

Paper prepared for the NIG Annual Work Conference 2008

20 – 21 November, Enschede
Panel 11: The EU as a Transformative Force

Europeanisation and the Political Economy of Active Labour Market Policies

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Abstract

Since the adoption of the European Employment Strategy (EES) a number of qualitative studies have shown that reforms in labour market policies vary across countries and that Europeanisation affected these reforms in different ways. In addition to these studies, the present study tests several hypotheses to explain the variation in expenditures on active labour market policies (ALMPs) using quantitative data from the EU15 between 1985 and 2003. At the EU level we find that the European Employment Strategy and the EMU are related to the level of spending on activation and at the domestic level these policies are related to corporatism. Furthermore we trace the impact of specific mechanisms of this new mode of governance and we examine the participation of actors in the national processes of the EES rather than considering its effect as a constant factor. This study finds empirical evidence that the peer review programme affects ALMPs at the national level more than council recommendations do. This means that variation in the impact of European integration is not only due to different national institutions and politics. The fact that the European governance process is variable itself should be taken into account as well.

1. Introduction

The impact of European integration is a widely discussed topic in the comparative welfare state literature. Especially the recently inaugurated European Employment Strategy (EES) and the Lisbon strategy receive increasing attention. These European coordination policies aim at labour market participation to support social inclusion and to increase Europe's competitiveness. To date, the empirical evidence consists of national case studies examining whether Europeanisation has led to increased emphasis on *activation* in the national labour market policies (LMPs) (Zeitlin and Pochet, 2005; Kvist and Saari, 2007). One of the conclusions drawn from these cases is that active labour market policies (ALMPs) vary considerably across countries and over time. Nevertheless, despite that these case studies provide valuable information about specific countries, there has not been much attention for integrating these studies by systematically comparing the developments across the member states and therefore the question cannot be answered 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. The present study is geared towards this question.

This study aims at contributing to the literature on labour market policies by focussing on the explanatory mechanisms of LMP reforms and by tracing the different impacts of the new governance means of the EES. Although the domestic impact of this new and soft type of European governance is a central question in the EES literature, the influence of the specific governance means like the peer review programme has been empirically under analysed (De la Porte and Pochet, 2004). The theoretical framework advanced in this study relates to more general theoretical explanatory mechanisms mentioned in the Europeanisation literature, such as normative and cognitive influences. Because of the procedural character of the EES, our claim is that besides national institutional differences, the variation at the level of the European governance process itself might explain the variation across countries found in the case studies carried out earlier. In this study, we complement the existing studies by analysing longitudinal and cross national data from

the EU15, aiming to bridge a gap observed in the Europeanisation literature (Haverland, 2007) and allowing us to examine the different relevant mechanisms, indicated by the case studies, in a single analysis. Such an analysis is closely related to the quantitative studies explaining welfare states in terms of social expenditures, with the major difference that it focuses on a specific policy area, ALMPs, for which there are a limited number of quantitative studies available (Janoski, 1990). The adoption of the EES inspired some scholars to analyse the dynamics of ALMP expenditures. Franzese and Hays (2006) found a strategic interaction effect among European countries in the 1990s, but they did not take into account the impact of European employment policies. In Armingeon (2007), EU policies have been taken into account for the first time, offering a starting point for the examination carried out in this paper and take it a step further by specifying the explanatory mechanisms of the EES instead of taking the EES as a constant factor. Therefore, the present study proceeds in two steps. First, we analyse whether the EES and the EMU matters, incorporating both variables as constant factors. In the second step we zoom in at the EES to analyse how the particular means of governance influence the member states. Furthermore, we investigate the role of different actors, like social partners, in the policy-making process. Although corporatism is traditionally an important factor in the welfare state literature, it has rarely been incorporated in the Europeanisation literature. Finally, this study aims to contribute to the literature from an empirical point of view by relying on new datasets and by proposing a new indicator to capture the effect of the EES peer review program.

This paper is structured as follows. In section 2 the mechanisms of the impact of European integration on national policies are introduced and hypotheses are developed. Section 3 describes the data, method and measures used in this study. Section 4 presents the results of the analysis. This paper closes with the conclusions in Section 5.

2. Theoretical framework

2.1 Active labour market policies

ALMPs are policies aimed at increasing labour market participation, whereas passive policies can be understood as policies which entitle unemployed people to benefits (Van Berkel and Hornemann Møller, 2002). The policies through which governments try to get people to work include programs such as labour market training, services of employment agencies, youth programmes, subsidised employment and programmes for the disabled. Although ALMPs are typically orientated at the supply side of the labour market, some programs focus on the demand side as well, like subsidised employment. The effectiveness of ALMPs is highly debated. Evaluation studies addressing this issue, carried out both at the micro and the macrolevel, yielded mixed results; some studies find positive effects, others show no effect and still other studies show negative effects. Furthermore, the effects vary by programme (Calmfors e.a., 2001). And even if ALMPs are effective, it is the question whether the benefits offset the costs, such as the government costs, displacement effects and dead weight loss. For this moment, we leave this situation as it is and do not delve into the outcome of the programmes but at investigating what factors may explain the presence of these policies.

2.2 Europeanisation

Different authors have given different meanings to the term Europeanisation. Here we follow the definition that regards Europeanisation as domestic change caused by European integration (Vink, 2003: 63). The Europeanisation process has several dimensions, influencing national policy-making through different mechanisms (Knill and Lehmkuhl, 2002). Several of the mechanisms may affect national policies simultaneously and since they vary by type of European governance, their influence can differ. In the case of ALMPs there are two dimensions of Europeanisation that might influence national policies, namely the EES and the EMU.

European Employment Strategy

The EES, adopted in 1997, is a relatively new and intergovernmental means of EU governance. It coordinates national labour market policies, using a set of non-binding instruments like guidelines and benchmarks, in order to reduce unemployment and to increase employment. The EES is an embracing set of governance instruments that influences national policies as a whole. Rather than one single mechanism, like mutual learning, that affects domestic policies, it is the combination of a number of mutually enforcing mechanisms, like mutual learning, peer pressure and guidelines that is supposed to affect national policies. But analytically it is interesting to unravel the specific means of the EES and to examine their impact on national LMPs. In addition, in many Europeanisation studies the EU pressure is treated as a constant factor, for example the implementation of a directive or the pressure of the EMU convergence criteria. This may be a too crude way of investigating the EES. Since one of the main characteristics of the EES is that it is a yearly process, with iterative monitoring, reporting and learning, this EU pressure differs across countries and over time. As a result, its influence on domestic policies may vary accordingly.

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 on ALMPs. The EES in fact diffuses a paradigm of activation through the member states, aimed at influencing the domestic policy-making arena's. This can trigger and catalyse policy reforms at the domestic level being in line with the goals of the EES. Therefore, we hypothesise that the EES increased the effort on activation across the EU member states. Nevertheless, these guidelines do not account for variation across the member states. To enforce these guidelines, member states receive recommendations from the council annually on the progression in their policies regarding the guidelines. Because "in the EES, the number of recommendations reflected the relative position of the country" (Heidenreich and Bischoff, 2008:

511), these recommendations create adaptation pressure on national policy makers. According to Tucker (2003: 40) “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.” Since policy-makers now feel the pressure of the European Council and other countries, they might be more inclined to choose for activation measures in decision processes on how to adjust LMPs to unemployment problems. Hence, we hypothesise that the number of council recommendations received by a country leads to higher expenditures on ALMPs.

Mutual learning across countries is a second mechanism to diffuse policies in the framework of the EES. In a process called mimicking, actors imitate successful policies of others. Policy-makers can extend their repertory of effective policies and avoid costs of learning through trial and error (Hemerijck and Visser, 2003: 26). Regarding the EES, there are two ways in which this cognitive mechanism influences member states. Firstly, policy-makers learn informally from colleagues in their international network and from all EES documents on benchmarks and best practices. In addition to that, learning results from a formally institutionalised setting. In the peer review program country representatives meet each other in meetings, facilitated by the European Commission, to exchange best practices and to learn from the experiences of their international peers. To date, there is only one extensive analysis on the EES peer review process by Casey and Gold (2005), showing that there is a considerable degree of variation in country's participation in the peer reviews. In line with the tenure of the EES, changing passive LMPs into more active ones to raise employment rates and to combat unemployment is a major issue in the mutual learning programme. Naturally, countries that participate more in peer review sessions are more involved in the paradigm of the EES on activation and get potentially more influenced by it. Hence, we hypothesise that participation in the peer review program is positively related to spending on ALMPs.

Economic and Monetary Union

The introduction of the EMU is another source of Europeanisation (Dyson, 2000). In the literature the expected impact of the EMU on national labour market policies is clustered around two arguments. The first argument stating that the EMU has limited the repertory of responses of national policy makers to economic shocks to supply-side strategies because member states are limited in applying monetary and budgetary policies (Scharpf, 2002: 649). This means that we can expect lower tax burdens, deregulation and more ALMPs. The second argument relates to social policy programs in general, and argues that the Maastricht convergence criteria, especially the target of smaller budget deficits than 3% of GDP, lead to cuts in social expenditures. Governments can choose any combination of retrenchments and tax increases to reach the targets. However, it can be expected that especially social spending is cut, since social expenditures are conceived as contributing to large budget deficits. In the literature there is evidence that political actors could use this argument strategically to cut pension expenditures (Anderson, 2002; Featherstone, 2004).

2.3 Domestic politics

A central insight of the Europeanisation literature is that the extent to which member states learn from the EES and the way the EMU influences national policies depends on the domestic political actors and the institutional conditions in which these actors operate. In the process of labour market policy-making two different kinds of actors are relevant, namely political parties and social partners.

Firstly, a central hypothesis in the welfare state literature is that preferences of political parties can explain directions of reforms. Generally, left-wing parties are more in favour of costly active labour market programs like training than right-wing parties. Hence, leftist politicians can use the EES guidelines to back-up their own proposals on costly ALMPs in the domestic arena, like the Dutch social-democratic minister of employment did for example (Visser, 2005). In line with

the general argument regarding social spending (Allan and Scruggs, 2004), we hypothesise that leftist coalitions increase ALMP spending, while rightist coalitions aim at retrenchments.

Besides political parties, social partners are important actors in the reform processes of LMPs. In these processes, the government proposes changes towards making LMPs more activating. The government can choose to push reforms unilaterally or it can achieve broad social consensus. Since social partners have considerable veto power, the government prefers the last route. After all, trade unions can organise strikes and influence electoral arenas. On the other hand, social partners have an interest to avoid unilateral state intervention (Ebbinghaus and Hassel, 2000). They offer social acceptance in exchange for influence on the policy reforms. Traditionally, trade unions were compensated for wage moderating with increased welfare benefits. But because of the shift from Keynesian to monetarist policies of most governments over the last two decades, strengthened by the adoption of the EMU, the need for compensation by governments has been diminished since high wage settlements would be punished by unemployment, resulting in decreasing wages in the end. However, to avoid rising unemployment levels, it is still in the interest of governments to negotiate with social partners on wage moderation. And although the space to negotiate for unions is rather limited, at least they can try to bargain over a price of wage moderation (Hassel, 2003). Hence, the compensation employees can get at best is an expansion of ALMPs since this is in line with the supply-side orientation of the policies of governments (Falkner, 1997; Brandl and Traxler, 2005). The likelihood of achieving a broad social consensus depends on the institutional setting in which the government and the social partners bargain. A corporatist tradition of tripartite council increases the chances that the actors reach agreements in the common interest (Ebbinghaus and Hassel, 2000). We hypothesise that the presence of a tripartite council has a positive effect on ALMP spending.

Political actors do not only operate in the defined national policy-making institutions, they also participate in the new national processes of the EES. In fact, participation of social partners is

an explicit goal of the EES. Earlier research points out that EES processes like drafting National Action Plans are in some countries entirely dominated by governmental actors, while in other countries social partners are seriously involved (De la Porte and Pochet, 2005). Participation of potential veto-players could contribute to legitimacy of the policy proposals (Heidenreich and Bischoff, 2008: 503). Therefore we hypothesise that high involvement of social partners in the national EES processes leads to higher effort on ALMPs.

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

3. Data, measures and method

3.1 Data

A number of data sources are combined to test the hypotheses empirically. The *OECD Social Expenditure Database (2007)* includes the most recent expenditure data on ALMPs. The study relies on its own data, based on EES documents, accounting for the impact of mutual learning in the framework of the EES. For council recommendations we use data from De la Porte and Pochet (2002). We use data from De la Porte (2007) for the role of actors in the EES processes.

Furthermore, data on tripartite councils are taken from the new *Data Base on Institutional*

Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (Visser, 2008). The *Comparative Political Data Set* includes information on political institutions, partisan composition of governments, and public finances (Armingeon e.a., 2008). The *World Development Indicators* and the *OECD Main Economic Indicators* databases include data for unemployment rates. The *Penn World Table* includes data on economic growth (Heston e.a., 2006). The *KOF Index of Globalisation* provides data on economic, social and political openness of countries (Dreher, 2006). The final dataset includes information about 15 EU countries - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK - between 1985 and 2003. Unfortunately, there is not enough data available for the new member states of the EU to include these countries in the data set. But since our data runs until 2003, and the new member states entered the EU only in 2004, there is no real substantive ground to include these countries in the data set either.

3.2 Measures

Dependent variable

The dependent variable of this study is *ALMP effort*. To examine this variable we use two measures. Because ALMP expenditures are directly related to the level of unemployment, we measure the ALMP spending as a percentage of GDP divided by the unemployment rate. This indicates the efforts of governments on activation per unemployed person. But since we are interested in the emphases governments place on activation within the framework of total labour market spending, because of the policy line of the EES, we include a second measure. This measure expresses ALMP expenditures as a share of expenditures on all labour market policies, being the sum of active and passive spending. An increase in this measure indicates a relative shift from passive to active labour market policies. An advantage of the second indicator is that the denominator effect of GDP, that is present in the first indicator, is eliminated. For an extensive discussion on the relationship between

both indicators, see Armingeon (2007: 916).

Independent variables

To test the *impact of the EES*, started in 1997, we include a dummy variable. We expect that the impact of the EES is visible from 1998 onwards, indicated with a 0 for the years before 1998 and a score of 1 afterwards. After the test for the EES dummy, we specify this factor into two main components of the EES, being *peer review sessions* and *council recommendations*. The variable peer reviews indicates the frequency of countries participating in the mutual learning program. Since countries can learn either as a visitor or as an organiser, the variable measures the total number of participations per country per year. The variable council recommendations measures the number of received council recommendations per country per year. Next, we test 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 NAPs 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 none participation until involvement in the finalisation of the National Action Plans.

To test the impact of the *EMU* on national ALMP spending, we include a dummy variable scored one for Austria and Sweden since 1995 and for the other EMU countries since 1993. In line with the EMU argument, we also test the effect of public finances on ALMP expenditures, using the government balance as a percentage of GDP. To test 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, which is an often used indicator in the political economy literature. Here, the reference category is centre parties. Next, we test the effect of *corporatist policy making*, using a dummy variable for the presence of tripartite councils.

Control variables

In our models we control for the macroeconomic characteristics of countries. The *unemployment rate* can theoretically have two contradictory influences on ALMPs. On the one hand it could be argued that rising unemployment might lead to retrenchments in ALMP spending, since financing ALMPs at existing levels becomes more costly. On the other hand, increasing levels of unemployment could lead to stronger political demands for ALMP spending. But since Franzese and Hays (2006) and Armingeon (2007) both found a negative impact of unemployment on ALMP spending, we also expect the unemployment rate to have a negative impact. Next, we control for *GDP per capita* and for *changes in GDP per capita*. Because more economically developed countries have usually more generous social protection systems and higher social expenditures, a positive impact on ALMP expenditures could be expected. Alternatively, a negative sign could be expected as well since governments have probably the best political opportunities for social and employment policy reforms in times of high economic growth rates (Castles, 2007). Finally, we control for the effects of *globalisation* on ALMPs, using the KOF-index as a measure for the economic, political and social openness of a country. International economic integration could theoretically lead to a social race to the bottom and thus to lower ALMP expenditures. But, according to the compensation argument, governments should invest more in ALMPs in order to smoothen the adjustment of people to the labour market insecurities as a consequence of increased international competition (Rodrik, 1998).

3.3 Method

The dataset consists of longitudinal data for a number of countries. We analyse these panel data using multilevel modelling. The basic multilevel model is applied by modelling events (the repeated measures) nested within countries. The model consists of annually changes (Level 1) that can differ within and between countries (Level 2). To take into account that it may take some time before

changes in the dependent variable (ALMPs) respond to changes in the independent variables, we included the independent variables at $t-1$. Multilevel modelling allows specifying the covariance structure of the random part of the model. Since the measures are taken from the same unit they will be highly correlated with subsequent years. A common way to deal with this is to specify a first-order autoregressive covariance structure (AR1), this structure has homogeneous variances and correlations that decline exponentially with distance (Peugh & Enders, 2005). Advantages of this analytic approach to repeated measures are that it deals with the nested structure of the data and that it is not constrained by missing observations for several points in time that would otherwise be completely excluded from the analyses (Singer, 1998; Hox, 2000; Peugh & Enders, 2005).

The analyses are performed to answer two questions: (1) does Europeanisation (both the EES and the EMU) matter for national ALMPs?; and if so (2) how does Europeanisation matter. These questions are addressed in two subsequent steps, involving different time periods; in the first part focusing on the developments between 1985 and 2003 (Model 1 investigating ALMP as a share of all labour market policies and Model 2 ALMP per unemployed person) and the second part only including the period of the EES, from 1998 onwards (Models 3a through 3d. In the first part of the analyses the EES is treated as a dummy variable and in the second part the more fine-grained measures are added. In all models we compare the fit (log likelihood) between the full model and the empty model that serves as a base model, indicated with the deviance.

4. Findings

4.1 Descriptive results

Table 1 presents the developments in expenditures on ALMP, in peer review sessions and in council recommendations. First, mean levels of expenditures on ALMP as a share of total expenditures on LMP and of expenditures on ALMP per unemployed for the whole period are reported. Then, the mean annual development per year is given. Finally, the mean number of peer review sessions and

the mean number of council recommendations per year are provided. Over the whole period, the expenditures on ALMP are increased in the EU-15, both as a share of total LMP and per unemployed. There are quite some differences between the countries. Sweden and the United Kingdom spend most on ALMP, expressed as a share of total labour market policy spending, while Spain and Denmark have the lowest means. With regards to the ALMP spending per unemployed, Sweden has by far the highest level of expenditures, while Greece and Spain spend the least. Regarding the measures expenditures changes, the difference in nature between the two variations on the dependent variable becomes clear. In Germany and Portugal for example, the expenditures on ALMPs per unemployed increased on average, while the expenditures on ALMP as a share of the expenditures on all labour market policies decreased. This indicates that although expenditures on ALMPs increased, the expenditures on passive labour market policies increased even more. Concerning the peer review sessions, Ireland has participated the least, while Finland has participated the most, followed by Austria. Interestingly, Spain and Sweden participated both on average two times per year in a peer review meeting, while their labour markets and their labour market policies are completely different. With respect to council recommendations, Greece and Italy received two to three times more recommendations than The Netherlands and Denmark.

[TABLE 1 ABOUT HERE]

4.2 Analysis

The results for the impact of the EES and the EMU on ALMP spending between 1985 and 2003 are reported in Table 2. Model 1 shows that the EES has a positive effect on the share of labour market expenditures spent on activation. On the contrary, Model 2 does not show a significant effect of the EES on ALMP spending per unemployed. Apparently, the EES leads only to relatively more expenditures on ALMP. Both models show that the EMU has a highly significant negative impact

on ALMP spending, supporting the austerity argument rather than the supply-side orientation argument. Next, tripartite councils do not have an effect on the share of LMP expenditures spent on activation, but they do have a highly significant and positive effect on ALMP spending per unemployed. This significant and positive influence means that social partners have an interest in increasing ALMP expenditures. But trade unions have a strong interest in passive LMP spending, for example unemployment benefits, as well. So trade unions want to increase ALMP spending, but not at the expense of passive LMP spending. It turns out that government composition is not related to ALMP expenditures. However, this does not mean that politics are not important in changing ALMPs, nor that domestic politics are not important in explaining the impact of the EU. It only indicates that the effect of political parties on ALMPs does not show a stable pattern across countries and over time. The effect of the government deficit is interesting. The results show a retrenchment on expenditures on ALMPs the year after a deficit. Or the other way around, a positive budget balance increases the expenditures in the next year. In line with earlier studies, we find a negative sign for the effect of unemployment, albeit not significantly for the ALMP spending as a share. A high GDP per capita leads to higher expenditures on ALMPs. However, GDP growth leads to lower expenditures on ALMPs, supporting the ‘repair the roof when the sun shines’ argument. Finally, economic, political and social openness do not affect ALMP spending. We also ran the analyses for both dependent variables including a control group of 7 non-EU countries (Australia, Canada, Japan, New Zealand, Norway, Switzerland, US). These analyses gave approximately the same results. But to preclude the possibility that the Europeanisation variables measure a bias of more ALMPs in EU countries in comparison to non-EU countries, instead of an impact of EU policies, we only included the EU-15 countries.

[TABLE 2 ABOUT HERE]

Now that we know that the EES is related to the ALMPs of the member states, we direct our attention to the variation in the impact of the EES across the member states in the second part of the analysis. Table 3 illustrates the results of the analyses of the interaction between the European and the domestic level in the EES period. Model 3a shows that the number of times a country participates in peer review sessions does not affect their domestic ALMP spending, but it does significantly affect the yearly changes in ALMP spending positively. Model 3b shows that the variation in the number of council recommendations across countries and over time cannot explain the variation in expenditures on ALMPs. Models 3c and 3d examine the role of national actors in drafting the National Action Plans of the EES. Model 3c shows that more involved social partners leads to negative changes in ALMP expenditures as a share of total LMP spending. Model 3d shows that a more important role of finance ministries leads to reductions in ALMP spending, which is in line with our expectation. Since we only included the years in which it is possible to measure the specific effects, the periods are rather short and they differ across the models. This probably explains the deviating sign of the effect of GDP per capita in Model 3a.

[TABLE 3 ABOUT HERE]

5. Discussion and conclusions

The empirical evidence regarding the impact of European integration on national ALMPs is largely based on case studies of different countries. These studies show that reforms in LMPs vary across countries and that Europeanisation affected these reforms in different ways. To explain the variation in spending on activation, we tested the impact of several variables, both at the European and the national level in a single analysis. Our results indicate two effects of European level variables. Firstly, the EES is associated with relative shifts from passive to ALMPs across the member states. This is in line with the goal of the EES and with the general impression in the qualitative literature

that the EES has supported a paradigm of activation. However, we did not find any evidence that the EES has led to increased levels of spending on activation per unemployed. Secondly, the EMU clearly triggers national austerity concerning ALMP spending. Regarding the national level variables, the most interesting finding is that the presence of a tripartite council is positively related with expenditures on ALMPs.

Finally, we examined the interaction processes between the European and the national level. Instead of taking the European pressure as a constant factor, we have centred on the specific mechanisms of the EES that might affect national ALMPs. Interestingly, we found that the cognitive influence of the mutual learning programme affected national activation spending, while no effect could be found from the normative influence of the council recommendations. This is in line with the expectations in the recent open method of coordination and EES literature, stating that the impact of the new modes of governance will be mainly cognitive (Heidenreich and Bischoff, 2008). It is also possible to interpret the finding differently, namely that it is indicated that the peer reviews are becoming more important over time. This matches rather well with the iterative nature argument in the EES literature, stating that the impact of the EES consists of putting the issue of activation every year on the agenda of the national policy makers. Future studies are required to examine a possible development in the cognitive effect over time.

Another question could be raised about the role of social partners in ALMP reforms. Our results indicate that the role of actors in the domestic EES processes matters. But the question remains how to reconcile the positive impact of tripartite councils with the negative impact of involvement of the social partners in the EES on ALMPs. Firstly, social partners prefer to influence the policy process in existing national patterns of bargaining (Zeitlin, 2005; De la Porte, 2007). Here they can deal and link the issue of employment policies to the issue of wage negotiations. Hence, they have an incentive to move the debate from the EES process to the formal tripartite institutions. And in these institutions governments can get support for activation plans and

incorporate the veto power of social partners by threatening them with unilateral state intervention. Secondly, the positive impact of tripartite councils refers to ALMP spending per unemployed, while the negative impact refers to ALMP as share of total LMPs. Put differently, unions are in favour of higher ALMP spending per unemployed, but not at the expense of lower passive labour market spending such as unemployment benefits.

Obviously, we have to be careful with the interpretation of the results since we only analysed expenditures on ALMPs. Of course, 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 or activating tax and benefit schemes. But still, spending data give a good indication of the general emphases countries place on activation.

This study is an effort to investigate the variation in activation spending across 15 EU countries. Testing for a number mechanisms of Europeanisation, we have found evidence that the EES has lead to a shift from passive to ALMPs across Europe. A main finding is that the peer review programme seems to have a stronger influence than the council recommendations. This means that variation in the impact of European integration across countries and over time is not only due to different national institutions and politics. The fact that the European governance process is variable itself should be taken into account as well.

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Table 1. ALMP expenditures 1985-2003, peer reviews and council recommendations

	Mean ALMP share	Annual change in ALMP share	Mean ALMP unemployed	Annual change in ALMP unemployed	Mean peer reviews	Mean council recommendations
Austria	30.25	0.87	11.12	0.41	3.3	3.0
Belgium	27.33	-0.08	13.49	0.25	2.5	4.7
Denmark	24.54	0.90	20.32	1.07	2.5	2.3
Finland	35.47	-0.62	13.85	-0.42	3.5	3.0
France	29.23	0.82	8.65	0.26	2.5	4.7
Germany	40.17	-0.19	10.91	0.13	2.5	5.0
Greece	32.70	0.00	2.18	0.00	2.8	6.0
Ireland	35.55	0.60	12.00	0.37	1.3	2.7
Italy	43.87	2.48	4.83	0.43	2.5	5.0
Luxembourg	28.66	-0.74	11.94	-0.54	2.8	2.7
Netherlands	31.59	0.94	16.00	0.96	2.5	2.0
Portugal	44.23	-0.70	7.54	0.42	2.5	3.3
Spain	16.97	0.70	3.79	0.25	2.0	4.7
Sweden	60.67	-1.12	44.88	-2.54	2.0	2.7
United Kingdom	47.63	2.07	8.56	0.23	2.8	4.0
Mean	35.26	0.40	12.67	0.09	2.5	3.7

Source: expenditures on ALMPs: OECD Social Expenditure Database (OECD 2007); mutual learning and council recommendations: own calculations.

Due to data availability, the numbers for Italy refer to 1990-2003 and for Portugal to 1986-2003.

The data on peer reviews refer to the period 1999-2002.

The data on council recommendations refer to the period 2000-2002.

Table 2. ALMP expenditures, 1985-2003, EU-15 countries

	Model 1 ALMP share	Model 2 ALMP unemployed
Year	0.28 (0.91)	-0.48 * (-1.75)
EES	1.83** (1.68)	0.09 (0.09)
EMU	-3.62 *** (-3.05)	-2.60 *** (-2.53)
Tripartite councils (t-1)	1.27 (0.72)	4.94 *** (3.10)
Left cabinet seats (t-1)	-0.02 (-0.90)	0.02 (0.91)
Right cabinet seats (t-1)	-0.03 * (-1.34)	-0.00 (-0.05)
Government deficit (t-1)	0.29 ** (1.81)	0.47 *** (3.45)
Unemployment (t-1)	-0.38 * (-1.58)	-0.42 ** (-1.95)
GDP per capita (t-1)	0.04 (0.79)	0.12 ** (2.48)
Change in GDP per capita (t-1)	-0.01 *** (-2.85)	-0.01 ** (-2.06)
KOF Index	-0.04 (-0.23)	0.06 (0.46)
Intercept	1.64 (0.84)	-1.81 (-0.93)
AR1 (rho)	0.86***	0.90***
N x T	269	264
-2loglikelihood empty model	1910.00	1942.12
-2loglikelihood	1494.00	1391.89
Deviance	416.00***	550.23***

Notes: Unstandardized coefficients; t-statistics in parentheses. * $p < .10$; ** $p < .05$; *** $p < .01$
Two-tailed hypotheses for year, GDP per capita, year x GDP per capita and the KOF index. All other hypotheses are one-tailed.

Table 3. ALMP Share in EES period, EU-15 countries

	Model 3a 2000-2003	Model 3b 2001-2003	Model 3c 1998-2003	Model 3d 1998-2003
Year	0.29 (0.37)	-1.34 (-1.58)	2.29 ** (2.52)	1.08 (1.23)
Peer review (t-1)	-0.35 (-1.21)			
Change peer review (t-1)	0.69 *** (2.62)			
Recommendations (t-1)		-1.72 (-1.06)		
Change Recommendations (t-1)		0.27 (0.14)		
Role social partners			0.02 (0.04)	
Change role social partners			-1.11 *** (-3.40)	
Role finance ministry				0.02 (0.03)
Change role finance ministry				-0.50 ** (-1.93)
Unemployment (t-1)	-0.07 (-0.10)	-1.47 * (-1.49)	-0.02 (-0.05)	-0.22 (-0.45)
GDP per capita (t-1)	-0.17 ** (-1.74)	0.07 (0.37)	0.16 (1.66)	0.09 (0.92)
Intercept	0.80 (1.46)	0.03 (0.07)	-0.29 (-0.16)	-0.31 (-0.18)
AR1 (rho)	0.12	-0.36 *	0.41 ***	0.44 ***
N x T	60	45	90	90
-2loglikelihood empty model	319.91	230.29	508.66	508.66
-2loglikelihood	307.54	219.96	440.40	447.55
Deviance	12.37 ***	10.33 ***	68.26 ***	61.11 ***

Unstandardized coefficients; t-statistics in parentheses. * p < .10; ** p < .05; *** p < .01

Two-tailed hypotheses for year and GDP per capita. All other hypotheses are one-tailed.