Expenditures on active labour market policies*

The first column in Table 4.2 shows a decrease in the average ALMP spending within the EU as a percentage of GDP. This seems remarkable, given the growing attention to ALMPs on the European agendas. However, this decrease in spending is probably due to lower unemployment, since the expenditures that are corrected for unemployment on average show an increase at the EU level. Moreover, this increase is EU-specific, since the expenditures per unemployed person decreased in the non-EU countries. Also in relative terms, the expenditures on ALMPs as a share of all LMPs increased by 6.5 percentage points, compared to a decrease of 0.4 percentage points in the other OECD countries. To summarise, although the three indicators do not indicate an EU-specific convergence pattern, there does seem to be a specific European trend towards more ALMPs.

The expenditures on specific ALMP areas are shown in Table 4.3. The EU average of expenditures on employment services increased by 2.4 percentage points. Since public employment services function as gatekeepers for ALMPs, they are considered key actors in the implementation of the EES. In addition, the expenditures on labour market training increased at the EU average. Strikingly, the expenditures on youth programmes decreased. This is remarkable since youth is one of the main target groups in the EES and the Lisbon strategy. In fact, the first employment guideline starts with 'tackling youth employment'. However, although many countries note in their national action plans that they have started with special youth programmes, such as the 'The New Deal for Young People' in the United Kingdom, the data illustrate that the activation of unemployed youth did not have the highest priority across the European countries. Instead, countries redirected their focus from youth policies to other areas, such as subsidised employment in Portugal for instance. To some extent, however, these shifts will also be due to differences in classifications across countries and over time. Finally, the expenditures on subsidised employment increased in the EU. Interestingly, none of the ALMP areas converged within the EU. In fact, they diverged.

*Settings of policy instruments*

Table 4.4 continues with the settings of the policy instruments. Obviously, reducing income taxes has been on the agenda of almost all countries. Although the initial employment guidelines of 1998 did not refer to taxes, guidelines 2 and 4 of the 1999 employment guidelines state that member states will review their tax systems to actively support employment and to provide incentives for unemployed people to seek work. Also the council made several recommendations for the reduction of income taxes. In line with the EES, EU countries decreased income taxes by 3.9 percentage points.

The EU average level of the replacement rates shows an increase of 1.1 percentage points of the last received income. Although higher replacement rates do not indicate increased activation, due to reduced incentives for people to accept jobs, there seems to be an EU-specific pattern. Replacement rates increased and converged in the EU, while they decreased and diverged in the non-EU countries.

Most countries have not changed the duration of the entitlement rights. Naturally, the duration changes less over time in countries with unemployment assistance rather than unemployment insurance. Table 4.5 also shows that the qualifying conditions and the waiting period remained the same in the majority of the countries. Apparently, countries have not chosen to change these settings of the unemployment benefits to activate unemployed people. Finally, the availability requirements have, on average, become slightly more demanding, while the benefit sanctions have, on average, become less strict in the EU.

Table 4.3 Expenditures on specific ALMP areas, three-year averages

| | Expenditures on empl. services as % of expenditures on ALMP | | | Expenditures on labour market training as % of expenditures on ALMP | | | Expenditures on youth programmes as % of expenditures on ALMP | | | Expenditures on subsidised employment as % of expenditures on ALMP | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2002 | Change | 1995 | 2002 | Change | 1995 | 2002 | Change | 1995 | 2002 | Change |
| Australia | 31.2 | 48.6 | 17.4 | 18.4 | 6.1 | -12.3 | 8.8 | 3.8 | -5.0 | 32.7 | 28.3 | -4.4 |
| Austria | 36.1 | 25.6 | -10.5 | 33.9 | 41.5 | 7.5 | 2.2 | 3.0 | 0.7 | 12.5 | 19.0 | 6.5 |
| Belgium | 15.5 | 18.4 | 2.9 | 20.1 | 14.8 | -5.4 | 4.3 | 0.5 | -3.9 | 50.8 | 56.5 | 5.7 |
| Canada | 39.6 | 52.1 | 12.5 | 39.8 | 31.3 | -8.5 | 4.0 | 4.5 | 0.6 | 11.7 | 7.6 | -4.1 |
| Denmark | 6.4 | 5.9 | -0.5 | 50.5 | 34.9 | -15.5 | 7.6 | 0.0 | -7.6 | 20.0 | 30.2 | 10.3 |
| Finland | 9.8 | 14.7 | 4.9 | 29.7 | 35.7 | 6.0 | 9.8 | 6.7 | -3.2 | 42.3 | 31.9 | -10.4 |
| France | 11.9 | 18.7 | 6.8 | 29.4 | 19.5 | -9.8 | 21.2 | 15.9 | -5.3 | 30.8 | 38.0 | 7.3 |
| Germany | 18.1 | 22.5 | 4.4 | 25.5 | 28.0 | 2.5 | 4.8 | 6.8 | 2.0 | 32.1 | 25.4 | -6.7 |
| Greece | 40.7 | 16.3 | -24.4 | 6.1 | 33.4 | 27.3 | 22.4 | 15.6 | -6.8 | 27.8 | 25.8 | -1.9 |
| Ireland | 16.1 | 16.4 | 0.4 | 13.4 | 22.7 | 9.3 | 15.5 | 4.8 | -10.8 | 49.1 | 51.0 | 1.9 |
| Italy | : | : | : | 5.7 | 3.1 | -2.7 | 46.7 | 15.1 | -31.5 | 47.6 | 15.1 | -32.5 |
| Japan | 66.3 | 71.7 | 5.4 | 9.4 | 13.2 | 3.9 | 0.1 | 0.5 | 0.3 | 21.7 | 12.4 | -9.3 |
| Luxembourg | 14.1 | 15.9 | 1.8 | 7.0 | 42.0 | 34.9 | 43.6 | 0.8 | -42.8 | 14.7 | 32.0 | 17.3 |
| Netherlands | 11.4 | 24.2 | 12.8 | 25.8 | 14.3 | -11.5 | 8.3 | 3.8 | -4.5 | 7.5 | 4.8 | -2.8 |
| New Zealand | 17.5 | 25.0 | 7.5 | 43.2 | 29.5 | -13.6 | 12.1 | 17.7 | 5.5 | 19.3 | 17.9 | -1.3 |
| Norway | 13.6 | 16.1 | 2.5 | 17.9 | 9.6 | -8.3 | 6.6 | 0.8 | -5.9 | 16.9 | 2.1 | -14.8 |
| Portugal | 13.5 | 24.3 | 10.8 | 30.6 | 22.9 | -7.7 | 39.4 | 11.1 | -28.4 | 10.0 | 34.5 | 24.5 |
| Spain | 18.5 | 13.0 | -5.5 | 30.6 | 19.9 | -10.8 | 16.0 | 5.7 | -10.3 | 32.5 | 56.2 | 23.7 |
| Sweden | 10.4 | 17.0 | 6.6 | 24.3 | 32.0 | 7.7 | 3.0 | 1.3 | -1.7 | 33.2 | 15.2 | -18.0 |
| Switzerland | 21.7 | 20.0 | -1.7 | 16.8 | 20.8 | 3.9 | 0.0 | 1.5 | 1.5 | 20.4 | 23.4 | 3.0 |
| United Kingdom | 41.8 | 64.9 | 23.1 | 22.8 | 5.2 | -17.6 | 26.9 | 19.9 | -7.0 | 3.0 | 5.3 | 2.2 |
| United States | 37.2 | 27.4 | -9.8 | 21.0 | 23.7 | 2.7 | 15.5 | 18.1 | 2.6 | 5.1 | 7.8 | 2.7 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mean OECD-22 | 23.4 | 26.6 | 3.2 | 23.7 | 22.9 | -0.8 | 14.5 | 7.2 | -7.3 | 24.6 | 24.6 | -0.1 |
| Standard deviation | 15.2 | 17.6 | 2.4 | 11.6 | 11.2 | -0.4 | 13.5 | 6.6 | -6.8 | 14.0 | 15.7 | 1.6 |
| Coefficient of Variation | 0.6 | 0.7 | 0.0 | 0.5 | 0.5 | 0.0 | 0.9 | 0.9 | 0.0 | 0.6 | 0.6 | 0.1 |
| Mean EU-15 | 18.9 | 21.3 | 2.4 | 23.7 | 24.7 | 0.9 | 18.1 | 7.4 | -10.7 | 27.6 | 29.4 | 1.8 |
| Standard deviation | 11.9 | 13.7 | 1.8 | 11.6 | 11.7 | 0.1 | 14.5 | 6.3 | -8.2 | 15.2 | 15.8 | 0.6 |
| Coefficient of variation | 0.6 | 0.6 | 0.0 | 0.5 | 0.5 | 0.0 | 0.8 | 0.9 | 0.1 | 0.6 | 0.5 | 0.0 |
| Mean OECD-7 | 32.4 | 37.3 | 4.8 | 23.8 | 19.2 | -4.6 | 6.7 | 6.7 | -0.1 | 18.2 | 14.2 | -4.0 |
| Standard deviation | 16.6 | 19.0 | 2.5 | 11.7 | 9.1 | -2.6 | 5.4 | 7.2 | 1.8 | 8.0 | 8.7 | 0.8 |
| Coefficient of variation | 0.5 | 0.5 | 0.0 | 0.5 | 0.5 | 0.0 | 0.8 | 1.1 | 0.3 | 0.4 | 0.6 | 0.2 |

*Source:* OECD Social Expenditure Database (OECD 2007b); and own calculations.

Table 4.4 Tax and Benefits, three-year averages

| | Income tax and employee contributions as % gross wage | | | Unemployment gross replacement rates | | | Duration of unemployment benefit entitlements | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2002 | Change | 1995 | 2002 | Change | 1995 | 2002 | Change |
| Australia | 16.2 | 13.6 | -2.6 | 27 | 23 | -3.5 | 999 | 999 | 0 |
| Austria | 8.9 | 8.7 | -0.2 | 33 | 32 | -1.0 | 30 | 30 | 0 |
| Belgium | 19.0 | 21.0 | 2.0 | 39 | 40 | 1.6 | 999 | 999 | 0 |
| Canada | 17.0 | 14.4 | -2.6 | 19 | 15 | -4.1 | 38 | 38 | 0 |
| Denmark | 30.8 | 29.9 | -0.9 | 65 | 50 | -14.7 | 329 | 208 | -121 |
| Finland | 26.0 | 23.0 | -3.0 | 36 | 35 | -0.5 | 100 | 100 | 0 |
| France | 14.2 | 14.7 | 0.5 | 37 | 41 | 4.0 | 130 | 130 | 0 |
| Germany | 23.4 | 18.9 | -4.5 | 26 | 29 | 3.1 | 52 | 52 | 0 |
| Greece | 16.6 | 16.9 | 0.3 | 15 | 13 | -1.8 | : | : | : |
| Ireland | 17.4 | -0.7 | -18.1 | 26 | 37 | 10.7 | 65 | 65 | 0 |
| Italy | 18.3 | 14.3 | -4.0 | 19 | 34 | 14.6 | 26 | 26 | 0 |
| Japan | 9.2 | 13.4 | 4.2 | 10 | 8 | -1.8 | 30 | 30 | 0 |
| Luxembourg | 0.7 | -2.2 | -3.0 | : | : | : | : | : | : |
| Netherlands | 29.5 | 18.8 | -10.7 | 52 | 53 | 0.5 | 95 | 104 | 9 |
| New Zealand | 21.0 | 18.3 | -2.7 | 27 | 28 | 0.8 | 999 | 999 | 0 |
| Norway | 14.5 | 17.9 | 3.4 | 39 | 38 | -0.6 | 80 | 156 | 76 |
| Portugal | 9.3 | 5.7 | -3.6 | 35 | 41 | 5.6 | : | : | : |
| Spain | 12.8 | 10.1 | -2.7 | 39 | 36 | -2.8 | : | : | : |
| Sweden | 23.4 | 21.3 | -2.1 | 27 | 24 | -2.8 | 60 | 60 | 0 |
| Switzerland | 8.8 | 8.4 | -0.4 | 30 | 35 | 5.8 | 43 | 30 | -13 |
| United Kingdom | 17.8 | 10.0 | -7.9 | 18 | 16 | -1.3 | 43 | 26 | -17 |
| United States | 18.7 | 10.9 | -7.8 | 12 | 14 | 1.8 | 26 | 26 | 0 |
| Mean OECD-22 | 17.0 | 14.0 | -3.0 | 30.1 | 30.7 | 0.6 | 230.3 | 226.6 | -3.7 |
| Standard deviation | 7.0 | 7.3 | 0.3 | 14.0 | 13.3 | -0.7 | 329.1 | 327.5 | -1.6 |
| Coefficient of variation | 0.4 | 0.5 | 0.1 | 0.5 | 0.4 | 0.0 | 1.4 | 1.4 | 0.0 |
| Mean EU-15 | 17.9 | 14.0 | -3.9 | 33.4 | 34.5 | 1.1 | 175.5 | 163.6 | -11.8 |
| Standard deviation | 7.8 | 8.6 | 0.7 | 15.1 | 13.6 | -1.5 | 246.0 | 241.6 | -4.4 |
| Coefficient of variation | 0.4 | 0.6 | 0.2 | 0.5 | 0.4 | -0.1 | 1.4 | 1.5 | 0.1 |
| Mean OECD-7 | 15.1 | 13.9 | -1.2 | 23.4 | 23.2 | -0.2 | 316.5 | 325.4 | 9.0 |
| Standard deviation | 4.3 | 3.3 | -1.0 | 9.5 | 10.5 | 1.0 | 432.0 | 428.1 | -3.9 |
| Coefficient of variation | 0.3 | 0.2 | 0.0 | 0.4 | 0.5 | 0.0 | 1.4 | 1.3 | 0.0 |

*Note*: The value '999' means an unlimited duration of benefit entitlements. Therefore the meaning of the mean, standard deviation and coefficient of variation is limited. The replacement rates are calculated as unweighted averages of several situations in which benefits are estimated for three durations of unemployment spells (1, 2 to 3, 4 to 5 years of unemployment), three family situations (single, with dependent spouse, with spouse in work), two earning levels (average earnings and two-thirds of average earnings of an average production worker).

*Source*: (a) Income tax and employee contributions: OECD Taxing Wages 2003 / 2004 (OECD, 2005).
(b) Unemployment replacement rates: OECD Benefits and Wages (OECD, 2006).
(c) Duration: Welfare State Entitlements Data Set (Scruggs, 2005); and own calculations.

*Policy mixes*

The changes in a majority of the considered policy instruments indicate a trend towards a more active approach to LMPs in the EU. However, this is not a converging trend, since the EU countries converged on only a few indicators. One explanation for the limited convergence is that countries opt for different combinations of ALMP instruments, while all combinations designate more activation. The approach of this study makes it possible to trace such policy mixes.

First of all, several countries adopted a strategy of activation through a broad range of policy instruments more active. Austria increased the ALMP spending, lowered income taxes, lowered replacement rates and made the availability requirements more stringent. Denmark increased its ALMP spending also, but focused particularly on subsidised employment. Clearly, Denmark reformed the tax and benefit schemes with lower income taxes and substantial cuts in the level and duration of benefits. Interestingly, in addition to slightly increasing its ALMP spending and introducing a more active tax and benefit scheme, Finland opted to change the conditions people have to comply with to receive benefits. Finland is the only country that increased the qualification conditions and waiting period, as well as the strictness of the availability requirements and benefit sanctions. A third Nordic country, Sweden, also increased its ALMP spending and made its tax and benefit scheme more active. However, it eased the availability requirements and benefit sanctions. With a relative shift from passive to active spending of 26.5 percentage points and a level of 60.8 percent, the UK is a clear outlier. Interestingly, 64.9 percent of the country's total ALMP budget is spent on employment services. The UK's tax and benefit scheme has become more active and the benefit sanctions have been increased. Furthermore, the UK and Denmark are the only countries that cut the duration of benefits. However, the shift towards activation policies in the UK results from domestic politics rather than from European influences. After its victory in 1997, the Labour Party launched work-oriented New Deal programmes. And although this focus on work meant a break with the Labour tradition, this shift in the party programme was more influenced by the US than by the EU (Clasen, 2005).

Secondly, a number of countries focused on ALMP programmes and less on tax and benefit schemes. Italy, for instance, greatly increased the expenditures on ALMPs. As a result of pressure from the EES, the traditionally passive LMPs were made more active in the 1990s. Employment services were decentralised and the number of participants in activation programmes more than doubled between 1996 and 2001 (Graziano, 2007). Furthermore, income tax decreased, but the replacement rate increased and the number of waiting days diminished to zero. The Netherlands also increased its ALMP spending substantially. Furthermore, income tax decreased and qualifying conditions and availability requirements tightened. At the same time, however, the benefit scheme was

Table 4.5 Characteristics of unemployment benefits, three-year averages

| | Qualifying conditions | | | Waiting days | | | Availability requirements | | | Benefit Sanctions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2002 | Change | 1995 | 2002 | Change | 1995 | 2003 | Change | 1995 | 2003 | Change |
| Australia | 0 | 0 | 0 | 7 | 7 | 0 | 4.5 | 4.1 | -0.4 | 2.1 | 2.2 | 0.1 |
| Austria | 156 | 156 | 0 | 0 | 0 | 0 | 2.4 | 4.5 | 2.1 | 2.1 | 1.8 | -0.3 |
| Belgium | 78 | 78 | 0 | 0 | 0 | 0 | 2.9 | 2.6 | -0.3 | 3.7 | 3.0 | -0.7 |
| Canada | 52 | 45 | -7 | 14 | 14 | 0 | 2.8 | : | : | 3.0 | : | : |
| Denmark | 52 | 52 | 0 | 0 | 0 | 0 | 2.9 | 3.9 | 1.0 | 2.7 | 2.0 | -0.7 |
| Finland | 26 | 43 | 17 | 5 | 7 | 2 | 2.9 | 3.1 | 0.2 | 2.7 | 2.9 | 0.2 |
| France | 61 | 61 | 0 | 5 | 7 | 2 | 2.1 | 2.1 | 0.0 | 4.0 | 4.8 | 0.8 |
| Germany | 104 | 104 | 0 | 0 | 0 | 0 | 2.3 | 3.3 | 1.0 | 3.3 | 2.1 | -1.2 |
| Greece | : | : | : | : | : | : | : | : | : | : | : | : |
| Ireland | 39 | 39 | 0 | 13 | 3 | -10 | 1.9 | 3.1 | 1.3 | 1.7 | 1.7 | 0.0 |
| Italy | 104 | 104 | 0 | 7 | 0 | -7 | : | 1.5 | : | : | 5.0 | : |
| Japan | 26 | 26 | 0 | 7 | 7 | 0 | : | 2.4 | : | : | 1.4 | : |
| Luxembourg | : | : | : | : | : | : | 3.5 | : | : | 5.0 | : | : |
| Netherlands | 191 | 208 | 17 | 0 | 0 | 0 | 3.0 | 4.0 | 1.0 | 5.0 | 5.0 | 0.0 |
| New Zealand | 0 | 0 | 0 | 14 | 14 | 0 | 3.1 | : | : | 2.3 | 2.3 | 0.0 |
| Norway | 4 | 4 | 0 | 3 | 3 | 0 | 3.9 | 4.4 | 0.5 | 2.1 | : | : |
| Portugal | : | : | : | : | : | : | 1.8 | 1.8 | 0.0 | 5.0 | 5.0 | 0.0 |
| Spain | : | : | : | : | : | : | : | 2.7 | : | : | 3.4 | : |
| Sweden | 52 | 52 | 0 | 5 | 5 | 0 | 4.1 | 3.3 | -0.9 | 3.1 | 2.3 | -0.8 |
| Switzerland | 61 | 26 | -35 | 3 | 5 | 2 | : | : | : | : | : | : |
| United Kingdom | 10 | 10 | 0 | 3 | 3 | 0 | 2.9 | 2.4 | -0.5 | 2.2 | 2.6 | 0.3 |
| United States | 20 | 20 | 0 | 7 | 7 | 0 | 2.5 | 2.6 | 0.1 | 5.0 | 4.8 | -0.2 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mean OECD-22 | 57.5 | 57.1 | -0.4 | 5.2 | 4.6 | -0.6 | 2.9 | 3.0 | 0.1 | 3.2 | 3.0 | -0.2 |
| Standard deviation | 51.6 | 53.8 | 2.2 | 4.6 | 4.3 | -0.3 | 1.4 | 1.5 | 0.1 | 1.1 | 1.2 | 0.1 |
| Coefficient of Variation | 0.9 | 0.9 | 0.0 | 0.9 | 0.9 | 0.1 | 0.5 | 0.5 | 0.0 | 0.3 | 0.4 | 0.1 |
| Mean EU-15 | 79.3 | 82.5 | 3.1 | 3.5 | 2.3 | -1.2 | 2.7 | 2.9 | 0.2 | 3.2 | 3.0 | -0.2 |
| Standard deviation | 57.2 | 59.5 | 2.3 | 3.7 | 2.6 | -1.1 | 1.2 | 1.3 | 0.0 | 1.1 | 1.2 | 0.2 |
| Coefficient of variation | 0.7 | 0.7 | 0.0 | 1.1 | 1.1 | 0.1 | 0.5 | 0.4 | 0.0 | 0.3 | 0.4 | 0.1 |
| Mean OECD-7 | 23.2 | 17.3 | -6.0 | 7.9 | 8.1 | 0.3 | 3.4 | 3.4 | 0.0 | 3.1 | 3.1 | 0.0 |
| Standard deviation | 23.0 | 15.6 | -7.4 | 4.2 | 3.9 | -0.3 | 1.6 | 1.8 | 0.2 | 1.3 | 1.2 | -0.1 |
| Coefficient of variation | 1.0 | 0.9 | -0.1 | 0.5 | 0.5 | -0.1 | 0.5 | 0.5 | 0.0 | 0.4 | 0.4 | 0.0 |

*Source*: (a) Qualifying conditions and waiting days: Welfare State Entitlements Data Set (Scruggs, 2005).
(b) Availability requirements and benefit sanctions: Ministry of Finance Denmark (1998), Hasselpflug (2005); and own calculations.

made less active by increasing the level and duration of the benefits. A third group of countries have chosen to put less emphasis on ALMP programmes in combination with more active tax and benefit schemes. For example, Germany, Greece, Ireland, Luxembourg and Portugal lowered the level of income taxes or changed the settings of other instruments, but reduced their ALMP spending. Therefore, decreased ALMP expenditures do not necessarily mean less active LMPs.

A fourth group of countries made their LMPs less active. Belgium spent relatively less on ALMPs, increased the income tax, increased the level of benefits and made the availability requirements and benefit sanctions less strict. Also, France changed most of its LMPs into a more 'passive' direction. ALMP expenditures have been decreased and the levels of income tax and the replacement rate have been increased. However, the number of waiting days has been increased and benefit sanctions have been tightened. Within the ALMP budget, expenditures on employment services and subsidised employment have been increased. These results are supported by Barbier (2005), who found that the activation strategy of France was mainly focused on the demand side of the labour market by subsidising employers, and not on the supply side. Interestingly Belgium and France, two countries that made their LMPs less active, are both continental welfare states. The continental welfare states therefore did not catch up with the ALMPs of the liberal and Scandinavian welfare states, which possibly explains the limited convergence of ALMPs. Another interesting finding is that Belgium and France both increased their expenditures on public employment services and subsidised employment and focused only on the demand side of the labour market.

## 4.5 DISCUSSION

With the adoption of the EES and the Lisbon strategy, convergence of social protection goals and policies across EU countries have become important objectives. The two consecutive analyses in this paper both show EU-specific patterns. First, social expenditures in EU countries have converged and have increased on average, whereas non-EU countries have predominantly diverged. Corrected for cyclical and demographic factors, it seems plausible to ascribe these policy changes to European integration. Since the expenditure data do not clarify which of the social policies have converged, the next step was an extensive analysis of ALMPs.

Since the expenditures on ALMPs in EU countries have increased while the expenditures in non-EU countries have decreased, it seems, again, that national policies are influenced by European integration. Furthermore, at a lower aggregation level, the policies of EU countries tend to follow EES guidelines and recommendations. However, at this level of abstraction policies appear to converge less. Methodologically, one explanation for the differences in aggregation levels found, is that it is self-evident that more differences will be noticed when observations are more detailed. This also explains the gap between the results of the quantitative expenditure-based studies and case studies. However, this study provides evidence for a more substantive explanation, i.e. although most countries adopted a more activate approach towards LMPs, they chose different configurations of policy instruments.

A remarkable finding is the decline in expenditures on youth programmes. How to reconcile this with the high level of European attention to policies focused on preventing youth unemployment? The most plausible explanation is that some youth measures are not covered by ALMP expenditures on youth programmes. For instance, the increases in spending on employment services and on labour market training might be due to more attention to youth unemployment. Another possibility is that governments have focused on normal education systems, on family policies or on incentives in the tax system. Future studies will have to address this puzzling finding in more detail.

Another ongoing puzzle is the difference in policy reforms among countries. Some countries seem not to be affected by the EES at all, since they have made almost all ALMP instruments less active. In continental welfare states, activation initiatives have faced substantial resistance. As a consequence, activation has been targeted at the assistance margins, rather than on the insurance core of the unemployment benefit systems (Clegg, 2007: 607). This increases and reproduces the distance between labour market insiders and outsiders, which is illustrated by the Dutch case, where benefits are extended while qualifying conditions have been tightened. Still, with its emphasis on activation, the Netherlands has broken with the continental trajectory. The fact that other countries did not follow is not only due to continental welfare institutions, but also to country-specific factors. For instance, the lack of activation in Belgium can be explained by the fact that benefit administration is a federal competence, while employment service is a competence of the regions (Clegg, 2007: 609). However, the study presents some evidence of convergence, to a certain extent, of LMPs across EU member states. This 'divergence within convergence' is exactly in line with what one could expect from the EES.

# 5 Europeanisation and the Political Economy of Active Labour Market Policies


*Abstract*

Previous studies show that reforms in labour market policies differ across countries. This may be partly owing to the impact of European integration on these policy reforms. Whereas 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 active labour market policies. 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.



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## 5.1 INTRODUCTION[1]

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 member states of the EU 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 were institutionalised as a more general governance means, called the Open Method of Coordination (OMC), which has since also been applied to other policy areas such as 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, which 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 with the transposition of directives, which forms the lion's share of the Europeanisation literature, assessing the impact of the EES is a methodological challenge, since it cannot be measured directly owing 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 system-

1 Earlier versions of this article were presented at workshops of the 6th ESPAnet Conference (2008), NIG Conference (2008), SIG Researchers Day (2008), Dutch Political Science Conference (2009), and an AIAS seminar (2009). We thank all participants of the workshops and Paul de Beer, Koen Caminada, Kees Goudswaard, Marloes de Graaf-Zijl, Beryl ter Haar, Michael Kaeding, Duane Swank, Maroesjka Versantvoort and three anonymous referees of *European Union Politics* for their helpful comments and suggestions on earlier versions of this article.

atic 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 to control 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 Armingeon's study, we seek to make three contributions. First, in investigating whether the EES has influenced national ALMPs, we also take the constraining effect of Economic and Monetary Union 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 on 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.

## 5.2 EUROPEANISATION OF ACTIVE LABOUR MARKET POLICIES

*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 programmes 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 such as wage subsidies and at most modest effects for training programmes, whereas direct public employment creation even has a detrimental effect. Extending this study with an assessment of about 200 evaluation studies of European and US ALMPs, Card et al. (2010) confirm Kluve's findings and show that employment services have positive effects particularly in the short run, whereas training programmes are likely to be more effective in the long run. However, even if ALMPs are effective, it is debatable whether the benefits offset the costs, such as the tax burden, displacement effects and dead-weight loss. Although the cost-effectiveness of different ALMPs evidently does play a role in the policy-making processes, we leave these kind of labour economics variables out of the study, mostly because of data availability, and focus instead on variables from the Europeanisation and political economy literature.

*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, polities 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 polities 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 policy 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 such as 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, such as 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 labour market policies. Making such a distinction is uncommon in many Europeanisation studies where EU pressure, for example the implementation of a directive, is treated as a constant factor. 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 domestic policy-making arenas. This process can trigger and catalyse policy reforms at the domestic level that 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, such as gender mainstreaming, deregulation for firms and reducing early school leaving. In this study, the recommendations on activation are relevant. Although these recommendations are sometimes focused on a specific type of ALMP, such as 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 from the European Commission, the Council and other member states on politicians 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.' Heidenreich and Bischoff (2008: 511) also 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 in relation to ALMPs. However, case studies also suggest that over the years the pressure from recommendations has 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).[2]

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 the successful policies of others. Policy-makers can extend their repertoire of

2 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.

effective policies and avoid the 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, 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 the authors conceptualized impact as a 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 such as 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, in an examination of peer reviews on modernizing and strengthening public employment services, Visser (2009) illustrates how Finnish reforms with regard to an individualized approach to reintegrating the unemployed draw on practices from Sweden, the Netherlands, Denmark and Austria. This and other studies (for example, Büchs and Friedrich, 2005) also indicate that learning occurs mostly among like-minded member states, which may be strengthened through the 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 of 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 ongoing 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 EMU is another source of Europeanisation (Dyson, 2000). The literature has advanced two central arguments underlying the expected impact of EMU on national labour market policies. The first states that 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 programmes in general, and implies that the Maastricht convergence criteria, especially the target of budget deficits smaller than 3 percent 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 EMU strategically as a lever for welfare state reforms (Featherstone, 2004). Combining the two arguments, EMU has limited the repertoire of national policy-makers to non-expensive supply-side policies. Hence, we hypothesise that 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 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 EMU, the EES is aimed at guiding member states as to which types of policy they could best spend their resources on. For example, Van Vliet (2010a) shows that member states have changed their policy configurations and that they spend relatively more on employment services.

*Domestic politics*

A central insight of the Europeanisation literature is that the influence of the EES and 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 such as 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, as the Dutch social democratic minister of employment did (Visser, 2005). In line with the general argument regarding social spending, we expect leftist coalitions to increase ALMP spending, whereas 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 to make LMPs more activating, either they can push reforms unilaterally or they can achieve broad social consensus. Since social partners have considerable veto power, governments prefer the latter route. After all, trade unions have the power to call for strikes and to influence electoral arenas. On the other hand, social partners have an interest in avoiding 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, owing to the shift from Keynesian to neoclassical policies by most governments over the past two decades, strengthened by the adoption of EMU, the need for compensation by governments has 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, owing 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 just 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 such as drafting National Action Plans are in some countries entirely dominated by governmental actors, whereas in other countries social partners are very much involved (De la Porte and Pochet, 2005). Since participation by 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 in relation to 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 by finance ministries lead to relatively lower ALMP spending. There are two reasons to expect this. First, ministries of finance may be more concerned than ministries of employment about public finance 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 that are not reflected in ALMP spending, such as benefit sanctions and earned income tax credits (Visser, 2005).

## 5.3 Data, measures and method

### *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 commonly used indicator for cross-country comparisons (for example, 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.[3] 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

3 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 (ALMP expenditures / GDP) / (unemployment / labour force) = (ALMP expenditure / unemployment) / (GDP / labour force). Our results also hold for this indicator.

indicators, whereas other countries do not. As a result, the correlation between the two 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, and in the following analyses more fine-grained measures are added to examine the variation in the impact of the EES. We expect the impact of the EES, started in 1997, to be visible from 1998 onwards. Hence, the dummy variable is given a score of 0 for the years before 1998 and 1 afterwards. In addition, 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 focused on activation. It is obvious that measuring the frequency does only 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 Council recommendations on activation received per country per year. For both the peer review programme and the Council recommendations, our study relies on our own data collected using the 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 to involvement in the finalisation of the NAPs.

To investigate the impact of *EMU* on national ALMP spending, we include a dummy variable scored 1 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, 2010a). 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 *Database 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 leads 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) have 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 (OECD, 2007a; World Bank, 2007) 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 (2006a) composite index of economic integration. International economic integration could theoretically lead to a social race to the bottom and thus to lower ALMP expenditures. However, according to the compensation argument, governments should invest more in ALMPs in order to smooth people's adjustment to the labour market insecurities resulting from increased international competition (Rodrik, 1998).

*Method*

Isolating the impact of European integration on domestic policy-making from that of 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.[4] Since the data measuring the dependent variable are available through the *OECD Social Expenditure Database* (OECD, 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 data sets do not include data on 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,

4 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.

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 have data only for the period 1985-2005. The selection of this period means that the changes in the EES guidelines and national action plans after 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 of examining 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 that we should 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.

## 5.4 Empirical analysis

*Descriptive statistics*

Table 5.1 shows the development of expenditures on ALMP as a share of expenditures on all LMPs and per unemployed relative to GDP per capita, participation in the peer review programme and the number of Council recommendations received. Interestingly, average spending on ALMP as a share of total LMP spending increased between 1985 and 2005, while average ALMP spending per unemployed decreased. Underlying these trends, there is quite some variation across the countries. For instance, while Spain spent 10.7 per cent of all labour market policy expenditure on activation in 1985, in Sweden the share of ALMP expenditure was over 70 per cent. Indeed, Sweden's 'best pupil in the class' labour market policies were already largely in line with the EES before the EES was adopted, and, at some points, Sweden had even more ambitious policy goals than the EU (Jacobsson, 2005). Even after substantial reductions in ALMP expenditure from 1985 on, in terms of a share and per unemployed Sweden ranked among the highest spenders in 2005. However, as an outlier, it influences the analyses only modestly.[5] Furthermore, the data illustrate how the two variants of the dependent variable differ. In Belgium, for example, expenditure on ALMPs per unemployed increased on average, while expenditure on ALMP as a share of expenditures on all labour market policies decreased. This indicates that, although expenditures on ALMPs grew, expenditures on passive labour market policies increased even more. There is also substantial variation in the governance processes of the EES. Whereas Ireland participated only 6 times in total in the peer review programme, the UK participated 17 times from the start of the programme.[6] With respect to Council recommendations, Greece received over twice as many recommendations as 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 efforts on activation while controlling for other variables.

*Regression results*

The results of the regressions are presented in Table 5.2. 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 percentage points more of their total LMP expenditure on activation. In terms of real spending at constant 2000 price levels, this implies, for example, amounts of € 813.5 million in Germany, € 207.3 million in Italy, and € 227.6 million in the Netherlands. However, the insignificant effect for the EES in the model of ALMP spending per unemployed suggests that the EES leads to more effort on activation only relative to passive LMPs. The results for EMU support the expectation that EMU has constrained expenditure on activation.[7]

5 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 (Jacobsson, 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.

6 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.

7 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.

Table 5.1 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 2009d); peer reviews and council recommendations: own calculations.

Since the countries participating in the EES and EMU overlap, the negative effect for 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 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 owing 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 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 in 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. Whereas the analyses above are devoted to the question of 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, focusing on variation within the EU. Therefore, only EU-countries are included. Furthermore, we include only ALMP spending as a share of all LMPs, since the results above already suggest that the EES is related only to this measure.

Table 5.2 ALMP expenditures in OECD-22 countries, 1985-2005

| | Hypotheses | Model 1 | Model 2 |
|---|---|---|---|
| | | ALMP as share of LMP | ALMP per unemployed |
| *Europeanisation* | | | |
| EES | + | 1.79 ** | 1.91 |
| | | (1.00) | (2.01) |
| EMU | - | -1.96 ** | -3.78 ** |
| | | (1.05) | (2.18) |
| *Domestic politics* | | | |
| Tripartite councils (t-1) | + | -2.41 | 8.26 *** |
| | | (2.10) | (2.80) |
| Left cabinet seats | + | -0.01 | 0.10 *** |
| (mean t, t-1, t-2) | | (0.02) | (0.03) |
| Right cabinet seats | - | -0.05 *** | 0.05 [a] |
| (mean t, t-1, t-2) | | (0.02) | (0.02) |
| *Control variables* | | | |
| Government deficit (t-1) | + | 0.30 *** | 0.65 *** |
| | | (0.11) | (0.20) |
| Unemployment (t-1) | - | -0.45 ** | |
| | | (0.20) | |
| GDP per capita (x $10^{-3}$) | + | 0.39 ** | 0.38 * |
| (t-1) | | (0.22) | (0.24) |
| Economic openness (t-1) | + / - | 0.14 * | 0.09 |
| | | (0.07) | (0.13) |
| Constant | | 14.41 * | -16.80 |
| | | (8.09) | (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).

The results presented in Table 5.3 tend to support the expectation that involvement in the peer review programme is positively associated with a higher emphasis on activation.[8] 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 the fact 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 5.2, indicating that the model is quite robust.

To achieve 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. Given the rather high estimates of rho for Models 1-6, error correction models provide reliable estimates in the event of non-stationarity (Beck, 1991; De Boef and Keele, 2008).[9] The results of the estimation of the error correction models are presented in Table 5.4, confirming the findings for the EES, the peer reviews and 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 5.3 are not robust. The results for recommendations are replicated and the role of finance ministries is not significant (neither shown). 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, and the lagged level effects do not reach significance.

8 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.

9 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.

Table 5.3 ALMP expenditures as share of LMP expenditures in EU-15 countries, 1985-2005

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

Table 5.4 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 |
| _Europeanisation_ | | | | |
| EES | 0.58 * | 1.56 * | | |
| | (0.42) | (1.04) | | |
| Peer reviews (t-1) | | | 0.23 * | |
| | | | (0.15) | |
| Role social partners | | | | 0.22 |
| | | | | (0.18) |
| EMU | -0.80 ** | -1.72 * | -0.81 * | -0.95 ** |
| | (0.48) | (1.06) | (0.56) | (0.57) |
| _Domestic politics_ | | | | |
| Tripartite councils (t-1) | 0.24 | 1.83 *** | -0.25 | -0.09 |
| | (0.35) | (0.65) | (0.64) | (0.63) |
| Left cabinet seats | 0.00 | 0.01 | -0.01 | -0.01 |
| (mean t, t-1, t-2) | (0.01) | (0.01) | (0.01) | (0.01) |
| Δ Left cabinet seats | -0.02 | 0.09 * | 0.01 | 0.01 |
| (mean t, t-1, t-2) | (0.02) | (0.03) | (0.02) | (0.02) |
| Right cabinet seats | -0.00 | 0.01 | -0.01 | -0.01 * |
| (mean t, t-1, t-2) | (0.01) | (0.01) | (0.01) | (0.01) |
| Δ Right cabinet seats | -0.05 *** | 0.05 [a] | -0.03 | -0.03 |
| (mean t, t-1, t-2) | (0.02) | (0.02) | (0.03) | (0.03) |
| _Control variables_ | | | | |
| Government deficit (t-1) | 0.02 | 0.28 *** | 0.09 | 0.07 |
| | (0.07) | (0.12) | (0.08) | (0.08) |
| Δ Government deficit | 0.16 * | 0.51 *** | 0.13 | 0.07 |
| | (0.12) | (0.22) | (0.15) | (0.15) |
| Unemployment (t-1) | -0.04 | | -0.04 | -0.04 |
| | (0.07) | | (0.08) | (0.08) |
| Δ Unemployment | -1.04 *** | | -1.03 *** | -0.92 *** |
| | (0.25) | | (0.28) | (0.31) |
| GDP per capita (x $10^{-3}$) (t-1) | -0.04 | -0.07 [a] | -0.03 | -0.04 |
| | (0.04) | (0.04) | (0.06) | (0.07) |
| Δ GDP per capita (x $10^{-3}$) | 1.17 *** | 2.17 *** | 0.82 * | 1.26 ** |
| | (0.47) | (0.49) | (0.53) | (0.66) |

| | | | | |
|---|---|---|---|---|
| Economic openness (t-1) | -0.01 | -0.02 | -0.03 | -0.04 |
| | (0.01) | (0.03) | (0.02) | (0.03) |
| Δ Economic openness | 0.04 | 0.17 | 0.02 | 0.01 |
| | (0.08) | (0.13) | (0.09) | (0.09) |
| | -0.08 *** | -0.07 *** | -0.06 ** | -0.05 ** |
| ALMP expenditures (t-1) | (0.03) | (0.03) | (0.03) | (0.03) |
| Constant | 4.19 * | 2.03 | 6.63 ** | 7.16 ** |
| | (2.43) | (1.80) | (2.99) | (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.

## 5.5 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 active labour market policies across the member states. This is in line with the goal of the EES, with 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 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 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. Focusing 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 of 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.

# 6 Private Social Security and International Economic Integration

*Abstract*

Private social security has gained increasing importance in most advanced western societies over the last few decades. However, this phenomenon seems to be under-analysed in the political economy literature. This study aims to explain the variation in the expenditure on private social security across countries and over time. By using voluntary private social expenditure as the dependent variable, this study tests whether economic integration leads to higher demands for social security to compensate for increased economic risks; political mechanisms are not expected to interfere with the relationship. Based on data for 20 OECD countries over the period 1980-2005, the results indicate that increased trade openness is positively related to voluntary private social expenditure. Furthermore, the study finds empirical evidence that the growth of private social security is induced by retrenchments on public social expenditure and institutional reforms.

This chapter is a minor revision of a paper that is under review.

## 6.1 INTRODUCTION[1]

Over the last few decades, the role of private arrangements has become more important in the provision of social security (Adema and Ladaique, 2009). This development may have significant consequences, since shifts from public to private social programmes lead to lower levels of income redistribution (Goudswaard and Caminada, 2010). Interestingly, around 75 per cent of the expenditure on private social security is voluntary spending, suggesting that the growth in private social insurance is driven by a higher demand for social insurance. A popular explanation for increases in the demand for public social security is that people aim to insure themselves against the economic risks stemming from international economic integration. This proposition is known as the compensation hypothesis (Garrett and Mitchell, 2001). Although the development of private social arrangements varies substantially across countries, the variation in private social expenditure has not systematically been analysed to date. Yet, this study aims to analyse how international economic integration influences a country's voluntary private social expenditure.

The analysis, using regression analyses on data for 20 OECD countries over the period from 1980 – 2005, makes two contributions. First, analysing the variation in private social expenditure is a contribution in itself, since only a few studies on private social expenditure are available (Adema, 2001; Caminada and Goudswaard, 2005; Adema and Ladaique, 2009; Goudswaard and Caminada, 2010). To my knowledge, there is no study that aims to explain the cross-country and longitudinal variation in private social expenditure. Second, while the relationship between internationalisation and public social expenditure is largely indirect due to intermediating political mechanisms, the use of private social spending provides a direct indication of the demand for social security. Hence, this study contributes to the debate on how international economic integration influences welfare states.

The remainder of the paper is structured as follows. Section 6.2 begins with a review of the internationalisation-welfare state literature. Section 6.3 highlights the concept of private social security as the dependent variable of this analysis. In section 6.4, the mechanisms underlying the impact of international economic integration on the provision of social security schemes will be discussed and hypotheses will be formulated. Then, the data, measures and method used in the empirical analysis will be described in section 6.5. Subsequently, section 6.6 presents the results of the analysis. Section 6.7 concludes the paper by discussing the implications of the findings and points out possible extensions to this work.

1 An earlier version of this article was presented at a research seminar of Marquette University. I would like to thank all participants for helpful suggestions. In addition, I would like to thank Duane Swank, Cecilia Testa, Ferry Koster, Koen Caminada and Kees Goudswaard for their useful comments.

## 6.2 WELFARE STATES AND INTERNATIONAL ECONOMIC INTEGRATION

Despite the fact that the impact of international economic integration on welfare states has been widely debated and thoroughly researched, to date it is still undecided which of the two rival hypotheses concerning this issue, the efficiency and the compensation hypothesis, is the most accurate.

The efficiency hypothesis states that, due to increased economic integration, governments reduce their social protection levels to offer attractive conditions for firms. Hence, policy competition among countries leads to a social race to the bottom (Scharpf, 1999; Sinn, 2002). However, these internationalisation-induced retrenchments may be mitigated by citizens' preferences. Location decisions of firms depend on total labour costs in relation to the productivity of labour. The generosity of the social security system, and hence the division between wage and non-wage costs, therefore fully reflects the preferences of employees. Consequently, increased economic integration does not necessarily lead to lower levels of social protection. Indeed, despite some selective retrenchments of moderate level such as the German Hartz reforms, many empirical studies have shown that on average the financial effort to provide social protection policies has simply increased in most of the western countries over the last few decades (i.e. Caminada et al., 2010).

The compensation hypothesis states that social protection systems are expanded to compensate the increased risks faced by people due to international economic integration (Rodrik, 1998). This hypothesis has been analysed in many political economic studies. In a first strand of the literature, the relationship between economic integration and the welfare state has been examined at a macro level, typically using pooled time series cross-section data for several western countries. The results are mixed. While some studies found that economic integration is negatively related to social expenditure (Garrett and Mitchell, 2001; Jahn, 2006) or to public spending in general (Burgoon, 2001), other studies found evidence that economic integration is positively related to social spending (Agell, 1999; Bretschger and Hettich, 2002). Moreover, some studies have not found a significant relationship between economic integration and social expenditure at all (Dreher, 2006b; Dreher et al., 2008). The inconclusiveness of these results may be partly explained by differences in research design across the studies, such as the selected countries and time periods, variation in the quality of studies, and the inclusion of different measures (Koster, 2009). Other explanations for the mixed results are more substantive.

First, the empirically tested relationship between economic integration and public social expenditure is highly indirect. As illustrated in the left column of Figure 6.1, it is assumed that the increased uncertainty due to economic integration determines the voting behaviour of people. Thereupon, it is assumed that the aggregation of these political preferences in democratic processes leads to the adoption of more generous welfare state policies (i.e.

Walter, 2010). However, the relationship between economic integration and welfare state efforts appears to be mediated by political institutions (Swank, 2002; Ha, 2008). Hence, the inconclusive results in the literature might be due to omitted or misspecified variables to capture the conditioning effect of political institutions. Second, the compensation hypothesis refers to different underlying causal mechanisms. Whereas most studies theorise that economic integration increases economic insecurity, others stress that economic integration leads to increased income inequality. Although both insecurity and inequality can trigger a process that leads to more social protection, the nature of the process differs due to differences in political demand and preferences of the political actors involved. This difference in mechanisms could be relevant in the selection of measures, countries and periods, but is neglected in several studies. Third, empirical results may be obfuscated by the fact that internationalisation variables measure net effects. The effect of an increased demand for social security, as predicted by the compensation hypothesis, could be neutralised by the constraining effect of policy competition on the supply of social security, as predicted by the efficiency hypothesis.

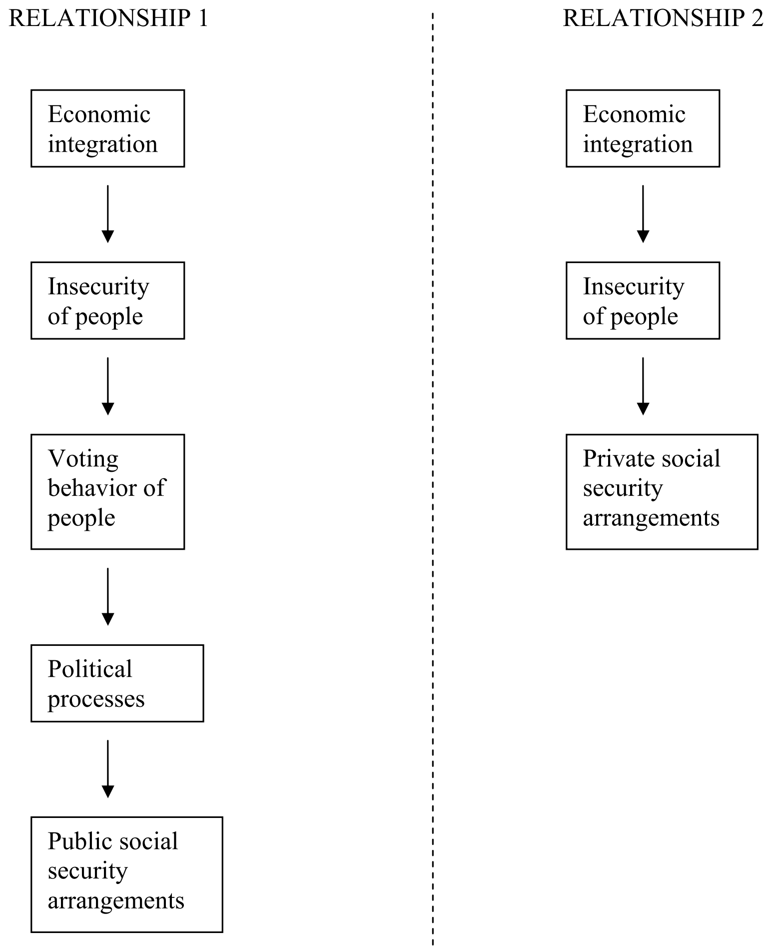
In a second strand of the literature, the relationship between internationalisation and preferences for social policies has been investigated with micro-level information. The findings in this strand of the literature tend to support the compensation hypothesis (Scheve and Slaughter, 2004; Balcells Ventura, 2006; Walter, 2010). An advantage of these studies is that they can focus on the different variables in the causal chain. For instance, the relationship between economic integration and the perception of insecurity can be tested explicitly. In addition, micro studies are better able to take other types of variables into account, like the type of industry and the skill level of employees. Nevertheless, a disadvantage of the micro-level literature is that by relying mainly on survey data, the results refer to intentions and opinions rather than to actual behaviour in terms of political action and resulting changes in the level of social protection.

The present study proposes a more direct method of testing the influence of international economic integration on the demand for social security. In this study we argue that the relationship can be tested more directly by focussing on private instead of public social security arrangements. If people demanded more social security to insure themselves against internationalisation-induced economic risks, this would be most clearly indicated by their individual actions of voluntarily purchasing private social security.[2] Therefore,

2 Voluntary private social insurance provided in employment contracts is the result of collective bargaining between social partners. Hence, industrial relations institutions may be related to the provision of voluntary private social security. As will be discussed below, this study controls for changes in the public policy framework which enable the supply of private social insurance. Political processes leading to these public policy changes as well as collective bargaining within the policy framework are however beyond the scope of this study.

voluntary private social security will be analysed, defined as social insurance programmes that are provided by private bodies, in which people can participate voluntarily. Leaving out the intermediating effect of political mechanisms results in a more direct, private variant of the compensation hypothesis, as is illustrated in the right column of Figure 6.1.

Figure 6.1 Compensation hypothesis



## 6.3 Private social security

Social security comprises a set of institutions which are related to the income and expenditures of people over their life cycle. Generally, the provision of social security has three main functions, namely insurance against the risk of income loss, redistribution between people, and reallocation of resources over the life cycle (De Mooij, 2006). The first function is at the centre of the compensation hypothesis, since economic uncertainty can increase as a consequence of higher international economic integration.

It is mainly because of the first two functions that most social security is provided publicly. With respect to the insurance function, one important problem involved with the provision of social security is that people with particularly high risk profiles desire social insurance. This leads to the so-called 'adverse selection' problem. Due to asymmetric information, private insurance providers would either provide different insurance packages for low and high risk profiles, or an insurance market would not exist at all. Since governments can make participation compulsory, adverse selection is a reason to provide social security publicly (Barr, 1992). Another problem with social security is that people are inclined to take more risks when they are insured, since the consequences of their behaviour will be transferred to the collectivity. This moral hazard problem can be dealt with better by the private sector, since it has stronger incentives for cost containment than the public sector (De Mooij, 2006). However, because of adverse selection and the function of redistribution, social insurance cannot be provided privately completely.[3]

Programmes can be classified as social when two conditions are simultaneously satisfied (Adema and Ladaique, 2009). First, they have to be intended to serve a social purpose.[4] Second, they have to involve either inter-personal redistribution or compulsory participation. Subsequently, the distinction between public and private social security is based on the institution which controls the financial flows, namely public agencies or private bodies. Private social security can be categorized into mandatory and voluntary programmes. The latter implies that people can decide whether or not to participate in these social insurance plans. Therefore, this type of social security is highly useful to examine the demand for social insurance empirically. Voluntary private social security includes a wide range of programmes, such as private old-age arrangements, private incapacity-related benefits, private health insurance, and a category of other private social security areas. These arrangements are

3 An additional issue with the private provision of social insurance arrangements is that the risk that insured individuals become unemployed is correlated with the business cycle. Governments are better able to bear this risk than private firms, since governments can finance the increase in spending on unemployment with tax revenues (De Mooij, 2006).

4 According to Adema and Ladaique (2009), policy areas with a social purpose are: old-age, survivors, incapacity-related benefits, health, family, active labour market policies, unemployment, housing and a category of other social security areas.

often tax-advantaged and take the form of supplemental social insurance. In the United States for instance, supplementary unemployment compensation is available (Adema and Ladaique, 2009: 29). Again, since voluntary private social security arrangements are classified as 'social', they have to contain an element of interpersonal redistribution. This implies that purely private insurance which is the result of direct market transactions by individual people given their individual risk profiles is not included (Adema and Ladaique, 2009).

## 6.4 HYPOTHESES

*Compensating the impact of economic integration*

Generally, economic integration can refer to both the opening of product markets and of production factor markets. Previous empirical research has mainly focused on the former. The basic argument of the compensation hypothesis is that exposure to international trade leads to vulnerability and insecurity, for which the workforce demands compensation in the form of social security (Rodrik, 1997; Rodrik, 1998).[5] Increased trade openness may induce economic insecurity for two reasons. First, the integration of goods markets makes the demand for domestic labour more elastic, since consumers and producers can more easily substitute final and intermediate goods for foreign goods. Therefore, tougher competition for domestic producers may trigger structural adjustments in economies, leading to economic risks for employees. In line with this argument, empirical evidence indicates that enhanced trade openness may lead to increased unemployment in the short run (Dutt et al., 2009). Second, as countries opening up to trade are exposed to turbulent world markets, labour market outcomes become more volatile. Due to the increased elasticity of labour demand, fluctuations in the good markets, and so in the demand for labour, lead to relatively larger adjustments in wages and working hours, resulting in greater volatility in income and consumption (Rodrik, 1997). Hence, increased economic risks induced by economic integration lead to a higher demand for social insurance.

With respect to the integration of markets for factors of production, labour has been relatively underemphasized in the empirical globalization-welfare state literature, since the international mobility of labour is rather limited.[6]

5 In another version of the compensation hypothesis, the focus lies more on inequality than on insecurity. The argument is that economic integration raises inequality, which leads to a higher demand for redistribution and therefore to higher efforts on social protection (Balcells Ventura, 2006). Since this argument can only be tested with public social security as dependent variable, the present study is directed at the insecurity element of the compensation hypothesis.

6 In many countries, there is no free entry for immigrant workers. Furthermore, even in the European Union which has a free-movement agreement, mobility is low or even negligible (Fertig and Schmidt, 2002).

Regarding the opening of capital markets, empirical studies indicate that international capital mobility is not systematically and directly related to public social policies (Swank, 2002; Swank, 2010). However, Scheve and Slaughter (2004) found that international capital mobility contributes to greater economic insecurity of individuals also. In line with the reasoning for the impact of trade openness, the explanation for this is that multinational firms can relatively easily substitute away from domestic labour toward other production factors, and move some of the production stages abroad. Hence, more foreign direct investment increases labour-demand elasticities. As a result, income and employment become more volatile, which leads to more insecurity for employees. Therefore, this study also accounts for capital openness, but it mainly focuses on international commodity trade.

Although preferences for insurance levels vary with individual degrees of risk aversion, increased exposure to international markets may lead on average to an increased demand for social security. Thus, the compensation hypothesis presumes that personal perceptions of economic risks lead to specific actions of individuals. While the individual action in the public social security version of the compensation hypothesis amounts to voting in elections, in the private social security version the individual action would be the voluntary participation in an insurance programme. Therefore, the impact of economic integration on the demand for social insurance can be tested more directly with voluntary private social security as dependent variable.

*H.1 Increases in international economic integration lead to increases in voluntary private social expenditure*

In order to further analyze the relationship between economic integration and social security, the impact of trade between developed and low-wage countries can be distinguished from the impact of trade among developed countries. The important differences between the two country types are the factor endowments. According to the Heckscher-Ohlin theorem, a country has a comparative advantage in the good that uses its relatively abundant factor intensively in production (Jones, 1956). Therefore, the country exports this good. Since developed economies are relatively abundant in high-skilled labour and capital, the former implies that they export products intensive in high-skilled labour and capital, and import low-skilled labour intensive products, which are exported by low-wage countries.

As a result, trade between developed and low-wage countries is mainly inter-industry trade, while trade among developed economies is mainly intra-industry trade. This distinction is important, since the distributional consequences from inter-industry trade differ from the distributional consequences generated by intra-industry trade (Alt et al., 1996). In developed economies, inter-industry trade leads to substitution of domestic production lines with imported goods from low-wage countries, and to the movement of whole sectors abroad. Hence, employees have to find new jobs in other sectors. Depending on the particular factor specificity, such adjustments may lead to increased economic risks. In contrast, intra-industry trade between countries with comparable factor endowments relies more on increasing returns to scale and product differentiation, than on inter-country differences in factor endowments and inter-industry differences of factor intensities. An important difference compared to inter-industry trade is that, due to product differentiation, intra-industry trade does not entail direct substitution of production lines. As a result, employees may have to find new jobs in different firms, but within the same sector, and the distributional consequences are rather neutral. Thus, intra-industry trade involves smaller adjustments for employees than inter-industry trade. Hence, trade with low-wage countries leads to more economic insecurity and therefore to a higher demand for social security than trade with developed economies (Burgoon, 2001).

In addition, the Stolper-Samuelson (1941) theorem predicts that an increase in the price of a good raises the return to the factor that is intensively used in the production of the good, and lowers the return to the other factor. Since the demand for high-skilled labour intensive products increases, whereas the demand for low-skilled labour intensive products decreases when developed economies trade with low-wage countries, the incomes for high-skilled labour increase, while the incomes for low-skilled labour decrease. Thus, economic insecurity increases relatively more as a result of low-wage trade, than as a result of trade between developed economies. Accordingly, when developed countries trade with low-wage countries, the demand for social security will be higher than when developed countries trade with other developed countries.

*H.2 More trade with low-wage countries as a proportion of overall trade leads to increases in voluntary private social expenditure*

An important factor in the progression of economic integration and trade liberalisation is regional integration, which can be understood as an institutionalised form of economic integration among a group of countries. Among western countries, the most important manifestation of regional integration is the European Union. The reduction of trade obstacles due to the creation of the common market has stimulated intra-EU trade. An increase in trade with developed countries as a proportion of the overall trade of developed countries implies an increase in intra-industry trade. Indeed, a large share of intra-EU trade is intra-industry trade (Sapir, 1992). Hence, in line with the discussion above, an increase in intra-EU trade leads to relatively lower demands for social security.

*H.3 Trade with EU countries as a proportion of overall trade is negatively related to voluntary private social expenditure*

*Welfare state institutions*

A first factor that should be controlled for while estimating the demand for private social insurance is the generosity of the public social protection system (Hacker, 2002). When the demand for insurance against economic insecurity is fulfilled by a public social protection system, the demand for private social security will be lower. This also implies that public welfare state retrenchments can be expected to lead to increases in private social expenditures.[7] Empirically, the fact that the cross-country variation of total social expenditure (the sum of public and private) is lower than the variation of public social expenditure alone, suggests that public and private social expenditures are substitutes to some extent (Caminada and Goudswaard, 2005; Goudswaard and Caminada, 2010).

*H.4 Public social expenditure and voluntary private social expenditure are negatively related*

Despite the fact that insurance which is the result of direct market transactions by individuals is not categorised as 'social', the level of private social expenditure does to some extent depend on the equilibrium on the market of private social security. In order to isolate the effect of changes in the demand side, the study should control for changes on the supply side too. Quite often, policy changes are needed to enable changes in the supply of private social arrangements. For instance, governments have to decide on institutional reforms which open up the market for providers of specific private social arrangements. Several policy objectives may underlie such reforms, for instance the alleviation of government budgets. Since private providers are faced with stronger incentives for cost reductions, they may be expected to operate more efficiently (Goudswaard and Caminada, 2010).

*H.5 Institutional reforms which enlarge the potential supply of voluntary private social security have a positive impact on voluntary private social expenditure*

In summary, the main hypothesis to be tested is that increased international economic integration has led to increases in voluntary private social expenditure. International trade is assumed to lead to higher perceived economic risks, due to both structural adjustments of uncompetitive sectors and increased income volatility, which induces a higher demand for social insurance. The use of voluntary private social expenditure as dependent variable provides

7 Vice versa, increases in the provision of public social insurance, triggered by increased international economic integration or by other factors, may lead to lower levels of private social expenditure. Therefore, as will be discussed below, public social expenditure will be modeled as an endogenous independent variable.

a relatively direct method to test the relationship, but this advantage does not come without any costs. The limited provision of private social insurance against labour market risks, resulting from adverse selection problems, may confine the implications of the findings of the present study for the existing literature. Whereas a significant relationship between economic integration and voluntary private social expenditure strengthens the empirical foundation of existing theories, a rejection of the hypothesis would not necessarily dispute the findings on the relationship between economic integration and public social spending.

## 6.5 Data, measures and method

*Dependent variable*

The dependent variable of the study is the use of voluntary private social security arrangements. As in almost all studies on the impact of international economic integration on welfare states, the study takes social expenditure as percentage of GDP as measure for the dependent variable. This study uses data on *voluntary private social expenditure* (on data sources see Appendix 6A). The study includes 20 countries, all advanced societies and capitalist economies, both EU and non-EU countries. Constrained by data availability, the empirical study covers the years 1980 up till 2005.[8] The main categories of social arrangements included are spending on old age, incapacity related benefits, health care, and a residual category of social programmes which are not attributable to other categories. For instance, this category includes supplementary unemployment compensation schemes in the United States.

Interestingly, most of the critics on the use of public social expenditure as an indicator in cross-country research do not apply to private social expenditure. Generally, this criticism is twofold (Van Vliet, 2010a). First, since a certain spending level can refer to a variety of underlying policies, changes in social expenditure would only give a limited indication of policy reform. However, in this study, private social expenditure is not used as a measure for policy change. In fact, as it will be discussed below, policy change is explicitly modelled as an independent variable. Second, when public social expenditure is used as a measure for welfare state generosity, the comparability of social expenditure across countries is limited as the impact of taxes on social benefits differs across countries. Also this issue applies less to private than to public social expenditure, since in this study private social spending is regarded as a measure for the purchase of private social security, rather than as a measure for generosity.

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8 As in many time-series cross-section data studies, some cases are missing. In the current dataset, some observations are missing with regard to the dependent variable for Greece, Italy, Norway and Switzerland in the 1980's, for Japan until the 1990's and for Portugal the year 2005.

*Internationalisation variables*
For the main independent variable, economic integration, the study uses several measures. First, to indicate the increased exposure to external risk, *trade openness* is included, measured as the average between exports and imports as a percentage of GDP. According to Rodrik (1998), it is actually the volatility of income, stemming from exposure to the unpredictable world market, that causes uncertainty and vulnerability. In fact, in a world with no market imperfections, the volatility of the terms of trade is the only relevant measure to test the compensation hypothesis (Rodrik, 1998). Therefore, terms of trade, prices of exports relative to prices of imports, are included as the second measure. Following Rodrik (1998), *fluctuations in the external terms of trade* are measured as the five years moving standard deviation of the first differences of the natural logarithm of the terms of trade.

Third, the sum of inflows and outflows of foreign direct investment as a percentage of GDP indicates the exposure to risk due to *capital mobility*. The fourth measure, *capital restrictions,* gives an indication of the extent to which a country's policies are restrictive regarding the cross-border movement of payments and receipts of capital. This indicator is a policy measure, indicating the potential openness, rather than the actual flows of capital. It takes into account that actual flows depend on more factors than only on openness, for instance on differences in interest rates across countries.

Subsequently, a variable is included for the *imports from developing countries* to test the hypothesis on trade with 'low-wage' countries. Finally, the measure *trade with EU countries* gives an indication of economic integration in the EU. It is measured as the percentage of a country's exports to EU countries.[9] More generally, this measure is known as the intraregional trade share, which is a common indicator for regional integration (Sapir, 1992).

*Welfare state institutions*
As discussed above, changes in private social expenditure may be triggered in the first place by changes in the broader context of the social security system as a whole. Therefore, the sum of *public and mandatory private social expenditure* as a percentage of GDP is included. Whereas changes in public social policies or in legislation on mandatory private social arrangements are reflected through the variable public social expenditure, institutional reforms which enlarge the market for voluntary private social expenditure are not. Guided by steep changes in voluntary private social expenditure (see Table 6.1) and a close analysis of the disaggregated data on the programme level, two dummy variables are constructed, based on primary legislation and case studies, to capture these *institutional reforms*. Included reforms are, for instance, a measure in the 1995/1996 Australian federal budget, that introduced employee con-

9 All EU countries are included.

tributions into the superannuation funds, and the British Social Security Act, which was adopted in 1986 and came into force in 1988.[10]

*Socio-economic variables*

A number of socio-economic conditions can be expected to influence voluntary private social expenditure. To control for the impact of domestic economic structural changes on the demand for social protection, Iversen and Cusack's (2000) indicator of *deindustrialisation* is included. Furthermore, the study includes a measure for the *education level* of a country's labour force, indicating the average years of schooling in the population aged 15 years and older.[11] While increased exposure to international trade benefits high-skilled employees, it increases the economic risks for low-skilled employees in advanced western countries. Therefore, especially low-skilled employees will desire high social protection levels implying that the education level of a country's workforce should be negatively related to the demand for social security.[12] Another control variable is the *unemployment rate*. When unemployment levels increase, people perceive higher economic risk, leading to an increased demand for social security.

To control for the economic development of a country, the study includes real *GDP per capita*. With respect to public social expenditure, it is argued in many studies that people are prepared to spend larger shares of their income on the provision of social security when income rises, which is called Wagner's Law (Meltzer and Richard, 1983). This implies that the income elasticity of social security is higher than one. Indeed, economically more developed countries have often more generous welfare states. In line with this argument, it can also be expected that people are willing to spend more on private social security when income grows. In the short run, however, economic growth could reduce the perception of economic insecurity and therefore lower the demand for social insurance.

*Household saving* is measured as the net saving rate as a percentage of GDP. Reallocation of income over the life cycle in order to smooth consumption is the main reason for people to save. Since reallocation of income over the life

10 Another included institutional reform is the adoption of the Welfare reform and pension Act in the United Kingdom which came into force in 2000. Finally, two major Belgian reforms are included, namely the Colla Law, which came into force in 1996, and the Vandenbroucke Law, that entered into force in 2004.

11 This variable has been linearly inter- and extrapolated. Since there is only little variation in the original data due to the use of population averages, the estimated values will not deviate much from the real trend.

12 Since high-skilled employees have better economic risk profiles than low-skilled employees, high-skilled employees can be expected to participate relatively more in private insurance schemes because they face lower insurance premiums. However, from the fact that purely private insurance which is the result of direct market transactions is not categorised as social security, it follows that this effect will not influence the relationship between education level and voluntary private social expenditure.

cycle is also a function of social security, a substitution effect can be expected. Moreover, according to the precautionary motive, people save a part of their income to create a buffer in order to be able to counterbalance income losses. Since the insurance against income risks is also a main reason for people to buy social insurance, a substitution effect between saving and private social spending can also be expected for this reason (Hubbard et al, 1995). The *population aged 65* and above as percentage of total population is included to control for demographic pressure. With the ageing of populations, private expenditure on retirement programmes can be expected to increase. Finally, the natural logarithm of *total population* controls for the county size. Since small countries have smaller domestic markets which are relatively more oriented on the world market, citizens in small countries may perceive higher levels of insecurity.

*Method*

In order to analyse the data, we run a number of pooled time series cross-section regression analyses, based on OLS estimation procedures. Regressing the dependent variable on the one period lagged dependent variable gives a first order autocorrelations' rho of > 1. In order to deal with this non-stationarity, the study relies on an error correction model (Beck, 1991; De Boef and Keele, 2008), which is a conventional estimator in the political economy literature to analyse the impact of integrating markets on welfare states (Iversen and Cusack, 2000; Busemeyer, 2009). A further advantage is that by modelling levels and first differences, this estimator is able to capture both short-term transitory effects, and long-term structural effects. One of the control variables, public social expenditure, is used as the dependent variable in the lion's share of the literature about the impact of internationalisation on welfare states. Therefore, public social spending is obviously also an endogenous variable in the present study, which is confirmed by the Durbin-Wu-Hausman-test. To address the endogeneity problem, this study uses a two-stage least squares model. In such a model, it is necessary to find a good instrument, defined as a variable that correlates to the endogenous explanatory variable, and that does not correlate to the error term of the original equation (Wooldridge, 2002). The instrument used here is a country's membership of the Economic and Monetary Union (EMU), which is modelled as a dichotomous variable. The EMU is strongly and significantly related to public social expenditure in the first-stage regression, whereas it is not significantly related to voluntary private social expenditure.[13] Hence, the estimating equation for the empirical model is:

13 In the first-stage regression, the regression coefficient of EMU is -1.05, indicating its disciplinary effect on public expenditure, which is significant at the 1 percent level.

$$\Delta \text{Private}_{i,t} = \beta_1 + \beta_2 \text{Private}_{i,t-1} + \beta_3 \text{Openness}_{i,t-1} + \beta_4 \Delta \text{Openness}_{i,t} + \beta_5 \widehat{Public}_{i,t-1} + \beta_6 \Delta \widehat{Public}_{i,t} + \sum \beta^j X^j_{i,t-1} + \sum \beta^j_\Delta \Delta X^j_{i,t} + \varepsilon_{i,t} \quad (1)$$

where

$$\widehat{Public}_{i,t} = \gamma_1 + \gamma_2 \text{Openness}_{i,t} + \gamma_3 \text{EMU}_{i,t} + \sum \gamma^j X^j_{i,t} \quad (2)$$

and where X denotes a vector of control variables. Since the inclusion of both a lagged dependent variable and country fixed effects renders the estimator inconsistent (Nickell, 1991), the model does not include fixed effects. Nonetheless, estimating the model with country-specific effects generally replicates the main results of the impact of international economic integration on voluntary private social spending.[14] Panel-corrected standard errors are applied to correct for panel-heteroscedasticity and contemporaneous spatial correlation (Beck and Katz, 1995). Finally, a dummy variable is included to account for breaks in the time series data.

## 6.6 Empirical analysis

*Descriptive statistics*

Table 6.1 shows the development of voluntary private social expenditure as a percentage of GDP for the included countries from 1980 until 2005. Voluntary private social expenditures vary substantially across countries. Over the whole period, the United States have the highest expenditures,[15] starting just above the 4 percent of GDP in 1980 and ending around the 9.5 percent in 2005, followed by the Netherlands with around 7.5 percent in 2005 and the United Kingdom with around 6.5 percent in 2005. In contrast, New Zealand, Spain

14 With respect to the fixed effects variant of Model 1, trade openness and capital mobility are positively and significantly related to voluntary private social expenditure. The coefficients for the terms of trade volatility are positive but do not reach significance. Model 2 yields positive and significant results for trade openness, terms of trade volatility and capital mobility, but fails to replicate the finding for the interaction term.

15 Therefore, the United States could be considered as an outlier (see also Super (2008)). However, running the regressions without the United States does not alter the results substantially.

Table 6.1 Voluntary private social expenditure (% GDP)

| | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|---|---|
| Australia | 1.0 | 0.7 | 0.9 | 2.7 | 3.6 | 2.6 |
| Belgium | 0.9 | 0.8 | 1.6 | 2.1 | 2.4 | 4.5 |
| Canada | 1.6 | 2.3 | 3.3 | 4.4 | 5.0 | 5.5 |
| Denmark | 1.4 | 1.3 | 1.6 | 1.9 | 2.1 | 2.4 |
| Finland | 0.9 | 1.0 | 1.1 | 1.3 | 1.2 | 1.1 |
| France | 0.6 | 0.7 | 1.7 | 1.8 | 2.1 | 2.6 |
| Germany | 1.1 | 1.3 | 1.5 | 1.6 | 1.7 | 1.9 |
| Greece | : | 0.0 | 2.1 | 1.9 | 2.3 | 1.7 |
| Ireland | 1.3 | 1.6 | 1.4 | 1.7 | 1.3 | 1.3 |
| Italy | : | : | 0.5 | 0.4 | 0.4 | 0.6 |
| Japan | : | : | : | : | 3.1 | 2.5 |
| Netherlands | 3.6 | 4.5 | 5.6 | 6.1 | 6.6 | 7.6 |
| New Zealand | 0.1 | 0.1 | 0.2 | 0.5 | 0.5 | 0.4 |
| Norway | 0.6 | 0.5 | 0.7 | 0.8 | 0.8 | 0.8 |
| Portugal | 0.4 | 0.6 | 0.7 | 0.8 | 1.1 | : |
| Spain | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.5 |
| Sweden | 1.1 | 1.1 | 1.2 | 2.1 | 2.2 | 2.4 |
| Switzerland | : | 0.8 | 1.0 | 1.3 | 1.2 | 1.1 |
| United Kingdom | 3.4 | 4.4 | 4.8 | 6.1 | 7.1 | 6.3 |
| United States | 4.2 | 5.9 | 7.1 | 7.9 | 8.8 | 9.8 |
| Mean | 1.4 | 1.6 | 2.0 | 2.4 | 2.7 | 2.9 |
| Coefficient of variation | 0.9 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 |

*Source:* OECD (2009d); author's own calculations.

and Italy have the lowest voluntary private social expenditures, with less than 1 percent of GDP over the whole period.

Interestingly, the average expenditure as a share of GDP, has been more than doubled over the whole period, increasing from less than 1.4 percent in 1980 to 2.9 percent in 2005. Furthermore, expenditures as a percentage of GDP have increased in all countries between 1980 and 2005. This illustrates that private social security has gained importance across western societies since the 1980s. Within the group of countries, there is considerable variation in the development of spending over time. While in some countries, like France, Spain and Sweden, voluntary private social expenditure steadily increased, in other countries, such as Ireland and New Zealand, there have been periods of decline too. In the remainder of this section, we aim at explaining this variation with regression techniques. The descriptive statistics of other variables can be found in Appendix 6B.

*Determinants of voluntary private social expenditure*

The results of estimation of voluntary private social expenditure as a percentage of GDP are presented in Table 6.2. Model 1 indicates that trade openness and the volatility of the terms of trade are positively related to voluntary private social expenditure. These results lend support to the hypothesis that international economic integration leads to a higher demand for social security. However, these results only apply in the long run, since the coefficients for the change variables are insignificant and tend to be even negative for the volatility of the terms of trade. Following Rodrik (1998), Model 2 contains an interaction variable between trade openness and the volatility of the terms of trade. The positive coefficient for the interaction of the lagged levels indicates that the positive impact of trade openness increases with higher levels of volatility in the terms of trade. Thus, in countries with both high levels of trade openness and high levels of terms of trade volatility, there is a high demand for private social insurance. These findings for private social expenditure are in line with the results for public social expenditure as found by Rodrik (1998). There is also weak evidence to suggest that higher levels of capital mobility lead to an increased demand for private social insurance.

With respect to public social expenditure, the results indicate a negative relationship between public and private social expenditure. In line with the hypothesis, this suggests that public and private social insurance are substitutes to some extent. When the demand for social protection is fulfilled by public welfare state institutions, the demand for private social insurance is lower. In other words, retrenchments in the public social protection system lead to an increase in private social expenditure. However, this substitution effect can only be identified for the short run.

As to institutional reforms concerning private social insurance markets, the results indicate that the first institutional reforms have had a significant and positive impact on voluntary private social expenditure. Consistent with the hypothesis, this indicates that when governments open up the market for providers of private social arrangements, supply increases and the level of expenditure increases too. The second wave of institutional reforms has also had a significant impact, albeit in the opposite direction as expected. This is probably due to the fact that the steep increase in private expenditure in the United Kingdom in 2000 has been followed by sharp declines (see Table 6.1), which are also captured by the dummy variable. Although more research is needed to understand these dynamics, the model includes at least a variable that controls for this sudden change in the private social insurance market.

Turning to the socio-economic variables, the results indicate that deindustrialisation is positively and significantly related to private social expenditure. This result is in line with Iversen and Cusack's (2000) findings for public expenditure. It suggests that due to the limited transferability of skills,

Table 6.2 Voluntary private social expenditure, 20 OECD countries, 1980-2005

| | Model 1 | Model 2 |
|---|---|---|
| *Internationalisation* | | |
| Trade openness $_{t-1}$ | 0.004 *** (0.001) | 0.002 (0.002) |
| Δ Trade openness | 0.001 (0.004) | 0.006 [b] (0.005) |
| Terms of trade volatility $_{t-1}$ | 1.677 *** (0.682) | -0.228 (1.590) |
| Δ Terms of trade volatility | -4.756 [a] (1.456) | 1.403 (2.611) |
| (Trade openness x Terms of trade volatility) $_{t-1}$ | | 0.073 ** (0.043) |
| Δ (Trade openness x Terms of trade volatility) | | -0.232 [a] (0.076) |
| Capital mobility (FDI) $_{t-1}$ | 0.002 * (0.001) | 0.003 * (0.002) |
| Δ Capital mobility (FDI) | -0.004 (0.002) | -0.005 [a] (0.003) |
| *Welfare state institutions* | | |
| Public social spending $_{t-1}$ | 0.063 [a] (0.022) | 0.067 [a] (0.021) |
| Δ Public social spending | -0.228 *** (0.049) | -0.225 *** (0.048) |
| Institutional reform 1 | 0.205 * (0.142) | 0.212 * (0.137) |
| Institutional reform 2 | -0.222 [a] (0.110) | -0.222 [a] (0.107) |
| *Socio-economic variables* | | |
| Deindustrialisation $_{t-1}$ | -0.003 (0.008) | -0.008 (0.004) |
| Δ Deindustrialisation | 0.046 *** (0.014) | 0.040 *** (0.013) |
| Education $_{t-1}$ | -0.022 *** (0.007) | -0.025 *** (0.007) |
| Δ Education | 0.128 [a] (0.027) | 0.135 [a] (0.021) |
| Unemployment $_{t-1}$ | -0.019 [a] (0.009) | -0.021 [a] (0.009) |
| Δ Unemployment | 0.057 *** (0.018) | 0.059 *** (0.018) |
| GDP per capita (x $10^{-3}$) $_{t-1}$ | 0.000 (0.007) | 0.000 (0.001) |
| Δ GDP per capita (x $10^{-3}$) | -0.082 ** (0.036) | -0.075 ** (0.037) |

| | | |
|---|---|---|
| Household saving $_{t-1}$ | -0.008 ** (0.004) | -0.008 ** (0.004) |
| Δ Household saving | -0.020 ** (0.009) | -0.021 ** (0.010) |
| Population 65+ $_{t-1}$ | -0.117 [a] (0.039) | -0.126 [a] (0.037) |
| Δ Population 65+ | 0.288 * (0.189) | 0.299 * (0.182) |
| Total population $_{t-1}$ | 0.141 [a] (0.031) | 0.156 [a] (0.031) |
| Δ Total population | 1.951 (2.723) | 1.986 (2.752) |
| Voluntary private social spending $_{t-1}$ | -0.009 (0.018) | -0.010 (0.018) |
| Constant | -0.596 * (0.358) | -0.585 (0.363) |
| N x T | 302 | 302 |
| Adj. R-Squared | 0.382 | 0.380 |

*Notes*: Unstandardized coefficients; panel-corrected standard errors in parentheses.
p < .10; ** p < .05; *** p < .01;
a: significant, but in opposite direction. b: border significant.
Two-tailed hypothesis for GDP per capita. All other hypotheses are one-tailed.
Each regression also includes a dummy variable for data breaks (not shown here).

shifts in employment from agriculture and industry to the service sector have led to increased uncertainty and therefore to an increased demand for social insurance.

As expected, the education level of the workforce is negatively related to private social spending. This indicates that economic insecurity and the demand for arrangements to insure this insecurity decreases with the education level of employees. The positive coefficients for the transitory effects suggest that the education level affects insecurity only in the long run. This could be understood against the background of the only marginally changing average education level of the labour force on an annual base.

Since the results do not indicate a positive effect of GDP per capita on the demand for private social security, a private variant of Wagner's Law is not supported. In contrast, the negative coefficients for the change variables suggest that economic growth influences social expenditure counter cyclically in the short run. Moreover, these results may reflect a denominator effect, since social expenditure is expressed as a percentage of GDP.

Household saving appears to be significantly and negatively associated with voluntary private social expenditure. This finding supports the theoretical expectation that, in order to insure economic risks and to smooth income over the life cycle, people use savings as substitutes for social insurance. In equilibrium, a reduction in household saving of 1 percent point of GDP would increase voluntary private social expenditure with 0.89 per cent point of GDP.[16] This ratio makes theoretically sense, since an essential characteristic of insurance is efficiency. For a sum insured equivalent to a certain savings balance, insurance premiums are lower than savings, due to the pooling of risks.

The ageing of populations is positively and significantly related to private social expenditure, which is consistent with the hypothesis and with the results in the literature with respect to public social expenditure. However, the negative coefficients for the long-term effects indicate that this relationship only holds for the short run. Finally, the results for country size are not in line with the argument that citizens in small countries perceive higher levels of insecurity and suggest even the opposite.

Table 6.3 contains model specifications using alternative measures of international economic integration. Model 3 indicates that the extent to which a country's policies are restrictive regarding the cross-border movement of capital is not significantly related to voluntary private social expenditure. Models 4 and 5 present the results for the models which include measures to distinguish between the impact of trade with low-wage countries and the impact of trade with developed economies. The results for the imports from developing countries as a proportion of overall trade provide no support for the hypothesis that this type of trade leads to increases in the demand for private social insurance. This is at variance with the findings for public social expenditure of Burgoon (2001). Subsequently, trade with EU countries as a share of overall trade is positively related to voluntary private social expenditure in the short run. This result seems to reject the hypothesis that intra-industry trade leads to relatively less economic insecurity and therefore to a relatively low demand for social insurance. Instead, it suggests that also the far-reaching integration of the European markets leads to economic insecurity, even though most intra-EU trade is intra-industry trade.

With respect to the results of the other variables in Table 6.3, the coefficients for the effect of capital mobility have lost their significance. This implies that the results for capital mobility in Table 6.2 are not robust. Furthermore, the coefficients for institutional reforms do not reach significance in all models.

On the other hand, the results for trade openness and the terms of trade volatility are robust. Finally, also the results for public social expenditure and the socio-economic variables are largely in line with the results of the first two models.

16 Long-term effects in error correction models are estimated by dividing the coefficient for the level variable by the negative coefficient for the lagged level dependent variable. Thus for household saving in model 1 this gives: (-0.008 / -(-0.009)) = 0.89.

Table 6.3 Voluntary private social expenditure, 20 OECD countries, 1980-2005

| | Model 3 | Model 4 | Model 5 |
|---|---|---|---|
| *Internationalisation* | | | |
| Trade openness $_{t-1}$ | 0.005 *** | 0.006 *** | 0.009 ** |
| | (0.002) | (0.003) | (0.005) |
| Δ Trade openness | 0.001 | -0.010 [a] | -0.017 [a] |
| | (0.004) | (0.006) | (0.008) |
| Terms of trade volatility $_{t-1}$ | 1.633 *** | 1.728 * | 2.078 * |
| | (0.596) | (1.070) | (1.479) |
| Δ Terms of trade volatility | -4.572 [a] | -5.362 [a] | -4.240 [a] |
| | (1.203) | (2.042) | (2.477) |
| Capital restrictions $_{t-1}$ | -0.001 | | |
| | (0.001) | | |
| Δ Capital restrictions | -0.000 | | |
| | (0.002) | | |
| Imports from developing countries $_{t-1}$ | | 0.008 | |
| | | (0.010) | |
| Δ Imports from developing countries | | -0.040 [a] | |
| | | (0.014) | |
| Exports to EU countries $_{t-1}$ | | | -0.004 |
| | | | (0.004) |
| Δ Exports to EU countries | | | 0.010 [a] |
| | | | (0.006) |
| Capital mobility (FDI) $_{t-1}$ | | 0.001 | 0.000 |
| | | (0.002) | (0.002) |
| Δ Capital mobility (FDI) | | -0.006 [a] | 0.001 |
| | | (0.003) | (0.003) |
| *Welfare state institutions* | | | |
| Public social spending $_{t-1}$ | 0.061[a] | 0.075 | 0.086 |
| | (0.029) | (0.055) | (0.069) |
| Δ Public social spending | -0.228 *** | -0.292 *** | -0.219 *** |
| | (0.047) | (0.086) | (0.092) |
| Institutional reform 1 | 0.209 ** | 0.217 | 0.268 |
| | (0.123) | (0.208) | (0.229) |
| Institutional reform 2 | -0.266 | -0.225 [a] | -0.198 |
| | (0.269) | (0.099) | (0.149) |
| *Socio-economic variables* | | | |
| Deindustrialisation $_{t-1}$ | -0.002 | -0.008 | -0.018 |
| | (0.006) | (0.014) | (0.024) |

| | | |
|---|---|---|
| Household saving $_{t-1}$ | -0.008 ** (0.004) | -0.008 ** (0.004) |
| Δ Household saving | -0.020 ** (0.009) | -0.021 ** (0.010) |
| Population 65+ $_{t-1}$ | -0.117 [a] (0.039) | -0.126 [a] (0.037) |
| Δ Population 65+ | 0.288 * (0.189) | 0.299 * (0.182) |
| Total population $_{t-1}$ | 0.141 [a] (0.031) | 0.156 [a] (0.031) |
| Δ Total population | 1.951 (2.723) | 1.986 (2.752) |
| Voluntary private social spending $_{t-1}$ | -0.009 (0.018) | -0.010 (0.018) |
| Constant | -0.596 * (0.358) | -0.585 (0.363) |
| N x T | 302 | 302 |
| Adj. R-Squared | 0.382 | 0.380 |

*Notes*: Unstandardized coefficients; panel-corrected standard errors in parentheses.
p < .10; ** p < .05; *** p < .01;
a: significant, but in opposite direction. b: border significant.
Two-tailed hypothesis for GDP per capita. All other hypotheses are one-tailed.
Each regression also includes a dummy variable for data breaks (not shown here).

## 6.7 CONCLUSIONS

Private social security has gained increasing importance in most advanced western societies over the last few decades. However, this phenomenon seems to be under-analysed in the political economy literature. This study aims to examine to what extent the international integration of economic markets has influenced the dynamics in the expenditure on private social security across countries and over time. By using voluntary private social expenditure as the dependent variable, this study tests whether economic integration leads to higher demands for social security to compensate the increased economic risks, while political mechanisms are not expected to interfere with the relationship

The results indicate that increased trade openness is positively related to voluntary private social expenditure. As such, this result supports the hypothesis that economic integration increases economic insecurity, triggering a higher demand for social insurance (Cameron, 1978). In addition, the positive association between the volatility of the terms of trade and the demand for private social insurance is consistent with Rodrik's (1998) argument and with more recent empirical findings (Kim, 2007) with respect to public welfare state institutions.

Also a country's broader context of welfare state institutions in which private social arrangements are embedded, is an important determinant of private social expenditure. The generosity of the public social protection system tends to be negatively related to the level of private social spending. Interestingly, this finding lends support to the view that the increases in private social expenditure over the last few decades are induced by welfare state restraints. Furthermore, the results suggest that institutional reforms which increase the potential supply of private social arrangements may have contributed to the increases in voluntary private social expenditure.

A remarkable finding is that trade with EU countries seems to lead to a similar effect on private social expenditure as trade in general. The fact that these results contradict recent findings with respect to the impact of intra-EU trade on public welfare state institutions (Beckfield, 2009), inquires further research on the impact of trade among EU countries. One promising line of thought may be that European economic integration leads to a relatively higher demand for social protection, since being part of the further integrated single market leads to tougher competition and more insecurity than the world market (Koster, 2010). Furthermore, future investigations could advance the present study in terms of modelling the domestic sources of risk exposure. In particular, fruitful refinements may be directed at the measurement of the skills level of the labour force (Walter, 2010), the characteristics of education systems (Cusack et al, 2006), differences between tradables and non-tradables industries, and the heterogeneity among firms (Melitz, 2003).

As a wider implication, the results of the study are also relevant for research on public welfare state policies. On the other hand, the limited private provision of unemployment insurance is an important difference between private and public social security and forms therefore a notable limitation of the study. Nonetheless, after controlling for other motives for purchasing social insurance, economic integration leads to an increased demand for social security. Policy makers should bear this in mind when further internationalisation leads to increased dynamics on domestic labour markets.

## Appendix 6A: List of variables and definitions

- Voluntary private social expenditure, per cent of GDP. *Source: OECD Social Expenditure Database (2009d).*
- Trade openness: Average between exports and imports, per cent of GDP. *Source: OECD Trade Indicators database (2010c).*
- Terms of trade volatility: Standard deviation of the first differences of the natural logarithm of the terms of trade. *Source: World Development Indicators (World Bank, 2009).*
- Capital mobility: Total inflows and outflows of foreign direct investment, per cent of GDP. *Source: World Development Indicators (World Bank, 2009).*
- Capital restrictions: Index of the absence of national restrictions on the cross-border movement of payments and receipts of capital. *Source: (Quinn, 1997).*
- Imports from developing countries: Percentage of a country's total imports that comes from developing countries. *Source: UNCTAD Handbook of Statistics (2009).*
- Exports to EU countries: Percentage of a country's exports to EU countries. *Source: UNCTAD Handbook of Statistics (2009).*
- Public and mandatory private social expenditure, per cent of GDP. *Source: OECD Social Expenditure Database (2009d).*
- Institutional reform 1: Dummy variable equal to one for the United Kingdom from 1988 onwards, for Australia from 1995 onwards, for Belgium from 1996 onwards. *Source: Own data.*
- Institutional reform 2: Dummy variable equal to one for the United Kingdom from 2000 onwards, for Belgium from 2004 onwards. *Source: Own data.*
- Deindustrialisation: 100 minus sum of employment in industry and agriculture as percentage of the total civilian employment. *Source: OECD Annual Labour Force Statistics (2009a).*
- Education: Average years of schooling in the population aged 15 years and older. *Source: Barro and Lee (2000).*
- Unemployment rate: Number of people unemployed as percentage of the labour force. *Source: OECD Main Economic Indicators (2009b).*
- GDP per capita: Real GDP per capita in constant (2005) international prices. *Source: Penn World Table (Heston et al., 2009).*
- Household saving: Net saving rate per cent of GDP. *Source: OECD National Accounts (2009c).*
- Population 65+: Population aged 65 and above as percentage of total population. *Source: World Development Indicators (World Bank, 2009).*
- Total population: Natural logarithm of the population in thousands. *Source: OECD National Accounts (2009c).*
- EMU: Dummy variable equal to one for Austria and Finland from 1995 onwards and for the other EMU countries from 1993 onwards. *Source: Own data.*

APPENDIX 6B: DESCRIPTIVE STATISTICS

Table A6.1 Descriptive statistics

| | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|
| Voluntary private social expenditure | 2.22 | 2.09 | 0.00 | 9.77 |
| Trade openness | 32.27 | 15.75 | 8.05 | 92.37 |
| Terms of trade volatility | 0.04 | 0.03 | 0.00 | 0.19 |
| Capital mobility | 4.34 | 5.76 | -9.99 | 40.23 |
| Capital restrictions | 87.12 | 16.07 | 37.50 | 100.00 |
| Imports from developing countries | 19.71 | 12.69 | 5.03 | 66.16 |
| Exports to EU countries | 106.78 | 45.49 | 14.76 | 163.16 |
| Public and mandatory private social expenditure | 21.11 | 5.38 | 10.24 | 36.27 |
| Deindustrialisation | 64.18 | 8.31 | 36.12 | 78.64 |
| Education | 9.19 | 1.86 | 3.73 | 13.47 |
| Unemployment | 7.71 | 4.06 | 0.20 | 23.90 |
| GDP per capita | 20707.93 | 5119.50 | 9802.19 | 36098.15 |
| Household saving | 7.20 | 4.42 | -5.59 | 24.71 |
| Population 65+ | 13.92 | 2.21 | 9.04 | 19.33 |
| Total population | 40330.94 | 59575.75 | 3144 | 296036 |

# 7 Conclusion: Main findings, implications and outlook

The impact of European integration on the welfare states of EU countries has been fiercely debated among Europeanisation scholars and welfare state scholars, as discussed in the previous chapters. This study contributes to these debates by disentangling and examining several effects of European integration. It has been analysed to what extent welfare state reforms have amounted to patterns of convergence across the EU, whether and through which mechanisms soft forms of EU governance have contributed to these patterns, and how economic integration affects welfare state reforms by influencing the demand for social insurance. The combination of insights from the convergence literature, the comparative political economy literature, and the Europeanisation literature on the one hand, and the use of a large-N approach in a field that has been dominated by case studies on the other, provides a number of contributions to the literature on the impact of European integration on welfare states. This final chapter summarises the study's main empirical findings, followed by a discussion of the theoretical and methodological contributions of the study, its implications for the scholarship of the Europeanisation welfare states, and its policy implications.

## 7.1 Main findings

The goal of this study is to gain insight in how European integration influences social and labour market policy reforms in the member states of the EU. Hence, the study attempts to identify to what extent welfare state policies have converged and to explain the variation in policy reforms across the EU. The results of the convergence analyses in Chapters 2, 3 and 4 show that at an abstract level, welfare states of EU countries have converged over the past 25 years or so. Furthermore, social protection levels have been increased in most of the countries. Even when the data were corrected for changes in the direct needs of social protection, due to unemployment and ageing of the population, social expenditure has increased across countries. This indicates that governments have spent more on welfare state programmes, and that welfare states became more generous. Thus, welfare state reforms in EU countries have resulted in a trend of upward social convergence. Furthermore, the data show that welfare state policies of EU countries have converged more than the welfare state policies of a more diverse group of advanced capitalist countries.

For some periods, this contrast was even sharper, as the social programmes of EU countries converged, while the policies of non-EU countries tended to diverge. Interestingly, this EU-specific convergence pattern might be an indication of the impact of European integration on welfare states. In addition, the results also provide some evidence of converging welfare regimes.[1] This shows that not only the differences in generosity levels have become smaller within Europe, but that the configurations of welfare state programmes are more similar too.

Remarkably, however, no pattern of convergence has been found for the group of countries that entered the EU in 2004. For the period under study, there is no evidence of convergence within the group of new member states, and also the variation between the welfare states of the old and new EU countries has not decreased. Not only is the social protection level in the new member states considerably lower than the social protection level in the old member states. A cluster analysis indicated that also the systems of social protection differ strongly across the old and new member states. As such, these findings do neither provide evidence for influences of the EU on the welfare states of the Central and East European Countries, nor for an effect of the enlargement of the EU on welfare states of the old member states during the period 2000-2006.

After analysing trends of welfare state change across the board, the study zoomed in at the particular policy area of active labour market policies. As has been argued in Chapter 1, in the case of the EES the chance of finding any effect of the OMC on domestic policies is the highest, due to its strong institutionalisation relative to other modalities of this governance means in other policy areas. Chapter 4 presented expenditure data for a broad range of active labour market policies, including employment services, labour market training, youth programmes and subsidized employment. Furthermore, acknowledging that activation could also be pursued by making passive labour market policies less passive, changes in income taxes and in the characteristics of unemployment benefits have been examined. In the period 1995-2002, active labour market policies have not converged much, as countries have opted for different configurations of active labour market policies. However, there has been an EU-specific trend of shifting resources from passive to active labour market policies. Taken together, these results could be an indication of the influence of the EES. Since the EES does not prescribe specific policy instruments, governments can opt for those policies that suit their domestic situation best, while all policies in themselves are intended to reduce unemployment and increase employment through activation.

In sum, the main findings of the convergence analyses are that welfare states have converged, and that, when cyclical and demographic trends are taken into account, the welfare states within the EU are converged more than

1 For further evidence on the convergence of regimes see Van Vliet and Kaeding (2007).

the developed welfare states of non-EU countries. In the particular policy area of active labour market policies no clear evidence of convergence has been found, but there is an EU-specific trend of making labour market policies more activating. The purpose of the subsequent chapters was to examine whether and how European integration, among other factors, can explain the changes in the welfare states policies.

First, the study focused on the impact of the EES on national labour market policies as a form of positive integration. In this regard, a main finding of the examination presented in Chapter 5 is that indeed, as the results of the convergence analyses already suggested, the EES has contributed to an increased emphasis on activation in domestic policy-making processes. In line with the goals and the guidelines of the EES to combat unemployment and to increase employment, governments have shifted resources from passive policies to ALMPs. This suggests that the EES has counterbalanced the constraining effect of the EMU, especially the Maastricht convergence criteria with respect to smaller budget deficits, on public expenditure on activation to some extent. With regard to the composition of the expenditure on ALMPs and the national policy priorities within the area of labour market policies, the results presented in Chapter 4 suggest that the impact of the EES in combination with the impact of the EMU have resulted in new policy configurations.

Subsequently, this study also provides insight in the mechanisms through which the OMC influences domestic policy-making. Rather than instruments to enforce judicial compliance, the OMC provides instruments aimed at facilitating mutual learning and external pressure. The findings suggest that the facilitation of mutual learning among policy-makers from different counties is a central mechanism through which the EES influences national labour market policies. Here, mutual learning is conceptualised as a mechanism that diffuses policies indirectly through analogical inspiration, rather than as direct policy transfer from one country to another. As such, the attention for activation in the peer review programme of the EES may trigger domestic labour market policy reforms, but it can also influence the direction of already on-going reforms. Conversely, the impact of the EES was not found to depend on vertical peer pressure from the European Commission and the Council. The study also investigated to what extent the domestic influence of the EES was intervened by domestic actors. In particular, the study focused on the role of social partners and the ministry of finance. Although both types of actors could be expected to have considerable amounts of veto power, the variation in the role of these domestic actors in the governance processes of the EES appears to be of little relevance for explaining the variation in the impact of the EES.

With respect to the impact of negative European integration on the shape of welfare states, the dissertation's main finding is that international economic integration fuels the demand for social protection. Although societies as a whole may benefit from international trade, this does not necessarily imply that each individual benefits from it too. As markets open up, opportunities of growing exports of goods and foreign investments in local firms are beneficial for the domestic employment. However, as a result employees not only compete with other employees on the domestic labour market, but also with people abroad. Due to the higher mobility of goods and capital, firms can relatively easily move stages of the production abroad or import goods from abroad instead of manufacturing themselves domestically. Hence, integration into the world market leads to, at least to the perception of, increased economic insecurity for employees. Consequently, this insecurity leads to an increased demand for social insurance. Even though this finding applies to international economic integration in general, rather than to European economic integration in particular, it could be taken as an indication of the mechanism that is triggered by negative European integration. However, it could also be expected that economic integration within the EU leads to relatively less insecurity because the creation of the internal market has mainly led to an increase in the intra-industry trade. The study therefore examined the influence of European integration on private social expenditure specifically. Interestingly, the results indicate that European economic integration has fuelled the demand for social insurance. This result is also consistent with the finding of an EU-specific trend of upwards convergence as has been presented in the convergence analysis (Chapter 3).

Beyond identifying the relationship between international economic integration and the demand for social protection, the examination of private social expenditure has revealed a number of other interesting findings too. First, the dynamics in the magnitude of private social security are to some extent related to the dynamics in public welfare state arrangements. The finding of a negative association between the efforts on public social protection and private social spending indicates a substitution effect. When the demand for social protection is not fulfilled by public welfare state arrangements, the demand for private social insurance is higher. A comparable mechanism can be seen for savings. Household saving is also negatively related to private social spending. Indeed, savings can be used as close substitutes for social insurance to insure the risks of income loss and to smooth income over the life cycle. Thus, people rely on a variety of arrangements to protect themselves against economic risks, namely public social security, private social insurances, and savings. Furthermore, economic insecurity does not only come from the exposure to the forces on international markets, but also from the transformation of the domestic employment structure. The results of the study show that deindustrialisation, defined as the shifts in employment from agriculture and manufacturing industry to the service sector, is positively related to expenditure on voluntary private social security. Since employment skills that were valuable in the traditional sectors can be used in the service sector only to a limited extent, employment losses in agriculture and manufacturing lead to economic insecurity and to a higher demand for social protection. A final finding is that also unemployment increases people's perceptions of economic insecurity and so the demand for (private) social insurance.

## 7.2 CONTRIBUTIONS AND IMPLICATIONS

This dissertation makes a number of contributions to the scholarship of the convergence, the Europeanisation and the political economy of western welfare states. First, the study contributes to the debate about whether welfare states are actually converging or not. Interestingly, the findings of this study are at odds with theoretical arguments which expect continuing diversity rather than welfare state convergence and with findings in the qualitative literature supporting these arguments (e.g. Pierson, 2001; Hvinden, 2004). Also the findings of the present study indicate that there is still substantial variation across European welfare states, but this variation has declined over the past two decades. In this respect, it is important to recall that the concept of policy convergence does not refer to a static state of the degree of similarity of policies across countries, but to a process of declining cross-national variation in policies over time. As will be discussed below, the difference in findings between qualitative and quantitative studies is probably due to methodological differences.

The study also makes a contribution to the quantitative convergence literature, especially to the strand of the literature in which welfare state convergence has been related to Europeanisation. Applying a simple technique to correct the data for demographic and cyclical dynamics makes it plausible that the convergence of social expenditure reflects an underlying trend of converging welfare state policies. The inclusion of a control group of non-EU countries makes it possible to examine whether this trend is specific for the EU or not. From an empirical perspective, the study contributes to the convergence literature by including a broad range of indicators for several policy programmes, which have not been analysed before, and by also including the ten member states which acceded the EU in 2004.

The convergence analyses also provide a methodological contribution. Based on an analysis of a number of indicators for several welfare state programmes and policy instruments at different aggregation and abstraction levels, the results indicate that patterns of convergence can be better perceived at higher aggregation levels. Interestingly, these findings shed light on the contrasting conclusions of qualitative small-N and quantitative large-N studies. In the case of ALMPs for instance, the data illustrate that countries have opted for different policy configurations, but that at a higher abstraction level, there is a general trend of more activating labour market policies. However, with a small-N approach, focusing on specific law reforms in two or three countries for a few years, this trend cannot be captured. Instead, the focus will be on the differences between the policies. Hence, expenditure data on welfare state programmes, corrected for demographic and cyclical trends, are useful in analysing whether countries have changed their policies into the same direction. In fact, social expenditure data can function as a common denominator.

With respect to the influence of the EES, the results of this study are complementary to the insights of the existing literature. Case studies had found that the EES has led to the incorporation of the concept of activation in policy goals and in the paradigms and discourses of policy-makers. However, the results of the case studies are inconclusive with respect to the question whether the EES has also contributed to actual policy reforms (Zeitlin and Pochet, 2005). The results of this study indicate that not only policy goals and paradigms have been changed, but that these changes are also percolated to actual policy changes.

A theoretical contribution of the examination of the EES is that also the variation in the processes at the EU-level can be considered as an explanatory factor for the variation in the domestic influence of the EES. Since the OMC is a continuing process, the pressure of the OMC, and so its domestic influence, can vary across countries and over time. For instance, as the study has shown, countries may be more or less involved in the peer review programme on labour market policies. At this point, the research on the OMC deviates from research on other types of Europeanisation. After all, the pressure that stems from for instance the commitment to the transposition of a directive is theoretically rather constant. Hence, the finding that variation in the governance processes of the OMC explains parts of the variation in the developments of domestic policies, may have implications for future research on the influence of the OMC. The variation in the interaction between the EU level and the national level deserves more attention in attempts to explain the variation in the EU-impact across countries.

Furthermore, a methodological contribution of this study is that it provides a systematic comparative analysis across 15 EU countries and over two decades, while it controls for a number of domestic and international factors. This approach makes it possible to test the relative importance of the different mechanisms through which the OMC exerts influence on the domestic policy making. As a result, the study obtains generalisable explanations for the variation in the impact of the OMC, although the findings can only be generalised to the western European countries and until 2005. In order to analyse the mechanisms through which the OMC influences the domestic policies, new measures have been proposed and analysed. Hence, the study illustrates that notwithstanding the limitations of quantitative indicators for grasping the complex mechanisms of Europeanisation, more precise measures which are grounded in theory and earlier qualitative studies, can enhance the understanding of the domestic impact of European integration. As an implication to the research on the impact of the OMC, the result that the EES influences the national policy-making mainly through mutual learning may guide further research.

Another contribution of this dissertation is that it analyses the impact of both positive and negative European integration on welfare states, whereas most studies focus on only one type of integration. In Chapter 5, where the study analyses the influence of the EES, the focus lies on positive integration, but it explicitly controls for negative integration by including a variable for economic integration. However, the results for economic integration are not consistent across the different model specifications. In some specifications, economic integration tends to have a positive and significant impact on ALMPs, which is in line with the compensation hypothesis and the findings in Chapter 6. In other models, economic integration does not have a significant influence. As has been argued above and in Chapter 6, this may be due to the fact that such a variable measures a net effect of opposite influences from economic integration. While policy competition that is triggered by international economic integration would lead to lower social protection levels, the compensation of increased economic insecurity would lead to higher social protection levels, and the resulting net effect could be insignificant. This is a common and underestimated problem in the literature on internationalisation and welfare states. As a contribution to this literature, a new approach has been proposed in order to estimate the impact of economic integration on the demand for social insurance. It has been argued that this relationship can be analysed more directly with the use of data on private social expenditures.

Finally, elaborating on earlier research in this area by Adema (2001) and Adema and Ladaique (2009), my analysis of the variation in the efforts on private social security itself is a contribution to the welfare state literature. Although the private component in western welfare states has gained importance, the scholarly attention for this development has remained limited. This study offers a theoretical and empirical account for the dynamics in the demand for private social insurance at a macro-level.

## 7.3 Outlook

The results of this study suggest that both EU employment policies and European economic integration have influenced national welfare states. Economic integration leads to an increased demand for social protection. As such, the study has found empirical support for one side of the globalisation dilemma (Rodrik, 1997). Whether economic integration actually leads to policy competition among governments of EU member states is still highly debated in the contemporary political economy literature (Hays, 2009; Plümper et al, 2009). However, if economic integration indeed narrows the tax base while the demand for social protection increases, then further deepening or widening of the EU creates a *Europeanisation dilemma* for governments. As suggested by the data, one response to this dilemma might be that more and more social insurance will be provided privately. This would imply that in future research on welfare state reforms the size and the dynamics of a country's private provision of social insurances should play a more important role. Whereas welfare state research has been mainly focussed on the consolidation and recalibration of public welfare state policies, the interaction between public and private social security adds a new dimension to the dependent variable. In addition, the availability and accessibility of private alternatives for public social arrangements may influence the decision making of governments in welfare state reforms. As a societal implication, a shift from public to private social security may have only modest consequences for the insurance and allocation functions of social security, but it has probably larger consequences for the redistribution function. Because private social security may be less redistributive than public social security, the substitution of public welfare state arrangements by private social security could lead to more income inequality and higher poverty rates in western societies.

Also the finding that EU 'soft law', a legally non-binding means of governance, can influence national policies, may have implications for policy makers. Based on a systematic comparative analysis across countries and over time, this study yielded more generalised findings about the influence of the OMC on domestic policies. However, it is important to note that this generalisability is bounded too. First of all, since the findings of this study are entirely based on the OMC in the field of labour market policies, the EES, the findings do not necessarily apply to OMCs in other welfare state policy areas. Both the precise institutionalisation of the OMC and the domestic policy-making processes vary across policy area. Therefore, further systematic comparative research on other OMCs is required, for instance on the OMC of pensions (see Van Vliet, 2010b). A second reason to be careful with the generalisation of the findings is that they are based on data which run until 2005. This implies that the changes in the procedures of the EES which were adopted in 2005, have not been taken into account.[2] In the third place, the member states that acceded in 2004 and 2007 were not included in the analysis on the OMC. In this respect, the results of the convergence analysis do not suggest that the new member states have been influenced by the OMC. When data come available for more recent years and more EU countries, future research should point out how far the generalisibility of the findings of this study stretches.

2 As has been explained in the previous chapters, the reason for the inclusion of data until 2005 is the limited availability of data. It should be noted, however, that this limitation in data years cannot exclusively be observed in quantitative studies and is instead a wider phenomenon in the OMC literature. De la Porte (2010: 5) found that although two-thirds of the reviewed OMC literature was published in 2007 or more recently, a large share of it is devoted to the period before 2005.

Nevertheless, the findings regarding the domestic influence of the OMC could have some policy implications. First of all, the finding that the OMC may influence domestic welfare state policies could be an argument to use this type of governance more often in order to achieve further European integration. However, this does not say anything about the desirability of formulating or coordinating welfare state policies at the EU-level itself. Furthermore, also the findings with respect to the effectiveness of the specific governance means of the EES could be useful for policymakers, since the OMC is the primary policy tool for the Europe 2020 strategy. Given the fact that the OMC is still a relatively new governance means, it is conceivable that the equipment of the OMC will be polished further. In such reforms, the results could give reason to two specific institutional changes. First, the findings suggest that council recommendations do not contribute that much to the effectiveness of the EES. Therefore, less council recommendations could perhaps increase the cost-effectiveness of the OMC. Second, it seems that especially mutual learning through the peer review programme yields effect. Hence, policy makers could perhaps increase the effectiveness of the OMCs by focussing on mutual learning. Also other insights of this study would improve the effectiveness of the OMC and so to the achievement of the Europe 2020 goals.

# Samenvatting

## Convergentie en Europeanisering
## De politieke economie van socialezekerheids- en arbeidsmarktbeleid

Europese verzorgingsstaten zijn sinds de jaren '80 van de vorige eeuw veelvuldig hervormd. De voortschrijdende Europese integratie kan één van de factoren zijn die aanleiding heeft gegeven tot of van invloed is geweest op deze hervormingen. Hoewel sociale convergentie al een expliciete doelstelling is sinds het Verdrag van Rome in 1957, heeft de Europese Raad pas in respectievelijk 1997 en 2000 Europees arbeidsmarkt- en socialezekerheidsbeleid ingevoerd. Daarom was het ook pas vanaf dat moment dat Europese integratie een relevante factor werd in de verzorgingsstaatliteratuur en dat socialezekerheids- en arbeidsmarktbeleid als interessante beleidsterreinen werden beschouwd in de literatuur over Europeanisering. Echter, in beide stromingen in de literatuur is het onduidelijk in hoeverre Europese integratie van invloed is op het sociaal beleid van de lidstaten, of Europese integratie heeft bijgedragen aan convergentie van sociaal beleid en of Europese integratie een verklaring kan bieden voor de variatie in hervormingen van verzorgingsstaten in Europese landen. Om inzicht te krijgen in deze zaken, staat in deze studie de volgende vraag centraal:

*Wat is de invloed van Europese integratie op nationaal socialezekerheids- en arbeidsmarktbeleid van lidstaten van de Europese Unie en welke factoren kunnen een verklaring bieden voor de verschillen in de mate waarin lidstaten hun beleid vervolgens hebben veranderd?*

Europese integratie kan een aantal effecten hebben op nationaal socialezekerheids- en arbeidsmarktbeleid. Deze effecten zijn afkomstig van twee typen Europese integratie, namelijk negatieve en positieve integratie. Negatieve integratie heeft betrekking op maatregelen die beogen de marktintegratie te bevorderen door het terugdringen van nationale handelsbelemmeringen en verstoringen van mededinging. Positieve integratie verwijst naar gemeenschappelijk Europees beleid om omstandigheden te creëren waaronder markten (beter) kunnen functioneren. Voor wat betreft negatieve integratie zijn veel maatregelen genomen om in 1993 de Europese interne markt te bewerkstelligen, waarop mensen, goederen, diensten en kapitaal zich vrij kunnen bewegen. Volgens één van de belangrijkste hypothesen in de politieke economie met betrekking tot internationale economische integratie zou het bevorderen van de internationale handel en de mobiliteit van kapitaal leiden tot meer strategisch gedrag van regeringen. In het streven naar meer werkgelegenheid en economische groei, zullen landen proberen om bedrijven aan te trekken door het verlagen van de belasting- en premiedruk en dus van het niveau van sociale bescherming, wat uitmondt in concurrentie tussen landen.

Positieve integratie op het gebied van sociaal en arbeidsmarktbeleid heeft gestalte gekregen in de vorm van de Europese Werkgelegenheidsstrategie, die in 1997 werd aangenomen. Deze strategie is gericht op het verbeteren van het functioneren van de arbeidsmarkt in termen van lagere werkloosheid en meer werkgelegenheid. In het kader van deze strategie worden de lidstaten van de EU aangespoord om meer nadruk te leggen op actief arbeidsmarktbeleid. De Werkgelegenheidsstrategie stoelt op een aantal juridisch niet-bindende instrumenten, zoals richtsnoeren, doelstellingen en aanbevelingen. Op de EU-top in Lissabon in 2000 zijn deze instrumenten geïnstitutionaliseerd in een nieuwe methode van Europees bestuur, die de methode van open coördinatie is genoemd. Deze methode werd gezien als het primaire instrument voor het bereiken van de doelstellingen van de Lissabonstrategie. Sindsdien wordt deze methode ook toegepast op andere beleidsterreinen, zoals sociale insluiting, pensioenen, gezondheidszorg en ouderenzorg. Vanwege het niet-bindende karakter van de methode van open coördinatie, is het vaststellen van de invloed van deze Europese coördinatie een methodologische uitdaging. Door de ontwikkelingen in de lidstaten van de EU systematisch met elkaar te vergelijken in de tijd, levert deze studie een bijdrage aan het onderzoek naar de Europeanisering van verzorgingsstaten.

*Structuur*

Deze dissertatie bestaat uit twee delen. Het eerste deel, bestaande uit hoofdstuk 2, hoofdstuk 3 en hoofdstuk 4, gaat in op de vraag in hoeverre convergentie is opgetreden in verzorgingsstaatbeleid en –uitgaven in de EU en in welke mate eventuele patronen van convergentie specifiek zijn voor de EU. Trends en patronen die specifiek zijn voor de EU kunnen duiden op effecten van Europese integratie. In het tweede deel van deze studie, dat bestaat uit hoofdstuk 5 en hoofdstuk 6, wordt ingegaan op de factoren die verklaringen kunnen bieden voor deze patronen van overeenkomsten en verschillen tussen landen en door de tijd. Hierbij is hoofdstuk 5 gerelateerd aan positieve integratie, terwijl in hoofdstuk 6 wordt ingegaan op negatieve integratie.

In hoofdstuk 2 staat de ontwikkeling van verzorgingsstaten over een langere periode (1980-2003) centraal. Eerst wordt besproken waarom en op welke wijze kan worden verwacht dat Europese integratie en de methode van open coördinatie leiden tot convergentie van socialezekerheidsbeleid in de lidstaten van de EU. Vervolgens wordt de bestaande literatuur op het terrein van convergentie van Europese verzorgingsstaten geïntroduceerd. Het blijkt dat de indicatoren die gebruikt zijn in eerder onderzoek moeilijk zijn te vergelijken tussen landen vanwege een aantal problemen zoals verschillen in de fiscale behandeling van sociale uitkeringen. Het doel van het empirische gedeelte van dit hoofdstuk is om te corrigeren voor veel van deze problemen door gebruik te maken van een groot aantal sociale indicatoren. We hebben convergentietesten uitgevoerd voor indicatoren op verscheidene beleidsterreinen, zoals de oudedagvoorziening, arbeidsongeschiktheid, werkloosheid, actief arbeidsmarktbeleid en bijstand. Ook zijn armoedecijfers opgenomen, ten einde een beeld te kunnen schetsen van de ontwikkeling van de sociale cohesie in de EU.

In hoofdstuk 3 ligt de focus op hervormingen en convergentie van verzorgingsstaten in landen uit Centraal- en Oost-Europa. Daarmee wordt beoogd om een belangrijk hiaat ten dele te dichten in zowel de convergentieliteratuur als de literatuur over de methode van open coördinatie, waarin de nieuwe lidstaten van de EU sterk ondervertegenwoordigd zijn. De convergentieanalyse in dit hoofdstuk bevat 25 EU-landen, zowel oude (15) als nieuwe (10) lidstaten. De resultaten wijzen uit dat geen convergentie is opgetreden tussen de niveaus van sociale bescherming van deze twee groepen landen. Dit leidt tot de vervolgvraag of de verschillen tussen de socialezekerheidsstelsels van West- en Oost-Europese landen meer fundamenteel van aard zijn. Om deze vraag te beantwoorden wordt gebruik gemaakt van een clusteranalyse.

In hoofdstuk 4 worden de convergentieanalyses toegespitst op de periode waarin de Europese Werkgelegenheidsstrategie en de methode van open coördinatie werden ingevoerd. De analyse begint met een maatstaf om sociale zekerheidsuitgaven te corrigeren voor conjuncturele en demografische factoren. Daarna worden patronen onderzocht in de totale uitgaven aan actief arbeidsmarktbeleid en in uitgaven aan specifieke programma's zoals arbeidsbemiddeling, scholing, programma's voor jongeren en gesubsidieerde arbeid.

De analyse in hoofdstuk 5 richt zich vervolgens op het verklaren van de variatie in uitgaven aan actief arbeidsmarktbeleid tussen landen en door de tijd. In dit hoofdstuk wordt de invloed van de Europese Werkgelegenheidsstrategie op hervormingen van nationaal arbeidsmarktbeleid onderzocht met paneldata-regressieanalyses. Op basis van de bestaande literatuur over Europees arbeidsmarktbeleid zijn nieuwe indicatoren ontwikkeld om de variatie in de invloed van de Europese Werkgelegenheidsstrategie tussen landen en door de tijd te verklaren.

Hoofdstuk 6 richt zich op de invloed van internationale economische integratie op verzorgingsstaten. Een fel bediscussieerde hypothese in de politieke economie luidt dat internationale economische integratie leidt tot de uitbreiding van verzorgingsstaatarrangementen vanwege een grotere vraag naar sociale bescherming. In dit hoofdstuk wordt betoogd dat de vraag naar sociale zekerheid beter kan worden onderzocht aan de hand van uitgaven aan private socialezekerheidsarrangementen dan op basis van uitgaven aan publieke sociale zekerheid. De hoogte van de uitgaven aan publieke sociale zekerheid is de uitkomst van besluitvormingsprocessen in democratische instituties waar politieke processen een belangrijke rol spelen. De uitgaven aan private sociale verzekeringen zijn daarentegen vooral afhankelijk van beslissingen van individuen om al dan niet een verzekering af te sluiten. Daarom geven private sociale uitgaven een beter beeld van de vraag naar sociale zekerheid dan publieke sociale zekerheid. Om de variatie tussen landen en door de tijd in de uitgaven aan private socialezekerheidsarrangementen te onderzoeken, wordt gebruik gemaakt van panel-data-regressieanalyses.

Tot slot worden in hoofdstuk 7 de belangrijkste resultaten van deze dissertatie samengevat en worden de implicaties van de studie voor het onderzoek naar de Europeanisering van verzorgingsstaten besproken.

*Centrale bevindingen*

De resultaten van de convergentieanalyses in de hoofdstukken 2, 3 en 4 laten zien dat in de afgelopen 25 jaar het niveau van sociale bescherming in de meeste landen is gestegen en dat de verschillen tussen landen kleiner zijn geworden. Zelfs wanneer de data werden gecorrigeerd voor veranderingen in de directe behoeften aan sociale bescherming vanwege werkloosheid of vergrijzing van de bevolking bleek dat de sociale uitgaven waren gestegen. Dit laat zien dat landen meer geld hebben besteed aan sociale programma's en dat verzorgingsstaten genereuzer zijn geworden. Kortom, hervormingen van verzorgingsstaten in Europese landen hebben geresulteerd in een trend van opwaartse sociale convergentie. De resultaten bieden dus geen steun voor de hypothese dat Europese integratie leidt tot lagere niveaus van sociale bescherming vanwege beleidsconcurrentie tussen regeringen. Bovendien laten de data zien dat de convergentie van verzorgingsstaten sterker is in landen van de EU dan in een meer diverse groep van OESO-landen. Interessant is dat dit EU-specifieke patroon van convergentie mogelijk een indicatie is van de invloed van Europese integratie op het sociaal beleid van de lidstaten. Een andere interessante bevinding is dat niet alleen in sociale beschermingsniveaus en specifieke beleidsprogramma's convergentie is opgetreden, maar dat de resultaten ook aanwijzingen bieden voor convergentie van verzorgingsstaatregimes. Dit betekent dat niet alleen de verschillen tussen de niveaus van sociale bescherming kleiner zijn geworden in Europa, maar dat ook de configuraties van beleidsprogramma's meer op elkaar zijn gaan lijken.

Opvallend is dat geen convergentie is gevonden voor de groep landen die in 2004 tot de EU zijn toegetreden. In de periode 2000-2006 blijkt geen sprake te zijn van convergentie binnen de groep van nieuwe lidstaten. Ook de variatie tussen de verzorgingsstaten van de oude en de nieuwe lidstaten is niet afgenomen. Het niveau van sociale bescherming ligt in de nieuwe lidstaten beduidend lager dan in de oude lidstaten en ook de stelsels van sociale zekerheid vertonen sterke verschillen. In deze studie zijn geen aanwijzingen gevonden voor invloed van de EU op de verzorgingsstaten van Centraal- en Oost-Europese landen.

Ook is geen effect gevonden van de uitbreiding van de EU op de verzorgingsstaten van de oudere lidstaten.

Na het analyseren van trends in een groot aantal sociale programma's, is de studie toegespitst op een specifiek type beleid, te weten actief arbeidsmarktbeleid. In het geval van de Europese Werkgelegenheidsstrategie is de kans om een effect van de methode van open coördinatie op nationaal beleid te vinden namelijk het grootst, omdat die op dit terrein met sterkere coördinatie-instrumenten is uitgerust dan op andere beleidsterreinen. In hoofdstuk 4 zijn uitgaven aan een aantal typen actief arbeidsmarkt geanalyseerd. Omdat activering eveneens kan worden bereikt door passief arbeidsmarktbeleid minder passief te maken, zijn ook de veranderingen in de inkomstenbelasting en de karakteristieken van werkloosheidsuitkeringen in de analyse opgenomen. In de periode 1995-2002 is niet veel convergentie opgetreden in actief arbeidsmarktbeleid, doordat landen hebben gekozen voor verschillende configuraties van beleidsinstrumenten. Echter, wel is een EU-specifieke trend waar te nemen van een verschuiving in de uitgaven van passief naar actief arbeidsmarktbeleid. Bij elkaar genomen, kunnen deze resultaten duiden op invloed van de Europese Werkgelegenheidsstrategie. Aangezien de Europese Werkgelegenheidsstrategie geen specifieke beleidsinstrumenten voorschrijft, kunnen regeringen zelf beleid voeren dat het beste aansluit bij hun binnenlandse situatie, terwijl iedere beleidsconfiguratie op zichzelf gericht kan zijn op het verlagen van de werkloosheid en het vergroten van de werkgelegenheid door activering.

Vervolgens is onderzocht of en hoe Europese integratie verklaringen kan bieden voor de veranderingen in beleid ten aanzien van sociale zekerheid en arbeidsmarkt aan de hand van panel-data-regressie-analyses. De studie concentreert zich eerst op de Europese Werkgelegenheidsstrategie als een vorm van positieve Europese integratie. Overeenkomstig de doelstellingen en de richtsnoeren van de Europese Werkgelegenheidsstrategie om werkloosheid te bestrijden en de werkgelegenheid te vergroten, hebben regeringen middelen verschoven van passief naar actief arbeidsmarktbeleid. Dit suggereert dat de Europese Werkgelegenheidsstrategie tegenwicht heeft geboden aan de beperkende effecten van de EMU, met name de convergentiecriteria van Maastricht met betrekking tot begrotingstekorten, op de publieke uitgaven aan activering. De resultaten in hoofdstuk 4 suggereren dat de invloed van de Europese Werkgelegenheidsstrategie in combinatie met de invloed van de EMU heeft geleid tot nieuwe configuraties van beleidsinstrumenten.

Ook biedt de studie inzicht in de mechanismen waardoor de methode van open coördinatie het nationale beleid heeft beïnvloed. In plaats van instrumenten die naleving op een juridische manier kunnen afdwingen, voorziet de methode van open coördinatie in instrumenten die gericht zijn op het faciliteren van wederzijds leren onder beleidsmakers van verschillende landen en van externe druk. De bevindingen suggereren dat het faciliteren van wederzijds leren onder beleidsmakers een centraal mechanisme is waardoor de Europese Werkgelegenheidsstrategie nationaal beleid beïnvloedt. Onder het concept wederzijds leren wordt hier niet verstaan dat beleid uit het ene land letterlijk wordt gekopieerd in een ander land, maar dat beleidsmakers ideeën uit andere landen – rekening houdend met de situatie in hun eigen land – kunnen toepassen in het eigen land. Als zodanig kan de aandacht voor activering in het *peer review*-programma van de Werkgelegenheidsstrategie aanleiding geven tot hervormingen van nationaal arbeidsmarktbeleid, maar het kan ook de richting van reeds lopende hervormingen in lidstaten beïnvloeden. De invloed van de Werkgelegenheidsstrategie blijkt daarentegen niet te worden veroorzaakt door de druk van de Europese Commissie of de Raad op de lidstaten. Ook is in deze studie onderzocht in welke mate binnenlandse actoren een interveniërende rol spelen in de effecten van de Europese Werkgelegenheidsstrategie op het nationale beleid. De studie richt zich in het bijzonder op de rol van de sociale partners en de ministeries van financiën. Hoewel het aannemelijk is dat beide typen actoren over een aanzienlijke hoeveelheid vetomacht beschikken, blijkt de variatie in de rol van deze binnenlandse actoren in de bestuurlijke processen van de Europese Werkgelegenheidsstrategie geen relevante verklarende variabele te zijn voor de variatie in de invloed van de Europese Werkgelegenheidsstrategie.

Wat betreft de invloed van negatieve Europese integratie op verzorgingsstaten is de belangrijkste bevinding van deze dissertatie dat internationale economische integratie de vraag naar sociale bescherming stimuleert. Een samenleving als geheel kan baat hebben bij internationale handel, maar dat impliceert niet noodzakelijkerwijs dat ook ieder individu erbij gebaat is. Wanneer markten worden opengesteld, zijn een mogelijke groei in de export en meer buitenlandse investeringen in lokale bedrijven voordelig voor de binnenlandse werkgelegenheid. Echter, hierdoor concurreren werknemers niet meer alleen met andere werknemers op de binnenlandse arbeidsmarkt, maar ook met mensen in het buitenland. Als gevolg van de hogere mobiliteit van goederen en kapitaal kunnen bedrijven delen van de productie relatief gemakkelijk verplaatsen naar het buitenland of goederen importeren in plaats van die zelf te fabriceren in het binnenland. Daarom leidt integratie in de wereldmarkt tot – in ieder geval in de perceptie van velen – een hogere mate van economische onzekerheid. Deze onzekerheid leidt vervolgens tot een grotere vraag naar sociale zekerheid. Aangezien deze bevindingen betrekking hebben op internationale economische integratie in het algemeen, is het de vraag of die ook gelden voor Europese economische integratie in het bijzonder.

Enerzijds zou Europese economische integratie – volgens dezelfde redenering als voor internationale economische integratie in het algemeen – kunnen leiden tot meer economische onzekerheid. Anderzijds zou ook gesteld kunnen worden dat economische integratie in de EU niet tot meer, maar tot minder onzekerheid leidt, omdat de wording van de interne markt vooral heeft geleid tot een toename van de intra-industriële handel. Daarom is in deze studie ook specifiek de relatie tussen Europese integratie en private sociale uitgaven onderzocht. Interessant is dat de resultaten aangeven dat ook Europese economische integratie de vraag naar sociale verzekeringen heeft vergroot. Dit resultaat is consistent met de bevinding van de EU-specifieke trend van opwaartse convergentie in de convergentieanalyses. Naast internationale economische integratie blijken ook publieke verzorgingsstaatarrangementen, de spaarquote, de-industrialisatie en de werkloosheid een rol te spelen in de vraag naar private sociale verzekeringen.

*Bijdragen en implicaties*

Deze studie levert een aantal bijdragen aan het onderzoek naar de convergentie, de Europeanisering en de politieke economie van westerse verzorgingsstaten. In de eerste plaats draagt de studie bij aan het debat over de vraag of verzorgingsstaten nu convergeren of niet. Interessant is dat de bevindingen van deze studie niet overeenkomen met theoretische argumenten volgens welke diversiteit in plaats van convergentie verwacht kan worden en met bevindingen in de kwalitatieve literatuur die deze argumenten ondersteunen. Ook de resultaten van deze studie laten zien dat sprake is van substantiële variatie tussen Europese verzorgingsstaten, maar deze variatie is afgenomen in de laatste twee decennia. Het verschil tussen de bevindingen van kwalitatieve en kwantitatieve studies is waarschijnlijk te wijten aan methodologische verschillen.

De studie levert ook een bijdrage aan het deel van de kwantitatieve convergentieliteratuur waarin de convergentie van verzorgingsstaten wordt gerelateerd aan Europeanisering. Door sociale uitgaven te corrigeren voor demografische en conjuncturele effecten kan worden onderzocht of sprake is van een onderliggende trend van convergentie van sociaal beleid. De toevoeging van een controle groep van niet-EU landen maakt het vervolgens mogelijk om te onderzoeken of deze trend specifiek is voor de EU. Verder levert deze studie vanuit empirisch oogpunt een bijdrage aan de convergentieliteratuur door een aantal indicatoren te analyseren die nog niet eerder waren onderzocht in het kader van convergentie en Europeanisering en door tien lidstaten in de studie op te nemen die in 2004 tot de EU zijn toegetreden.

De inzichten die betrekking hebben op de invloed van de Europese Werkgelegenheidsstrategie zijn complementair aan de inzichten in de bestaande literatuur op dit terrein. De bevindingen laten zien dat niet alleen beleidsdoelen en paradigma's zijn veranderd, zoals in veel case studies is gevonden, maar dat dit ook heeft geleid tot daadwerkelijke beleidsveranderingen. Een theoretische bijdrage van het onderzoek naar de Europese werkgelegenheidsstrategie is dat ook de variatie in de processen op EU-niveau kunnen worden beschouwd als een verklarende factor voor de variatie in de binnenlandse invloed van de Europese Werkgelegenheidsstrategie. Omdat de methode van open coördinatie een continu proces is, kan de druk die van deze methode uitgaat en zo ook de invloed op nationaal beleid variëren tussen landen en door de tijd. Landen kunnen bijvoorbeeld in meer of mindere mate betrokken zijn in het *peer review*-programma op het gebied van arbeidsmarktbeleid. Op dit punt verschilt onderzoek naar de methode van open coördinatie van onderzoek naar andere typen van Europeanisering. Immers, de druk die uitgaat van de verplichting om een richtlijn te transponeren is in theorie tamelijk constant. De bevinding dat de variatie in de bestuurlijke processen van de methode van open coördinatie de variatie in de ontwikkeling van nationaal beleid ten dele kan verklaren, kan implicaties hebben voor toekomstig onderzoek naar de invloed van de methode van open coördinatie.

Een methodologische bijdrage van deze studie is dat die berust op een systematische vergelijking van 15 EU landen voor een periode van meer dan twee decennia, waarin wordt gecontroleerd voor een groot aantal binnenlandse en internationale factoren. Door deze benadering is het mogelijk om het relatieve belang te testen van de verschillende mechanismen waardoor de methode van open coördinatie invloed kan uitoefenen op binnenlandse beleidsprocessen. Hierdoor zijn generaliseerbare verklaringen verkregen voor de variatie in de invloed van de methode van open coördinatie. Hierbij moet worden opgemerkt dat deze generaliseerbaarheid is beperkt tot West-Europese landen en tot en met het jaar 2005. Om de mechanismen te onderzoeken waardoor de methode van open coördinatie nationaal beleid beïnvloedt, zijn nieuwe indicatoren ontwikkeld en geanalyseerd. Deze studie toont aan dat, ondanks de beperkingen van kwantitatieve indicatoren in het meten van complexe mechanismen van Europeanisering, meer precieze indicatoren die gebaseerd zijn op theorie en kwalitatieve studies het begrip van de invloed van Europese integratie op lidstaten kunnen vergroten. De bevinding dat het voornamelijk wederzijds leren is waardoor de Europese Werkgelegenheidsstrategie van invloed is op het maken van nationaal beleid kan richtinggevend zijn in toekomstig onderzoek naar de effecten van de methode van open coördinatie.

Een andere bijdrage van deze dissertatie is dat het is gericht op de effecten van zowel positieve als van negatieve Europese integratie op verzorgingsstaten, waar de meeste studies slechts één type integratie onder de loep nemen. In hoofdstuk 5 ligt de nadruk op de effecten van positieve integratie, maar in de analyses wordt ook voor negatieve integratie gecorrigeerd door een variabele voor economische integratie op te nemen. De resultaten voor economische integratie zijn echter niet consistent voor de verschillende modelspecificaties. Dit kan komen doordat een dergelijke variabele de resultante weergeeft van tegengestelde effecten van economische integratie. Terwijl beleidsconcurrentie zou leiden tot lagere niveaus van sociale bescherming, zou de compensatie van de toegenomen economische onzekerheid leiden tot hogere niveaus van sociale bescherming. Het resulterende effect kan vervolgens beperkt zijn. Dit is een algemeen en onderschat probleem in de literatuur over internationalisering en verzorgingsstaten. Om het effect van economische integratie op de vraag naar sociale verzekeringen te schatten, wordt gebruik gemaakt van een nieuwe benadering. De redenering luidt dat deze relatie directer kan worden geanalyseerd door gebruik te maken van private sociale uitgaven. Bovendien vormt de analyse van de variatie in uitgaven aan private sociale zekerheid ook een bijdrage op zichzelf. De private component in westerse verzorgingsstaten is namelijk groeiende, maar de wetenschappelijke aandacht voor deze ontwikkeling is tot op heden relatief beperkt gebleven.

Tot slot, de bevinding dat de methode van open coördinatie van invloed kan zijn op nationaal beleid ten aanzien van sociale zekerheid en arbeidsmarkt zou een argument kunnen zijn om meer gebruik te maken van dit type coördinatie in het bewerkstelligen van verdere Europese integratie. Echter, dit zegt op zichzelf niets over de wenselijkheid van dergelijke coördinatie van verzorgingsstaatbeleid op EU-niveau. Ook de bevindingen met betrekking tot de effectiviteit van de specifieke instrumenten van de Europese Werkgelegenheidsstrategie kunnen van belang zijn voor beleidsmakers. De Europa 2020 strategie berust namelijk grotendeels op de methode van open coördinatie. Aangezien het hier gaat om een betrekkelijk nieuwe vorm van Europese coördinatie, is het goed denkbaar dat die nog verder zal worden verfijnd. De bevindingen in deze studie geven aanleiding tot twee aanpassingen. Ten eerste, de aanbevelingen van de Raad lijken weinig bij te dragen aan de effectiviteit van de Europese Werkgelegenheidsstrategie. Daarom zouden minder van dergelijke aanbevelingen de methode van open coördinatie mogelijkerwijs efficiënter maken. Ten tweede, omdat wederzijds leren door het *peer review*-programma wel effectief blijkt te zijn, zouden beleidsmakers de effectiviteit van de methode van open coördinatie kunnen vergroten door meer te focussen op wederzijds leren. Ook andere inzichten uit deze studie zouden de effectiviteit van de methode van open coördinatie verbeteren en daarmee de verwezenlijking van de Europa 2020 doelstellingen.

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# Index

# Curriculum Vitae

Olaf van Vliet was born on 20 September 1983 in The Hague, the Netherlands. In 2001, he began to study public administration at Leiden University and he completed his master's degree in August 2005. From 2005 to 2010 Olaf studied economics at Erasmus University Rotterdam, where he obtained a bachelor's and master's degree. As a member of the Honours Class Economics and Econometrics, he received second prize for the best paper of this class from the Trust Foundation Erasmus University Rotterdam. In 2005 and 2006, Olaf worked as an advisor at the Ministry of Transport, Public Works and Water Management. Subsequently, in 2006, he started working as a PhD fellow at Leiden University's Department of Economics within the framework of the research programme Reforming Social Security – funded by Stichting Instituut Gak. During these years, he attended summer schools at the University of Ljubljana and the University of Essex and did a graduate course at Tilburg University. His research has been published in both Dutch and international journals. From September to December 2010, Olaf worked as a visiting researcher at Marquette University (U.S.). In the beginning of 2011, along with Ferry Koster, Koen Caminada and Kees Goudswaard, he received a research grant from the Seventh Framework Programme of the European Commission for a study on employment relations and labour market models. Since April 2011 Olaf van Vliet holds a position as Assistant Professor at the Department of Economics at Leiden University.

In de boekenreeks van de Graduate School of Legal Studies van de Faculteit der Rechtsgeleerdheid, Universiteit Leiden, zijn in 2010 en 2011 verschenen:

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