Divergence within Convergence

Europeanisation of Social and Employment Policies

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Abstract

With the adoption of the European Employment Strategy and the Lisbon strategy, convergence of social protection goals and labour market policies across EU member states have become important objectives at the European agenda. Embedded in convergence, Europeanisation and welfare state literature, this thesis examines the role of European integration in changing social policies. This study shows that since 1995 social expenditures of EU member states have converged and increased on average, whereas non-EU countries have diverged, controlled for cyclical and demographic effects. This EU-specific convergence pattern of social expenditures leads us to the subsequent question whether national policies also converged. Relying on disaggregated expenditure data and indicators for several policy instruments, I found that labour market policies have become increasingly activating, whereas non-EU countries have not. Although EU member states tend to follow the policies of the European guidelines and recommendations, this thesis provides evidence that some active labour market policy instruments are more eligible to converge than others.

Contents

1. Introduction

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

Earlier quantitative research has shown convergence of social protection systems in the EU countries over the last decades. However, it is indistinct to what extent this convergence can be attributed to any European influences, because domestic and global dynamics have not been taken into account by most scholars. The picture becomes even more complicated by the results of qualitative studies, which found divergence of national social policies. Hence, the present study combines a set of tools to account for the overall question whether social policies in EU member states have converged and to what extent this can be attributed to the process of European integration.

To answer this question I analyse the degree of convergence of social expenditures first, as a measure for the financial efforts of social provision. By controlling social expenditures for cyclical and demographic factors, I try to separate the effects of parallel but independent domestic developments from globalisation and Europeanisation effects. The selection of EU member states and non-EU countries controls for the effect of European integration more specifically. These data illustrate that social expenditures in mature welfare states have converged over the last 20 years. However, since 1995 the degree of convergence has been more pronounced in EU member states, than across other OECD countries.

This EU-specific convergence pattern of social expenditures leads me to the subsequent question whether national policies also converged. With the adoption of the European Employment Strategy (EES) in 1997, labour market policies were in

fact the first social policies coordinated at the European level. Basically, the rationale of the EES is that member states should use more active labour market policies (ALMPs) in order to reduce unemployment and to increase employment. As a result, national employment policies should converge towards common EU objectives. Member states can use a broad range of policy instruments to increase the labour market participation of unemployed people. Therefore, this study includes indicators for many policy instruments, in order to assess the convergence of ALMPs. This approach allows to identify different approaches to the achievement of the same goal. Relying on ALMP expenditure data and policy indicators, this study is methodologically a bridge between large-n, quantitative expenditure studies on the one hand and qualitative policy studies on the other.

To highlight again, this study focuses on the impact of European integration on changes in social and employment policies across member states. Accordingly, the main and subsequent questions are as follows:

Main question:
Have social policies in EU member states converged and, if so, to what extent can this be attributed to European integration?

Subsequent questions:
1. To what extent have the expenditure*s* on social welfare in EU member states converged?
2. To what extent have national social policies in EU member states converged?

Outline
The thesis is structured as follows. In Chapter 2 the Europeanisation and convergence of social policies is discussed, based on a critical assessment of the literature. Chapter 3 presents the underlying research design. Here I focus on the welfare state indicators used to assess convergence patterns across EU and non-EU countries. Chapter 4 presents the results of the cross-country analysis. The analysis shows that EU countries converged at a high abstraction level, but did converge less at the level of the content of policy instruments. However, since the data also show that EU countries have shifted to more ALMPs, while non-EU countries have not, there might be some evidence for Europeanisation of labour market policies. Chapter 5 concludes the thesis by reflecting on the broader implications of its analysis, for European and national labour market policies and future research in the field.

2. Social Convergence in the European Union

Introduction

The effects of European integration on national social policies has been discussed in several domains of the literature. Generally, two types of Europeanisation –direct and indirect- can be distinguishes, which will be discussed first in this chapter. Then, I continue with discussing the European impact on a specific policy field, namely active labour market policies. The next section discusses how European policies could lead to convergence of national labour market policies, arguing that convergence in social expenditures is something different than convergence in policy instruments. Then the existing empirical convergence literature will be reviewed. To conclude, the chapter summarizes the findings that will further guide the current study's line of argumentation.

Direct and indirect Europeanisation of national social policies

In the field of social policy, Europeanisation of national social security entails direct and indirect effects (Leibfried, 2000: 47; Falkner, 2007: 259). Direct effects refer to the implementation of EU social policies, while indirect effects refer to the impact of the creation of a single market on national social policies.

Although social progress has been an EU objective since the Treaty of Rome in 1957, it is only from the end of the 1990s that social security has become a significant EU policy area, which may be illustrated with terms like "convergence strategy" and "common objectives". In 2000 the European Council adopted the goal that besides economic growth social cohesion should also be strengthened in the EU. The open method of coordination (OMC) was introduced 'as the means of spreading best practice and achieving greater convergence towards the main EU goals.[1] Taking the differences of the European welfare states into account, the OMC is a set of non-binding instruments, like the adoption of guidelines, indicators, recommendations and national action plans.[2]

Indirect effects of European integration on national social security systems refer to effects of economic integration. Three of these effects are distinguished. First, European integration leads to increasing mobility of production factors. Migration of

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[1] Lisbon European Council 23 and 24 March 2000, Presidency Conclusions, paragraph 37.
[2] Since eventual OMC related policy changes at the national level are the result of mechanisms as learning and peer pressure, rather than of the implementation of EU law, effects of the OMC could also be categorised as indirect effects of European integration (Vink and Graziano, 2007: 10).

employees may be harmful when it is triggered by differences in generosity of welfare systems. Countries with high social benefits accompanied with a high tax burden stimulate net payers to go abroad and attract net receivers from abroad at the same time. This adverse selection problem puts pressure on the generosity of social security systems, because the social expenditures rise and the tax base narrows. In the end, this results in convergence to lower social protection levels (Sinn, 1990; Sinn, 2002). Second, increased international competition forces governments to reduce their social standards to offer attractive, competitive conditions for companies in order to keep them within their borders and to stimulate employment. Consequently, competition between governments leads to lower standards of social policies, the so-called 'social race to the bottom' or 'social dumping' (Scharpf, 1999). However, it can be counter argued that the decisions of companies only depends on total labour costs and its relation to the productivity of employees. The generosity of the social security system, the division between wage and non-wage costs, therefore fully reflects the preferences of the employees (Baldwin and Wyplosz, 2004: 184). Consequently, an increase in international competition does not necessarily lead to a lower levels of social protection.

In contrast to the first two effects, a third indirect effect of European integration could lead to increasing spending on social protection. To insure themselves against the increased dynamics of the labour market due to international economic integration, people desire higher levels of social protection (Rodrik, 1997; Agell, 1999). And economic growth stimulated by European integration enables financing more generous social security systems (Cornelisse and Goudswaard, 2002:5).

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

European labour market policies, such as the employment guidelines of the European Employment Strategy, are mainly focused at ALMPs. According to European policies, activating policies are not only aimed at reducing unemployment, but also at increasing employment and combating social exclusion. Like the OMC, the EES is a set of non-binding instruments like guidelines and recommendations. Because of the emphasis of the European Commission on ALMPs, it is hypothesised that national labour market policies are shifted from a passive towards a more activating approach and that national ALMPs have converged. Another important instrument of European Commission in the area of employment policies is the European Social Fund (ESF) (Molle, 2006: 309). This fund, one of the EU's structural funds, subsidizes concrete programmes that are aimed at combating unemployment, for instance educational programmes. However, since the ESF programmes are mainly granted to specific projects and regions, which may in itself combat unemployment quite effectively, it is the question whether the ESF subsidies lead to changes of national labour market policies. All in all, the first way in which national policies may have been influenced is through European employment policies. However, national labour market policies may have been influenced by other international organisations than the EU as well. Traditionally, the OECD also pleads in its reports, for example the OECD Jobs Study (1994), for activation of labour market policies. However, the OECD labour market policy discourse is more liberal than that of the EU.

The second path of European influence on national labour market policies is via European monetary integration. Since the Maastricht convergence criteria entered into force after 1 November 1993, the members of the European Monetary Union (EMU) are constricted in applying economic policies to boost their economies in order to reduce unemployment levels. First of all, for national authorities it is no longer possible to stimulate the economy by increasing their competitiveness via monetary policies. Second, the EMU criteria set borders to budget deficits and inflation rates meaning that member states are limited in applying budgetary policies. All in all, since member states are limited in applying monetary and budgetary policies, the EMU has limited the repertory of responses of policy makers to economic shocks to supply-side strategies as ALMPs, lower tax burdens deregulation, flexibilisation, wage differentiation and welfare cutbacks to reduce the reservation wage (Scharpf, 2002: 649). This means that because of the EMU we may expect an increase in ALMPs across European countries.

Policy convergence

To analyse whether the European agenda has penetrated the policies of the member states, I examine whether national labour market policies have converged in terms of a more activating approach. Generally, convergence can be understood as a decrease in variation of policies across countries over time. To measure policy convergence, I first use several social expenditure measures, indicating the financial efforts of social provision. But since expenditure measures only indicate policy inputs, this study also attempts to measure convergence in policy outputs, using several indicators which will be discussed in chapter three. Policy outputs refer to the policy programs adopted by governments, with which policy makers attempt to actively influence society and economy (Bennett, 1991; Unger and Van Waarden, 1995; Holzinger and Knill, 2005). Within the scope of policy outputs, convergence can be measured at different levels, ranging from abstract policy goals to detailed specifications in laws. Convergence of policy goals refer for example to a situation in which a number of countries pronounce to intend to focus on increasing participation and reducing unemployment. Convergence of policy instruments, in contrast, refers for instance to a situation in which a number countries reduce the duration of unemployment benefits.

In the literature on Europeanisation of social protection, the relation between changes of policy goals and policy instruments is highly debated. In the European Employment Strategy, formal targets are set by the European Commission and the choice of the instruments to achieve these ends are left to the member states. Therefore, many authors who examined the impact of the EES do not find instrumental changes in labour market policies on the national level as a result of the EES, but instead they do find changes of goals, paradigms and discourses (Sotiropoulos, 2004; Zimmerman, 2006; Zeitlin and Pochet, 2005; López-Santana, 2006). For example, Serrano Pascual (2004) assesses, based on a number of case studies of countries, whether the European attention for 'activation' has led to convergence of labour market policies of European countries. The major finding is that most of the European countries have incorporated the activation concept. However, it is not clear whether there is convergence at the level of the content of the policies. The thesis put forward (p.500) is that there is divergence at the level of methods and principles, while there is convergence of ideologies. These differences in implementations of policy instruments, which instruments are applied, are explained by differences in welfare regimes. Since countries can choose several

instruments to make a shift towards ALMPs, it is possible that although all countries activate their labour market policies, these policies do not converge. To assess the degree of convergence across the EU, all 15 EU countries should be included. However, most studies concerning convergence of labour market policies, as Serrano Pascual's study, select only a small number of countries (Clasen e.a., 2001; Hvinden e.a., 2001).

Although changes in policy goals do not necessarily lead to congruous changes in policy instruments, it is very well thinkable that convergence of policy goals across member states ultimately leads to convergence of policy instruments. After all, mechanisms of the EES like mutual learning on best practices and the yearly council recommendations on the national performances are focused on policy instruments. Therefore, Europeanisation of labour market policies may lead to convergence of ALMP instruments. However, we should note that convergence is something different than Europeanisation (Radaelli and Pasquier, 2007: 39). Convergence of national policies could be a consequence of Europeanisation. After all, in the convergence literature trans-national communication, which is a mechanism in the EES, is considered as an important explanatory mechanism for convergence (Holzinger and Knill, 2005). But convergence is not necessarily the equivalent of a European impact, and divergence is not necessarily the absence of Europeanisation. After all, policy convergence could also be the result of globalisation, influences of international organisations such as the OECD, or convergence may occur as a result of equivalent but independent responses of political actors to parallel problem pressures (Holzinger and Knill, 2005: 786)

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

crisis, she finds a slight convergence between 1960 and 1973 and a slight divergence between 1973 and 1980 of both indicators.

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

All in all, although many qualitative guided researchers favour theoretical arguments and find empirical evidence of continuing national diversity (Pierson, 2001; Daguerre and Taylor-Gooby, 2004; Hvinden, 2004), the overall result of quantitative studies seems to be that there is convergence in social expenditures across European countries over the last 25 years. However, it is indistinct to what extent this convergence can be attributed to any European influences, because domestic and global dynamics have not been taken into account by most scholars.

Conclusion

National social policies can be influenced directly through EU social policies and indirectly through European economic integration. A particular European policy field aimed at converging national active labour market policies is the European Employment Strategy. The literature review shows that the results of the existing literature are ambiguous. On the one hand qualitative case studies find that the EES has increased the attention for ALMPs, but at the same time ALMP instruments are diverging. However, this conclusion is complicated since these studies include only small numbers of countries. On the other hand, quantitative convergence studies find convergence of social expenditures. Problematic here is that the EU impact is unclear, since these studies do not control for domestic socio-economic effects and for globalisation. Another problem is that these studies solely focus on expenditure indicators. Therefore, the present research attempts to control the expenditure data for other dynamics than Europeanisation and to incorporate policy indicators in quantitative convergence research.

3. Research design

Introduction

To analyse whether social policies in EU member states have converged and to determine to what extent convergence patterns can be attributed to the effects of European integration, a comparative research design has been chosen. The first part of this chapter discusses the several welfare state indicators. It starts with social expenditure indicators in general and measures for expenditures on active labour market policies in particular. Then, the study includes a number of policy indicators covering several active labour market policy instruments, because expenditure measures alone are not enough to indicate policy changes. The benefit of this approach is that it allows to indicate the instruments that have become dominant across the European welfare states, and those most eligible to converge. The chapter concludes by explaining the methods to measure the degree of convergence and the selection of countries.

Measures

Social expenditures

Firstly, I use the level of social expenditures as a percentage of GDP, indicating the financial efforts of social provision.[3] Secondly, I use expenditures on ALMPs as a measure of the effort countries make to avoid high levels of unemployment . The following areas are included: expenditures on employment services, labour market training, youth programmes, subsidised employment and programmes for the disabled. Hence, a trend towards an activating approach should be indicated by an increase in the expenditures. I use data from the most recent OECD Social Expenditure Database (2007). This database contains data at different aggregation levels. In comparative and convergence studies of welfare states, the level of social expenditures is a widely used indicator of the financial efforts of social provision. However, social expenditures as policy indicators have their limitations (Clasen en Siegel, 2007; Kühner, 2007).

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[3] These expenditures include the following nine social policy areas: old-age (i.e. pensions), survivors (i.e. pensions and funeral payments), incapacity-related benefits (i.e. disability benefits), health care, family (i.e. child allowances), active labour market policies (i.e. employment services, labour market training, subsidised employment), unemployment (i.e. unemployment compensation, early retirement for labour market reasons), housing (i.e. housing allowances and rent subsidies), other social policy areas (i.e. social assistance, food subsidies).

The first limitation is that since the expenditures are measured at high aggregation level, it is not clear which policies are represented by changes in expenditures. Therefore in this study I also analyse four indicators of expenditures at a lower abstraction level, namely public employment services, special programmes for youth when in transition from school to work, labour market training and subsidised employment (Calmfors e.a., 2001). Still, expenditure indicators do not capture changes in the content of specific policy instruments. Spending based analyses provide valuable insights, but spending measures alone are not enough to indicate policy changes. Therefore, I also include several policy indicators which will be discussed below. Second, changes in levels of expenditures expressed as percentages of GDP do not only indicate changes in social expenditures, but also in GDP, which is called the denominator effect. Therefore, I express the expenditures on ALMPs also as a percentage of the total expenditures on labour market policies, which is the sum of expenditures on passive and active labour market policies. Hence, changes of this indicator indicate relative shifts in efforts that countries make between passive and active labour market policies.

Third, changes in expenditure ratio's may not be caused by policy changes, but simply by the number of beneficiaries as a result of ageing populations or changes in unemployment levels due to cyclical factors. Social expenditure changes may not be determined by changes in policies, but by changes in demand for benefits. To control for these changes in demands, social expenditure ratio's are divided by the unemployment rate[4] plus the percentage of people aged 65 and older[5] (Clayton and Pontusson, 1998; Castles, 2004). Although it is the trend in the resulting social expenditure ratio's rather than their absolute level, which is relevant here, the resulting ratio's give 'a crude measure of welfare generosity, theoretically to be interpreted as the percentage of GDP received in welfare spending for every 1 per cent of the population in need' (Castles, 2004: 36). An obvious deficiency of this indicator is that it implies that only two groups of welfare recipients receive all the social expenditures (Castles, 2004: 36). The reason I select the unemployment rate and the percentage of the population aged 65 and older to control for, and not another group of welfare recipients, for instance the number disabled persons, is that I intend to control for cyclical and demographic trends which might cause convergence patterns in social expenditures. Probably, there is no such trend in the number of disabled people.

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[4] The number of people unemployed as a percentage of the labour force.
[5] Population aged 65 and above as percentage of the total population.

Expenditures on ALMPs are not sensitive for demographic pressures, but of course they are for unemployment levels (Janoski, 1990; Armingeon, 2007). However, also this problem is solved by expressing expenditures on ALMPs as a percentage of total labour market policies, since passive and active labour market policies are both influenced by unemployment levels. In addition, I included an indicator in which the expenditures on ALMPs are controlled for unemployment levels, by dividing the expenditures by the unemployment rate.

Finally, the impact of the tax system on social spending differs across countries, because in some countries cash benefits are taxable, while in other countries they are not. This complicates the comparability of the net social efforts. However, since expenditures on ALMPs do not include benefits to unemployed people, there is no impact of the tax system. Furthermore, because the tax system can also be used for policy purposes, I included a separate indicator for income taxes, which will discussed below.

<u>Characteristics of unemployment benefits</u>

To activate unemployed people governments also change unemployment benefits schemes into activating benefit schemes. The general rationale is that less generous benefit schemes decrease the disincentives to work, because the reservation wage of an unemployed person will be lower. Therefore people will sooner accept jobs. This study includes several policy indicators for changes in benefit schemes. First, for the qualifying or entitlement conditions I use the number of weeks of insurance required to qualify for unemployment benefits. When the qualifying conditions are higher, it is more difficult to receive unemployment benefits and people will accept jobs sooner, in order to prevent a situation without income. The second characteristic of unemployment benefits is the waiting period, measured as the number of days persons must wait to start receiving benefit after becoming unemployed. In some countries unemployed people have to wait several days before benefits can be claimed. The rationale of such a waiting period is that it discourages people to quite their jobs and become unemployed (Schmid, 1995). Hence, if governments intend to use such periods in which no benefits are paid to keep people active, we can expect an increase in the number of waiting days across countries. A third characteristic of benefit schemes is the duration, indicated by the weeks of benefit entitlement.[6] Also shortening the duration of unemployment benefits may incite unemployed people to

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

accept jobs sooner (Layard e.a., 1991). Therefore, changes in the duration of unemployment benefits may have an activating effect. For the abovementioned three indicators, qualifying conditions, waiting period and duration of benefits, I use the Welfare State Entitlements Data Set (Scruggs, 2005). This data set contains several welfare state indicators for 18 countries. Unfortunately, the data set does not include all EU 15 countries.

Next, the level of benefits is important. High levels of unemployment benefits function as disincentives for unemployed people to find work and to accept jobs. Hence, if unemployment benefits are reformed into an activating direction, the benefit levels are lowered. As indicator for the level of benefits, I use unemployment replacement rates, indicating the proportion of income from work replaced by unemployment benefits. In most studies replacement rates are used as measures of benefit generosity. However, replacement rates can only be seen as limited indicators of the generosity of benefit systems (Whiteford, 1995). Some of the limitations are: first, not all relevant aspects of benefit systems may be taken into account, such as housing subsidies; second, taxation can complicate the comparability across countries; and third, replacement rates are based on entitlement criteria and often represent only the maximum payments available in the circumstances specified. The final limitation mentioned is indeed problematic for measuring benefit generosity, but it is exactly the right indicator for measuring changes in policies, as is the case in this study. In this study I use gross replacement rates from the OECD (2006), which represents a variety of previous income, household, and unemployment spell situations.

Income tax rates

Most studies on ALMPs only focus on explicit activating instruments as training and availability requirements. However, fiscal instruments like income tax credits may be just as effective (Whitehouse, 1996). The rationale behind fiscal instruments is to increase the attractiveness of work, by increasing the difference in income levels of working and being unemployed, often referred to as 'making work pay'. Naturally, the same objective could be achieved by lowering benefit levels. However, the latter is politically probably more demanding. I use OECD (2005) data on income tax plus employee contributions less cash benefits as a percentage of gross wage, of a one-earner family with two children and an 'average production worker' wage.

<u>Availability requirements and benefit sanctions</u>

An important characteristic of ALMPs is that people have to comply with conditions to receive benefits, usually meaning that people have to be available for the labour market. Therefore, people have to seek jobs actively, they have to participate in active labour market programmes such as training, and they have to accept suitable job offers. The stricter these conditions are, the more activating they are. These availability requirements can be enforced through benefit sanctions, implying temporary reductions in benefit payments. Most comparative studies on availability requirements and benefit sanctions are small-N studies. Since availability requirements and benefit sanctions are usually described in legislation, it is difficult to construct quantitative measures in order to compare many countries over time. Hence, only a few indices are available. Gray (2003) constructed an index for benefit sanctions, covering 14 OECD countries, but only for one year. Kvist (2002) derived an index covering the period 1990-1998, but this index covers only seven countries.

To compare these availability requirements across countries and over time, I use scores on an index of availability requirements which is constructed by the Danish Ministry of Finance (Ministry of Finance Denmark, 1998; Hasselpflug, 2005). The index is composed of a weighted average of scores on five indicators, measuring the demands on job search activity, the extent to which participants in active labour market programmes have to accept job offers, the demands concerning occupational mobility, the demands concerning geographical mobility of the unemployed, and the extent to which persons can reject a job offer or participation in an active labour market program. The index ranges from 1 to 5. The higher the score on the index, the stricter the conditions, meaning that unemployed have to be more available.

To measure changes in benefit sanctions I use another index from the same dataset of the Danish Ministry of Finance. This index is composed of a weighted average of scores on three indicators, measuring benefit sanctions applied in cases of self-induced resignation from jobs, refusal of participation in active labour market programmes and refusal of job offers without valid reasons. Likewise the availability requirements index, the benefit sanctions index ranges from 1 to 5 and the higher the score, the stronger the sanctions. The scores are based on two surveys conducted by the Danish Ministry of Finance, the first was held in the mid 1990's and covers 19 countries.[7] The second survey was held in 2004 and covers 25 countries.

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[7] According to the Danish Ministry of Finance (1999) these data refer to the mid 1990's. Like Nickell e.a. (2005) we therefore assume that these data refer to the year 1995.

Unfortunately, there were only 16 countries that have participated in both questionnaires.

Method: Convergence and Europeanisation

Since a main problem in the Europeanisation literature is how to demonstrate that domestic changes have been caused by EU-level factors rather than global or domestic dynamics (Haverland, 2006) this study controls for cyclical and demographic factors. To indicate whether it is Europeanisation rather than globalisation that has had any impact on the convergence of ALMPs, I include not only EU member states, but also other OECD-countries. These non-EU OECD countries control for the effects of globalisation and influences of other international organisations.[8] As the EU member states, these non-EU countries are advanced societies and capitalist economies.

In addition, I also include new EU member states. About the influence of EU policies on the social security systems of the new member states is not much known yet. Therefore, it is an interesting question whether social expenditures of new member states have changed over time and if, whether these patterns have been caused by global, European or domestic influences. Also social security in the new member states in general is a rather unknown domain. For example, we do not know to what kind of welfare regime these countries belong. Central and East-European countries may even form a new welfare regime. Unfortunately, international comparative expenditure data is only available for four new member states, namely Czech Republic, Hungary, Poland and Slovak Republic. Data on policy instruments is not available at all for these countries. But as Holzinger (2006: 282) points out, in convergence research it is almost the rule that it is impossible to obtain a complete data set for a given policy field, set of countries and time period.

To assess developments of convergence or divergence the standard deviation and the coefficient of variation[9] are calculated for several years.[10] A decrease over time in these variation measures points out that there is convergence, while an

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[8] It should be mentioned that European non-EU countries as Switzerland or Norway may also be influenced by European integration, for example via policy competition. However, policy competition on ALMPs is not very plausible, but see Franzese and Hays (2006).

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

[10] In the convergence literature several types of convergence can be distinguished. The most common type is σ-convergence. Studies concerned with this type, analyse the decrease in variation of domestic policies. Because of its indication of 'growing together', it is a basic logic for studies measuring the similarity of policies. Since this thesis has an interest in the variation of social policies over time, we use σ-convergence.

increase indicates that the settings of the policy instrument diverged.[11] Furthermore, the development of the mean signifies the direction, more or less activating, of the convergence or divergence. Constrained by data availability, our empirical study covers the years 1995 up till 2003, which captures the adoption of the EES.[12] Although the new member states had not acceded the EU yet during this period, EU policies might have played an important role in the development of the social security systems of these countries. After all, the acceding countries had to adopt the entire acquis communautaire before their entering into accession negotiations.

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[11] The meaning of the calculated variance measures for the new member states is limited, since only four countries are included. Instead, it is more interesting whether the level of social protection in the new member states has converged towards the level of the old member states.
[12] The earliest data on availability requirements and benefits sanctions are from 1995.

4. Results

Introduction

After reviewing the literature, I discussed the measures and methods to analyse to what extent social expenditures and social policies in EU member states have converged. This chapter presents the results of the empirical analysis. Starting with the simple total social expenditures, I demonstrate the effect of correcting for cyclical and demographic effects on this widely used indicator. Then, the results for the expenditures on active labour market policies show the potential effect of the European Employment Strategy. Finally, the convergence analysis will be completed with the measures indicating changes in policy instruments. The chapter concludes with an overall discussion, combining the results on all indicators.

Total social expenditures

Table 1 illustrates patterns of convergence in social expenditures of the EU countries and the other OECD countries. Between 1985 and 2003 the standard deviation and the coefficient of variation of social expenditures of the EU-15 declined, while the average level of social expenditures increased. Also the average level of social expenditures of the non-EU countries increased, but the standard deviation only decreases between 1995 and 2003. Obviously, these data indicate a 'race to the top' rather than a 'race to the bottom'. The social expenditures have increased in the new member states as well. The rather strong social convergence in the EU can be largely explained by the rapidly catch up of the Mediterranean countries, which had relatively low levels of social protection in 1985.

Tabel 1 Total social expenditures (%GDP)

	1985	1995	2003	Change 1995-2003
Australia	13.02	17.13	17.90	0.77
Austria	23.86	26.58	26.05	-0.53
Belgium	26.12	26.35	26.48	0.12
Canada	17.27	19.20	17.27	-1.92
Czech Republic	:	18.24	21.13	2.89
Denmark	24.18	28.87	27.58	-1.29
Finland	22.79	27.36	22.45	-4.90
France	25.77	28.35	28.72	0.37
Germany	23.63	26.60	27.25	0.65
Greece	17.89	19.30	21.30	2.00
Hungary	:	:	22.68	:
Ireland	21.81	16.32	15.93	-0.39
Italy	20.81	19.79	24.19	4.40
Japan	11.15	13.89	17.73	3.84
Luxembourg	23.14	23.77	22.25	-1.52
Netherlands	24.22	22.79	20.67	-2.12
New Zealand	17.97	18.95	18.01	-0.94
Norway	17.94	23.51	25.07	1.57
Poland	:	23.13	22.93	-0.20
Portugal	10.96	18.14	23.51	5.37
Slovak Republic	:	18.94	17.32	-1.62
Spain	17.78	21.48	20.31	-1.17
Sweden	29.71	32.54	31.28	-1.26
Switzerland	14.84	17.54	20.52	2.98
United Kingdom	19.56	20.36	20.64	0.28
United States	12.91	15.35	16.20	0.85
Mean OECD-26	19.88	21.78	22.11	0.33
Standard deviation	5.05	4.69	4.10	-0.60
Coefficient of Variation	0.25	0.22	0.19	-0.03
Mean EU-15	22.15	23.91	23.91	0.00
Standard deviation	4.26	4.47	3.86	-0.62
Coefficient of variation	0.19	0.19	0.16	-0.03
Mean OECD-7	15.01	17.94	18.96	1.02
Standard deviation	2.56	2.87	2.77	-0.09
Coefficient of variation	0.17	0.16	0.15	-0.01
Mean new member states-4		20.10	20.46	0.36
Standard deviation		2.16	2.34	0.18
Coefficient of variation		0.11	0.11	0.01

Notes: EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
OECD-7: Australia, Canada, Japan, New Zealand, Norway, Switzerland, United States.
New member states-4: Czech Republic, Hungary, Poland, Slovak Republic.

Source: OECD Social Expenditure Database (OECD 2007)

Table 2   Total social expenditures (%GDP) controlled for population aged 65+ and unemployment

	1985	1995	2003	Change 1995-2003
Australia	0.72	0.87	0.99	0.11
Austria	1.34	1.41	1.28	-0.13
Belgium	1.04	1.05	1.06	0.01
Canada	0.83	0.89	0.84	-0.05
Czech Republic	:	1.06	0.97	-0.09
Denmark	1.06	1.30	1.36	0.07
Finland	1.30	0.92	0.92	-0.01
France	1.11	1.04	1.09	0.05
Germany	1.09	1.13	1.01	-0.12
Greece	0.85	0.79	0.79	-0.01
Hungary	:	:	1.09	:
Ireland	0.80	0.69	1.04	0.35
Italy	0.90	0.70	0.86	0.16
Japan	0.86	0.78	0.74	-0.04
Luxembourg	1.43	1.46	1.27	-0.19
Netherlands	0.96	1.13	1.14	0.01
New Zealand	1.22	1.05	1.08	0.03
Norway	0.98	1.13	1.29	0.16
Poland	:	0.95	0.71	-0.24
Portugal	0.53	0.82	1.02	0.19
Slovak Republic	:	0.79	0.59	-0.20
Spain	0.54	0.57	0.73	0.16
Sweden	1.42	1.22	1.36	0.14
Switzerland	0.99	0.99	1.05	0.06
United Kingdom	0.74	0.83	1.00	0.17
United States	0.68	0.85	0.89	0.03
Mean OECD-26	0.97	0.98	1.00	0.03
Standard deviation	0.25	0.22	0.20	-0.01
Coefficient of Variation	0.26	0.22	0.20	-0.02
Mean EU-15 Members	1.01	1.00	1.06	0.06
Standard deviation	0.28	0.26	0.19	-0.07
Coefficient of variation	0.28	0.26	0.18	-0.08
Mean OECD-7	0.90	0.94	0.98	0.04
Standard deviation	0.17	0.11	0.17	0.05
Coefficient of variation	0.19	0.12	0.17	0.05
Mean new member states-4		0.93	0.76	-0.17
Standard deviation		0.11	0.16	0.05
Coefficient of variation		0.12	0.21	0.09

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

From this point I analyse the data with the correction because, as stated above, I am interested in the patterns which are controlled for demographic and cyclical factors. As Table 2 shows social expenditures have risen in both the EU countries and the

other OECD countries. Between 1985 and 2003 the EU-average level of social spending as percentage of GDP per 1 percent of the population in need increased by 5 percent points and the non-EU average by 8 percent points. There is an interesting difference between EU countries and non-EU countries with respect to the convergence patterns. Both the standard deviation and the coefficient of variation indicate that the EU countries are converging since 1995, while the non-EU countries are diverging.[13]

As a comparison between Table 1 and Table 2 illustrates, the divergence of the non-EU countries becomes visible after the correction for unemployment and ageing. The decreases in standard deviation and coefficient of variation in the 7 non-EU countries between 1995 and 2003 without correction change into increases with the correction.[14] Another interesting result of the correction is the development of the level of social expenditures in the new member states. Table 1 might suggest that the level of social protection in the new member states is converging towards the EU-level, possibly because of the accession. But the correction shows that this increase has probably been caused by cyclical and demographic developments, rather than by Europeanisation. Also at the national level the effects of correcting for unemployment and ageing are visible. Before the correction Austria's social expenditures have increased since 1985, but after the correction they have decreased. Likewise, the signs of France, Germany, Greece, Italy, The Netherlands, Sweden, Japan and New Zealand change after the control variables are added.

Expenditures on active labour market policies
Table 3 illustrates the changes in ALMPs between 1995 and 2003, which are indicated by three measures. The first column of the table shows a decrease in the EU-average level of expenditures on ALMPs as percentage of GDP. This seems remarkable given the grown attention for ALMPs on the European agendas over the years. However, it is plausible that this decrease in expenditures is caused by decreases in unemployment levels, since the expenditures which are controlled for unemployment show an increase at the EU-average level. At the aggregation level of total expenditures on ALMPs, both controlled and not controlled for unemployment, there is a slight convergence in the EU. But since the expenditures in the seven other OECD countries also converged a little, there is no specific EU effect. In relative

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[13] These results also hold for analyses with slightly different periods or a slightly different set of countries.
[14] Partial analyses (not displayed here) indicate that the increase in average is mainly influenced by ageing of populations, while the convergence is mainly influenced by the unemployment level.

terms, the expenditures on ALMPs as a share of the expenditures on all labour market policies increased with 5,5 percent points in the period 1995-2003. In comparison with a decrease of 3,5 percent points in the four new member states and a decrease of 2,7 percent points in the other OECD countries during the same period, this shift towards more ALMPs does seem to be a specific European development.

Table 3 Expenditures on active labour market policies

	Expenditures on ALMP as % of GDP			Expenditures on ALMP as ‰ of GDP divided by the unemployment rate			Expenditures on ALMP as % of expenditures on LMP		
	1995	2003	Change	1995	2003	Change	1995	2003	Change
Australia	0.8	0.4	-0.4	1.0	0.7	-0.3	39.4	34.3	-5.1
Austria	0.4	0.6	0.3	1.0	1.5	0.5	21.8	38.1	16.4
Belgium	1.3	1.2	-0.1	1.4	1.6	0.1	29.2	26.6	-2.6
Canada	0.6	0.4	-0.2	0.6	0.5	-0.1	30.2	32.1	1.9
Czech Republic	0.1	0.2	0.0	0.3	0.2	-0.1	25.8	18.7	-7.1
Denmark	1.9	1.6	-0.3	2.7	3.0	0.3	29.6	32.7	3.0
Finland	1.5	0.9	-0.6	1.0	1.0	0.0	28.2	29.9	1.7
France	1.3	1.1	-0.2	1.1	1.1	0.0	44.1	36.6	-7.5
Germany	1.2	1.1	-0.1	1.5	1.2	-0.3	42.6	38.5	-4.1
Greece	0.3	0.2	-0.1	0.3	0.2	-0.1	40.9	32.7	-8.2
Hungary	0.4	0.4	0.0	0.4	0.6	0.2	32.0	41.9	10.0
Ireland	1.6	0.7	-0.9	1.3	1.5	0.2	45.3	40.9	-4.4
Italy	0.2	0.7	0.5	0.2	0.8	0.6	20.1	60.0	39.9
Japan	0.3	0.3	0.0	1.0	0.6	-0.4	44.6	40.1	-4.4
Luxembourg	0.2	0.3	0.1	0.7	0.7	0.1	24.9	22.0	-2.9
Netherlands	1.1	1.1	0.0	1.5	2.5	1.0	27.8	40.0	12.3
New Zealand	0.7	0.4	-0.3	1.2	1.0	-0.2	39.1	36.5	-2.6
Norway	1.3	0.8	-0.5	2.7	1.8	-0.9	55.4	51.6	-3.8
Poland	0.4	0.2	-0.2	0.3	0.1	-0.2	18.7	18.5	-0.2
Portugal	0.8	0.7	-0.1	1.1	1.1	0.0	44.1	38.3	-5.8
Slovak Republic	0.8	0.3	-0.5	0.6	0.2	-0.4	63.8	47.3	-16.5
Spain	0.5	0.7	0.2	0.2	0.6	0.4	13.5	23.3	9.8
Sweden	2.2	1.3	-0.9	2.4	2.2	-0.2	49.0	50.6	1.6
Switzerland	0.5	0.7	0.2	1.4	1.8	0.3	30.7	41.2	10.5
United Kingdom	0.4	0.5	0.1	0.5	1.1	0.6	33.2	66.3	33.1
United States	0.2	0.1	-0.1	0.4	0.2	-0.1	36.8	21.2	-15.6
Mean OECD-26	0.8	0.6	-0.2	1.0	1.1	0.0	35.0	36.9	1.9
Standard deviation	0.6	0.4	-0.2	0.7	0.7	0.0	11.5	11.7	0.1
Coefficient of variation	0.7	0.6	-0.1	0.7	0.7	0.0	0.3	0.3	0.0
Mean EU-15	1.0	0.8	-0.2	1.1	1.3	0.2	32.9	38.4	5.5
Standard deviation	0.6	0.4	-0.3	0.7	0.7	0.0	10.4	12.1	1.7
Coefficient of variation	0.6	0.4	-0.2	0.6	0.5	-0.1	0.3	0.3	0.0
Mean OECD-7	0.6	0.5	-0.2	1.2	0.9	-0.2	39.5	36.7	-2.7
Standard deviation	0.3	0.2	-0.1	0.7	0.6	-0.1	8.0	8.6	0.6
Coefficient of variation	0.6	0.5	-0.1	0.6	0.6	0.0	0.2	0.2	0.0
Mean new member states-4	0.4	0.3	-0.2	0.4	0.3	-0.1	35.1	31.6	-3.5
Standard deviation	0.2	0.1	-0.1	0.1	0.2	0.1	17.2	13.1	-4.1
Coefficient of variation	0.5	0.3	-0.2	0.3	0.8	0.5	0.5	0.4	-0.1

Source: (a) Expenditures on ALMPs: OECD Social Expenditure Database (OECD 2007)
(b) Unemployment rate: The World Bank: World Development Indicators

Table 4 Expenditures on specific ALMP areas

	Expenditures on empl. services as % of expenditures on LMP			Expenditures on labour market training as % of expenditures on LMP			Expenditures on youth programmes as % of expenditures on LMP			Expenditures on subsidised employment as % of expenditures on LMP		
	1995	2003	Change	1995	2003	Change	1995	2003	Change	1995	2003	Change
Australia	11.5	16.9	5.4	18.0	6.0	-12.0	2.9	1.0	-1.9	14.8	9.7	-5.1
Austria	7.7	10.1	2.3	32.9	45.0	12.1	0.5	1.0	0.5	2.9	6.5	3.7
Belgium	4.7	4.9	0.2	20.3	14.5	-5.8	1.5	0.1	-1.4	14.3	15.3	0.9
Canada	11.4	17.6	6.2	43.2	28.5	-14.7	1.0	1.4	0.4	3.5	2.4	-1.1
Czech Republic	17.3	8.5	-8.8	5.2	9.3	4.1	1.6	0.0	-1.6	4.7	7.5	2.7
Denmark	1.8	2.2	0.4	52.0	31.6	-20.4	2.3	0.0	-2.3	5.5	9.7	4.2
Finland	2.9	5.4	2.5	28.2	37.4	9.2	2.8	0.5	-2.3	12.1	9.6	-2.5
France	5.2	8.4	3.2	29.2	20.9	-8.3	9.2	2.7	-6.4	13.7	14.8	1.1
Germany	7.5	9.6	2.1	24.8	28.2	3.4	1.9	2.5	0.6	14.4	10.4	-4.1
Greece	17.9	0.0	-17.9	0.0	50.2	50.2	13.1	0.0	-13.1	9.8	12.5	2.6
Hungary	9.5	12.0	2.5	30.0	21.6	-8.4	0.0	0.0	0.0	12.9	19.8	6.9
Ireland	7.2	7.4	0.2	12.9	28.5	15.6	6.8	0.0	-6.8	23.1	19.7	-3.4
Italy	:	:	:	0.0	0.0	0.0	9.1	0.0	-9.1	11.0	0.0	-11.0
Japan	29.3	31.2	1.8	9.4	13.5	4.2	0.0	0.0	0.0	9.8	2.7	-7.2
Luxembourg	3.7	3.1	-0.6	9.6	40.4	30.8	9.0	0.3	-8.7	4.1	7.5	3.5
Netherlands	3.4	11.1	7.8	22.4	9.5	-13.0	2.5	1.7	-0.8	2.3	1.1	-1.2
New Zealand	6.9	10.0	3.1	43.3	32.4	-10.9	4.9	4.3	-0.6	7.2	6.6	-0.6
Norway	7.2	8.1	0.8	17.1	11.1	-6.0	3.4	0.1	-3.4	9.0	1.9	-7.2
Poland	0.6	0.0	-0.6	5.0	7.4	2.4	3.4	8.5	5.1	9.3	8.6	-0.7
Portugal	5.5	9.1	3.5	28.8	28.6	-0.2	18.6	4.5	-14.1	4.6	11.0	6.5
Slovak Republic	8.5	27.9	19.5	3.7	5.3	1.5	0.3	0.2	-0.1	50.6	13.6	-37.0
Spain	2.4	3.0	0.6	29.9	15.7	-14.1	2.1	1.1	-1.0	4.7	14.2	9.5
Sweden	5.4	9.6	4.1	23.5	28.9	5.3	0.4	0.6	0.2	17.0	7.0	-10.1
Switzerland	7.0	7.3	0.3	17.8	23.1	5.3	0.0	0.6	0.6	5.8	10.0	4.2
United Kingdom	14.2	43.1	28.9	22.0	5.1	-16.9	8.6	14.1	5.5	1.2	2.3	1.1
United States	13.4	5.9	-7.5	21.9	23.6	1.7	5.2	3.6	-1.6	2.0	1.7	-0.3
Mean OECD-26	8.5	10.9	2.4	21.2	21.8	0.6	4.3	1.9	-2.4	10.4	8.7	-1.7
Standard deviation	6.3	9.8	3.6	13.2	13.1	-0.1	4.5	3.1	-1.4	9.6	5.4	-4.2
Coefficient of Variation	0.7	0.9	0.2	0.6	0.6	0.0	1.1	1.7	0.6	0.9	0.6	-0.3
Mean EU-15	6.4	9.1	2.7	22.4	25.6	3.2	5.9	1.9	-4.0	9.4	9.4	0.1
Standard deviation	4.5	9.9	5.4	12.7	14.1	1.4	5.1	3.5	-1.7	6.2	5.4	-0.8
Coefficient of variation	0.7	1.1	0.4	0.6	0.6	0.0	0.9	1.8	0.9	0.7	0.6	-0.1
Mean OECD-7	12.4	13.9	1.5	24.4	19.8	-4.6	2.5	1.6	-0.9	7.4	5.0	-2.5
Standard deviation	7.3	8.3	0.9	12.4	9.0	-3.4	2.0	1.6	-0.4	4.0	3.4	-0.5
Coefficient of variation	0.6	0.6	0.0	0.5	0.5	-0.1	0.8	1.0	0.2	0.5	0.7	0.2
Mean new member states-4	9.0	12.1	3.1	11.0	10.9	-0.1	1.3	2.2	0.9	19.4	12.4	-7.0
Standard deviation	5.9	10.1	4.2	11.0	6.4	-4.6	1.4	3.7	2.3	18.3	4.9	-13.4
Coefficient of variation	0.7	0.8	0.2	1.0	0.6	-0.4	1.0	1.7	0.7	0.9	0.4	-0.5

Source: OECD Social Expenditure Database (OECD 2007)

The four columns of Table 4 illustrate the expenditures on specific ALMP areas. The EU average of expenditures on employment services increased with 2,7 percent points. Since public employment services function as gatekeepers to active labour market programmes in the EES they are considered as key actors in the

implementation of the EES. The data indicate increased effort on services such as placement, counselling, vocational guidance and job-search courses across the EU. In this respect, the sharp increase and the high level of these expenditures in the United Kingdom are remarkable. Unfortunately, these data also contain administrative costs, which potentially blur the picture. The expenditures on labour market training increased at the EU-average level, although a number of countries such as Belgium, Denmark, France, the Netherlands, Spain and the United Kingdom decreased these expenditures. Strikingly, the expenditures on youth programmes decreased. This is remarkable since youth is one of the main target groups in the EES and the Lisbon strategy. In fact, the first employment guideline starts with 'tackling youth employment'. However, although many countries note in their national action plans that they have started with special youth programmes, such as the 'The New Deal for Young People' in the United Kingdom, the data illustrate that the activation of unemployed youth did not have the highest priority across the European countries. Finally, the expenditures on subsidised employment show an upward convergence, while the expenditures on the other three areas of ALMPs have not converged between 1995 and 2003. In fact, they diverged.

Settings of policy instruments

Table 5 continues with the results of the analysis of the settings of the policy instruments. Obviously, reducing income taxes has been on the agenda of almost all countries, except Belgium, France, Japan and Norway. In the EU, taxes on income decreased on average with 4,7 percent points between 1995 and 2003. Although the initial employment guidelines of 1998 did not refer to taxes, guideline 2 and 4 of the 1999 employment guidelines state that member states will review their tax systems to actively support employability and to provide incentives for unemployed and inactive people to seek work. Also the council recommendations contained several advices to reduce income taxes. Interestingly, the development in the new member states is ambiguous. Czech Republic and Hungary decreased the tax levels, whereas Poland increased the taxes on income with more than 15 percent points.

Table 5 Tax and Benefits

	Income tax and employee contributions as % gross wage			Unemployment gross replacement rates		
	1995	2003	Change	1995	2003	Change
Australia	16.1	11.1	-5	27.0	22.5	-4.5
Austria	9.5	8.9	-0.6	32.5	31.6	-1.0
Belgium	19.5	20.4	0.9	38.7	42.2	3.4
Canada	16.6	14.2	-2.4	19.3	15.1	-4.1
Czech Republic	3.3	1.5	-1.8	:	:	:
Denmark	30.9	29.7	-1.2	64.9	49.5	-15.4
Finland	26.3	22.6	-3.7	35.8	35.7	0.0
France	13.8	15	1.2	37.4	39.4	2.0
Germany	25	19.4	-5.6	26.3	29.2	2.9
Greece	16.7	16	-0.7	14.7	12.8	-2.0
Hungary	7.3	4.4	-2.9	:	:	:
Ireland	17.9	-3.7	-21.6	26.3	38.1	11.8
Italy	19.6	14.4	-5.2	19.3	33.7	14.4
Japan	8.6	13.2	4.6	10.2	7.8	-2.4
Luxembourg	1.2	-3	-4.2	:	:	:
Netherlands	29.8	17.3	-12.5	52.3	52.6	0.4
New Zealand	22.4	19.4	-3	27.1	27.5	0.4
Norway	14.9	18.2	3.3	38.8	34.4	-4.5
Poland	10.1	25.3	15.2	:	:	:
Portugal	9.2	5.6	-3.6	35.4	40.8	5.4
Slovak Republic	:	6.6	:	:	:	:
Spain	12.8	9.8	-3	39.0	36.0	-3.1
Sweden	23.1	21.4	-1.7	26.9	24.5	-2.4
Switzerland	9.5	8.1	-1.4	29.5	33.1	3.6
United Kingdom	18.6	9.3	-9.3	17.8	16.3	-1.4
United States	18.6	9.2	-9.4	11.9	13.8	1.9
Mean OECD-26	16.1	13.1	-2.9	30.1	30.3	0.3
Standard deviation	7.6	8.2	0.6	14.0	13.2	-0.8
Coefficient of variation	0.5	0.6	0.2	0.5	0.4	0.0
Mean EU-15	18.3	13.5	-4.7	33.4	34.5	1.1
Standard deviation	7.9	8.9	1.0	15.1	13.5	-1.6
Coefficient of variation	0.4	0.7	0.2	0.5	0.4	-0.1
Mean OECD-7	15.2	13.3	-1.9	23.4	22.0	-1.4
Standard deviation	4.5	4.0	-0.5	9.5	9.5	0.0
Coefficient of variation	0.3	0.3	0.0	0.4	0.4	0.0
Mean new member states-4	6.9	10.4	3.5			
Standard deviation	3.8	10.2	7.3			
Coefficient of variation	0.6	1.0	2.1			

Source: (a) Income tax and employee contributions: OECD Taxing Wages 2003 / 2004 (OECD, 2005)
(b) Unemployment replacement rates: OECD Benefits and Wages (OECD, 2006)

The replacement rates show an increase of 1,1 percent points of the last received income. This change does not indicate increased activation, since higher replacement rates reduce incentives for people to accept jobs. Furthermore, the dispersion of the level of replacement rates decreased across the EU. Interestingly, the level of the

replacement rates decreased in the other OECD countries. Table 6 shows that the qualifying conditions, the duration of the entitlement rights and the waiting period remained the same in most countries. Apparently, countries have not chosen to change these settings of the unemployment benefits to activate unemployed people. But the availability requirements have on average become slightly more demanding (Table 7). However, the benefit sanctions have become less strict in all countries except the Netherlands.

Table 6 Characteristics of unemployment benefits

	Qualifying conditions			Duration of benefit entitlements			Waiting days		
	1995	2002	Change	1995	2002	Change	1995	2002	Change
Australia	0	0	0	999	999	0	7	7	0
Austria	156	156	0	30	30	0	0	0	0
Belgium	78	78	0	999	999	0	0	0	0
Canada	52	45	-7	38	38	0	14	14	0
Denmark	52	52	0	364	208	-156	0	0	0
Finland	26	43	17	100	100	0	5	7	2
France	61	61	0	130	130	0	8	7	-1
Germany	104	104	0	52	52	0	0	0	0
Greece	:	:	:	:	:	:	:	:	:
Ireland	39	39	0	65	65	0	18	3	-15
Italy	104	104	0	26	26	0	7	0	-7
Japan	26	26	0	30	30	0	7	7	0
Luxembourg	:	:	:	:	:	:	:	:	:
Netherlands	208	208	0	104	104	0	0	0	0
New Zealand	0	0	0	999	999	0	14	14	0
Norway	4	4	0	80	156	76	3	3	0
Portugal	:	:	:	:	:	:	:	:	:
Spain	:	:	:	:	:	:	:	:	:
Sweden	52	52	0	60	60	0	5	5	0
Switzerland	78	26	-52	50	30	-20	2	5	3
United Kingdom	10	10	0	52	26	-26	3	3	0
United States	20	20	0	26	26	0	7	7	0
Mean OECD 22	59.4	57.1	-2.3	233.6	226.6	-7.0	5.6	4.6	-1.0
Standard deviation	54.2	53.8	-0.4	329.4	327.5	-1.9	5.2	4.3	-0.9
Coefficient of variation	0.9	0.9	0.0	1.4	1.4	0.0	0.9	0.9	0.0
Mean EU 15	80.9	82.5	1.5	180.2	163.6	-16.5	4.2	2.3	-1.9
Standard deviation	60.0	59.5	-0.5	247.8	241.6	-6.2	4.9	2.6	-2.3
Coefficient of variation	0.7	0.7	0.0	1.4	1.5	0.1	1.2	1.1	0.0
Mean OECD 7	25.7	17.3	-8.4	317.4	325.4	8.0	7.7	8.1	0.4
Standard deviation	27.4	15.6	-11.8	431.4	428.1	-3.3	4.4	3.9	-0.5
Coefficient of variation	1.1	0.9	-0.2	1.4	1.3	0.0	0.6	0.5	-0.1

Note: The value '999' means an unlimited duration of benefit entitlements. Therefore the meaning of the mean, standard deviation and coefficient of variation is limited.

Source: Welfare State Entitlements Data Set (Scruggs, 2005)

Table 7 Availability requirements and benefit sanctions

	Availability requirements			Benefit Sanctions		
	1995	2003	Change	1995	2003	Change
Australia	4.5	4.1	-0.4	2.1	1.0	-1.2
Austria	2.4	4.5	2.1	2.1	0.4	-1.7
Belgium	2.9	2.6	-0.3	3.7	0.8	-2.9
Canada	2.8	:	:	3.0	:	:
Denmark	2.9	3.9	1.0	2.7	0.9	-1.8
Finland	2.9	3.1	0.2	2.7	0.6	-2.1
France	2.1	2.1	0.0	4.0	2.4	-1.6
Germany	2.3	3.3	1.0	3.3	0.9	-2.4
Greece	:	:	:	:	:	:
Ireland	1.9	3.1	1.3	1.7	0.6	-1.1
Italy	:	1.5	:	:	2.4	:
Japan	:	2.4	:	:	0.6	:
Luxembourg	3.5	:	:	5.0	:	:
Netherlands	3.0	4.0	1.0	5.0	5.0	0.0
New Zealand	3.1	:	:	2.1	:	:
Norway	3.9	4.4	0.5	2.3	1.4	-0.9
Portugal	1.8	1.8	0.0	5.0	2.8	-2.2
Spain	:	2.7	:	:	1.2	:
Sweden	4.1	3.3	-0.9	3.1	0.6	-2.5
Switzerland	:	:	:	:	:	:
United Kingdom	2.9	2.4	-0.5	2.2	0.9	-1.4
United States	2.5	2.6	0.1	5.0	1.0	-4.0
Mean OECD 22	2.9	3.2	0.4	3.2	1.4	-1.8
Standard deviation	1.2	1.3	0.1	1.5	1.2	-0.3
Coefficient of variation	0.4	0.4	0.0	0.5	0.9	0.4
Mean EU 15	2.6	3.1	0.4	3.2	1.4	-1.8
Standard deviation	0.9	1.1	0.2	1.4	1.4	0.0
Coefficient of variation	0.4	0.4	0.0	0.4	0.9	0.5
Mean OECD 7	3.6	3.7	0.1	3.1	1.1	-2.0
Standard deviation	1.7	1.8	0.0	1.8	0.5	-1.3
Coefficient of variation	0.5	0.5	0.0	0.6	0.5	-0.1

Source: Ministry of Finance Denmark (1998), Hasselpflug (2005)

Discussion

As the data illustrate, several countries turned almost all of the considered policy instruments in a more activating mode. Austria, for example, increased the expenditures on all four policy areas, lowered the income taxes, lowered the replacement rates and made the availability requirements more demanding. Two evident outliers are Italy and the United Kingdom. Italy increased the expenditures on ALMPs enormously. As a result of pressure from the EES, the traditionally passive labour market policies were made more activating in the 1990s. Employment services were decentralised and the number of participants in activating programs

has more than doubled between 1996 and 2001 (Graziano, 2007). The shift towards activating policies in the United Kingdom is the result from domestic politics rather than from European influences. After her victory in 1997, the Labour Party launched work-oriented New Deal programmes. And although this orientation on work meant a break with the Labour tradition, this shift in party program had been more influenced by the US than by the EU (Clasen, 2005).

Other countries did exactly the opposite. Belgium for example spent less on ALMPs compared to the other labour market policies, increased the taxation of income, increased the level of benefits and made the availability requirements and benefit sanctions less strict. Another interesting case is France, since the data show that France made only two labour market instruments more activating. First, France increased the expenditures on employment services and second on subsidised employment. Other instruments were changed in the opposite direction. First, France decreased the total expenditures on ALMP's. Furthermore, it decreased the expenditures on training, it decreased the expenditures on youth measures, it increased the income tax rates, it increased the unemployment replacement rates, it shortened the waiting period and it loosened the benefit sanctions. All changes are thus in a more 'passivating' direction. Our results are supported by Barbier (2005), who found that the activation strategy of France was mainly focused on the demand side of the labour market, subsidising employers, and not on the supply side. Furthermore, we should note that after 2003 France implemented a number of ALMPs, such as changes in benefit schemes.

Based on the presented data, I can conclude that there is a trend in the EU towards a more activating approach to labour market policies. However, this does not hold for all ALMP instruments, such as the efforts on youth measures and the strictness of benefit sanctions. Furthermore, since the EU member states converged only on a minority of the policy instruments, we cannot say that the setting of the ALMP instruments have converged across Europe. A possible explanation for the limited convergence is that countries can apply different ALMP instruments. Therefore, decreased expenditures on ALMPs do not necessarily mean that the labour market instruments have become less activating. For example, some of the countries which have decreased their expenditures on ALMPs as a percentage of the total expenditures on LMPs – Germany, Greece, Ireland, Luxembourg and Portugal – lowered the level of income taxes or changed the settings of other instruments. Interestingly, two countries, namely Belgium and France, that also decreased their

expenditures on ALMPs as a share of expenditures on all labour market policies, but did not decrease their income tax rates, focused both only on the demand side of the labour market. They increased their expenditures on public employment services and on subsidised employment. Belgium and France are both continental welfare states. Therefore, these findings do not indicate a catch-up of these countries to the ALMPs of the liberal and Scandinavian welfare states, which might explain the limited evidence of convergence.

5. Conclusions

With the adoption of the EES and the Lisbon strategy, convergence of social protection goals and policies across EU member states have become important objectives at the European agenda. The two consecutive convergence analyses in this thesis demonstrate that social protection policies have converged to higher levels and that member states have made labour market policies more activating. But the member states did not converge on all ALMP instruments.

As found in most earlier research, this study does not find any empirical evidence for a social race to the bottom. Since 1995, social expenditures in EU member states have converged and have increased on average, whereas non-EU countries have predominantly diverged. Controlled for cyclical and demographic factors, it seems plausible to ascribe these policy changes to increased European policy integration which has lead to 'more' social security across EU member states. Since the social expenditure data do not clarify which of the social policies have converged, the next step was an extensive analysis of ALMPs.

Controlled for unemployment the study finds that expenditures on ALMPs in EU member states have increased. Again, it seems that national policies have been influenced by European integration rather than by globalisation or by OECD labour market policy advices, since the expenditures in the four new member states and the non-EU countries have decreased on average. And, at a lower aggregation level, I find that national policies of EU member states tend to follow the policies of the guidelines and the recommendations of the EES. However, at this level of abstraction policies appear to converge less. Methodologically, an explanation for the differences in findings between the aggregation levels is that it is self evident that more differences will be found when observations are more detailed. This also explains the gap between the results of the quantitative expenditure based studies which find convergence of welfare states on the one hand, and the results of case studies which find divergence of welfare states on the other hand. A more substantive explanation, however, is that although most countries adopted a more activating approach on labour market policies, they could choose many different configurations of policy instruments. Another interesting finding at the lower aggregation level is that expenditures on youth programmes have declined. How can we reconcile these results with the enormous European attention for policies focussed on preventing youth unemployment? Does the European instrumentation on youth policies differ

from other European employment policies? Were unemployment problems of adults politically more pressing in the national arena's? Future studies will have to address this puzzle in more detail.

Another, ongoing, puzzle is the difference in policy reforms among countries. Some countries seem not to be affected by the EES at all, since, as France for example, they turned almost all ALMP instruments to a less activating setting. The question is why. One explanation might be that continental welfare regimes have simply less activating benefit systems than Scandinavian or liberal welfare regimes. But then, why did a continental welfare regime such as Germany, which also decreased its spending on ALMPs, lower its income tax rates? Has a number of continental welfare states become less continental and did they converge to a 'third way' of labour market polices? Or are tax reforms just easier to adopt politically than reforms of unemployment benefit systems or increases of expenditures? For now, I have found some evidence of convergence, to a certain extent, of labour market policies across EU member states. This 'divergence within convergence' is exactly in line with what one could expect from the EES.

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