



Master thesis

Reconsidering the welfare typology within Central and Eastern Europe

Analysis of the divergence between Lithuanian and
Slovenian labour market regimes

Vaida Gineikytė

Student number: 434624

1st reader: Prof. Dr. Menno Fenger

2nd reader: Prof. Dr. Kees van Paridon

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Summary

The goal of this thesis is to contribute to the academic discussion about the welfare regime types in Central and Eastern Europe (CEE). There still has been a disagreement whether CEE welfare states are similar or different enough to ascribe them to either a unified or separate regime types in the European context. The main research question concerns the drivers of such similarity or divergence in the region. The analysis focuses on one particular domain of a welfare state – the labour market regime, namely its three elements: employment protection legislation, unemployment insurance and active labour market policies.

First of all, a hierarchical cluster analysis confirms the existence of two distinct CEE welfare and labour market regime types in the European context: one of them covers the Baltic States, while the other – the Visegrád countries and Slovenia.

Secondly, qualitative case studies within a framework of actor-centred historical institutionalism reveal the content and the main factors behind this divergence. Two countries from different CEE regime types are selected for further analysis: Lithuania and Slovenia. While Slovenian regime could generally be described as more worker-friendly and flexicure, in Lithuania the overall labour market risks coverage was less sufficient to provide comprehensive insurance for workers.

It is explained that a combination of several factors conditioned this divergence between the two countries. Firstly, they had considerably different starting positions in the 1990s. While certain labour market regime structures had already existed in Slovenia and could be subjected to gradual changes later, they had to be built from scratch in Lithuania. The path-dependence of the socialist period institutions was therefore stronger in Slovenia, while Lithuania was more open to new institutional paths. Secondly, this initial variation was amplified by the differences in party competition and roles of social partners. In Lithuania, there was no significant political force protecting workers' interests, and politicians did not rely on the support of rather weak and passive social partners. Hence, the trend of strong worker protection did not emerge in the country, while frequent reshuffling of political constellations in the government hindered the continuity of labour market reforms. Slovenian labour market regime, in turn, was affected by a long period of the predominance of worker-friendly centre-left parties, aligned with strong and influential social partners. Under these conditions the country was able to slowly reform the generous institutions of the socialist period and to resist neo-liberal trends, prevailing in Lithuania. Finally, the EU for a long period was the factor leading to greater convergence between the two countries. Nonetheless, different responses to its pressures recently have led to further divergence, hence proving that the EU's influence is also an important aspect in this explanation.

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1. Introduction

The contemporary European Union (EU) is a heterogeneous political entity, with pronounced differences between the Western and Eastern member states (Kulin, Meuleman, 2015). The greatest gap between the East and the West exists in the socio-economic sphere, and national welfare systems provide a major example. The post-war history of the new member states of the EU in Central and Eastern Europe¹ (CEE) followed a completely distinct path from the Western part of the continent in every area of economic and societal development. Under the communist rule and planned economy system, there was no need for state and society to develop an institutional framework to absorb the conflicts between capital and labour (Keune, 2006).

Meanwhile, such a need did exist in the Western European countries. During the post-war period, they faced what is now called the 'golden age' and consolidation of their welfare regimes (Wincott, 2013). However, in the area of social policies and institutions, the Western capitalist democracies have developed in quite different trajectories. One of the most prominent authors in this field, G. Esping-Andersen (1990) in his famous work 'The Three Worlds of Welfare Capitalism' distinguished between three ideal-types of capitalist welfare systems in Europe, each with a distinct set of institutions and relationships between state, market and family: Liberal, Corporatist and Social-democratic. Each of them, according to the author, had different values of two main variables: degree of de-commodification, and social stratification patterns². The Liberal (Anglo-Saxon) type welfare exhibited the lowest degree of de-commodification and class-political dualism. It was characterised by individualism, primacy of the market and a low level of redistribution. The main clientele of means-tested assistance and modest social benefits provided by the state was mainly low-income working-class state dependents; entitlement rules were associated with stigma. Countries closest to this ideal welfare type in Europe were Ireland and the United Kingdom. The Corporatist (Continental, Conservative) welfare regime, in turn, was typified by a moderate level of de-commodification and a narrow sphere of solidarity. In a Corporatist regime, welfare rights were attached to class and status, redistributive effects were negligible, and there was a strong reliance on the traditional family as the primary provider of welfare. Germany, France, Austria and Belgium have been typically ascribed to this regime type. Finally, the Social-democratic (Scandinavian, Nordic) welfare regime featured the highest degree of de-commodification and a strong principle of

¹ In this thesis, countries of this region who joined the EU in 2004 - Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia – are referred to as CEE countries.

² The degree of de-commodification is the degree to which social services are rendered as a matter of right, and to which a person can maintain a livelihood without reliance on the market. The variable of social stratification and solidarities regards the kind of social stratification system which is promoted by social policy, and the scope of solidarities that the welfare state builds.

universalism, promoting an equality of the highest standards. This type of welfare system was highly redistributive and not dependent on any individual contributions. It relied on the state as the primary provider of welfare, rather than on market or family. Sweden and Denmark were the EU countries representing this model.

This classification has become the basis of comparative welfare studies, despite its many criticisms. With some modifications – for instance, the addition of the Mediterranean (Southern) welfare type (Arts, Gelissen, 2002) – it has been followed by almost every study analysing social policies and welfare regimes in Europe. Even though none of the real-world countries fit these descriptions perfectly, there were certain empirical similarities and differences in their institutional configurations, allowing to classify and then study each Western European country under one of these categories (Ebbinghaus, 2012).

However, the EU enlargement in 2004 introduced European welfare researchers with a set of countries that were outside the traditional welfare typology. During the half-a-century period of communist rule, CEE welfare states had a strong universalistic drive. This was despite the problems inherent to the state-socialist model – a low quality of services and the dysfunctionalities of the planned economy system. Also, some social problems tackled with welfare policies, such as poverty and unemployment, were considered as non-existent. The subsequent transition away from communist one-party rule and planned economy in almost every CEE country resulted in economic decline, which fundamentally altered many of the social and economic conditions upon which the welfare systems were built. Systemic transformation, accompanied by a profound crisis in the whole region, involved not only very rapid trade liberalisation, but also radical changes in economic structures, political institutions, and state administration. Developments in all of these areas, in turn, forced a radical reorientation of welfare state conditions and commitments (Orenstein, Haas, 2005). Even though CEE countries maintained a high commitment to welfare throughout the whole transformation period and gradually increased welfare spending as a proportion of GDP (Aiginger, Leoni, 2009), in more than 25 years the CEE welfare systems have not managed to reach Western European welfare standards.

Consequently, based on the many historical similarities in their midst presented above, CEE countries are often referred to as a rather uniform welfare group, and are usually added to the EU welfare classification as the fifth type in various social policy analyses (for instance, Stovicek, Turrini, 2012). However, ascribing all the CEE countries to the same regime type, years after the collapse of communist regimes, is questionable both from theoretical and empirical points of view.

Theoretically, a given welfare regime is the outcome of dynamic processes within a country, involving an interplay of various agents and structural factors that can shift the evolution of welfare institutions in one or another direction. As illustrated by the analysis of Esping-Andersen (1990) and later by numerous other authors, different welfare institutions are a result of country-specific party politics, activities of state bureaucracy, dialogue with civil society and interest groups, as well as influence of external actors. As they differed in post-war Western Europe, and led their welfare regimes to develop in different directions over time, the same could be expected in the post-socialist welfare development in CEE region. Empirically, already during the transition period, the CEE countries were differentiated into 'best performers' and 'worst performers' in dealing with social policy issues (Wolchik, Curry, 2014). These patterns of differentiation have remained intact, and can be easily illustrated by the statistical indicators of welfare efforts and social outcomes that vary considerably across the region (Eurostat).

This issue poses an interesting research problem: even though CEE countries are usually treated as representing a single welfare type, there are both theoretical and empirical premises to better explore the validity of such a practice. Indeed, a significant body of literature has already explored this issue to some extent (presented in detail in the section 2.3 of this thesis), but there is no wide agreement on how welfare systems *within* the CEE region should be classified and whether there is more than one Post-communist type in general. This leaves a gap in the current body of research.

Consequently, the aim of this thesis is to contribute to the discussion about the formation and differentiation of CEE welfare types. Only defining the current state of the art of welfare regime, however, typologies may not be sufficient to fill the mentioned gap. This is especially true in the CEE region, where welfare states are still considered as developing (Kuitto, 2016). As mentioned, the welfare state type is a result of interplay between various factors over time; they influence the shape of welfare institutions and set the direction of further developments. Hence these drivers have to also be taken into account to substantiate the claims about the uniformity or dissimilarity of CEE welfare regimes. The goal is therefore to find out both: the current state of the art of CEE welfare regime types – their difference or similarity, and the main factors that led to this outcome.

Due to size and scope limitations the focus of this thesis is on one particular area of a welfare state – the labour market. First of all, being the very domain where the mentioned conflict between capital and labour first becomes evident, it is the basis of the welfare state itself. The structures of labour market regimes tend to spill over into other areas of welfare policies, for instance, in terms of social entitlements and coverage. Patterns of employment have substantial implications for the distribution of income, economic security and risk throughout economies, and therefore have direct

consequences for social policies (Heintz, Lund, 2012). In general, according to Esping-Andersen (1990), welfare regimes and labour market regimes go 'hand in hand'. Hence this area is selected as rather representative of the overall character of a given welfare regime character.

Corresponding to the aim of this thesis and given the focus on a single policy area, the main research question is the following:

What factors can explain the differences or similarities between CEE labour market regime types?

This research also addresses a number of sub-questions – necessary steps to answer the main question. They are largely reflected in the overall structure of this thesis. First, given the insufficient examination and understanding of the CEE welfare and labour market regime typology in relevant research, explained comprehensively in the Chapter 2, the first sub-question is the following:

1. *What differences and similarities can be identified among CEE labour market regimes in terms of regime types?*

To answer it, a quantitative approach is applied and a hierarchical cluster analysis is conducted and presented in the Chapter 3. It is supposed to test and specify the results of previous research in this field, and to show the groupings of countries based on welfare and labour market indicators. Also, it aims to indicate different CEE labour market regimes – this outcome will be the basis of further analysis. Once the types of CEE labour market regimes are identified, the process of labour market regime formation and factors that affected it need to be elucidated. For this purpose the thesis builds on the theoretical framework of actor-centred historical institutionalism and previous research in this field, outlined in the Chapter 4. Its presentation will serve to answer the second sub-question:

2. *What processes and factors have a role to play in the development of labour market regimes?*

Further, these processes and factors outlined in the theoretical framework need to be assessed using empirical data. This leads to the following sub-questions:

3. *How did the main institutions of CEE labour market regimes develop?*
4. *How did different factors affect the formation of CEE labour market regimes?*

To answer them, after presenting the methodology in Chapter 5, qualitative case studies of selected CEE countries from different labour market regime clusters are conducted in the Chapter 6. Finally, the main research question implies the need for a comparison between countries from different labour market regime clusters. Accordingly, the final sub-question is the following:

5. *How did the factors and processes that influenced the formation of labour market regimes differ across CEE countries?*

To provide an answer, the results of individual case studies are employed in a comparative analysis. It is presented in the Chapter 7. All the findings are then summarised in conclusions (Chapter 8), which also provide theoretical considerations and directions for further research.

This thesis contributes to the existing body of research in a number of ways. First, it ‘updates’ the debate on European welfare regime classification using the latest data on welfare indicators. Second, it combines and links research on welfare typologies in general and labour market regimes specifically, and empirically looks into the CEE region, which so far has not been researched from this perspective. Finally, it is interesting from the methodological point of view. While many studies applied either quantitative or qualitative approaches, this thesis combines them as separate steps in answering the main research question.

2. Literature review

The broad aim of the literature review is to provide a background for the thesis and to identify relevant literature gaps. It also serves for three particular purposes related to the analytical framework of this study. First of all, the main elements and definitions of a labour market regime are presented, as it is the core object of this study. Further, this thesis aims to contribute to a broader discussion on welfare types by analysing labour market institutions as an integral part of a broader ‘welfare mix’. Therefore, the second section describes the relationship between the two, based on previous research. Finally, as mentioned in the previous chapter, it is important for the process of this study to establish whether the CEE countries belong to a single or multiple distinguishable welfare types. Hence, the third section reviews the relevant body of literature.

2.1. Labour market regime

Labour market regime is understood in this thesis as a set of government interventions into the labour market through a variety of institutions in order to insure workers against various labour market risks. It is possible to distinguish between two broad categories of such state interventions.

In the first category is labour market regulation, which includes labour market institutions and different aspects of labour legislation. The most important of them, aimed at insuring individuals against labour market risks, is employment protection legislation (EPL). EPL concerns regulation on hiring and firing of employees, such as conditions for using temporary or fixed-term contracts, training requirements, redundancy procedures, mandated pre-notification periods and severance

payments, special requirements for collective dismissals, and short-time work schemes (Belot et al, 2004).

The second type of intervention – labour market policies (LMP) – comprises all kinds of regulative policies that influence the interaction between labour supply and demand. Typically LMPs are classified into passive and active (ILO, 2016). Passive labour market policies (PLMP) are policies that entitle labour market participants to benefits in the event of unemployment – public support for income maintenance. PLMPs basically include unemployment insurance, early retirement and related welfare benefits paid to the unemployed (Martin, 2015). Meanwhile, active labour market policies (ALMP) are aimed at getting working-age people off benefits and into work (Auer et al, 2008), increasing the employment opportunities for job seekers, and improving matching between jobs (vacancies) and workers (the unemployed) (Bonoli, 2013).

ALMP is a rather ambiguous category of social policy. In fact, it is an umbrella term which refers to different kinds of interventions (Bonoli, 2012). Various authors have attempted to classify ALMPs by distinguishing between those aiming to improve human capital, and those using various incentives to move people into employment (Torfing, 1999; Taylor-Gooby, 2004; Barbier, 2004). Bonoli (2010) provided a more comprehensive typology of ALMPs by distinguishing between four ideal types of ALMP: incentive reinforcement, employment assistance, occupation, and human capital investment. The main features of each of the types are summarised in Table 1.

Table 1. Types of ALMP

Type	Objective	Tools
Incentive reinforcement	Strengthening positive and negative incentives for people on benefits	<ul style="list-style-type: none"> • Tax credits, in-work benefits • Time limits on benefit reception • Benefit reductions • Benefit conditionality • Sanctions
Employment assistance	Removing obstacles to employment and facilitating entry into the labour market	<ul style="list-style-type: none"> • Placement services • Job subsidies • Counselling • Job search programmes
Occupation	Keeping jobless people occupied to limit human capital depletion during the period of unemployment	<ul style="list-style-type: none"> • Job creation schemes in the public sector • Non-employment related training programmes
Human capital investment	Improving the chances of finding employment by upskilling the unemployed	<ul style="list-style-type: none"> • Basic education • Vocational training

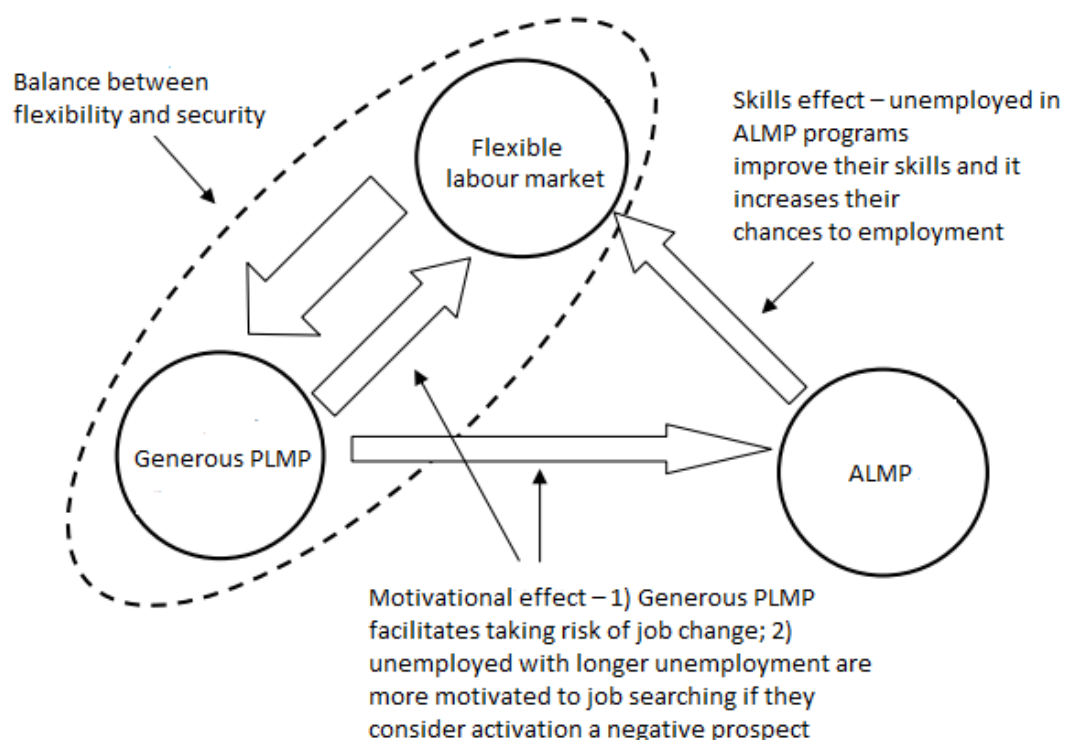
Source: Bonoli, 2010.

All these measures interfere with a ‘pure’ labour market as they provide a certain level of security that would be absent otherwise, and hence change how the market operates. EPL provides job

security – the probability of maintaining the same job with the same employer. PLMPs provide income security – the probability of maintaining a certain level of income irrespective of the situation in the labour market. ALMPs, in turn, serve as a tool to provide employment security – the probability of remaining in the labour market, but not necessarily with the same employer (Eichhorst, Konle-Seidl, 2006).

The balance between these three measures constitutes the so-called ‘labour market triangle’ (de Beer, Schils, 2009), where EPL, ALMPs and PLMPs have a specific interplay and trade-offs (Neugart, 2007). Certain combinations of these policies might have negative impacts on the labour market. For instance, strict EPL is associated with negative effects on employment, employee turnover and productivity (Skedinger, 2010), while generous PLMPs have negative effects on employment by reducing work incentives (Kraft, 1998). Meanwhile, a current European paradigm, implying an optimal mix of labour market interventions, is described by the ‘flexicurity’ concept (Tangian, 2006). It refers to a labour market regime where the ‘market safety’ gap left by flexible EPL is ‘filled’ by PLMPs and ALMPs: when the former does not insure a secure workplace, ALMPs ease the transfer to other jobs by providing skills and motivating, and PLMPs maintain income levels (Figure 1).

Figure 1. The flexicurity triangle



Source: Bredgaard, Larsen, 2007.

Note: Wide arrows mean flows of people.

An important dimension of flexicurity is activation. The term signifies strategies aimed at counteracting the potentially negative effects of unemployment and related benefits on work

incentives, and bringing more people into the effective labour force with ALMPs (OECD, 2013). Activation not only defines the balance of policies in a labour market regime, but also has consequences for the welfare state in general. It implies, to a large extent, that traditional welfare policies with the key objective of de-commodification (such as PLMPs are) are increasingly being replaced by social policies emphasising re-commodification (Bonoli, 2005; Dingelday, 2007; Pascual, Magnusson, 2007; Lendvai, 2008).

Generally, different combinations of EPL, PLMP and ALPM constitute distinct labour market regime types. They, in turn, tend to be more or less flexicure and demonstrate different degrees of activation – these notions help to define a given regime. These features, moreover, relate closely to the character of the overall welfare regime. This relationship is discussed more broadly in the following section.

2.2. Relation between welfare regime and labour market regime types

Esping-Andersen (1990) was first to pose a hypothesis that labour market regimes and welfare state regimes co-vary. He stated that social policy of a welfare state is an integral part of the labour market. It affects the conditions under which people exit from the labour market and enter into the status of welfare-state client; claim paid absence from a job; and are allocated to jobs, i.e., enter into employment (Esping-Andersen, 1990: 144). Therefore, different types of welfare state regimes cause distinctive patterns of employment – the author successfully illustrated this idea with the examples of corporatist Germany, social-democratic Sweden and the liberal United States. Labour market regime, thus, was viewed both as part of the welfare state regime and as a regime separate from it. At the same time, according to the author, labour market regime types coincide with welfare state types (Wincott, 2001).

However, Esping-Andersen left some important gaps. He followed the assumption that if principle cornerstones of the labour market were systematically and directly shaped by the welfare state, one would expect that cross-national differences in labour market behaviour are attributable to the nature of welfare regimes. This view contradicted both the neo-classical economic and sociological models of labour market³. The author did not reconcile theoretical contradictions in terms of causality between welfare system and the labour market, but rather used the language of association: welfare and labour market regime types go ‘hand in hand’ or ‘tend to coincide’ (Wincott, 2001). Also, the author did not discuss explicitly the separate elements of labour market regimes investigated in this thesis: ALMPs, PLMs and EPL.

³ Neo-classical economics treats labour markets as closed and autonomous systems, moving towards equilibrium themselves, while sociological models focus on structural and sociological dividers (such as class divisions and mobility) in the labour market.

This gap has been filled to some extent by other authors. For instance, Gallie and Paugam (2000) presented four 'unemployment welfare regimes' on the basis of three criteria: coverage of unemployment benefits, the level and duration of such coverage, and expenditure on ALMPs. This typology closely paralleled the 'four worlds of welfare capitalism' that resulted from adding a separate 'Southern European' model to the three identified by Esping-Andersen. Further, Bukodi and Róbert (2007) developed an almost identical classification of employment regimes in Europe based on the criteria of ALMPs and EPL. Also, Janoski (1994), who explicitly discussed ALMP in the context of welfare regimes, concluded that this element of the political economy of unemployment clearly varies by and fits with the welfare regime types outlined by Esping-Andersen. Finally, Janoski's finding was supported by Powell and Barrientos (2004), who suggested that an indicator of ALMP expenditure is an important component of the overall 'welfare mix', which leads to a clearer clustering of welfare regimes, and generally has to be integrated in the appraisal of welfare typology. All in all, these studies demonstrated that particular elements of the labour market regime vary by welfare regime type, and this variation largely reflects the traditional welfare typology, as predicted by Esping-Andersen.

This assumption of the 'coincidence' of the labour market and welfare regime types is also made in this thesis. As the mentioned authors did not examine this relationship in the CEE region, to provide additional weight, it is tested in the hierarchical cluster analysis. Its main role is to illustrate that labour market regimes and welfare regimes, as well as their development, is inseparable. Research of labour market regime typology, in turn, contributes to the body of literature on CEE welfare regime types, discussed in the following section.

2.3. CEE welfare regime typology

Exclusion of formerly communist countries for more than twenty years from welfare state theorising has created an empirical and theoretical gap (Aidukaite, 2009). Therefore, a strong interest in the welfare regimes of post-socialist European countries increasingly emerged the first decade of their transformation into democracy and market economy. There are two main questions examined in the literature on welfare types of CEE countries (Polese et al, 2014). Firstly, scholars have been debating whether welfare policies in post-socialist countries could be considered as converging towards Western European patterns, and possibly fit one of Esping-Andersen's (1989) welfare state classifications, or whether they should be considered *sui generis* and therefore studied beyond these categories (Deacon, 1993; Esping-Andersen, 1996; Fajth, 1999). A second question, especially important in the context of this thesis, is whether all post-socialist EU members would fall under the same welfare regime category or there are distinctive welfare regime types within this group.

Regarding the first question, the majority of the most prominent studies in this field are qualitative and based on institutional analysis, focusing on four factors: history, institutions, environment and social interactions. Many authors agree that the CEE welfare state is a *sui generis* category, which could not be classified into the Esping-Andersen's (1989) ideal types, despite increasing assimilation to Western welfare state archetypes and the same liberal tendencies as in Western Europe (Soede et al, 2004; Keune, 2006; Aidukaite 2009; Aiginger, Leoni, 2009; Hacker, 2009). For instance, Cerami (2005) neglected the scenario that CEE countries might eventually reproduce a welfare regime already in place in Western Europe. Instead, they are approaching the formation of a unique Eastern European model, even despite the forces of globalisation and Europeanisation at play. More specifically, his study, based on a synthetic 'neoclassical social policy' approach, identified the emergence of a common peculiar Eastern European model of solidarity. Coming from the fusion of pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist (market-based schemes) features, this model has been sustained by strong support for redistributive policies. Almost identical conclusions were drawn later by Tomka (2006), Beblavy (2008) and Haggard and Kaufman (2009). They all argued that the emerging welfare regimes in Eastern Central Europe did not conform to any of the regime types in Esping-Andersen's typology. Rather, the new welfare systems were a hybrid, a mixture of different elements of these systems – what Tomka (2006) called a 'faceless' regime.

Regarding the second question – whether all post-socialist EU members would fall under the same welfare regime category – there is a bit more disagreement among researchers. Some of the above-mentioned institutionalists saw all the CEE EU member states as representing of the same welfare type, and dismissed the scenario of creation of as many welfare states as there are CEE economies in transition (Cerami, 2005; Haggard and Kaufman, 2009). This is even despite a consensus that strong path-dependencies in the post-transition period had pushed CEE governments in quite different directions. For instance, Aidukaite (2011) in her analysis of major socio-economic indicators across old and new EU members found that the socio-economic differences between the best and the worst performers among the new member states were still in place and would not fade away easily. However, she maintained that the eight new EU member states were more similar to each other than to the rest of the EU, and demonstrated a number of important institutional features that provide evidence for the idea of a unified post-communist welfare regime.

Meanwhile, according to Hacker (2009), the existence of a single post-socialist welfare state type is not evident – there is no such thing as a Central and Eastern European welfare state model. Since the transformation years, CEE countries have not been following one single example, and gradually the differences became more pronounced. Moreover, instead of creating a new individual type of

welfare arrangement, different CEE countries acquired various features of different Western welfare models in different welfare sectors. Beblavy (2008) also supported this idea, and took a step further. Based on his analysis (taking into account expenditure, redistribution, path-dependence and institutional factors), the author suggests that CEE welfare states can be divided into five groups: 'invisible' (Latvia); 'liberal light' (Estonia and Lithuania); 'conservative light' (Czech Republic, Hungary and Poland); 'nearly conservative' (Slovenia); and 'uncertain middle' (Bulgaria, Romania and Slovakia).

The latter conclusions about several distinctive CEE welfare types were to some extent supported by many researchers using quantitative methods, namely hierarchical cluster analysis using a variety of indicators. Most of these studies support the claim that CEE countries are more similar to each other than to the rest of Europe: they usually fall under the same one of two clusters of EU member states, while the 'old' Europe falls under another one (Ferreira, Figueiredo, 2005; Fenger, 2007; Draxler, Van Vliet, 2010). However, the findings also show certain cleavages among the CEE countries. Probably the most prominent of them is between the Baltic States and the rest of CEE member states, who over time diverged on many indicators (Fenger, 2007; Aiginger, Leoni, 2009; Van Vliet and Draxler, 2010; Pöder, Kerem, 2011). As noted by Pöder and Kerem (2011), post-communists had two development paths: Continental and Liberal. While the Baltics were closer to the latter, the rest of CEE member states were closer to the Continental-Mediterranean path. However, the said researchers did not find strong CEE convergence into these traditional models, and concluded that the further paths of development were not clear.

To summarise, this literature review shows that there is a quite wide consensus among scholars regarding the question of whether the welfare policies in post-socialist countries could possibly fit one of Esping-Andersen's (1989) welfare state classifications. The answer is no: many authors have come to conclusion that the Central and Eastern European welfare state should be considered a *sui generis* model and therefore studied beyond these categories. Meanwhile, regarding the question whether all post-socialist EU members would fall under the same welfare regime category, the literature reveals two opposing camps. One claims that CEE countries are more similar than different, and therefore represent a relatively unified regime type, while others claim that there is a number of distinctive welfare regime types within this group. Interestingly, the former group came to their conclusions by employing mostly qualitative methods, whilst the latter – quantitative ones.

This disagreement indicates an important gap in the existing body of research. Also, the research reviewed is based on rather old data and focuses extensively on the period from 1990s to early 2000s. Authors of some of these studies (e.g., Ferrera, Figueiredo, 2005; Fenger 2007) agree that the

classification of welfare state types needs to be periodically reconsidered given the constantly changing circumstances. This thesis hence contributes not only by providing a more conclusive answer to the issue of welfare regimes within the CEE region combining both methodological approaches, but also by updating the inquiry into this topic with the most recent data.

3. European welfare and labour market regime clusters

The main purpose of this chapter is to provide the answer to the first research sub-question: to determine the existing differences and similarities between the CEE welfare and labour market regimes. The method employed to achieve this goal is hierarchical cluster analysis. Additionally, this exploratory exercise serves for a number of other purposes. First, it helps to contribute to the research presented in the last part of literature review. More precisely, it provides an empirical typology of European, including CEE, welfare regimes using the latest data available. Secondly, it serves to justify the assumption of the relation between welfare regime and labour market regime types, used in this thesis. It explores whether they 'coincide'. Finally, it is a step towards the second part of the analysis – qualitative case studies. The hierarchical cluster analysis helps to define the values of the dependent variable – labour market regime types, and to identify the cases to analyse further (case selection is presented in section 5.2).

3.1. Hierarchical cluster analysis: methodology and operationalization

Hierarchical cluster analysis refers to a method for identifying groups of cases that have similar characteristics across a set of variables, thus leading to separating out homogeneous empirical types. The term 'hierarchical' refers to the method's ability to divide a set of cases (e.g. countries) into numbers of specific subsets based on the distance measured among all pairs of cases, as well as their position across the whole set of variables under analysis. This approach provides a great deal of information about the types of cases and the distribution of variables in a sample. It is therefore a particularly appropriate method for creating and testing typologies: hierarchical cluster analysis has been used for this purpose by numerous authors in welfare regime studies (for instance, Saint-Arnaud, Bernard, 2003; Powel, Barrientos, 2004; Ferreira, Figueiredo, 2005; Fenger, 2007; Aiginger, Leoni, 2009; Van Vliet, Draxler, 2010; Pöder, Kerem, 2011). Moreover, among the various methods for grouping variables or cases (such as factorial analysis), hierarchical cluster analysis is especially suitable here as it concerns a large number of variables but few cases (Saint-Arnaud, Bernard, 2003).

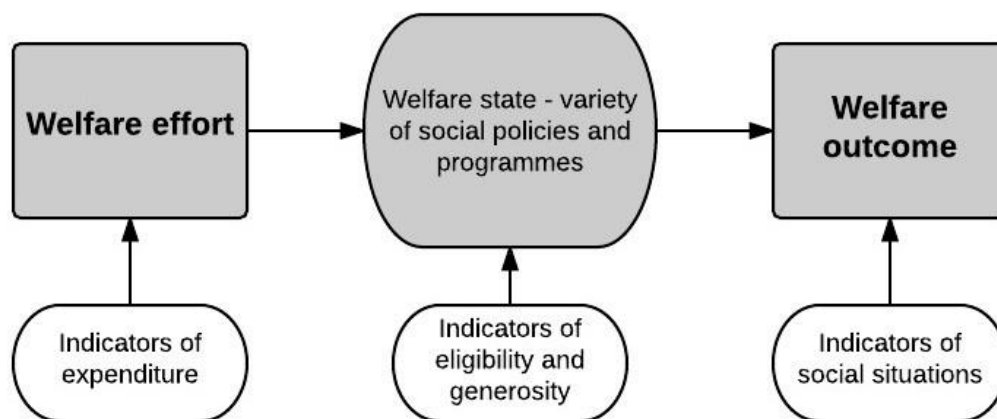
Given that this inductive method is based exclusively on similarities among the cases, its results depend on two factors: the actual structure of the observed phenomenon, and the methodological decisions concerning the choice of cases and variables used for analysis (Saint-Arnaud, Bernard, 2003). The latter requires a more comprehensive explanation, because finding a decent balance

between a meaningful set of variables and the inclusion of all the relevant CEE countries in the analysis posed an important challenge in this research.

Case selection was based on a compromise between the case requirements posed by the main question of this study and the availability of data. The main question of the study determined the inclusion of CEE countries who joined the EU in 2004 in the sample. The relevance of typologies for this research prompted the inclusion of countries that are treated as the prototypes and examples of the classical welfare regime types. Thus, the data limitations in some EU countries (namely Bulgaria, Croatia, Cyprus, Luxemburg, Malta and Romania⁴) and their subsequent exclusion from the analysis did not have important consequences for the results. Both of the above mentioned requirements were satisfied.

The selection of variables concerned the operationalization of the very notions of welfare regime and labour market regime. As the aim was to empirically test these concepts by way of qualitative analysis, the main welfare dimensions and domains had to be translated into statistical indicators. To reveal a comprehensive picture of the state of the art, the indicators had to combine both, the welfare effort (governmental interventions) and welfare outcomes in a number of policy fields. The former was measured as expenditure on social policies, while the latter – as indicators of social situations. In addition, the third included element was the indicators of eligibility and generosity, which added to the description of different welfare programmes (Figure 2).

Figure 2. Indicators of welfare state



Furthermore, the selected indicators also covered the variables used in Esping-Andersen's framework for regime classification. The first of them was the interplay between the market, family and the state (e.g., private expenditure on social services, female labour market participation).

⁴ Bulgaria and Romania joined the EU later, in 2007, Malta and Cyprus, which acceded in 2004, do not belong to the CEE region, while Luxemburg is rarely considered in the scholarship on European welfare state classification.

Second, indicators of benefit coverage and replacement rates were supposed to cover the dimension of decommodification⁵. Third, the social situation indicators had to reflect stratification effects (e.g., inequality).

Regarding the welfare domains, the list of welfare policy areas used in this research was compiled by following the previous studies involving hierarchical cluster analysis. It included the size of public sector, education, health, family policy, inequality and poverty, social protection and labour market indicators. Having in mind the main question of this thesis, special attention was paid to the operationalization of labour market regime. It also included all three dimensions mentioned above: indicators of welfare effort, nature of programmes, and outcomes. Moreover, within the aspect of policy domain, the three labour market regime elements analysed in this thesis were covered: PLMP, ALMP and EPL.

The aim was to include as many variables as possible to adequately reflect the numerous aspects of the phenomena. Even though it was not possible to find all the statistical data that the analytical framework required in a single harmonised statistical system like Eurostat, by combining the data from Eurostat, ILO, WTO, OECD, as well as other existing databases and pre-prepared datasets, the author covered a reasonable number of indicators, including all the main dimensions and domains.

As concerns the relevant methodological decisions, first of all, only relative rather than absolute indicators were included in the analysis to control for different population and economy sizes. Secondly, the data for the latest years available for all the analysed countries was selected, following the examples of Saint-Arnaud and Bernard (2003) and Ferreira and Figueiredo (2005). This was a decision between using the averages of several years and a single year. The latter was selected because, first of all, data for some indicators was available only for a single year. An exploratory analysis showed that using both indicators for a single year and averages in the same analysis results in quite a large error capable of distorting the results. Further, it was expected that the averages of all relevant years (2004 – latest available) would detract from the real picture of the state of the art and merge the differences between countries that might have evolved throughout the years. Meanwhile, selecting only a few latest years could also distort the results, because the recent economic crisis had major temporary effects on indicators of welfare efforts and outcomes (e.g., increase in unemployment and PLMP expenditure). Finally, this decision to use data for a single year corresponds well to one of the aims of this thesis, related to the literature gaps – to reveal the current state of the art of welfare and labour market regimes in CEE countries, and to update

⁵ Unfortunately, there was no data to cover all the selected countries for important indicators, such as pension and sickness insurance coverage rates, public sector employment, private pension funds, and private expenditure on education.

previous research. The final selection of indicators is presented in Table 2 (a full dataset is provided in the Annex 1).

Table 2. Indicators of welfare regime dimensions and domains

Indicator	Year	Source
Size of the public sector		
Total general government expenditure, % of GDP	2014	Eurostat
Education		
Government expenditure on education, % of GDP	2011	Eurostat
Student-teacher ratio	2012	Eurostat
School expectancy, years	2012	Eurostat
Health		
Total health expenditure, % of GDP	2013	HFA-DB
Private-sector expenditure on health, % of total health expenditure	2013	HFA-DB
Physicians per 100 000	2013	HFA-DB
Infant mortality rate per 1000	2014	Eurostat
Life expectancy at birth, years	2014	Eurostat
Family policy		
Total fertility rate	2014	Eurostat
Female labour market participation, % of working age women	2014	ILOSTAT
Family benefits expenditure, % of GDP	2013	Eurostat
Inequality and poverty		
Gini coefficient of equivalised disposable income	2014	Eurostat
Inequality of income distribution (income quintile share ratio)	2014	Eurostat
Gender pay gap in unadjusted form, %	2014	Eurostat
At-risk-of-poverty rate before social transfers	2014	Eurostat
At-risk-of-poverty rate after social transfers	2014	Eurostat
In-work at-risk-of-poverty rate	2014	Eurostat
Social protection		
Total general government expenditure on social protection, % of GDP	2014	Eurostat
Old age benefits expenditure, % of GDP	2013	Eurostat
Sickness / healthcare and disability benefits expenditure, % of GDP	2013	Eurostat
Sickness insurance replacement rate	2010	Scruggs et al, 2014
Minimum pension replacement rate	2010	Scruggs et al, 2014
Labour market		
Unemployment rate	2014	Eurostat
Long-term unemployment, % of unemployment	2014	Eurostat
Employment rate	2014	Eurostat
Self-employed, % of total employed	2014	World Bank
Temporary employees, % of total employees	2014	Eurostat
Expenditure on LMP supports, % of GDP	2013	Eurostat
Expenditure on LMP services, % of GDP	2013	Eurostat
Expenditure on LMP measures as % of GDP	2013	Eurostat
Overall net replacement rate of unemployment benefits	2011	SPIN OUTWB Dataset
Unemployment insurance coverage rates, % of labour force	2010	SPIN SIED Dataset
Strictness of employment protection	2014	OECD Stat

Other methodological choices using the IBM SPSS software followed the practice of other researchers who conducted similar studies. First of all, all variables were standardised on a scale from 0 to 1, as initially they were measured in different units. Had some variables with a broad range of absolute values dominated the data, it could have resulted in a skewed analysis. Secondly, to measure the distance between cases, the common 'squared Euclidean' measure was applied. Further, Ward's method was adopted for the grouping of cases. It minimises the variance within groups and maximises their homogeneity. Finally, an option was selected to create from 3 to 6 clusters. This decision was based on both theoretical and methodological considerations. Regarding the latter, creating more clusters could lead to the isolation of individual countries in a separate cluster. From a theoretical point of view, as outlined in the literature review, most of authors fully recognise the existence of at least three welfare types, as proposed by Esping-Andersen. The fourth and the fifth types – namely the Mediterranean and Post-communist – are disputed. Moreover, as mentioned, an even more disputed issue is the differentiation within the Post-communist type. Thus, allowing the software to check whether these additional types exist contributes to the discussion presented earlier in the thesis.

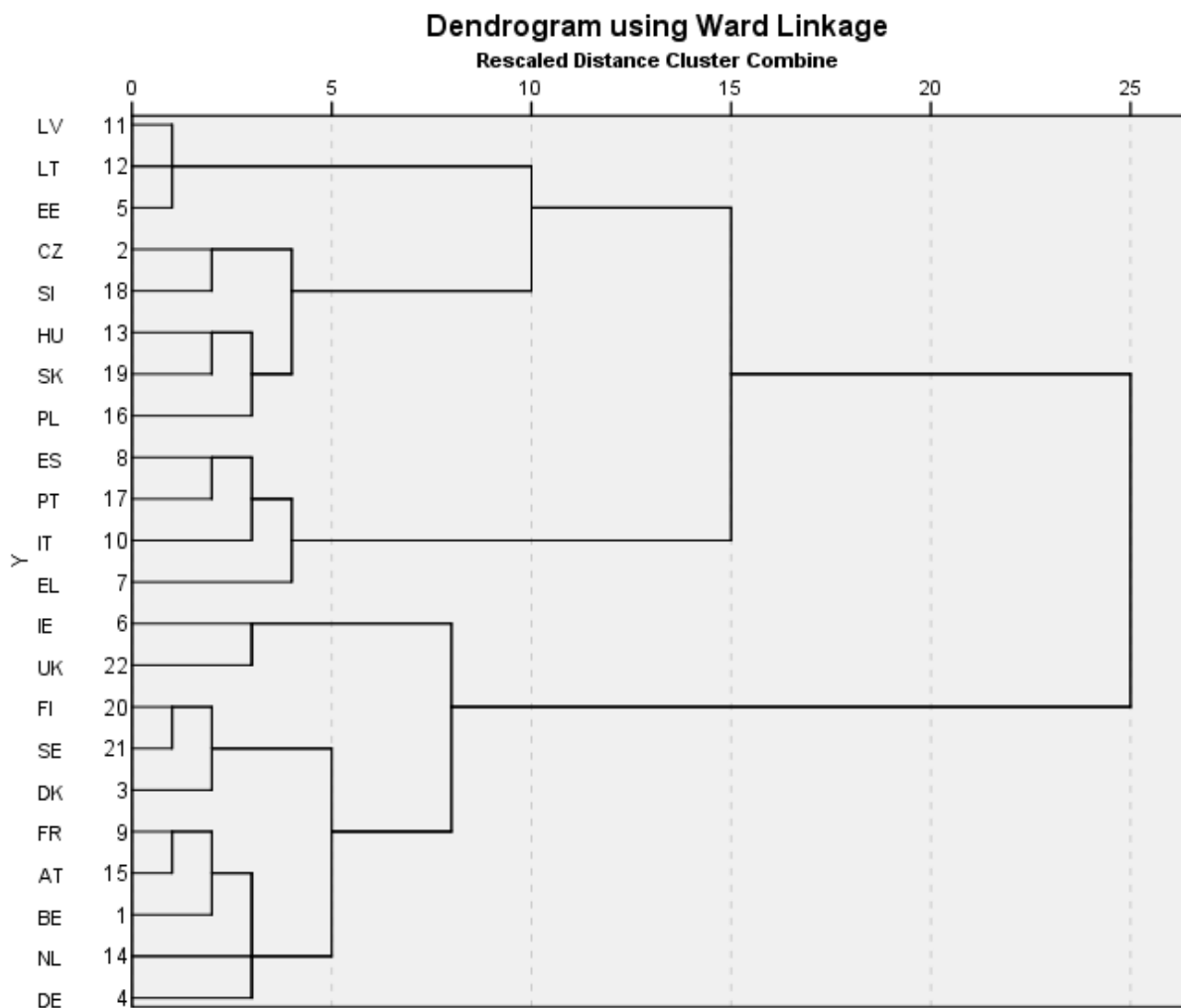
3.2. Results

Two separate hierarchical cluster analyses were conducted in total. The first one included all the indicators outlined in the previous section, while the second one included only the labour market indicators (Table 2). The aim of this decision was twofold: on the one hand, it showed the clustering of countries both in terms of a broad welfare regime, and in terms of labour market regime. On the other hand, it allowed to compare the clusterings in order to test the assumption whether welfare regimes and labour market regimes coincide.

The results of hierarchical cluster analysis are presented in a dendrogram – a 'tree' illustrating the arrangement of explored cases into clusters. It is most convenient to analyse a dendrogram in three stages, starting from the right and moving to the left. The hierarchical cluster analysis using all the indicators presented the anticipated results (Figure 3). Compared to earlier similar studies (Ferreira, Figueiredo, 2005; Fenger, 2007; Aiginger, Leoni, 2009; Van Vliet, Draxler, 2010; Pöder, Kerem, 2011), it demonstrates that the typology has not changed much over time. First, the dendrogram shows two main clusters: one containing Western European countries, and the other with the CEE and Mediterranean countries. Further, it is clearly visible that the dendrogram quite accurately replicates the welfare typologies outlined in a wealth of contemporary literature on the European welfare state. One can distinguish between Scandinavian, Continental and Liberal regimes in the first main cluster, and between Mediterranean and Post-communist clusters in the second one. Importantly, these results clearly show that three traditional Esping-Andersen's welfare types do not cover all the

cases in this analysis. More precisely, as anticipated, the data reveals distinctive Mediterranean and CEE groups, distant from the three classical types. Lastly, there are differences within the CEE sub-cluster: there is a group formed of the Baltic States (Estonia, Latvia and Lithuania) and then another composed of Visegrád countries (Poland, Czech Republic, Slovakia and Hungary) and Slovenia. This ramification is also not unexpected having in mind previous research (e.g., Fenger, 2007). However, it is surprising that in the dendrogram the distance between the Baltic and Visegrád sub-clusters is even larger than the distances between the sub-clusters representing each of the Esping-Anderson's types. This indicates that welfare regime differences within the CEE region are indeed significant. This may allow to talk not even about five, but six 'worlds of welfare capitalism'.

Figure 3. Hierarchical cluster analysis: all indicators, latest years available



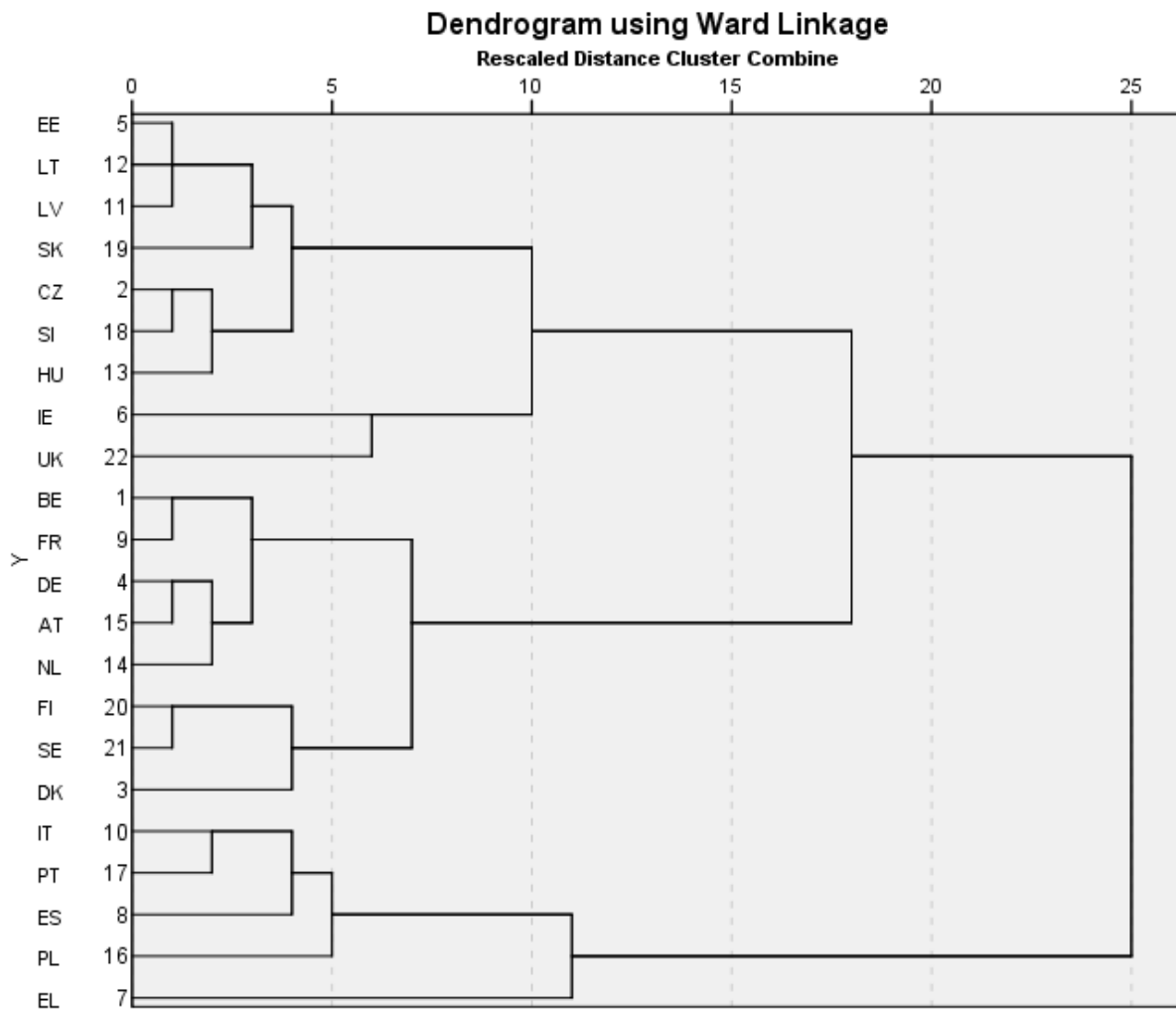
Note: FI – Finland; SE – Sweden; DK – Denmark; DE – Germany; AT – Austria; NL – The Netherlands; BE – Belgium; FR – France; IE – Ireland; UK – United Kingdom; ES – Spain; PT – Portugal; IT – Italy; PL – Poland; EL – Greece; EE – Estonia; LT – Lithuania; LV – Latvia; CZ – Czech Republic; SI – Slovenia; HU – Hungary; SK – Slovakia.

A second dendrogram (Figure 4), illustrating the results of the analysis of labour market indicators only, shows a similar albeit a bit different pattern compared to the first one. In other words, it closely parallels the 'five worlds of welfare capitalism', revealed above: Liberal, Continental, Nordic, Mediterranean and Post-communist countries to a large extent form separate sub-clusters at the lower level of generality. Nonetheless, there are more divergent cases and the general cluster structure has changed.

At the highest level of generality, the two clusters, one containing traditional welfare regimes, and the other one including CEE and Mediterranean countries are not observed in this dendrogram. Instead, the first main cluster includes only the Mediterranean countries, while the second one – all the rest of the analysed EU member states. Further, some countries appear under other sub-clusters than expected: Slovakia together with the Baltics, and Poland among the Mediterraneans.

It is nonetheless important that CEE countries once again fall under two main distinct sub-clusters, indicating significant differences between their labour market regimes, even though to a lesser extent than in the first analysis. Also, interestingly, in the overall outlook of European labour market regime types, CEE sub-clusters are close to the Liberal type countries.

Figure 4. Hierarchical cluster analysis: labour market indicators, latest years available



These results combined have an important theoretical implication for this thesis. They allow demonstrating the close relationship between labour market regime and welfare regime – as mentioned, their patterns match to a large extent. This is clear if the dendrograms are compared, even though they do not match perfectly. Importantly, this provides empirical weight to the assumption in this thesis that labour market regimes can be classified by the same types as broader welfare regimes. In other words, even though this finding does not show any causal relationship, it confirms Esping-Andersen’s assumption that welfare regimes and labour market regimes do tend to ‘coincide’, including in the CEE region.

Other significant findings of the overall cluster analysis concern the issue of CEE welfare classification, described in the literature review. These results confirm a lack of convergence between the CEE and Western European welfare and labour market regimes. CEE countries are indeed more similar to each other than to any other welfare regime type. Despite that, one can see different clusters within the region, namely the Baltic and Visegrád groups. Thus, it can be concluded

that there is a notable pattern of differentiation in this region – there is no unified Post-communist welfare or labour market regime. This partly answers the first research sub-question: CEE labour market regimes are different as they fall under two distinct regime types, while there are empirical similarities between CEE countries within the same sub-cluster. The aim of further analysis is therefore to explain the content of these differences and factors that led to the differentiation.

4. Theoretical framework

The hierarchical cluster analysis, which allowed to show a divergence between CEE regime types, took into account both indicators of welfare institutions (effort, policies and programmes) and outcomes. However, due to the size limitations of this thesis, the main focus of the analysis are institutions. This is because institutional design is the main determinant and the key to understanding the effects of the welfare state (Palme, 2006), and it differs by welfare type similarly as welfare outcomes do (Kammer et al, 2012).

The second sub-question implies that to answer the main research question, processes and factors involved in the development of labour market institutions need to be understood. This chapter therefore provides the theoretical framework outlining these elements. First, a broad theoretical approach is presented, followed by an explanation of the processes involved in institutional change, and then by the description of the main actors facilitating institutional change. Moreover, the chapter incorporates the aspect of adapting the theory to empirical research (operationalization) by defining theoretical concepts in terms of perceptible indicators that are later assessed using empirical data.

4.1. The new institutionalism

Welfare regimes, as well as labour market regimes, are sets of historically developed institutions, both formal and informal. Institutions are generally defined as building blocks of social order. They involve socially sanctioned and collectively enforced rules, distinguishing between appropriate and inappropriate, possible and impossible actions, thereby organising behaviour into predictable and reliable patterns (Streeck, Thelen, 2005). Nonetheless, institutions are not purely factors that constrain; they are also resources, providing opportunities for particular types of action (Hall, Thelen, 2009). In the current landscape of political science, analysis of institutions is mostly conducted within the framework of the new institutionalism.

The new institutionalism, as it was defined by March and Olsen (1984), connotes a general approach to the study of political institutions – a set of theoretical ideas and hypotheses concerning the relationships between institutional characteristics and political agency, performance, and change. Its

key distinction from other approaches in political science is the extent to which institutionalism views the rules and identities as defined within political institutions, and reproduced with some reliability independently of environmental stability or change. The core assumption of institutionalism is, first of all, that institutions create elements of order and predictability by constraining political actors, carrying identities and roles, and shaping a polity's character, history, and visions. Secondly, it assumes that the translation of structures into political action, and action into institutional continuity and change, are generated by comprehensible and routine processes. They produce recurring modes of activity and organizational patterns. Studies within this framework therefore aim to explain how such processes are stabilized or destabilized, and which factors sustain or interrupt ongoing processes (March, Olsen, 2006).

It has become common to divide new institutionalist studies into three groups: rational choice, sociological and historical institutionalism (Immergut, 2006). All of these approaches seek to elucidate the role that institutions play in the determination of social and political outcomes, but paint quite different pictures of the political world. Rational choice institutionalism assumes that actors use institutions to maximize their utility, but face rule-based constraints provided by the institutional environment which influence their behaviour. The analysis is then about how preferences of actors and constraints placed on them by institutions translate into certain outcomes. Sociological institutionalism, in turn, sees institutions as culturally specific practices that are assimilated into organisations as a result of processes associated with the transmission of cultural norms and ideas. Actors cannot make fully rational decisions – they are led by 'norms of appropriateness' and 'standard operating procedures' as behaviour guides (Hall, Taylor, 1996).

The third framework – historical institutionalism – is employed in this thesis. In fact, particularly researchers associated with the historical-institutionalist school have produced a substantial amount of the most influential scholarship on welfare states (Weishaupt, 2011). Four of its features are distinctive in the context of other schools presented. First of all, historical institutionalists tend to conceptualise the relationship between institutions and individual behaviour in relatively broad terms. They consider both cultural and rational aspects of the interaction between actors and structures. Second, they emphasise the asymmetries of power associated with the operation and development of institutions, and are attentive to the way in which institutions distribute power unevenly across social groups. Third, they tend to have a view of institutional development in terms path-dependence and unintended consequences. Fourth, they are especially concerned with integrating institutional analysis with other kinds of factors, such as ideas, that contribute to political outcomes (Hall, Taylor, 1996). According to Steinmo (2008), it is neither a particular theory, nor a specific method. Historical institutionalism is best understood as an approach to studying politics. It

is distinguished from other social science approaches by its attention to real world empirical questions, its historical orientation, and its attention to the ways in which institutions structure and shape political behaviour and outcomes.

Historical institutionalism is especially well-equipped to provide a theoretical framework for the analysis of institutional change and development in post-communist nations. This framework is presented in the second part of this chapter. Further, as mentioned, instead of focusing on explaining a particular process or an institution at a time, historical institutionalism does not separate institutional infrastructure from other settings, as 'institutions emerge from and are sustained by features of the broader political and social context' (Thelen, 1999:384). This context, the main actors playing a role in institutional development, and their power relations are discussed in the third part of this chapter.

4.2. Institutional change

The main historical-institutionalist argument about the development of welfare regimes concerns the consequences of previously introduced welfare state institutions. These policy legacies ('feedback') are a part of the core concept of historical institutionalism – path-dependence. In a broader sense, it refers to the causal relevance of preceding stages in a temporal sequence. One cannot understand the significance of a particular social variable without understanding the path it took. Once a particular country started down a certain institutional track, the costs of reversal are very high, as the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice (Pierson, 2000). The concept of path-dependence is also well captured by the idea of increasing returns: in such process, the probability of other steps along the same path increases with each move down that path. Relative benefits of the current activity compared with other possible options increase over time, and the costs of exit rise. This is a self-reinforcing process, as social policy programmes tend to generate their own sets of interests which then spill over as political support for continuation from programme 'winners'. This happens even though certain institutional paths eventually create 'path inefficiencies' (Pierson, 2000a).

The possible consequences of pre-existing welfare policy structures for further welfare development are quite diverse. They may affect the size and orientation of various societal groups and patterns of interest-group formation. Certain policies may provide the basis for processes of social learning that affect prospects for future programme expansion, either negatively or positively. Also, they can create long-term commitments that lock in particular paths of policy development (Pierson, 1996). To illustrate with an example of activation, not all of pre-existing policies and institutions can be equally easily combined with an active approach. For instance, Bismarckian-type social insurance

schemes are considered more difficult to reorient towards ALMP, because acquisition of entitlements through the payment of contributions cannot be easily reconciled with notions of conditionality and compulsion, common in ALMP systems. Similarly, constitutional rights to minimum income levels may also act as an obstacle to some ‘demanding’ forms of activation. Finally, social partners’ involvement in the governance of unemployment insurance may also impede the development of ALMPs, since they, as the ‘winners’ of existing policies, do not want change the status quo (Bonoli, 2010).

Nonetheless, as Mahoney and Thelen (2010) argue, institutions have a dynamic component built in. Where they represent compromises or relatively durable settlements based on specific coalitional dynamics, institutions are always vulnerable to shifts. Hence they are not static, and significant changes do happen, either incrementally, through a cumulation of seemingly small adjustments, or abruptly (Table 3).

Table 3. Types of institutional change: processes and results

		Result of change	
		<i>Continuity</i>	<i>Discontinuity</i>
Process of change	<i>Gradual</i>	Reproduction by adaptation	Gradual transformation
	<i>Abrupt</i>	Survival and return	Breakdown and replacement

Source: Thelen, 2009.

Abrupt change happens when long stretches of institutional stability are interrupted by episodes of relatively rapid innovation. These moments are usually associated with exogenous shocks (revolutions, defeat in war or regime change) that disrupt the previous arrangements and open the door for significant institutional innovation. It can either lead to breakdown and replacement of the old institutions, or their survival and return. The most significant shock leading to abrupt change in this context was the collapse of communist political institutions in CEE countries, which caused a massive ‘path-departure’. Such ‘critical junctures’ (or choice points), once occurred, produce certain legacies that form subsequent historical trajectories through a process of so-called ‘path-creation’. Once political-economic institutions resulting from a critical juncture are in place, they lay out a new enduring logic of political development. Certain ‘paths’ are taken whose effects get ‘locked in’ through increasing returns (Thelen, 2009), and are then subjected to gradual change.

Welfare state then can be described as an evolutionary system that undergoes a process of constant adaptation (Hemerijk, 2012), but again influenced by path-dependence. The CEE labour market regimes after the fall of communism are analysed namely in this context. Mahoney and Thelen (2010) distinguished between four modes of gradual change. The first one – *layering* – refers to a situation of gradual institutional transformation through a process of attaching new elements ‘on

top' of pre-existing institutional structures. The main mechanism here is differential growth of new institutions created on the edges of the old ones, until they change the status and nature. The second mode – *drift* – implies a situation of slippage in institutional practice of existing institutions because of shifts in the institution's environment and a lack of adjustment to them. The main mechanism here is deliberate neglect of adaptation to changing circumstances. Third, *displacement* means that new institutional models emerge and call into question existing, previously taken-for-granted organisational forms and practices. It takes place through a mechanism of defection when institutional incoherence opens space for deviant behaviour. Finally, the mode of *conversion* refers to a situation of 'redeployment of old institutions to new purposes' (Streeck, Thelen, 2005:31). The institutions do not really change, but are used to serve new goals. This happens through a mechanism of redirection or reinterpretation aiming at reducing the gap between rules and enactment, due to limits of institutional design, ambiguity of institutional rules, or changed contextual conditions (Cerami et al, 2009). The indicators of each type of institutional change, employed in this study, are provided in Table 4.

Table 4. Indicators of the types of incremental institutional change

Mechanisms	Indicators
Layering	<ul style="list-style-type: none"> • Policy-makers sponsor and carry out modest changes or propose marginal amendments. New rules are introduced on top of or alongside existing ones. • Change happens through coupling of multiple institutions and differential growth. • Initial institution changes status and structure and becomes similar to the institution that was layered on top of it.
Displacement	<ul style="list-style-type: none"> • Policy-makers gradually remove existing institutions and introduce new ones. • Change happens when new institutional models emerge and call into question existing organisational forms and practices. • Initial institutions cease to exist.
Drift	<ul style="list-style-type: none"> • Policy-makers deliberately neglect to account for changed external circumstances. • Change happens through path-dependence and status quo bias. • Institution does not change, but the institutional outcome post-drift changes.
Conversion	<ul style="list-style-type: none"> • Policy-makers manipulate interpretation of institution's rules and strategically redeploy them. • Change happens when actors employ discretionary capacities to alter institutional meanings. • Institution post-conversion is functionally different than institution pre-conversion.

Sources: Mahoney, Thelen, 2010; Rocco, Thruston, 2014.

4.3. Actors

The kind of institutional change possible is to a large extent determined by the characteristics of political context, especially by veto possibilities that different actors have (Mahoney, Thelen, 2010). This regards the constitutional state structure, which establishes the rules of the game for political

struggles, influence group identities, policy preferences and coalitional choices, and enhance the bargaining power of some groups while devaluing that of others (Pierson, 1996). For instance, where political authority is fragmented and there are multiple institutional veto points (e.g., majority rule voting systems, presidential constitutional systems, federal countries, bicameral parliaments, referenda), entrenched minorities are enabled to block social legislation. This can restrict welfare state change, and lead to certain modes of institutional transformations.

However, the institutional context only conditions the situations in which actors find themselves; political structures do not completely determine outcomes, as politics are ultimately shaped by actors. In other words, actors are a 'proximate' cause, while the institutional context is as a 'remote' cause. Actors are assumed to have specific capabilities and action orientations (Scharpf, 1997). Transformative institutional developments, hence, become possible when enough capable actors endorse alternative ideas and orientations about existing institutional design. The presence of political actors or coalitions in disagreement with prevailing institutions, presenting feasible institutional alternatives, and capable of translating this institutional alternative into action, are necessary conditions for institutional evolution (Weishaupt, 2011).

Three actor-centred mechanisms matter for the explanation of transformative change. Analytically they differentiate between actor constellations, actor coalitions, and actors' ideas, but empirically they are not mutually exclusive. First, *reshuffling* means changes in the composition of the main political actors, especially resulting from national elections. The more actors in key positions are reshuffled, and the more these new actors' ideology differs from that of the old actors, the greater the potential for change. The second mechanism – *realignment* – refers to changes in actor coalitions and alliances, causing shifts of the power balance. It not only matters who is in power, but also what resources these actors have and what allegiances are possible. Realignments of actors can cause or prevent the formation of powerful cross-party coalitions or contribute to the construction of coalitions between political parties and societal actors (e.g., social partners). Finally, mechanism of *reassessment* focuses on the underlying ideas and collective puzzling that motivate politics. Sources for cognitive and normative reassessments can come from 'above' through international organisations, foreign governments or epistemic communities; and from 'below' through experts, social partners, national pressure groups, or NGOs (Weishaupt, 2011).

The following part of this section presents the most important stakeholders participating in these mechanisms, relevant for the development of labour market regimes. They are domestic actors – political parties, statist bureaucracies and social partners, as well as external ones – international organisations. In this context one of them – the EU – is especially important. The approach towards

these actors is based on the previous research on welfare state and labour market regime development. In the analysis, three broad aspects related to each type of actors matter: their influence on the decision-making determined by structural factors; their policy ideas and preferences; and their role in actor-centred mechanisms.

Political parties

Political parties, as the main policy-makers, are the most important actors in welfare policy formation, situated at the core of the actor-centred mechanism of *reshuffling*. The traditional approach of power resources literature sees parties as representatives of social constituencies mostly defined in terms of social classes, and as advocates of well-defined liberal, social-democratic or conservative welfare policies (Häusermann et al, 2010). Existence of such large, cohesive political parties that hold power over substantive periods of time determines the form and generosity of social policy regimes. The major differences in welfare states across capitalist democracies, in turn, are explained by the relative success of left-wing parties aligned with strong trade unions (Huber et al, 1993; Myles, Quadagno, 2002).

This would imply that *reshuffling* of political forces in the government have major consequences on the continuity and character of welfare policies and reforms. However, in reality, what kind of change a reshuffled government introduces is difficult to predict for any specific political party. This is because the preferences of political actors are not fixed, but highly conditional on the overall distribution of power, institutional contexts, as well as the interpretation of problems at that time (Weishaupt, 2011). In fact, studies have shown that left-wing parties of CEE region did not pursue broadly social democratic welfare state policies as described in Esping Anderson's 'Three Worlds of Welfare Capitalism' (1990). Instead, they either defended the welfare state against neo-liberal or ad-hoc full dismantling, or adopted a centrist position, speaking more to the median voter rather than to a purely left constituency (Cook et al, 1999). Moreover, a number of studies demonstrated (Bonoli, 2010; Teppe, Vanhuyse, 2013; Vanhuyse, 2014) that even traditional left-wing parties, who are expected to support employment-friendly policies, do not always correlate with higher PLMP or ALMP spending, or even correlates negatively with it. Meanwhile, Christian-democratic parties, which have traditionally intervened in the field of employment by protecting jobs and by facilitating early retirement, sometimes become ALMP promoters. Hence, the outcomes in terms labour market regime, related to the left and right political parties in the analysed countries, are not clear before the analysis.

Therefore, based on previous research, the following aspects need to be examined using empirical evidence in order to assess the role of political parties in a labour market regime formation:

- Ideological cleavages between the main political forces in a country (Allan, Scruggs, 2004).
- Ideological preferences regarding the character of the labour market regime of the main political parties in the government during the analysed period (Bonoli, 2010; Vanhuysse, 2014).
- Frequency and character of reshufflings of the political forces in the government (Weishaupt, 2011).
- Alliances of political parties in power with other (non-governmental) actors (Weishaupt, 2011).

State bureaucracy

The second important actor in welfare regime creation is state bureaucracy. Advocates of state-centred approach to welfare regime development emphasise the structure of the state and the policy-making activities of bureaucrats as the primary sources of international differences in welfare policy (Skocpol, 1985; Huber et al., 1993). On one hand, governments' capacities, their administrative and financial resources for fashioning policy interventions are important. States with strong governmental administrative capacities and high levels of institutional cohesion are more likely to produce strong welfare states. Extensive administrative and financial resources make it easier to build expansive social policies. On the other hand, state bureaucracies tend to have interests of their own, and play an autonomous role in the design and implementation of welfare policies through the mechanisms of *reshuffling* and *reassessment*. Indeed, studies have shown that statist bureaucrats played an important role in the early development of social policies in CEE countries (Aidukaite, 2004; Adascalitei, 2012). From this perspective, social policies might have not been a direct response to the political demands made by social classes, but rather a system of privileges that the bureaucratic elites used in political exchanges.

To evaluate the role of the state bureaucracy in labour market regime formation, the analysis addresses the following indicative situations:

- State capacity and sufficiency of state administrative resources to implement labour market reforms (Huber et al, 1993; Mead, 2002).
- Existence of autonomous interests of bureaucrats with regard to labour market regime (Aidukaite, 2004; Cook, 2007).
- Alignment of state bureaucrats with political parties or other actors (Weishaupt, 2011).
- Promotion of labour market policy ideas by state bureaucrats (Weishaupt, 2011).

Social partners

Where control of some areas of economic policy is shared with the social partners, policy reforms can only be implemented if government can coordinate them with employers' associations and trade unions. Even though there are few mechanisms to ensure that government complies with their demands, various access channels for interest groups and tripartite bargaining institutions ensure official consultation, which is very influential in some countries (Goldberg, Rosenthal, 2002). Then social partners can play a crucial role in both organising and reorganising welfare states and socio-economic outcomes, as well as obstruct changes to the status quo. Moreover, associated with the mechanism of *reassessment*, social partners can influence committee opinions, parliamentary debates, and government decisions. Even more importantly, they are key actors outside the legislature in the mechanism of *realignment*. In fact, whether the social partners are aligned with or power against the government, can have important effects on institutional development (Weishaupt, 2011).

The success of trade unions in representing the labour market interests of their members depends a lot on their level of organisation – a share of workers that participate in labour unions, and the institutional channels where the unions can exert their influence (Mosley et al, 1998). Regarding their preferences, it is traditionally argued that unions pursue the interests of labour market insiders – primarily job protection – often with little regard to society and workers at large. However, contemporary liberalised labour markets, growing international competition and increasingly punctuated working careers change the interests of union members. Even though they are as likely as ever to demand employment protection, union leaders today also need to ensure workers' re-employability chances, as they are now exposed to international competition and feel threatened by industrial decline. ALMPs then is a second-best priority programme and an alternative way to offer union members some measure of desired labour market security in contexts where high employment protection levels have not been achieved (Tepe, Vanhuyse, 2013).

Employers can also have an interest in strong worker protection, if it contributes to their competitiveness. Generally, strong welfare states go together with highly coordinated employers (Korpi, 2006; Schröder, 2013). This issue is particularly well explained by the Varieties of Capitalism (VofC) scholarship, which places firms in the centre of analysis as the crucial actors in initiating institutional change (Hall, Thelen, 2009). Hall and Soskice (2001) distinguished between liberal market economies (LME) and coordinated market economies (CME) in capitalist countries, based on the way in which firms coordinate with each other and other actors. While in LMEs firms primarily coordinate their endeavours by way of market mechanisms, employers in CMEs rely more heavily on non-market forms of interaction and can be characterised by strong employer coordination. This

feature of CME is related to the modes of production in such economies: more patient capital, requiring asset-specific worker skills. Without state intervention, workers are reluctant to acquire such skills as they do not provide enough insurance in the market due to limited transferability between firms and sectors. Under such circumstances, employers in CMEs prefer welfare state expansion, because their success in the market depends largely on the insurance that the welfare state provides for workers with asset-specific skills. For instance, well-organised employers tend not only to agree with stricter EPL, but also advocate more ALMP spending in response to de-industrialisation and increased unemployment (Martin, Swank, 2004). Meanwhile, loosely organised employers inherent to LMEs usually prefer minimal state intervention into the labour market. Therefore, the positions of employers are important to understand in exploring how certain labour market regimes were developed.

Thus, to assess the role of the social partners the labour market regime formation in CEE countries, the study examines the following aspects:

- Level of organisation (density) of the social partners (Mosley et al, 1998).
- Channels and strength of social partners' interest representation in policy-making (real influence or an advisory role) (Mosley et al, 1998).
- Preferences of social partners regarding the elements of labour market regime (Korpi, 2006; Tepe, Vanhuyse, 2013).
- Alignment of the social partners with the political actors in the government (Weishaupt, 2011).
- Promotion of labour market policy ideas by the social partners (Weishaupt, 2011).

European Union

Since the CEE countries started the processes of their accession to the EU, they have been exposed to the forces of Europeanisation in the social field, with the main objective of social convergence across the Union. The most important source of Europeanisation regarding labour market policies is the European Employment Strategy (EES), which has been the cornerstone of the EU's employment policy since its introduction in 1997 in the Luxembourg Jobs Summit (EUR-Lex, 2005). With the goal of creating more and better jobs throughout the EU, it constituted a crucial part of the Lisbon Strategy, and later of the Europe 2020 growth strategy. The EES promotes the principle of flexicurity in the member states: labour market flexibilisation (i.e., reduction of EPL strictness), the extension of ALMPs, and adequate passive policies that ensure sufficient income security, but do not provide disincentives for labour market participation (Lendvai, 2008; Van Vliet, 2011; Van Steendam et al, 2011).

In order to achieve its goals, the EES relies on legally non-binding instruments, since member states of the EU are responsible for their own labour market policies (principle of subsidiarity) (DG EMPL, 2016). Before the accession, CEE countries were subjected to membership conditionality, which encouraged the adaptation of EES principles (de la Porte, Jacobsson, 2010). As this pressure is no longer there, other mechanisms are supposed to influence national policies. Firstly, member states receive recommendations from the Council on the progress in their policies regarding the guidelines on an annual basis. As a recommendation is a form of 'naming and shaming', it creates pressure from the European Commission, the Council and other member states on national politicians to comply with the guidelines by reforming national policies. Moreover, recommendations might change domestic opportunity structures: domestic actors may use recommendations strategically for their own purposes in the policy-making process. The second mechanism is mutual learning. It is a mimicking-like process, where actors imitate the successful policies of others. By doing that, policy-makers can extend their repertoire of effective policies and avoid the costs of learning through trial and error (van Vliet, Koster, 2011). Finally, the EU provides financing for labour market policies, which is especially relevant for CEE countries as the less economically developed region of the EU. Member states count on the support of the European Social Fund (ESF) for the implementation of the policies agreed under EES. Access to the EU funding means that substantially more money is available nationally for labour market policies, while the EU gets a larger stake in the national labour market affairs (Lutz, 1998).

Hence the EU is a potentially important actor in the mechanism of *reassessment*. First, it can promote important ideological changes in national policy-makers' policy thinking, help to ensure that certain items are placed on the agenda, and lend additional force to certain policy decisions. Second, the EES provides political resources that may assist in awareness-raising regarding the situation of specific groups in the labour market, and in problem formulation. In this sense EES may act as a catalyst in some areas and push certain welfare state issues and reforms higher up the political agenda (Pascual, Magnusson, 2007). Nonetheless, it can also be expected that the influence of the EU depends to some extent on the fit of the proposed policies with path-dependent national policies (Armingeon, 2007), and the positions of domestic actors (e.g., high level of national agreement on the main issues of the employment policy may be a barrier to EES's impact) (Mailand, 2008).

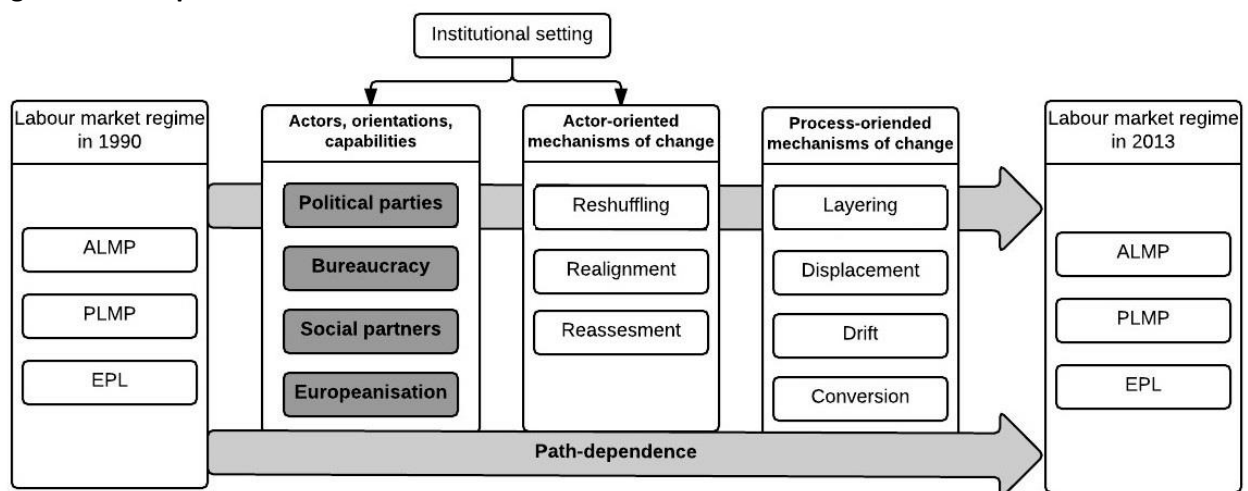
Based on the insights from previous research, the following indicators are examined using empirical data to assess the role of the EU as an actor in national labour market regime formation:

- Incorporation of the EES principles and policy objectives in the main national reforms (Copeland, ter Haar, 2013).
- Strategic use of the EES by national actors for external legitimization of unpopular measures or reforms (Mailand, 2008).
- Role of the EU funding in labour market reforms and policy implementation (Lutz, 1998).

4.4. Conceptual model and theoretical expectations

To summarise, the main focus of this theoretical framework is set on actors, who operate in an institutional setting constraining their opportunity structures and policy preferences. Their actions can be seen as *independent* variables that condition institutional change from the initial position towards the current outcome. The institutional change occurs, on one hand, through actor-oriented causal mechanisms. They describe the conditions under which the actors are able to identify alternatives to the status quo and agree on changes. On the other hand, institutional change takes place through process-oriented mechanisms, which describe the type and nature of institutional transformations over time. Through these mechanisms, actors determine the *dependent variable*: existing labour market regime, operationalised in this analysis as a set of institutions – EPL, PLMP and ALMP. Simultaneously, the process of change and the final outcome is affected by the path-dependence effects of the institutions that existed previously. The basic conceptual model applied in the analysis (which is a summarised answer to the second research sub-question) is presented in Figure 5.

Figure 5. Conceptual model



Further, the theoretical framework and the conceptual model outlined above suggest that certain theoretical expectations can be raised regarding the *differences* in the CEE labour market regimes. These expectations are not mutually exclusive, but rather complement each other. To begin with,

historical-institutionalist analysis requires tracing the impacts of previously existing institutions and the path-dependence effects they create. Hence the first theoretical expectation is that

TE1: Differences in CEE labour market regimes can be explained by differences in the path-dependence effects of the socialist period institutions.

The confirmation or rejection of TE1 (i.e. identification of differences in pre-existing institutions between the examined countries) conditions the way other factors are interpreted. More specifically, differences and similarities in other elements of the conceptual model between the analysed countries could either amplify or decrease the initial uniformity or diversity.

First of all, differences in the party competition across the CEE countries could have determined faster or slower path-departure from the pre-existing structures. For example, frequent reshuffling of political actors could have led to lack of direction and continuity of labour market reforms. Also, they could have influenced the different content of the new policies. For instance, long periods of worker-friendly political forces in the government could have led to better coverage of labour market risks in some countries, while predominance of parties with neo-liberal ideology – to lower coverage in others. Thus, the second theoretical expectation is that

TE2: Differences in CEE labour market regimes can be explained by differences in the political party competition.

The manner in which institutional reforms are implemented and their success also depends a lot on the state bureaucracy, which can also either enhance or mitigate the effects of path-dependence and other factors of divergence. Both aspects matter: its administrative capacities, and interests of powerful bureaucrats, who might make alliances with other actors or advocate certain policy ideas. Therefore, the third theoretical expectation is that

TE3: Differences in CEE labour market regimes can be explained by differences in the roles of state bureaucrats.

Further, the role of the social partners similarly matters. Differences in their level of organisation, influence and alliances with policy-makers could increase or decrease the initial differences or similarities over time, as well as strengthen or weaken the influence of other factors, ultimately leading to stronger or weaker worker insurance against market risks. The next theoretical expectation is hence

TE4: Differences in CEE labour market regimes can be explained by differences in the roles of social partners.

Finally, all the CEE countries are exposed to the same effects of Europeanisation in the field of employment policies, which ideally should lead to convergence across the EU. Nonetheless, domestic systems and actors tend to respond the pressures of EES differently (Mailand, 2008; Copeland, ter Haar, 2013). This could lead to further divergence between the labour market regimes, already influenced differently by path-dependence and domestic actors. Therefore, the final theoretical expectation is that

TE5: Differences in CEE labour market regimes can be explained by differences in the role of the EU regarding the domestic policy-making.

In order to confirm TE2-TE5, it is necessary to find evidence that the actors in questions have caused more divergence between CEE countries over time, starting from their initial positions in 1990.

5. Methodological approach

This chapter provides an overview of the methodological approach applied to answer the remaining sub-questions and the main research question. The sub-sections address the methods applied, case selection and reflections on the limitations of the selected methodology.

5.1. Methodology

In this second part of the analysis, qualitative case study methodology is applied, as it corresponds well to the nature of the main question. Qualitative studies in general focus both on process and its outcomes, allowing the researcher to develop a complex picture of the studied phenomenon (Creswell, 2013). Specifically, a case study design is suitable when the focus of the study is to answer 'how' and 'why' questions; researcher wants to cover contextual conditions because they are relevant to the phenomenon under study; and the boundaries are not clear between the phenomenon and context (Yin, 2013). All these conditions hold in this research.

In a case study, the researcher explores a real-life bounded system – a case – over time. It is based on detailed in-depth data collection from multiple sources, thick description, and reporting of themes. The types of qualitative case studies are distinguished by the size of the bounded case and intent of the analysis, and classified as intrinsic, instrumental or collective. Intrinsic case studies are used when a researcher intends to better understand the case itself, rather than a broader phenomenon or problem that the case illustrates. Instrumental case study, in contrary, is used to accomplish something other than understanding a particular situation: the case here plays a supportive role, facilitating our understanding of a broader issue. Finally, a collective case study means that a number of instrumental case studies are used to make comparisons in relation to a particular issue or phenomenon (Stake, 1995). Namely the collective case study design is applied, as

it corresponds best to the overall objective of this research. In this case the broader phenomenon the researcher wants to understand is the formation of labour market regimes into different systems across the post-communist EU nations.

A selected method for within-case analysis is theory-guided causal process-tracing. Process-tracing is a method that attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable and the dependent variable (George, Bennett, 2005). It involves systematic examination of diagnostic evidence, selected and analysed in light of research questions. A special attention using this method is paid to careful description and attention to sequences; historical narrative is combined with causal most important parts of the process (Collier, 2011). It is, again, particularly well-suited to answer ‘why’ and ‘how’ questions, as it focuses on the causal conditions, configurations, and mechanisms which make a specific outcome of interest possible. As the research question of this study requires, process-tracing is outcome-centred, which means that the focus is on the many and complex causes of a specific outcome and not so much in the effects of a specific cause (Blatter, Haverland, 2014).

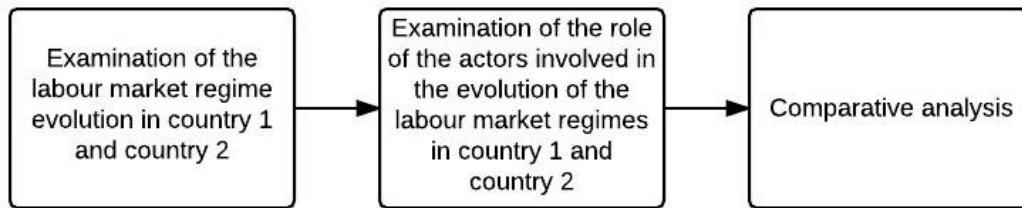
The logic of process-tracing also corresponds well to the logic of theoretical framework presented above – actor-centred historical institutionalism. In the process of defining the causality between the dependent and independent variables, this method pays attention namely to actors’ incentives and behaviour that determine the decision-making process, institutional arrangements and other intervening effects that influence the final outcome (Falleti, 2006).

Theory-guided process-tracing analysis begins by specifying the set of theories that identify the relevant causal factors and how they operate. Then predictions are derived from each theory about the patterns that will appear in observations of the world if the causal theory is valid. This part of the analysis is already presented in the Chapter 4. Afterwards, relevant observations are made of the world, and the patterns present in these observations are then inspected for consistency with the predictions (Hall, 2003).

The latter process is divided in this study into three steps. First, carrying out process-tracing starts with a timeline that lists the sequence of events. At this step the evolution of the labour market regimes is examined, focusing on the main reforms leading to the current state of the art in each analysed country. Second, actor-centred analysis is conducted, looking at the four main types of actors presented in the theoretic framework and the evidence of their role in the labour market regime formation over time. These two steps are implemented for each of the analysed countries separately. Finally, the results of labour market regime evolution and actor-centred analyses feed

into a systematic comparative analysis, whose main aim is to compare these elements in the light of theoretical expectations. The steps are summarised in Figure 6.

Figure 6. Steps of the process-tracing analysis



Several types of data are used in the case study analysis. The main data comes from secondary sources – analytical reports, evaluations and scientific articles. This decision to use secondary sources is based on several reasons. First, the analysis covers a long period of time and a large number of aspects. The wealth of primary data would be too large to collect and systemise given the volume of this thesis. Second, the availability of primary sources is limited. For instance, older national policy documents are not publicly available, while conducting interviews is costly and the potential informants often refuse to provide information. Nonetheless, available primary data sources, including the European Commission’s database of labour market reforms (LABREF), national and EU policy documents, legal acts, and statistical data, are also employed, especially when important elements are not covered in secondary sources. The diversity of data allows filling gaps in evidence, more contextualisation, higher level of detail and a possibility to triangulate.

5.2. Case selection

The diverse case method for selection is applied. This means that selected cases exemplify diverse value of the dependent variable (Seawright, Gerring, 2008). An element of convenience sampling is also applied – selection of particular countries is supported by the volume of data available. The basis of case selection for qualitative case studies is the results of hierarchical cluster analysis. As illustrated in the dendrograms (Figure 3 and Figure 4), CEE countries fall under two different sub-clusters both in terms of general welfare regime as well as labour market regime. As the aim of this overall study is to explain this variation, a country from each sub-cluster is selected.

Most distinctive is the Baltic cluster, which persisted unchanged in the analyses involving different sets of indicators. Hence, the first selected country is one of the Baltics – Lithuania. Another group of CEE countries, consisting of Czech Republic, Slovenia and Hungary clustered together in both, welfare regime and labour market regime clusters, while two other countries – Slovakia and Poland – belonged to the same welfare cluster, but to different labour regime clusters. As the positions of Slovakia and Poland do not support the theoretical assumption that welfare and labour market

regime types coincide, they are, in a sense, deviant cases. Due to the size limitations of this thesis, their examination falls outside the scope of this study. The grouping of Czech Republic, Slovenia and Hungary, on the contrary, confirms this assumption. Hence one of them, namely Slovenia, is selected a second country for qualitative analysis.

The issue of representativeness of selected cases and generalisation (i.e., case-to-case transferability) of single case study results to the whole sub-cluster, however, poses a challenge. An assumption is that a proximal similarity supports transferability of results to those cases that are most like those in the focal study (Polit, Beck, 2010). Without a more extensive analysis, consideration of two aspects might allow to speculate about the extent to which such generalisations are possible: the institutional similarity of countries within a sub-cluster currently, and their similarity before 1990s. Regarding the first aspect, the results of cluster analysis itself clearly showed that empirical similarities exist in labour market regimes among the three Baltic countries, and among Czech Republic, Slovenia and Hungary. Following the mentioned assumption, this implies to that one country of a cluster is representative to some extent to others as well.

The second aspect refers to similarity in one of the independent variables of this study, namely path-dependence. The first selected country – Lithuania – seems to be quite representative of the Baltic sub-cluster, considering its history and main developments. All three countries of the sub-cluster were integral parts of a single country – the Soviet Union – up until the 1990s, with same welfare structures and labour market regulations. Further, the three countries took very similar post-communist transformation paths, rapidly moving away from unfavourable communist legacies (Bohle, Greskovits, 2007). Meanwhile, the case of Slovenia in this aspect is a bit more complicated. Even though the countries of its sub-cluster had essential historical similarities – long period of socialism and mostly centrally-planned economy systems, they all used to be separate polities that inevitably differed to some extent. More specifically, Slovene economy was not only the most liberalised, but also the most developed and western-oriented of the whole socialist bloc. Differently from other CEE countries, it could build on more favourable legacies of the socialist period during its transformation to market economy (Bohle, Greskovits, 2007). Therefore, in this sense, this selected country is less representative of its sub-cluster than Lithuania.

Nonetheless, based on this aspect, Slovenia is the most diverse case from the Baltic sub-cluster countries in the CEE region. Such maximum variation case selection permits to better highlight the differences between the two analysed countries, while these differences might be more difficult to identify between more similar cases. This, in turn, allows for more analytical generalisation –

assumption that results of the comparative analysis contribute to a general theory of the phenomenon.

5.3. Limitations

Qualitative case study design has some inherent limitations that need to be taken into account during the research process and considering its findings. The first limitation is a possible lack of rigor: a lot depends on a researcher – equivocal evidence or biased views can influence the direction of the findings and conclusions. To ensure the minimal effect of these possible failures on the research findings, several steps are taken, including deep engagement with data sources, triangulation to consolidate the evidence, and persistent observation of emerging issues (Yin, 2013).

Secondly, reliability the study findings might be questioned. The concept of reliability refers to the consistency of research measures, accounting for personal and research method biases that may influence the findings. Reliable research results should be repeatable. To achieve this in qualitative research, researcher's decisions have to be clear and transparent. In this study, the steps of the process-tracing analysis specified above, and the outline of indicators to evaluate the role of each actor in the formation of labour market regime ensure higher reliability.

Thirdly, ensuring internal validity (concerned with justifying causal relationships) poses an important challenge in this study, because process-tracing cannot guarantee to establish it (Bennett, George, 1997). The main issue of this particular research is limited information. If some parts of the process cannot be unveiled due to unavailable data, the research might lead to vague conclusions (George, Bennett, 2005). To address this, multiple data sources are used to complement each other. Also, the use of secondary sources – articles prepared by reputable authors, who determined causal relationships in some cases – increase the internal validity of the study findings. Further, the internal validity of individual case studies is strengthened by comparing them, because causal linkages are harder to identify within the context of one case (George, Bennett, 2005).

Finally, external validity of case studies is generally weak. Since case studies use a very limited number of subjects, they provide very little basis for scientific generalisation (Yin, 2013). Even though it is expected that results of the comparative analysis of two CEE countries from different labour market sub-clusters could be generalised to some extent to explain other countries in the same sub-clusters, cases that appear typologically similar may differ in an unspecified causal variable that leads to different outcomes (Bennett, George, 1997).

6. Case studies

The structure of each individual case study corresponds to the main aspects presented in the theoretical framework. Firstly, the case studies outline the process of the labour market regime formation. The purpose of this part of the analysis is twofold: on one hand, it presents information related to the content of the labour market regime institutions, which is a part of the answer to the first sub-question. On the other hand, it allows to indicate the nature of the institutional change in each country, and provides an answer to the third research sub-question. Secondly, case studies present the actor-centred analysis of the formation of labour market institutions. Its aim is to elucidate the roles and significance of each actor outlined in the theoretical framework, relevant institutional settings, actor-centred mechanisms in action, and their links to the main labour reforms presented in the first part of each case study. Hence, this second part provides an answer to the fourth research sub-question.

6.1. Lithuania

6.1.1. Labour market regime evolution

Employment protection legislation

Soviet labour regulations were law in Lithuania up until 1990s, as the country was fully integrated into the Soviet Union. Lithuanian EPL was based on the Soviet Labour Code, adopted in 1972. There were strict rules and procedures for issues such as recruitment and termination of employment (Gražulis, Gruževskis, 2008; Gebel, 2008). The state acted as the sole employer, and the workers enjoyed a fairly high degree of employment protection – working people viewed their employment at a given job as permanent (Brand, 1991). Unless an employee committed a criminal offence or a serious breach of labour rules, the employer could not unilaterally end the employment contract. Such high degree of employment protection induced labour market rigidity and inefficient labour allocation. Hence the initial reforms of the 1990s aimed at making enterprises more flexible while at the same time guaranteeing fair employment protection for workers (Davulis, 2009).

The process of initial reforms, however, was rather slow and contradictory. The state failed to establish a reliable system of employment regulation in the 1990s. The initially rapid reform failed, as the Labour Code was drafted twice (in 1991 and 1994) but not adopted. Instead, series of laws regulating labour relations were published, without considering their integrity and interrelations with other legal acts. With regard to EPL, Law on Employment Contract was enforced in 1991, and was in force up until 2003, when it was repealed by the new Labour Code. The Law mostly kept the nature of a minimally corrected Soviet regulation to correspond only to the basic market principles

(Davulis, 2009). Its two amendments in 1993 and 2001 also did not have much effect on the overall EPL strictness, and there was no notable trend towards liberalisation (Muravyev, 2010).

During the preparation of the Labour Code, revision of EPL and the aim for more flexibility posed an important challenge: which EPL model to adopt. To address it, Lithuania largely copied the labour codes from continental European countries (Martinaitis, 2007). Compared to the previously existed regulation, the Labour Code of 2003 was intended to liberalise the conditions for the termination of employment contract. Nonetheless, the overall strictness of employment protection, as measured by EPL index, even increased due to prolonged notification procedures (Muravyev, 2010; LABREF). Moreover, legacies of the Soviet style regulation endured: in general, Lithuanian labour law remained fundamentally based on Soviet labour law principles and therefore lacked flexibility and freedom of will for parties of employment contract (Bagdanskis, 2011). No significant permanent changes have been implemented since then⁶.

Hence, in comparison with the EU average, the EPL in Lithuania remains strict and outdated. This is mainly due to relatively high redundancy payments (up to six average monthly wages), long notification periods (minimum two months), and restrictions to dismissal of employees (European Commission, 2015). According to the OECD EPL index, strictness of Lithuanian employment protection with a score of 2.45 is still high even compared to other CEE countries (OECD, 2016; see Annex 1). However, strict EPL regulations are not always enforced in practice – Lithuania is among countries where the high levels of undeclared work persist (European Commission, 2015).

Looking at the process-centred mechanisms, post-Soviet EPL in Lithuania changed abruptly at first, but as the initial reform failed, elements of the pre-existing institution returned. The change of EPL system after 1990 was rather gradual and inconsistent, taking the form of institutional *drift*: there was clearly a lack of adjustment or even a neglect of essential reform of the EPL system to better correspond to free market needs after the collapse of planned economy system. This type of change allowed the outdated Soviet period EPL principles survive in the Lithuanian labour market regime, and led to insufficient enforcement.

Labour market policies

Under the Soviet economic planning system, where the state guaranteed full employment in state-owned enterprises, the very existence of labour market as such was not acknowledged (Granick, 1987). Unemployment was not considered as a social problem, but rather as a violation of citizen's duty to perform useful work (Brand, 1991). PLMP and ALMP, hence, did not exist, and when the

⁶ Draft labour law reviewing dismissal protection rules was presented in 2015. It is planned to be enforced by 2017.

system experienced a significant abrupt change, these institutions had to be built from scratch. Therefore, at the beginning of independence, both active and passive labour market policies were characterised by limited coverage of the population and small scale of the interventions (Martinaitis, 2007).

In 1991, a Law on Employment came into force, establishing the initial PLMP and ALMP systems in Lithuania. It provided for Bismarckian-type compulsory social insurance – only those paying social insurance contributions became eligible for unemployment benefits, as the policy-makers considered the Scandinavian approach to be ‘too socialist’. No unemployment assistance schemes were introduced. An Employment Fund (mostly comprised of money from compulsory social insurance contributions) was established to finance unemployment benefits. Regarding ALMP, the Law also established the Lithuanian Labour Exchange – a national employment regulation system, with a function of vocational consultation, training and retaining (Gražulis, Gruževskis, 2008). To some extent ALMP had been implemented since then, but its importance in the Lithuanian labour market regime and ALMP effort has been constantly increasing since the second half of 1990s (Moskvina, Okunevičiūtė-Neveauskienė, 2011). This was closely related to changes in unemployment insurance policies.

In 1996 the Law on Employment was amended and renamed into the Law on Support for the Unemployed. It made a notable shift from financial support of the unemployed towards promotion of their employment possibilities, and cut generosity levels. Later, the PLMP system was restructured significantly by the Law on Unemployment Social Insurance enforced in 2005, in order to form a financially stable and reliable system for unemployment (LABREF). The compulsory social insurance model was retained, but the new system was better co-ordinated with those of social security and social support in place in Lithuania, as well as with AMPL measures. Unemployment benefits have been since then financed by the State Social Insurance Fund. Also, stricter conditionality was enforced: the principle was that only active job seekers were entitled to the unemployment social insurance benefit. It was not awarded or withdrawn if an unemployed person refused to accept suitable job offers or to participate in ALMP measures (Taljunaite, 2008). The changes capacitated better control and legitimacy of allocated allowances and increased motivation among the unemployed to be active job seekers. At the same time, the proportion of unemployed eligible for the unemployment benefits increased, leading to an almost twofold increase in spending on unemployment benefits in two years after the law was adopted (Gražulis, Gruževskis, 2009). However, the latter changes were reversed to some extent as a response to the crisis in 2010, with the amendment of the Law on Unemployment Social Insurance. It tightened eligibility conditions again and decreased coverage and replacement rates (LABREF).

Soon after major reforms in PLMP were implemented, the Lithuanian Law of Employment Support came into force in 2006. It framed legal preconditions for revamping the employment promotion policy which was being effectuated in the country previously (LABREF). Also, compared to the previous ALMP scheme, the Law defined a coherent ALMP system rather than individual measures aimed at supporting persons who are looking for a job. The package of ALMP measures defined by the law was similar to those in the OECD countries (Moskvina, Okunevičiūtė-Neveauskienė, 2011). The Law provided for increased expenditure on ALMPs, hence after its adoption ALMP effort increased considerably – for instance, in 2007, almost a half (49.8%) of all funds allocated to labour market policy measures and development of relevant institutions were spent on ALMPs (Ministry of Social Protection and Labour, 2008). Finally, in 2012 amendments to the Law were introduced, changing the system of vocational training of the unemployed and those notified of pending dismissal (LABREF). It provided grounds for further increases in the overall ALMP expenditure.

Nonetheless, Lithuania remains among the EU countries that traditionally designate very little expenditure as a share of GDP for LMPs – around 0.45%. The unemployment insurance system in Lithuania is considered to be underdeveloped in terms of coverage and replacement rates (OECD, 2016), which are among the lowest in the EU. Expenditure on PLMP as a share of GDP in Lithuania has also been especially low (around 0.2%), despite comparatively high unemployment levels (Annex 1). PLMP measures have not been sufficient to compensate the loss of employment protection after its liberalisation. Even negative complementarity has been indicated between EPL and PLMP in Lithuania (Gruževskis, Blažienė, 2007). Further, although since the early 2000s (with a temporary change in the trend during the crisis (Eurostat)), expenditure on ALMPs in Lithuania has exceeded expenditure on passive unemployment support (Moskvina, Okunevičiūtė-Neveauskienė, 2011), it remains very low compared to other CEE countries. Most of the funding for ALMPs comes from the EU: the Lithuanian Labour Exchange continually implements a number of ESF-funded projects, aimed primarily at disadvantaged groups, such as the disabled, youth and the long-term unemployed (Okunevičiūtė-Neveauskienė, 2014).

In summary, as in the Soviet Union LMPs did not exist, Lithuanian LMP systems had to be built from scratch, and still remain weak. With regard to the process-oriented mechanisms of institutional change, the post-independence development of ALMP and PLMP structures can best be described as *layering* – attaching new elements ‘on top’ of pre-existing institutional structures. These new elements showed a shift towards activation over the years, but altogether they still do not provide sufficient coverage of relevant labour market risks. Generally, Lithuania has been rather unsuccessful in simultaneously implementing aspects of flexibility and security: the labour market remains rigid with low levels of employee insurance against unemployment.

6.1.2. Actor-centred analysis

Political parties

The overall political system of Lithuania could be characterised by high levels of instability, frequent government turnover and fractured political spectrum. In early 1990s, a mixed electoral system was introduced in Lithuania, combining the features of single-member district and proportional representation systems. It determined the inevitability of forming unstable coalition governments (Weishaupt, 2011). Further, since the reestablishment of Lithuanian independence, basically every elections resulted in strong reshuffling of political forces in the parliamentary majority and hence the government: centre-left coalitions replaced centre-right coalitions and vice versa (European Elections Database; Lithuanian Government, 2015).

Nonetheless, the most important aspect was that unlike in the West, the political parties in Lithuania countries did not have long traditions of either social-democracy or Christian conservatism (Aidukaite, 2004). Even though there was a nominal cleavage between conservative-liberal right bloc and social democrats (Saarts, 2011), there were no essential ideological differences between them with regard to social policy. They all were rather representing pro-liberal interests of big business groups, while making populist decisions to win elections. Hence it is problematic to claim that one party or another has made a significant impact on social policy development in Lithuania (Guogis, 2002; Aidukaite et al, 2012).

Moreover, labour market regime has never been a major issue of disagreement between Lithuanian political forces. In fact, other economic reforms during the transition and then EU pre-accession period were much more salient and received more discussions between political actors, while the labour market was an issue which just had to be dealt with. Hence, the positions of major parties from the different ends of ideological spectrum largely coincided on the shape of the labour market regime (Guogis, 2002). It cannot be claimed therefore that major labour market reforms resulted from the *reshuffling* of political parties in power.

The only more notable difference between left and right political forces was that they have tended to be differently active in reforming labour market institutions and focused on their different aspects (Guogis, 2002). For instance, research has shown that centre-right governments have been more active in adopting programmes and initiatives in line with the EU employment policy than centre-left governments. Also, centre-left coalitions were comparatively more active in attempts of increasing security rather than flexibility, while right-wing policy-makers engaged more in the flexibilisation of the labour market (Peciukonytė, 2012). However, these initiatives were not reflected in major

reforms, presented above. Frequent *reshuffling* of political forces in the government was likely to have caused the lack of policy continuity.

In summary, the evidence suggests that the Lithuanian labour market regime was developed in an unstable political environment, where none of the political parties pursued exceptionally worker-friendly policies. This has impeded the continuity of reforms and determined their character: insufficiency to protect workers against labour market risks. However, the role of political party competition in the labour market creation does not sufficiently explain specific policy changes, and points to the importance of other players in these processes.

State bureaucracy

Lithuania inherited a rather extensive and effective state apparatus, which previously helped the paternalistic Soviet state to function properly. After the collapse of the Communist regime, implementation of the social policy reform was, to a large extent, in the hands of social policy bureaucrats. Indeed, they sometimes had a more significant impact on social policy development than political parties and other actors (Aidukaite, 2004). Nonetheless, this impact with regard to the labour market regime has been limited to the aspect of implementation of political decisions, not the decisions themselves (Aidukaite et al, 2012).

The role of the bureaucratic apparatus manifested mostly because of the lack of certain capacities for implementation of new policies. In the 1990s, when radical reforms were attempted, first, there was a serious lack of labour market experts and a general lack of expertise, despite consultations from foreign specialists. Second, there was lack of information for evidence-based decisions: not enough research was conducted to evaluate the state of the art of the labour market and to anticipate future situations. Third, there was lack of financial resources to fund the labour market policies (Gražulis, Gruževskis, 2008). Because of that, initial labour market reforms were slow and contradictory.

State capacities to implement labour market policies and regulations were significantly improved during the pre-accession period (Jacobsson, West, 2009). Also, financial capacities to pursue LMPs were notably strengthened by the access to the ESF. Nonetheless, there has been no record of increased bureaucrats influence on the decision-making with regard to labour market regime. Hence, it is difficult to claim that the bureaucracy has been an important actor for the mechanisms of *realignment* or *reassessment* throughout the analysed period, affecting the character of reforms.

Social partners

Social partners formally participate in the labour market-related decision making through the Tripartite Council of the Republic of Lithuania (LRTT), established in 1995. The LRTT follows the

International Labour Organisation's (ILO) pattern of tripartism, and is composed of delegates from different national trade union and employer associations, as well as representatives of the executive. It advises the parliament and the government on socio-economic and labour issues and reviews all relevant draft legislation. However, such participation of social partners is only of recommendatory nature. Their opinions are often neglected at a later stage, notably when the drafts are being adopted by the parliament (Blažienė, 2009). The capacity of social partners to block unfavourable legislation has been very limited, as the constitutional framework does not provide 'veto points' that they could take advantage of (for instance, a referendum can be initiated by 300,000 voters – it is an extremely large number for a country with 2.9 million of population).

To a large extent, the interests of social partners are often neglected due to their weak overall interest representation. Labour unions in Lithuania have been weak on both dimensions: membership and institutional power. While, as mentioned, the access of trade unions to policy-making is limited, since re-establishment of independence, union membership decreased from 97%⁷ to 9% in 2012 (Dovydenienė, 1999; ILOSTAT). Compared to the general trade union situation in the EU and even the CEE region, Lithuanian trade unions have the lowest density, and have been the same since the 1990s (ILOSTAT).

Employer organisations also represent a very small share of companies (Gruževskis, Blažienė, 2007), although their position vis-à-vis trade unions is better in terms of their ability to negotiate due to greater financial resources. However, weakly established social partnership at the national level and the generally politicised role of social partner organizations in public policy-making have contributed to the withdrawal of employers from collective interest representation (Glassner, 2013). Indeed, employer organisations in Lithuania have never been the ones solely representing affiliates' interests in labour market. Instead, they have always functioned as associations representing other business interests, while participation in social dialogue on labour market regulations and policies has been rather a secondary function (Blažienė, 2010).

The structure of relations between social partners has been characterized by antagonism and confrontation rather than partnership, which has been hindering the progress of labour market regime since the 1990s. Most of the disagreements concern labour market regulation: employers seek more liberalisation, while trade unions prefer stricter regulation thereof (Gruževskis, Blažienė, 2007). Moreover, both employer and worker organisations have expressed non-confidence in 'new' measures of labour market regulation (e.g., shift formal high centralised regulation to social

⁷ During the Soviet period, union membership was rather mandatory than voluntary, due to the link between social insurance benefits and union membership.

dialogue) due to path dependencies stemming from Soviet modes of collective bargaining and centralised tradition in social policy decision-making. Back then, social partners used to accept the opinion of the government and not to be responsible for the made decisions. As it has generally been since 1990s, instead of trying to negotiate on the employment conditions locally, the huge efforts of labour unions are wasted convincing the government to enact local type of rules in official resolutions. Since the positions are usually very different, the government has been swamped in debates that lead to failures of decision-making. This can be well illustrated by the process of adopting the Lithuanian Labour Code in 1998-2002. The Code ultimately reflected the lowest common denominator of interests of social groups and policy makers, and hence preserved many of the old labour market regulation structures (Usonis, Bagdanskis, 2011).

Existing data also indicates that social partners were not significantly involved in the design and implementation of active and passive LMPs (Gruževskis et al. 2006). The main and leading role in the labour market regime is vested upon the State, while the influence of the social partners appeared to be quite limited and weak – they did not sufficiently oppose government’s decisions, even though the latter used to be against the interests of both employers and workers (Eurofound, 2012).

It can be concluded that the role of social partners in affecting policy-makers through the mechanisms of *realignment* and *reassessment* has been limited in Lithuania. Both sides – the employers and labour – have been similarly weak in participating in decision-making. They have been confronting the policy-makers rather than aligning with them, but the policy-makers have had the upper hand in the decisions. Hence, influence of social partners can be felt only in hindering labour market regime progress, as neither side has had enough resources or motivation to contribute to changing the status quo in their favour.

European Union

As Lithuania had to heavily transform or even create its entire state institutions in 1990s, the country was rather open to external influence. Strong aspiration to become an EU member and membership conditionality led to a power asymmetry, where the EU had considerable influence on the country’s policies. Moreover, the economic incentive provided by the prospective access to ESF was strong. These conditions not only encouraged the necessary reforms of labour market institutions according to EU regulations, but also allowed EU’s soft governance mechanisms, such as advice and monitoring, be more effective (Jacobsson, West, 2009).

The most important reforms for the EU accession included strengthening and restructuring the institutional labour market system and activating the labour market policy. Lithuania’s participation in the EES began in 2000 with the initiation of the Joint Assessment Paper (JAP) for employment

policy priorities, where the national policy-makers attempted to conform to the requirements of the EU (Jacobsson, West, 2009). In 2001, a PHARE⁸ Twin Project 'Preparation for the European Employment Strategy' was started. It helped to advance Lithuanian employment policy and the skills of the implementing institutions, leading to important improvements with regard to ALMP (ETF, 2003). Moreover, the government with the European Commission's DG for Employment, Social Affairs and Equal Opportunities approved a collaborative resolution on Lithuanian employment policy priorities in order to accommodate Lithuanian labour policy to the EES. Further, in 2003, the first Labour Code, which also served as an instrument to transpose the EU labour law directives into the Lithuanian legal system, was enforced. Finally, in 2004, Lithuania presented to the European Commission its first National Action Plan for Employment. It outlined the government's political commitments and key measures for implementing the national employment policy, as well presented responsive measures to EU recommendations, accommodating the provisions of EES. All these developments reflected an especially strong role of the EU in shaping the policy ideas of national policy-makers.

This period of the preparation for EU accession, when policies were drawn up in line with 'homework' assigned by the European Commission, was indeed evaluated by labour market experts as one of the most successful in terms of forming Lithuania's labour market regime (Gražulis, Gruževskis, 2009). It prompted the country to revise the PLPM system and gave a strong push towards activation: both the Law on Employment Support and the Law on Unemployment Social Insurance were drafted taking into consideration the provisions of EES (Gruževskis, Blažienė, 2007).

After the accession, the EU membership has significantly increased financial opportunities to pursue certain policies, especially activation. Indeed, money from the ESF played a crucial role in financing ALMPs (Moskvina, 2008). Even though the share of EU funding for ALMP has varied by year, it usually has comprised around 70% of total project expenditure (Moskvina, Okunevičiūtė-Neverauskienė, 2011). Also, Lithuania's track record in terms of transposing employment-related EU directives into national legal system and addressing Council's recommendations has been rather good, except in the field of employment protection legislation (Masso, Eamets, 2004; Toshkov, 2007; Peciukonytė, 2012; DG GROW, 2015; European Commission, 2014). Finally, the EU has been significant in the *reassessment* mechanism: indeed, all the governments since the 2000s have outlined in their programmes labour market policy targets that reflect the position expressed in the EU documents (Lithuanian Government, 2015).

⁸ The PHARE programme was one of the three pre-accession instruments financed by the EU to assist the applicant CEE countries in their preparations for joining the Union.

However, generally the governments' attempts to further reform the labour market regime were significantly weaker after 2004 than during the pre-accession period (Peciukonytė, 2012; Gudžinskas, 2014). While the pre-accession reforms were rather passive and reactive, with full membership, the Lithuanian government took more ownership of the national reform programmes (Jacobsson, West, 2009). There have been no essential structural reforms to address such significant aspects of labour market regulation, such as flexibilisation of EPL, strongly promoted by the EU (European Council, 2011). Even though all the governments in power after the accession introduced a number of labour market related initiatives, reflecting the position outlined in EU documents, they lacked consistency and thoroughness – there was a clear discrepancy between rhetoric and real actions. Measures were applied selectively, and a major part of draft laws, especially related to EPL, did not conform the EU vision of labour market system reform (Peciukonytė, 2012). In general, experts agree that the influence of the EU on social sphere, including the labour market, has been minimal after the accession (Aidukaite et al, 2012).

In summary, it can be said the EU played a major role in the *reassessment* of labour market policy ideas, when the most important reforms were designed. It was reflected in the measures adopted during the pre-accession period and the most important reforms of ALMP and PLMP, as well as in the subsequent government programmes. However, the latter have not translated into real institutional change so far. After the accession, the EU's role in general became more limited.

6.2. Slovenia

6.2.1. Labour market regime evolution

Employment protection legislation

In Socialist Yugoslavia – part of which Slovenia was up until 1991 – layoffs were not permitted, except on disciplinary grounds. The first reforms of the transition period ended the permanent job security and allowed employers to lay off workers, but imposed large costs for doing so. The Slovenian Labour Code, enforced in 1991 (which with minor modifications remained until 2003), called for six months advance notification and severance pay of half the worker's monthly earnings for each year of service, and imposed large procedural costs (Vodipovec et al., 2016). Compared to other CEE countries, Slovenia preserved the strictest employment protection among the group throughout the 1990s (Riboud et al., 2001; Vodipovec, 2004).

A significant reform was implemented in 2003, with the Employment Relationship Act that came into force as a result of long and demanding negotiations with the social partners (LABREF). Also, it was a response to the criticism about the inflexible nature of the labour market, which gained prominence in the context of EU accession (Stambolieva, 2016). The Act thus underpinned further changes leading

towards greater flexibility in the field of employment protection of workers with regular contracts, thanks to shorter notice periods and lower levels of severance pay (OECD, 2009). However, the level of workers' protection was not fundamentally changed (Kresal, 2006).

Afterwards, flexibility was increased slightly in 2007, when amendments to the Act shortened notice periods (LABREF). However, the most notable changes were implemented in 2013, with the new Employment Relationship Act (LABREF), which again reflected the result of long negotiations among social partners. The Act increased the flexibility of employment relationships by reducing notice periods and severance pay, but more drastically than in previous reforms (OECD, 2014; Vodipovec et al., 2016). After the reform, EPL strictness index decreased significantly: from 2.65 in 2008 to 2.16 in 2014. Hence currently it is below the EU average (OECD Stat).

It can be said in summary that EPL reforms in Slovenia have been implemented following a consistent approach towards liberalisation since the 1990s. This process of institutional change can best be described as *layering*, as the amendments of ELP system, which led to the final outcome throughout the years, were rather slow and gradual (Rocco, Thurston, 2014).

Labour market policies

When Slovenia was a part of communist Yugoslavia, full employment was ensured. However, limited but open unemployment, contrary to other socialist CEE economies, did exist (Nešporová, 1999). Hence, Bismarckian-style insurance scheme for unemployment was introduced in Slovenia already in 1975 (Wright et al., 2004), and maintained after the country gained independence. In early 1990s, Slovenia opted for gradual adjustment to the market economy, retaining high levels of social protection for the unemployed. Under the 1991 Employment and Unemployment Insurance Act, unemployed workers in Slovenia had a right to apply for unemployment benefits, first under the unemployment insurance program (financed by social insurance contributions) and then—if they qualified—under a means-tested unemployment assistance programme (financed from the state budget). The qualifying conditions for unemployment insurance were governed strictly by the contributory principle and benefit levels were linked to previous earnings, but the overall eligibility criteria were widely inclusive. A minor amendment to the Act was enforced in 1994, reducing the maximum amount of the income restitution payment and decreasing the maximum duration of financial assistance (Ivančič, 2008). Nonetheless, benefit levels and duration in Slovenia remained the highest among transition economies: in the 1990s, the index of generosity of unemployment benefits⁹ in Slovenia was, at 21.8, well above the CEE average of 12.7 (Vodopivec et al., 2005).

⁹ Defined as the product of the replacement rate and the share of compensated unemployed among all unemployed.

Despite the predominance of passive measures, the first ALMPs were also introduced between 1991 and 1992 (Vodopivec, 1999; Ignjatovič et al, 2002). The country spent considerable resources on ALMPs in 1990s: Slovenia's average expenditure on ALMP programmes during that period (0.5% of GDP) was also considerably above the average of other CEE transition economies (0.35% of GDP) (Vodopivec, 2004). However, they operated on a 'passive' philosophy: participation of unemployment benefit or assistance recipients in the active programmes was voluntary, and no effective controls on eligibility were operative (Tsakatika, 2012).

Situation changed in 1998, when Slovenia presented an ambitious reform, aimed at shifting resources from income support to ALMP programmes under the Law on Changes and Additions to the Law on Employment and Unemployment Insurance. The structure of the system was not changed, but the level and the potential period of entitlement to unemployment benefits for some groups of the unemployed was cut significantly. More importantly, the reform made the receipt of benefits conditional on beneficiaries' availability for employment, their active seeking for a job, acceptance of any suitable job, or participation in ALPM programmes. It also called for several measures aimed at speeding up reemployment of the recipients, including improvement in employment services, the obligatory preparation of a reemployment plan, and more frequent contact between counsellors and recipients. In general, the reform made the participation in ALMP programmes easier and more attractive, subsequently increasing ALMP expenditure (Ours, Vodopivec, 2006).

Another reform encouraging the shift towards activation was implemented in 2006, when the Employment and Unemployment Insurance Act was amended again (LABREF). Changes were introduced to in the field of eligibility criteria for unemployment benefits, and stricter rules for the unemployed were imposed regarding their obligation to accept work. Further, unemployment assistance, which was means-tested and granted to the unemployed after the expiry of unemployment benefit, was abolished¹⁰ (Ignjatović, 2013). Nonetheless, benefit replacement rates remained much higher than in other CEE countries (Kajzer, 2007).

Finally, in 2011, Labour Market Regulation Act was enforced, replacing the Employment and Unemployment Insurance Act, and aiming at introducing the principle of flexicurity in the labour market. In fact, it was a part package solution with a planned EPL reform (enforced in 2013): exchanging labour market flexibility with more income security (Guardianchich, 2012). The Act defined a consistent Slovenian labour market governance structure, consisting of labour market

¹⁰ More precisely, it was combined with financial social assistance (for people with no income or with earnings below the minimum specified income) which is regulated by the Social Security Act.

services, active employment policy and unemployment insurance system. Regarding PLMP, the Act widened the compulsory coverage of employed persons with the unemployment benefit, and increased its minimum and maximum levels during the initial period of benefit receipt. Regarding ALMP, the Act had the aim to extend ALMP to cover both the unemployed and those who are in the process of losing jobs. Moreover, the set of ALMP measures available was extended and defined as a coherent system (Ignjatović, Kanjuo Mrčela, 2015). These changes provided the ground for the further increase in both ALMP and PLMP spending.

In summary, the evolution of Slovenian labour market policies built on the structures created before the country gained independence. The development of LMP system showed gradual shift towards activation, by addressing both PLMP and ALMP reforms simultaneously. The mode of institutional change of LMP structures in Slovenia can hence also be best described as *layering*, as the new elements did not replace the old, but were added to them, and gradually changed their status and structure.

Currently, Slovenia spends the highest share of its GDP to overall LMPs among the CEE countries – around 1.2%. Expenditure on the PLMP reaches around 0.8% of GDP, while the replacement and coverage rates – around 70% and 80%, respectively – are also among the highest in the region. Slovenia's expenditure on ALMP of around 0.35% of GDP is well below the EU average, but high compared to other CEE countries (Annex 1). More than a half of funds devoted to ALMPs comes from the ESF (The Slovenia Times, 2016). Better developed LMP system in the context of reduced EPL strictness indicates that the country's labour market regime could be characterised by a rather higher level of flexicurity within the region.

6.2.2. Actor-centred analysis

Political parties

Since the 1990s, the Slovenian party system has been characterised by a bipolar division into two political blocs: 'left-liberal' and 'right', with neither being fully internally homogenous. Differences regarding the ideological stance towards social policies have existed between the two blocs, and the issue of socio-economic regulation has been important in political mobilisation. While the left-liberal bloc has demonstrated 'leftist nature' in terms of its social orientation and scepticism of 'unleashed' capitalism, the right parties have advocated the neo-liberal agenda (Adam et al., 2009).

A proportional electoral system induced the formation of political coalitions and moderate policies. Throughout the 1990s up until 2004, unstable centre-left coalition governments systematically prevailed (Stanojević, Klarič, 2013). Governments not dominated by 'left-liberal' bloc were in place for just two and a half years in a 14-year period, so there were no major reshufflings in the ruling

political forces (Adam et al., 2009). As these leftist governments undertook hegemony through the entire follow-up process of post-communist transition, they were able to pursue gradual, relatively calm reforms, instead of radical liberalisation and deregulation. Two aspects related to other actors were important regarding the reforms, implemented during this period. Firstly, centre-left coalitions were strongly determined by the ongoing process of accommodation to EU rules and demands. Secondly, they relied heavily on the alliance with trade unions to legitimise themselves (Stanojević, Klarič, 2013). Hence in dealing with major economic issues, these governments focused their policies on strong job protection and sustaining a low unemployment rate.

However, since the country joined the EU, *reshuffling* has become more frequent, and the ideological stances of the left and right parties became somewhat more blurred. The parliamentary elections in 2004 brought the first important shift in the constellation of political forces, as the right-wing bloc came into power. Situation changed once again in 2008, when the centre-left coalition returned to the government (European Election Database). Both of these governments, however, attempted to pursue similar neo-liberal labour market reforms, which were blocked by the social partners both times (Gerber, 2014; Stanojević et al., 2016). Finally, in 2011, new elections brought right-wing coalition back to power, which, in the face of the crisis and pressures from the EU, managed to reach an agreement with the social partners and implement the liberalising 2013 EPL reform this time (Stanojević et al., 2016). It is difficult to claim, nonetheless, that this reform was a result of *reshuffling* of political forces, as both political blocs had pursued similar policies.

To summarise, a long period of no *reshuffling* of political constellations in the government allowed for continuity and consistency of labour market policies. Moreover, as centre-left party coalitions in power were ideologically inclined towards higher social protection and were rather dependent on the alignment with trade unions, there was no trend of radical liberalisation and flexibilisation in the initial post-socialist reforms. The situation in party competition changed notably after the country acceded the EU. Power constellations in the government changed more often, but the new reform agenda remained the same – aimed at liberalisation. This *reshuffling*, hence, is not sufficient to explain the latest reforms and points to the importance of other players.

State bureaucracy

Under the socialist system, Slovenian public administration had practically no power and only carried out orders issued by the political centre; it was oriented only to implementing decisions and instructions and not to addressing and solving problems. This situation persisted after the country became independent. Generally, during the period of the post-socialist transition, state bureaucracy was characterized by dependence on orders, lack of creativity, and lack of professional knowledge

(Ovin, Kramberger, 2004). Nonetheless, it was rather effective and efficient in implementing gradual transition reforms (Iancu, 2011).

As in other CEE countries, state administrative capacities were improved decidedly throughout the following years, especially in the context of preparation for the EU accession (Kovač, 2011). However, the Slovenian state bureaucracy has maintained its role as solely an executor of political decisions, rather than a participant in the decision-making throughout the 2000s and 2010s. Moreover, relationship between the national politicians and the civil servants has been dominated by party politics: politicians have tended to maintain the upper hand in setting the national agendas. In fact, political parties have exerted a significant influence on the functioning of state administration, as the top civil servants tended to be replaced following the change of political forces in the government (Fink-Hafner, Lajh, 2015). Consequently, the state bureaucracy has not been an important autonomous actor in shaping the Slovenian labour market regime. No evidence they had autonomous interests regarding the labour market regime or that they could have participated in the mechanisms of *realignment* or *reassessment* has been found.

Social partners

Since the 1990s, Slovenia has been generally classified as a coordinated market economy with strong intermediary interest organizations (Stanojević et al., 2016). The dialogue between the state, employees and employers in Slovenia has begun in 1991 with the Government's Economic and Social Policy Programme (Antauer, 2008). It was institutionalised in 1994, with the formation of the Economic and Social Council (ESC). ESC has been the highest-level body representing the social partners in Slovenia, following the ILO pattern of tripartism. Within the ESC, the social partners have had mainly an advisory role, where the government consults the social partners from the early stages of preparation of draft laws (ESC, 2016). However, since 1994, employers and trade unions have systematically and successfully negotiated labour market-related policies within the ESC (Stanojević, Klarič, 2013). Moreover, social partners have also demonstrated an ability to block government's unilateral policy-making by means of mass protests, formation of public opinion and referenda (which, according to Slovenian laws, can be initiated by a relatively low number of 40,000 voters) (Cok et al., 2008).

A strong Slovenian labour union movement emerged in late 1980s, fuelled by the disintegration of the Yugoslav market and by the correspondingly growing workers' discontent. In 1992 the trade union density rate was around 60% (Stanojević, Klarič, 2013). In the context of major economic reforms in the beginning of independence, the governments – unstable and mostly centre-left – were not in a position to ignore this massive and rather well-organized social force when trying to

resolve pressing labour market issues, and hence were open to labour union demands. This trend remained throughout the 1990s and early 2000s, when with a constructive stance trade unions were able to align with the centre-left political parties and to negotiate comparably generous labour laws (Stanojević, Klarič, 2013).

However, in 2004, with the accession to the EU and election of the new right-wing government, internal power constellations have changed and the role of the ESC in policy-making became less important. The neo-liberal agenda of the new government was unacceptable to the trade unions, and hence the consensual development of policies within the ESC became impossible. The discontent of unions culminated in a massive rally in 2005, which encouraged the government to renew the social dialogue, but it proved to be largely insignificant. Consequently, trade union membership started to decline rapidly in the mid-2000s. From 2005 to 2012 the density rate dropped from 40% to 22% (Stanojević, Klarič, 2013; ILOSTAT).

Employer organisations were also actively involved in the formation of national labour market policies since 1990s. The main employers' organizations – the Chamber of Commerce and a chamber of small and medium-sized enterprises – were based on mandatory membership in the 1990s, and hence the coverage rate approached 100%. In the negotiations of main labour market issues, employers tended to express a modest stance, and no antagonism was officially regarded as existing between the interests of workers and employers (Skledar, 2004). However, as it was the case with trade unions, the situation with employer associations changed radically under the right coalition government. In 2006, the mandatory membership in the Chamber of Commerce was abolished, and it was transformed into a voluntary interest organization. This led to a sudden decline in membership, and the adoption of new, more radically-oriented stance, especially regarding the labour market flexibility (Stanojević, Klarič, 2013; The Slovenia Times, 2013).

Both employers and trade unions have been relatively inactive regarding their involvement and influence in the decision making processes in 2010s (Ignjatović, 2013). Nonetheless, the decline in union density did not result in the government's ability to engage in unilateral decision-making; all attempts at replacing social dialogue structures with unilateral policies, as mentioned, were basically unsuccessful (Stanojević, Klarič, 2013; Gerber, 2014; Stanojević et al, 2016).

To sum up, despite their declining influence in the recent years, social partners have been powerful actors, both in terms of their membership and institutional power. The Slovenian institutional arrangements, granting the social partners access to political processes, has prevented the possibility of radical change; both sides have had control of a lever which they could use to halt negotiations by organising riots or initiating referenda. Consequently, *alignment* with social partners

was vital for the policy makers to pursue reforms, and can explain why some of them were implemented, and some of them not. The implemented reforms, in turn, largely reflected the interests of workers, supported by employer organisations.

European Union

In contrast to other CEE countries, Slovenia was in a position to resist external pressures and policies prescribed by international organisations¹¹ in the early 1990s, due to comparatively strong and stable economic performance and low dependence on international financial capital. Nonetheless, the country's long-term economic interest had clearly been to join the EU and to secure full access to the common market. Therefore, Slovenian policy-makers were susceptible to and eager to adopt or reproduce the EU's social and employment policies.

Already the 1998 Law on Changes clearly reflected the core ideas of the EES, such as raising the employment rate, activation and 'making work pay', even though these EES norms did not 'fit' well with Bismarckian principles. Inclusion of these concepts into national legislation could be attributed to the ideational pull of the first Luxembourg Guidelines of 1997 and the realisation of policy makers that similar policies would have been implemented anyway, as Slovenia was going to join the EU (Tsakatika, 2012).

Two key documents concerning the explicit adoption of the EES framework in Slovenia were published in 2000. First, the Strategic Goals of Labour Market Development up to 2006, Employment Policy and its Implementation Programmes appealed to the European 'global approach' following from the Treaty of Amsterdam and the Lisbon Agenda, and clearly mirrored the employment goals set out in the EES. Second, a JAP was signed between the Slovenian Ministry of Labour, Family and Social Affairs and DG Employment in the same year. The general point of the document was that the important reforms had indeed been introduced, though they needed to be further strengthened and implemented. Therefore, it was not a question of revisiting the basic employment policy principles, but of further proceeding down the road already taken (Tsakatika, 2012, Fink-Hafner, Lajh, 2015). Also in 2000, Slovenia started to shadow the EES by periodically producing National Action Plans, as provided for in the National Strategy and called for by the JAP process. Even though the implementation of JAP practically meant only 'repacking' policy programmes already running 'into the relevant boxes under the EU's employment guidelines', the fact that they could be shown to be associated with the EES gave the extra boost of legitimacy in the context of resistance from social partners to change the status quo (Tsakatika, 2012).

¹¹ An important example is the fact that despite strong World Bank advice to implement 'shock therapy' in the early 1990s, that advice which involved radically scaling down unemployment benefits and tightening eligibility criteria for the receipt of such benefits was rejected by Slovenian policy-makers (Tsakatika, 2012).

In fact, there was a remarkable shift from passive to active measures in terms of spending to combat unemployment few years before the accession, which was associated by experts namely with the EES (Stanojević, 2004; Novak, Rihar Bajuk, 2007). However, regarding the EPL Slovenia was not as susceptible to the pressures from the EU for more labour market flexibility. A Law on Labour Relations was adopted in 2003 – a year before the country's formal accession to the EU – confirmed a high level of job protection for fully employed workers and strongly hindered dismissals (Stanojević, 2010).

After the accession, when the pressures of conditionality were lifted, the prominence of the ideas promoted by the EES in shaping reforms declined. Even though Slovenia has been comparatively active in applying policy measures in line with the EES guidelines (including soft law, collective agreements, hard law) after accession (Copeland, ter Haar, 2013), on a higher level, they did not result in major reforms. In fact, the Slovenian domestic environment has largely resisted the reception of the EU employment agenda (Palpant, 2006). For instance the concept of flexicurity (namely its aspect of increased flexibility) did influence to some extent the formation of policy alternatives, but the corporatist political culture and strong social partnerships prevented deeper reform. This was illustrated when the right-wing government presented the mentioned attempted reforms in 2005 as an accommodation to EU rules and demands (Adam et al., 2009), but the social partners vetoed the implementation of flexicurity principles in the Slovenian labour market (Fink-Hafner, Lajh, 2015). Only the attention to ALPM remained quite high in the country, largely due to financial support from the European Social Funds (Stambolieva, 2014).

Nonetheless, weakened positions of the social partners allowed the influence of EU to intensify during the economic crisis. Many of the reforms of that time, including in the field of employment, were frequently justified by explicit reference to 'Brussels' demands' (Stanojević, Kanjuo Mrčela, 2016). Indeed, the amendments to the Employment Relationship Act and the Labour Market Regulation Act (enforced in 2011 and 2013, respectively) were a part of the Exit Strategy, presented in early 2010 to deal with the crisis (Government of the Republic of Slovenia, 2010). This document, in turn, responded to policies demanded by the EU institutions, including a labour market reform in terms of a workfare and flexicurity approach. In this case, by using policies prescribed by the EU as a justification, social partners were compelled to negotiate the increase of labour market flexibility within the framework of the EES (Stanojević et al., 2016).

In summary, the influence of European Union has been largely determined by internal forces in Slovenia, especially the social partners, who tended to act as veto players in pursuing policies preferred by the EU domestically. Nevertheless, it is clear that the EU played an important role in

reassessment of policy choices, especially in the Slovenian policy reforms of 1998 and during the economic crisis. Also, there were signs of the EU involvement in the mechanism of *alignment* with the Slovenian policy-makers against the social partners, when unpopular policy shifts had to be legitimised.

7. Comparative analysis

This chapter presents a comparative analysis of the information provided in the individual case studies in the light of theoretical expectations, thus answering the fifth research sub-question. The main focus is set on the differences in institutional developments and roles of various actors in Lithuania and Slovenia, aiming to explain whether they caused divergence between the labour market regimes in the two countries. It is the final step towards answering the main research question.

Path-dependence

Even though generally in the literature various authors tend to ascribe both countries to the same cluster based on their communist past, the formation of their labour market regimes actually had quite different starting points. The communist Lithuania, an integral part of the Soviet Union, and Slovenia – a republic of Yugoslavia, differed considerably in their approach to employment. While unemployment as a problem was not recognised in the Soviet Union, the Yugoslav Government accepted it as a fact and had developed certain structures to deal with it. In the 1990s, therefore, Slovenia was able to build on those institutions and gradually reform them. In Lithuania, in turn, a Soviet legal and regulatory system, incompatible with a free market economy, was intact up until 1990 when it experienced abrupt change. The country then became more open to new institutional paths. It can be said that these circumstances created different path-dependence effects that further influenced the formation of labour market institutions.

This claim can be supported by the analysis of the process-centred institutional change of labour market regimes. Regarding LMP, Bismarck-type unemployment insurance schemes have existed in Slovenia since the 1970s. These circumstances allowed the country to take up the gradualist approach to labour market reforms, by retaining the old institutions and slowly adapting them to the new circumstances. Over the years, by institutional *layering*, Slovenia put more focus on activation. Meanwhile, Lithuania experienced an abrupt change, and had to build the new institutions from scratch in the beginning of the 1990s. Shortly after the fall of communism, there were no LMP structures to compensate for the loss of permanent employment security under the conditions of market economy. Initially created institutions were similar to the Slovenian ones, and the process-centred analysis indicated the subsequent institutional change by *layering* and shifts towards

activation as well. Nonetheless, the differences in the starting points of the two countries were likely to have determined the current outcome: better developed LMP system in Slovenia, with wider coverage and larger resources devoted to it.

In the area of EPL, divergence between the two countries is more difficult to explain by path-dependence, although it has affected the formation of EPL systems. In both Lithuania and Slovenia, layoffs were virtually not possible before 1990s. Also, both countries had long retained systems, based on principles similar to those that existed in the socialist period. The initial institutional changes were rather minimal adaptations to labour market economy. However, the processes of institutional change, i.e., *how* the path-dependence was influential, may better explain the different outcomes. Slovenia gradually adapted reforms, each leading to flexibilisation by rather minimal amendments of the existing rules by institutional *layering*. Meanwhile, policy-makers in Lithuania seemed to have deliberately neglected the need to adapt to the new market situations: principles of Soviet-type regulations were retained, the trend of flexibilisation was not consistent, and there have been no substantial EPL reforms since 2003, indicating institutional change by *drift*.

Furthermore, taking into account the broader definition of institutions, legacies of *informal* socialist period institutions also mattered in the formation of labour market regimes in Lithuania and Slovenia. They were reflected in the characteristics of the relevant actors and their relationships. For instance, the Lithuanian policy makers and social partners retained Soviet-like modes of interaction: all the important decisions were vested upon the State, and the social partners played a rather symbolic role. Meanwhile, a tradition of strong trade union movements in Slovenia, which formed at the end of the socialist period, remained after the country became independent. These persistent differences hindered the convergence between the two countries during their transformation.

Hence the first theoretical expectation, namely that ***differences in CEE labour market regimes can be explained by differences in path-dependence effects of the socialist period institutions***, can be confirmed.

Political parties

Individual case studies revealed some significant differences regarding the political party competition and partisan constellations in the government. First of all, while there was no political force in Lithuania strongly advocating worker's interests and extensive worker protection, it clearly existed in Slovenia. Secondly, the frequency of reshuffling of the political forces in the governments of the two countries varied considerably. In Lithuania, actor constellations changed basically after every election, hindering the continuity of political reform agendas. Meanwhile, Slovenian centre-left parties, advocating strong worker protection, were able to take advantage of a long period in

power in order to gradually implement all the most important post-transition reforms. Thirdly, no evidence was found in Lithuania that in order to pursue labour market reforms, political actors needed to make alliances with the social partners. Slovenian policy-makers, in turn, were highly dependent on the support from the trade unions in every attempt to pass significant reforms.

In the context of diverse starting positions, these differences in party competition were likely to cause further divergence between the two countries. The predominance of left political parties strengthened the initial Slovenia's orientation towards a strong and comprehensive labour market risk coverage, which became difficult to reverse later. Meanwhile, the described character of Lithuanian political party competition was rather an obstacle for the progress of stronger workers' protection, when radical reforms were needed. Therefore, the theoretical expectation that the ***differences in CEE labour market regimes can be explained by differences in the party competition***, can be confirmed. In fact, this finding supports the traditional power resources theory, claiming that cross-country differences in welfare can be explained by the relative success of left parties aligned with strong trade unions.

State bureaucracy

Regarding the role of bureaucracy in the formation in the labour market regimes, the evidence of its influence is rather limited in both Lithuania and Slovenia. The analysed data suggests that bureaucrats did not have clear autonomous preferences or influence regarding the shape of labour market regime in both countries. They were purely executors of the reforms, not involved in the decision-making, and subservient to the political leaders. Also, regarding the administrative capacities, very similar trends were documented in both countries. The only notable difference is that the Lithuanian public administration was lacking resources to implement country's radical reforms in the beginning of independence, while their counterparts in Slovenia were in fact quite effective in executing gradual changes in the Slovenian labour market institutions. However, this difference seems to be determined firstly by the nature of the reforms, i.e., their task at hand, and does not say much about the different characters of bureaucracies themselves.

It is hence difficult to argue that the actions of bureaucrats have caused the further divergence between Lithuania and Slovenia from their already different initial positions, affected by other diverse domestic dynamics. Rather, the features of bureaucracies in both countries point to the greater importance of divergence in other factors in the formation of the two labour market regimes. Therefore the theoretical expectation that ***differences in CEE labour market regimes can be explained by differences in the roles of state bureaucrats*** is not confirmed.

Social partners

Comparison of the information provided on the social partners in the individual case studies indicates major differences in their roles in Lithuania and Slovenia. Lithuanian social partners – both labour unions and employer associations – have been weak in terms of organisation and interest representation virtually during the whole period since the country gained independence. The most they achieved in defending their interests in the formal policy-making forums was stagnation of the policy-making processes, while in the end the decision-makers rarely took their preferences into account. No evidence was found that Lithuanian social partners facilitated significant *reassessment* of labour market policy ideas, and there were no significant signs of their *alignment* with the political forces in pursuing reforms. Meanwhile, Slovenia could be characterised as a country with especially strong and influential social partners in the context of other CEE countries. Since early 1990s they have been active in participating in the labour market regime creation. Few interrelated factors, non-existent in Lithuania, created favourable conditions for the significant involvement of social partners in Slovenia. First, labour unions and employer organisations were well-organised in terms of wide membership. Secondly, certain features of the state structure – namely favourable rules of referendum – allowed strong labour unions with a significant mobilisation capacity to veto unfavourable legislation. Consequently, the support of strong social partners was vital for the political players in the government in order to pursue labour market reforms. These reforms, in turn, reflected to a large extent the interests of trade unions, namely high levels of insurance against labour market risks. The situation did not change much even when the power of social partners decreased after 2004 – it only confirmed that alignment with social partners was vital for the policy makers to reform the labour market regime.

Similarly as the difference in party competition, disparity in the roles of social partners amplified the initial differences between the labour market regimes of the two countries; it led to further divergence rather than convergence. More specifically, strong and influential social partners promoted slow and gradual reformation of strong socialist worker insurance in Slovenia, as well as blocked the neo-liberal reform ideas. At the same time, weakness of social partners in Lithuania did not allow the orientation towards stronger worker protection to be preserved after the fall of communist regime, or to emerge again under the new conditions of free market economy. Rather, they permitted the neo-liberal inclination of political parties to prevail in the labour market policies. This situation clearly contributed to the relative underdevelopment of the Lithuanian labour market regime today. Therefore, the analysis of the role of social partners strongly suggests to confirm the theoretical expectation that the ***differences in CEE labour market regimes can be explained by differences in the roles of social partners.***

European Union

Generally, the real causal effects of Europeanisation are especially difficult to evaluate, as across the analysed countries there is little variation in this independent variable (Haverland, 2005). Indeed, both countries joined the EU at the same time, and were exposed to same pressures to change domestic labour market regimes. The patterns of labour market reforms with their relation to the EU were very similar in both Lithuania and Slovenia. First, during the pre-accession period, policy-makers in both countries were eager to meet the accession conditions and hence implemented necessary reforms reflecting the ideas of EES. Second, it is evident in both countries that the ideational pull of the EU for the reform agenda was stronger in the field of LMP than EPL. Third, the decrease of EU's influence on the further labour market regime formation was documented in both countries shortly after the accession. In Lithuania this was mostly due to the reluctance of policy-maker to engage in further reforms when the conditionality pressures were no longer relevant, while the Slovenian Government faced major resistance from the social partners. Nonetheless, the latest reforms in Slovenia leading to more flexibility were largely influenced by the EES (Stanojević, 2016). Even though similar reforms were recommended for Lithuania as well (European Council, 2011), there were no respective actions implemented.

In other words, up until the 2010s the role of the EU was rather similar in both countries, and did not cause amplification of the variation of domestic policies. On the contrary, it could better explain convergence between the two countries. For instance, the PLMP reform in Lithuania, which took into account the EU recommendations, led the country closer to the unemployment insurance standards already in place in Slovenia. Also, both countries were similarly encouraged to develop activation measures. However, Slovenia was influenced by the EU stronger regarding the latest reforms, which led to more divergent outcomes in terms of EPL in the two countries than before. Based on this, the last theoretical expectation, namely that the ***differences in CEE labour market regimes can be explained by differences in the role of the EU regarding the domestic policy making***, is confirmed.

8. Conclusions

This thesis aimed to contribute to the existing body of research and the discussions about the welfare regime types within the post-communist CEE region. As it was demonstrated, there was still no conclusive answer to issue of their typology: whether they were different or similar enough to ascribe them to either a unified or separate regime types in the European context. Moreover, either option required broader explanation, because there was evidence suggesting that they both were feasible (e.g., similar history, but different performance). The analysis focused on one particular

domain of a welfare state – the labour market regime, namely its three elements: EPL, PLMP and ALMP. It was perceived as an integral part of a welfare regime, largely reflecting its overall characteristics. The main research question was therefore the following:

What factors can explain the differences or similarities between CEE labour market regime types?

The first step of the study was to identify these differences and similarities between the CEE labour market regime types. The hierarchical cluster analysis dispelled doubts in the previous research and clearly showed the existence of two distinct CEE welfare and labour market regime types in the European context: one of them covered the Baltic States, while the other – the Visegrád countries and Slovenia. Other steps were directed at explaining this difference, both in terms of its content and drivers behind it.

Two countries – Lithuania and Slovenia, representing these different types were selected for further case study research within the framework of actor-centred historical institutionalism. First of all, the qualitative analysis revealed the essential difference between two countries: Slovenian regime could generally be described as more worker-friendly and flexicure. In comparison, in Lithuania the overall labour market risks coverage was not sufficient to provide comprehensive insurance for workers against the labour market risks.

Further, the process of answering the sub-questions allowed to clarify the factors conditioning the content of the two labour market regimes. The comparatively more worker-friendly and flexicure character of the Slovenian labour market regime in 2013 resulted from an interplay of several factors over time. First of all, a long period of cooperation between centre-left political forces and influential social partners allowed gradual and slow reformation of the generous institutions inherited from the socialist period by institutional layering. It set the basis for further developments after the country joined the EU. The EU played a role by encouraging a shift from passive to active LMPs, and recently to more employment flexibility. Strong trade unions, however, did not allow major deviations from the initial path in the face of Europeanisation and when reshuffles in political actor constellations became more frequent.

Regarding the formation of the Lithuanian labour market institutions, a gradual transformation of the labour market regime in 1990s was hardly an option, because certain labour market institutions simply did not exist. Further, the creation of a more comprehensive and generous labour market regime was impeded by non-existence of strong political parties representing workers' interests, dominance of neo-liberal ideology, frequent reshuffling of actor constellations in the government, weak administrative capacities to implement drastic reforms, and frail, non-influential social

partners. The formation of labour market institutions involved processes of both, institutional layering and drift. In Lithuania, the EU was the factor which encouraged the strengthening of unemployment protection system, at the same time focusing on activation. However, due to reluctance of domestic policy-makers to implement further reforms, its influence diminished once the country acceded the Union and pressures of conditionality were lifted.

To answer the main question, the comparative analysis demonstrated that a divergence in several of these factors determined that Slovenia and Lithuania ended up in different labour market regime clusters. Firstly, the countries had considerably different starting positions in the 1990s. While LMP structures had already existed in Slovenia and could be subjected to gradual changes later, they had to be built from scratch in Lithuania. Thus the path-dependence of formal institutions was stronger in Slovenia, while Lithuania was more open to new institutional paths for LMP development. Also, differences in process-centred mechanisms of institutional change have contributed to a situation where similar path-dependencies created different outcomes regarding EPL.

Secondly, this initial variation was amplified by the differences in party competition. In Lithuania, there was no significant political force protecting workers' interests, and politicians did not rely on the support of social partners. Also, frequent reshuffling of political constellations in the government hindered the continuity of labour market reforms. Slovenian labour market regime, in turn, was affected by a long period of the predominance of worker-friendly centre-left parties, aligned with the social partners. Even when the reshuffling has become more frequent and the party ideologies have shifted towards neo-liberalism since the 2000s, alliances of politicians with the social partners were vital to pass reforms.

In fact, the roles of social partners differed substantially in Lithuania and Slovenia, allowing for stronger divergence from the initial positions between the two countries. While they were rather weak and passive players in the Lithuanian labour market regime formation, strong trade unions in Slovenia managed to steer the main labour market reforms to their favour, and to block the legislation based on the neo-liberal principles. Hence they constituted another important factor to explain the diversity of outcomes.

Finally, the EU for a long period was the factor leading to greater convergence rather than divergence. Nonetheless, recently the reforms, strongly influenced by the EES, were implemented in Slovenia. Meanwhile, Lithuania took no action despite similar recommendations from the EU. This differentiation led the countries to further divergence from the previous situation, hence proving that different responses to the EU's influence is also an important factor in this explanation. Interestingly, while the differences between Lithuania and Slovenia before accession were mainly

caused by different internal dynamics, they started to become more similar afterwards, and the main factor of further divergence were responses to the pressures from the EU.

Meanwhile, the roles of state bureaucracies hardly contribute to the explanation of the different outcomes in the two countries. The collected evidence suggests that state bureaucracies were rather unimportant as autonomous actors in the formation of the labour market regimes in both countries, and their characteristics did not differ significantly. Therefore, there was not enough evidence to consider them as another factor conditioning divergence in labour market regime types between Slovenia and Lithuania.

There are several broader theoretical implications of these results. First of all, the findings of the cluster analysis based on the latest data allowed once more to refute the Esping-Andersen's claims that post-communist countries were going to converge into the three traditional welfare types. Differences between the East and the West of the EU persist. More importantly, it was shown that the CEE countries should not be regarded as a uniform group in terms of their welfare and labour market regimes. Both quantitative and qualitative parts of this study revealed substantial differences between the Baltic States and the rest of CEE countries.

Secondly, the process of testing the theoretical expectations in the comparative analysis has provided insights into the relevance of specific theoretical approaches they were based on. The expectation that cross-country differences in welfare structures can be explained by path-dependence (TE1) was confirmed, providing support to the validity of this essential concept of historical institutionalism. Further, the confirmation of TE2 and TE4, namely the importance of political party competition and the involvement of social partners, proved the relevance of the traditional power resources approach in welfare studies. Meanwhile, the state-centred approach appeared to be less relevant in the context of analysed countries, as the influence of state bureaucrats (TE 3) was found to be not essential for explaining differences between Lithuania and Slovenia. Lastly, TE5 concerning the significance of Europeanisation was also confirmed. It showed that differential impact of the EU-promoted policies can lead to 'divergence within convergence' (Van Vliet, 2010): Europeanisation in this way can actually deepen the cross-country differences in labour market structures of the member states, rather than only increase their similarity.

Generally, the overall theoretical framework of actor-centred historical institutionalism proved to be capable of explaining the variation not only among the Western European countries or between Europe's East and West, but also *within* the CEE region. The analysis of Lithuania and Slovenia demonstrated that the divergence between CEE countries was driven by a significant variation in country-specific developments. Diversity in Western European welfare regimes was explained by a

variety of authors using the same variables. Different path-dependencies, specific character and dynamics in party competition and the influence of societal groups conditioned that Western European welfare developed into persistently distinct types. Even Europeanisation, which is supposed to diffuse the national policies of the member states, has not led to notable convergence. It can be hence expected, that differences within the CEE region are also likely to endure.

It is important to note, that the study findings have a number of shortcomings which can be better addressed in further research. To begin with, as the analysis looked only into the factors suggested by the theoretical framework and previous research, it is likely that it has omitted other important variables. For instance, following the logic of actor-centred historical institutionalism in the analysis, the influence of macro-economic factors was not sufficiently controlled in this study. Moreover, the analysis did not look into non-legislative means of institutional change (e.g. budget deficits, precluding future expansion of welfare state, as described by Pierson (1994)). This suggests that application of different approach to the same research object might provide additional insights regarding the main question of this thesis.

Further, the qualitative analysis relied a lot on secondary sources. The causal relationships discovered by previous authors were taken for granted. Related to that, limited access to research and empirical data on some factors in this analysis could determine that not all of them were sufficiently explained. For instance, there was very little data on the role of state bureaucracy in the formation of labour market regimes in both analysed countries. More research hence is needed to better evaluate its likely influence.

Finally, the issue of generalisation of the final findings to other cases is quite complicated, since this thesis examined only two countries in a single policy area. First, the argumentation of this thesis was built on an assumption that labour market regime reflects the characteristics of a broader welfare regime, and hence similar factors influence their formation. Nonetheless, is highly likely that other welfare policy domains were affected by other factors and processes. Second, another assumption was that countries that appeared under the same regime type were similar enough to allow generalisations within a cluster. Nonetheless, as explained, the two countries selected for qualitative analysis were differently representative of their sub-clusters. While Lithuania was very similar to other countries of the Baltic sub-cluster in a variety of aspects, Slovenia might not have been as representative of Visegrád countries. Hence, one can assume that other CEE countries were also to some extent affected by similar developments that led to the analysed divergence, but examination of other countries and other policy domains would provide a better understanding of these issues.

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Annex 1. Welfare indicators dataset

	1	2	3	4	5	6	7	8	9
Country	Total general government expenditure, % of GDP, 2014	Government expenditure on education, % of GDP, 2011	Student-teacher ratio, 2012	School expectancy, years, 2012	Total health expenditure, % of GDP, 2013	Private-sector expenditure on health, % of total health expenditure, 2013	Physicians per 100 000, 2013	Infant mortality rate per 1000, 2014	Life expectancy at birth, years, 2014
Belgium	55.1	6.55	10.5	19.6	11.19	24.2	295.2	3.4	83.9
Czech Republic	42.8	4.51	13.2	18.1	7.24	16.7	368.92	2.4	82
Denmark	56	8.75	11.4	19.8	10.62	14.64	362.44	4	82.8
Germany	44.3	4.98	15.4	18.2	11.3	23.19	405.41	3.2	83.6
Estonia	38	5.16	12.5	18.1	5.72	22.13	328.3	2.7	81.9
Ireland	38.6	6.15	15.7	17.5	8.92	32.33	269.25	3.3	83.5
Greece	50.7	4.09	9.4	18.3	9.82	30.49	623.11	3.8	84.1
Spain	44.5	4.82	11.7	17.9	8.88	29.57	381.31	2.8	86.2
France	57.3	5.68	14.7	16.5	11.66	22.46	318.98	3.5	86
Italy	51.2	4.29	12.3	17.1	9.09	21.97	390.01	2.8	85.6
Latvia	37.5	4.96	10	17.9	5.72	38.09	319.13	3.8	79.4
Lithuania	34.8	5.17	8.1	18.9	6.24	33.43	427.7	3.9	80.1
Hungary	49.8	4.71	11.3	17.7	8.05	36.43	320.91	4.5	79.4
Netherlands	46.2	5.93	16.5	19.1	12.89	12.95	328.84	3.6	83.5
Austria	52.6	5.8	10.1	17.2	11.03	24.25	499.01	3	84
Poland	42.2	4.94	10.7	18.3	6.66	30.42	221.4	4.2	81.7
Portugal	51.7	5.27	9.9	18	9.71	35.34	426.07	2.9	84.4
Slovenia	49.9	5.68	12.6	18.5	9.16	28.38	263.03	1.8	84.1
Slovakia	41.9	4.06	14.1	16.4	8.21	29.96	300.14	5.8	80.5
Finland	58.1	6.76	13.1	20.5	9.4	24.72	301.71	2.2	84.1
Sweden	51.7	6.82	12.1	19.9	9.71	18.52	400.7	2.2	84.2
United Kingdom	43.9	5.98	17.8	16.6	9.12	16.46	277.09	3.9	83.2

	10*	11	12	13*	14*	15	16*	17*	18*
Country	Total fertility rate, 2014	Female labour market participation, % of working age women, 2014	Family benefits expenditure, % of GDP, 2013	Gini coefficient of equivalised disposable income, 2014	Inequality of income distribution (income quintile share ratio), 2014	Gender pay gap in unadjusted form, %, 2014	At-risk-of-poverty rate before social transfers, 2014	At-risk-of-poverty rate after social transfers, 2014	In-work at-risk-of-poverty rate, 2014
Belgium	1.74	47.6	2.2	25.9	3.8	9.9	27.5	15.5	4.8
Czech Republic	1.53	51.3	1.8	25.1	3.5	22.1	17.2	9.7	3.6
Denmark	1.69	58.7	3.7	27.7	4.1	15.8	26.9	12.1	4.8
Germany	1.47	53.7	3.1	30.7	5.1	21.6	25	16.7	9.9
Estonia	1.54	56.3	1.6	35.6	6.5	28.3	28.4	21.8	11.8
Ireland	1.94	53.1	2.8	30.8	4.8	14.4	37.2	15.6	5.5
Greece	1.3	44.1	1.7	34.5	6.5	15	26	22.1	13.2
Spain	1.32	52.5	1.3	34.7	6.8	18.8	31.1	22.2	12.6
France	2.01	50.6	2.5	29.2	4.3	15.3	24	13.3	8
Italy	1.37	39.7	1.2	32.4	5.8	6.5	24.7	19.4	11.1
Latvia	1.65	55.2	1.2	35.5	6.5	15.2	27	21.2	8.3
Lithuania	1.63	56	1.1	35	6.1	14.8	27.5	19.1	8.4
Hungary	1.44	44.9	2.5	28.6	4.3	15.1	26.6	15	6.7
Netherlands	1.71	58.3	1	26.2	3.8	16.2	21.3	11.6	5.3
Austria	1.47	54.7	2.7	27.6	4.1	22.9	25.4	14.1	7.2
Poland	1.32	48.9	0.8	30.8	4.9	7.7	23.1	17	10.7
Portugal	1.23	54.9	1.2	34.5	6.2	14.5	26.7	19.5	10.7
Slovenia	1.58	52.2	2	25	3.7	2.9	25.1	14.5	6.4
Slovakia	1.37	51.2	1.7	26.1	3.9	21.1	19.6	12.6	5.7
Finland	1.71	55.4	3.3	25.6	3.6	18	27.6	12.8	3.7
Sweden	1.88	60.2	3.1	25.4	3.9	14.6	28.5	15.1	7.8
United Kingdom	1.81	55.8	3	31.6	5.1	18.3	29.3	16.8	8.7

	19	20	21	22*	23*	24	25	26	27
Country	Total general government expenditure on social protection, % of GDP, 2014	Old age benefits expenditure, % of GDP, 2013	Sickness / healthcare and disability benefits expenditure, % of GDP, 2013	Sickness insurance replacement rate, 2010	Minimum pension replacement rate, 2010	Unemployment rate, 2014	Long-term unemployment, % of unemployment, 2014	Employment rate, 2014	Self-employed, % of total employed, 2014
Belgium	47.6	9.6	10.7	0.83	0.527	8.5	49.9	61.9	14.6
Czech Republic	51.3	8.6	7.3	0.698	0.165	6.1	43.5	69	18
Denmark	58.7	11.7	10.6	0.564	0.458	6.6	25.2	72.8	8.9
Germany	53.7	9	11.8	0.879	0.185	5	44.3	73.8	11
Estonia	56.3	6.5	5.9	0.733	0.223	7.4	45.3	69.6	9.1
Ireland	53.1	5.7	8.1	0.363	0.466	11.3	59.2	61.7	17.3
Greece	44.1	15.5	7.9	0.673	0.391	26.5	73.5	49.4	36
Spain	52.5	9.5	8.3	0.765	0.261	24.5	52.8	56	17.6
France	50.6	12.8	11.2	0.637	0.445	10.3	42.8	64.3	11.5
Italy	39.7	14.5	8.3	0.766	0.287	12.7	61.4	55.7	24.7
Latvia	55.2	7.5	4.4	0.87	0.16	10.8	43	66.3	11.5
Lithuania	56	6.4	5.5	0.505	0.235	10.7	44.7	65.7	12.1
Hungary	44.9	9.6	6.4	0.786	0.251	7.7	47.5	61.8	10.9
Netherlands	58.3	11	12.5	0.859	0.518	7.4	40	73.1	16.7
Austria	54.7	12.8	9.5	0.882	0.496	5.6	27.2	71.1	13.3
Poland	48.9	8.5	5.6	0.92	0.2	9	42.7	61.7	21.4
Portugal	54.9	12.7	8.2	0.806	0.533	14.1	59.6	62.6	19.7
Slovenia	52.2	10.3	9.1	0.904	0.213	9.7	54.5	63.9	18.6
Slovakia	51.2	7	7.1	0.69	0.217	13.2	70.2	61	15.4
Finland	55.4	11.7	10.9	0.714	0.27	8.7	22.4	68.7	14
Sweden	60.2	12.4	11.1	0.794	0.311	7.9	18.9	74.9	10.3
United Kingdom	55.8	11.8	10.2	0.214	0.347	6.1	35.8	71.9	15.2

Country	28	29*	30*	31*	32*	33	34*
	Temporary employees, % of total employees, 2014	Expenditure on LMP supports, % of GDP, 2013	Expenditure on LMP services, % of GDP, 2013	Expenditure on LMP measures as % of GDP, 2013	Overall net replacement rate of unemployment benefits, 2011	Unemployment insurance coverage rates, % of labour force, 2010	Strictness of employment protection, 2014
Belgium	8.6	2.04	0.21	0.51	0.60	0.66	1.89
Czech Republic	9.7	0.25	0.1	0.19	0.58	0.91	2.92
Denmark	8.6	1.66	0.4	1.3	0.59	0.72	2.20
Germany	13.1	1	0.35	0.3	0.58	0.67	2.68
Estonia	3.1	0.44	0.1	0.13	0.54	0.74	1.81
Ireland	9.3	2.2	0.11	0.72	0.37	1.00	1.40
Greece	11.6	0.64	0.01	0.19	0.37	1.00	2.12
Spain	24	2.82	0.08	0.41	0.54	0.58	2.05
France	16	1.46	0.25	0.67	0.70	0.61	2.38
Italy	13.6	1.58	0.03	0.32	0.53	0.53	2.68
Latvia	3.3	0.31	0.03	0.19	0.81	0.75	2.69
Lithuania	2.8	0.22	0.06	0.18	0.44	0.67	2.45
Hungary	10.8	0.34	0.08	0.7	0.50	0.87	1.59
Netherlands	21.1	1.95	0.25	0.58	0.67	0.83	2.82
Austria	9.2	1.4	0.17	0.59	0.50	0.68	2.37
Poland	28.3	0.35	0.08	0.41	0.38	0.54	2.23
Portugal	21.4	1.66	0.02	0.46	0.76	0.76	3.18
Slovenia	16.5	0.8	0.09	0.28	0.66	0.80	2.16
Slovakia	8.8	0.4	0.05	0.17	0.64	0.57	1.84
Finland	15.4	1.62	0.11	0.87	0.51	1.00	2.17
Sweden	16.8	0.68	0.25	1.07	0.47	0.96	2.61
United Kingdom	6.3	0.29	0.32	0.08	0.14	0.86	1.10

***Description of the indicators**

No.	Indicator	Description
10.	Total fertility rate	Average number of live births a woman would ever deliver if she were to experience the fertility rate of a given period.
13.	Gini coefficient of equivalised disposable income	Relationship of cumulative shares of the population arranged according to the level of equivalised disposable income, to the cumulative share of the equivalised total disposable income received by them.
14.	Inequality of income distribution (income quintile share ratio)	Ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).
16.	At-risk-of-poverty rate before social transfers	The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (before social transfers).
17.	At-risk-of-poverty rate after social transfers	The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).
18.	In-work at-risk-of-poverty rate	The share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).
22.	Sickness insurance replacement rate	Calculated for a fictive average production worker in manufacturing sector who is 40 years old and has been working for the 20 years preceding the loss of income or the benefit period, by annualizing the benefit for an initial six month spell of illness beneficiary.
23.	Minimum pension replacement rate	Calculated for a fictive average production worker in manufacturing sector who is 40 years old and has been working for the 20 years preceding the loss of income or the benefit period, by annualizing the benefit for an initial six month spell of pension beneficiary.
29.	Expenditure on LMP supports, % of GDP	LMP supports cover financial assistance that aims to compensate individuals for loss of wage or salary and support them during job-search (i.e. mostly unemployment benefits) or which facilitates early retirement.
30.	Expenditure on LMP services, % of GDP	LMP services cover all services and activities of the Public Employment Services together with any other publicly funded services for jobseekers.
31.	Expenditure on LMP measures as % of GDP	LMP measures cover interventions that provide temporary support for groups that are disadvantaged in the labour market and which aim at activating the unemployed, helping people move from involuntary inactivity into employment, or maintaining the jobs of persons threatened by unemployment: training, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.
32.	Overall net replacement rate of unemployment benefits	The proportion of net income in work that is maintained after job loss for a single person, earning 33-200% of an average wage.
34.	Strictness of employment protection	Synthetic indicator of the strictness of regulation on collective and individual dismissals of persons with regular contracts. It is compiled from 21 items covering three different aspects of employment protection regulations as they were in force on January 1st of each year. Measured in a scale from 0 (least restrictions) to 6 (most restrictions).