

Policy convergence or divergence?

European Employment Strategy and labor market policy change in three member states: Hungary, Slovenia and Estonia

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Abstract

The paper examines the EU driven labour market policy change in three Central and Eastern European EU member states, Slovenia, Estonia and Hungary. The research assesses to what extent these developments have constituted convergence towards the European Employment Strategy (EES), and whether the degree of convergence depends on the path dependence of the previous policy practice of new member states. The paper is set against the background of the growing literature of Europeanization. The paper uses evaluation reports from the EU Commission and EU member states and other working papers. Based on these documents an evaluation scoring system was developed which provides evidence for the conditional convergence towards the EES depending on the embeddedness of previous policy path. Hence, the countries' performance highly depends on two factors. The first one is the incentives structure used by the EU forcing domestic policy makers to comply with the EU requirements. The second is the hindering factors of those previous policy practices which are not in line with the EES requirements. These two factors together determine the likelihood of policy convergence and identify the direction of policy change.

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List of abbreviations

AP – Accession Partnership

EES – European Employment Strategy

EU – European Union

PES – Public Employment Services

MS – Member States

ESF – European Social Fund

OMC – Open Method of Coordination

EC – European Commission

SMEs – Small and medium sized enterprises

INTRODUCTION

Due to European integration the concept of Europeanisation has gained increased academic popularity although there is no widespread agreement regarding what it actually is. The most basic approach speaks of Europeanisation when something in national political systems is affected by something European¹. (Sedelmeier 2006, Winchell 2006, Vink 2007).

This paper asks why candidate countries have followed the approach of the European Union regarding labour market policies. How can we explain compliance or not compliance with the labour market principles suggested by the EU? What can be the explanatory power of “path dependence” of previous institutional arrangements and policy approaches? In order to answer to these questions three hypothesis will be tested in this paper. In the following section I will introduce these hypotheses which will be elaborated in a more detailed way in the second chapter.

As a precondition of domestic policy change affected by the EU it is necessary to have some “inconvenience”, something “misfit” in the domestic processes, policies or institutions (Börzel and Risse 2003). According to Featherstone (2003) the main question is whether Europeanization leads to a decreasing misfit hence, to policy convergence across Europe. As Drezner (2001) emphasizes convergence is the tendency of policies to become more alike in terms of its structures, processes and performances. However, Börzel and Risse (2000) make a distinction between “convergence in outcome” and “convergence in policy processes”. *As our first hypothesis, regarding the labor*

¹ However, it is inevitable that national politics also affect European developments and this fact calls the attention to the mutual relationship between the two levels (Sedelmeier 2006, Vink 2007).

market policy change affected by the EU in case of Hungary, Estonia and Slovenia we expect “convergence” towards the EES requirements. In this paper convergence is considered as the compliance with the Guidelines of the European Employment Strategy.

In order to reach compliance, incentives and instruments play a crucial role. The key question in this respect is which of the strategies and instruments that the European Union uses are the most effective. Two prominent strategies used by the EU are emphasized in the literature: conditionality and socialization (Sedelmeier 2006). According to the rational institutionalism approach the prominent strategy of the EU to influence candidate countries is the use of conditionality. The EU uses positive conditional incentives as a reward for states who comply with the European requirements. It means that EU member states follow the “logic of consequences” where the main driving force of their behaviour is the calculus based projection for the future (Sedelmeier 2006, Sedelmeier and Schimmelfennig 2005, Schüttpelz 2004, Winchell 2006). Member states would like to gain the future positive outcome (for instance possible funds) and/or avoid future negative consequences (for instance postponed EU membership). The most widespread instruments used by the EU are funds (PHARE, European Social Fund etc.) and obligatory legislations (13 chapters of the pre-accession partnership). By contrast, sociological institutionalism emphasizes that compliance follows a ‘logic of appropriateness’. This approach claims that the main driving force for compliance is socialization and social learning, in which domestic actors internalize EU norms that they regard as legitimate (Sedelmeier 2006). In this case the most important instruments used by the EU are regular monitoring procedures, naming and shaming practices and peer-reviews (Sedelmeier and Schimmelfennig 2005). The question is how these

models are useful for the explanation of compliance with the requirements and suggestions of the European Union. According to March and Olsen (March and Olson 1998 cited by Vink 2007) the logic of calculus based behaviour (rationalist institutionalism) and the logic of appropriateness (sociological institutionalism) go together perfectly well. *Hence, the second hypothesis is that the likelihood of compliance is higher in policy fields where rational and sociological instruments mutually strengthen each other.*

At the same time the direction and probability of institutional and/or policy convergence is highly dependent on the previous policy practices done by the member states. This is the concept of “path dependency” which emphasizes that “what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time” (Sewell 1996 cited Pierson 2000). Hence, Sewell's definition includes the assumption that particular original practices and institutional settings are difficult to change. The reason is that if a country or region once establishes its own track, own institutional arrangement or own “way of doing things” the cost of change and reversal is very high. Hence, the high replacement cost of certain previous institutional settings, policy approach or everyday practice hinders the policy change (Levi 1997 cited Pierson 2000). *The third hypothesis is where previous practices are strongly embodied in the policy making process or institutional arrangement the effect of Europeanization is lower than in the policy domain where there is less “path dependency”.*

The paper will verify or falsify these hypotheses by the identified impact of European Employment Strategy (EES) on the Slovenian, Estonian and Hungarian employment policy change.

These hypotheses are highly interesting because newly established (post-communist) social policies are facing huge challenges due to the accession to the EU in May 2004. Their future will be determined in great part by their ability to adapt – and to contribute to changes in creative manners – the models and institutions of the European Union in economics, social policy, public administration, education and culture. Researching labor market policy may offer useful results regarding the future competitiveness of the European Union after the welcoming accession of the Balkan States in the near future.

In order to study the Europeanization of labour market policy in Slovenia, Estonia and Hungary it is crucial to establish a toolkit by which the degree of compliance can be examined together with the instruments and incentives used by the EU. To measure compliance the paper applies the qualitative document analyses using the Commission Reports. Based on the qualitative analyses of the EU reports like the Commission Annual Progress Report 2006 of the National Reform Programme of Member States for the period 2005-2008 an evaluation scoring system is developed by which the comparison of the degree of compliance between Slovenia, Estonia and Hungary is adequate. In this design the dependent variable is the degree of compliance². The higher the compliance in certain labour market policy areas is the higher the convergence of domestic labour market policies towards the guidelines of the EES. The independent variables of the research are the instruments and incentives used by the EU in order to facilitate the change of labour market policies along with EES. The intervening variable of the research is the “path dependency”.

² The biggest uncertainty is the standard and the threshold of “compliance”. As Grabbe (2006) also emphasizes it is crucial to establish as clearly as possible the framework by which meeting the conditions is assessable. The evaluation of the compliance is different in different countries and in different policy fields not to mention the different timing as well (Grabbe 2006 page 94).

The resting part of the paper will be structured as the following. The first chapter of the paper will provide a short overview of the European Employment Strategy and its Guidelines examining the mechanisms by which the EU influences the domestic labour market policy change. The second chapter will introduce the definition and instruments of Europeanization towards the policy convergence in the labor market policy field. At the end of this section an “intervening variables” will also be elaborated such as “path dependency” as the main factors which can change the likelihood of convergence (based on the model of Grabbe 2006). The third chapter will introduce the methodological decisions regarding the data gathering procedure which is mainly qualitative document analyses and the quantification procedure of the “degree of compliance”. The fourth chapter will introduce the results of the research identifying different constellations of convergence and divergence in output and convergence and divergence of process. Finally I conclude the findings and I elaborate directions for research.

CHAPTER 1: THE EUROPEAN EMPLOYMENT STRATEGY

Although, as the EU Glossary mentions (2007) the European Employment Strategy is the object of the ongoing redefinition process, we can make some fundamental statements which hold for the evolution of the Strategy. The overall idea of the EES is the recognition that employment policies should become a Community priority. Hence, in 1997 the Luxembourg European Council launched the European Employment Strategy (EES), also known as the "Luxembourg process" (EC EES 2007c). The EES is an annual programme of planning, monitoring, examination and readjustment of policies put in place by Member States to coordinate the instruments they use to tackle unemployment (Europa Glossary 2007, Schüttpelz 2004, Winchell 2006). The Strategy is based on four components:

- Employment Guidelines which is a set of common priorities for Member States' employment policies;
- National Action Plans (NAPs) for employment which regularly follows the implementation of the common Guidelines on a national level;
- Joint Employment Report which is a summary of the National Action Plans, and serves as a base of the regular revision of the Guidelines;
- Country-specific recommendations which are defined by the Council (Europa Glossary 2007).

In 2005 the Lisbon Strategy was revised in order to focus more on sustainable growth and the creation of more and better jobs. As a product of this review the *Integrated Guidelines for Growth*

and *Jobs* emphasizes that macroeconomic, microeconomic and employment policies are interrelated and should be reinforced in an integrated way (EC 2005b). The *Integrated Guidelines for Growth and Jobs* serves as a basis for the National Action Programmes (Europa Glossary 2007).

The *Integrated Guidelines for Growth and Jobs* consists of two parts. The first part provides recommendations and guidance on macro and microeconomic policies, while the second part concentrates on employment policies which create more and better jobs, hence raise employment, productivity and strengthen social cohesion (EC 2005b). The Employment Guidelines promotes and recommends actions³:

- To implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion (Guideline No 16)
- To promote a lifecycle approach to work (Guideline No 17)
- To ensure inclusive labour markets for job-seekers and disadvantaged people (Guideline No 18)
- To improve matching of labour market needs (Guideline No 19)
- To promote flexibility combined with employment security and reduce labour market segmentation (Guideline No 20)
- To ensure employment-friendly wage and other labour cost developments (Guideline No 21)
- To expand and improve investment in human capital (Guideline No 22)

³ Employment Guidelines cover 8 policy sub-fields from the 16th until the 23rd of the Integrated Guidelines for Growth and Jobs. See in a more detailed way (EC 2005b).

- To adapt education and training systems in response to new competence requirements (Guideline No 23) (EC 2005b p.10).

New member states joining the EU in 2004 have to follow these Guidelines as well. During the last couple of years when Hungary, Slovenia and Estonia decided upon any labor market policy change they took into consideration the direction of these Guidelines. Hence, when this paper examines the degree of compliance with the EES it assesses labor market policy sub-fields which are in line with the *Integrated Guidelines for Growth and Jobs* (EC 2005b). They are the following:

- Hiring and firing rules – employment protection legislation (EPL) index - (Guideline No 20)
- Lifelong learning as a better match of education and LM demand (Guideline No 22 and 23)
- Active ageing as the increase of labour supply (Guideline No 16 and 17)
- Anti-discrimination policies in the labour market (Roma, early school leavers, women, disabled, older workers, low skilled workers) (Guideline No 18)
- Reconciling work and family life, promoting labour market flexibility (Guideline No 17)
- Creating more and better jobs, and a more favorable environment for SMEs (small and medium enterprises) as the instruments for the higher labor demand (Guideline No 20)
- Better match of benefit system and job search incentives (Guideline No 17, 18 and 20)
- Labour law (Guideline No 20)
- Social Dialogue, Social partnership/collective bargain (Guideline No 21)
- Public Employment Services (Guideline No 19)

The following chapter will introduce the theoretical framework applied in this research. It will introduce the preconditions, definition and instruments of Europeanization. At the end of this chapter an “intervening variable” will also be elaborated such as “path dependency” as the main factors which can change the likelihood of convergence (based on the model of Grabbe 2006).

CHAPTER 2: CONCEPTUALIZING EUROPEANIZATION

What does “Europeanization” means? This is the question which has gained increased interest among scholars during the last decade. As Featherstone claims (2003) the number of academic articles referring to “Europeanization” sharply increased from 1981 until the millennium⁴. In addition the highest share (more than 33%) of these articles dealt with the Europeanization of public policy (Featherstone 2003). These articles show a broad variety of perspectives explaining the impact of the European Union on domestic policy making.

The definition of Europeanization which this paper uses is from Caporaso (2004) who claims that Europeanization is the indirect effect of European Integration but this is not equal to the integration process. Europeanization is the process by which the European adaptational pressure leads to a domestic change through domestic mediating factors. Caporaso’s basic model emphasizes the process by which European integration leads to the pressure to adjust because there is a misfit between the European and the domestic polity, politics and policy. At the same time, this adaptational pressure is mediated by domestic configurations and these different domestic conditions may lead to different outcomes (Caporaso 2004). These domestic configurations may facilitate the Europeanization of public policy but they may also hinder the policy change in line with the EU requirements. Depending on the effect of domestic configuration policy change may

⁴ The number of academic articles referring to “Europeanization” was 3 in 1981. In 1998 this number increased to 7, while in 1999 it reached 20. After the millennium the number of articles mentioning “Europeanization” was around 22-24 (Featherstone 2003, page 5 Table 1.1).

lead to convergence – if facilitating factors push further the policy change - or divergence – if domestic configurations hinder the policy change - towards the EU requirements.

This chapter will first explain the prior conditions of Europeanization as the necessity of “misfit” for any domestic change forced by the EU. Depending on the degree of “misfit” the adaptational pressure is different. The higher the misfit is, the bigger the adaptational pressure and hence, the bigger the likelihood of policy convergence (Börzel and Risse 2000). Second, it will discuss the two models of adaptational process as “logic of consequentialism” and the “logic of appropriateness” elaborating the instruments by which the EU makes incentives for the higher compliance and convergence. Third, in line with Caporaso’s model, we will introduce the main mediating domestic factors of the Europeanization of public policy in general and labor market policy in particular. It will pay special attention to the “hindering factors” such as “path dependency”.

2.1 Misfit and convergence

Before elaborating the models of adaptational process of Europeanization it is important to emphasize the propositions which are shared by most of the studies in the field of comparative social policy. Specifically, that Europeanization causes domestic change only if there is a “misfit” or “inconvenience” between the European and the domestic policies, instruments and institutions. This “goodness of fit” highly determines the degree of external and adaptational pressure and the instruments used for the better compliance to the EU requirements (Börzel and Risse 2000). According to Börzel and Risse (2000) there is a strong connection between the degree of “goodness

of fit” and the “adaptational pressure”: the lower the compatibility between European and domestic processes, policies, and institutions is, the higher the adaptational pressure. At the same time the higher adaptational pressure does not mean that convergence occurs in any case. As Börzel and Risse emphasize the degree of convergence depends on the definition which one applies for it. In addition they make a distinction between “convergence in outcome” and “convergence in policy processes” (Börzel and Risse 2000). In this research the “convergence in outcome” is the degree of compliance with the EES, while the “convergence in policy process” is the actual change of policy sub-fields taking into consideration the direction of policy change defined by the previous domestic policy practice. Based on Börzel and Risse (2000) *regarding the labor market policy change affected by the EU in case of Hungary, Estonia and Slovenia we expect “convergence” towards the European Employment Strategy given the fact, that all of these countries became members of the European Union at the same time and faced similar external pressure posed by the EU.* Convergence is considered as the degree of compliance with the Guidelines of the European Employment Strategy.

It is obvious that the degree of convergence or divergence differs in different policy fields and mix of instruments used by the EU to enforce member states. To gain a more detailed picture, in the next section we will discuss the different models of Europeanization.

2.2 Models of Europeanization

As Schimmelfennig and Sedelmeier (2005) claim there are three fundamental forms of “rule adoption”: external incentives model, social learning model and lesson-drawing model. These

mechanisms differ on two dimensions. First, rule adoption is different if the driving force is EU-driven than if it is domestic-driven. Second, rule adoption is also different if the logic of adoption follows “consequences” (rationalist institutionalism) or “appropriateness” (sociological institutionalism) (Schimmelfennig and Sedelmeier 2005).

In this section first the paper will make a distinction between the outside and the inside driven policy change. After, it will elaborate the different instruments and incentives used by the EU in line with the two main Europeanization approach: the rationalist institutionalism and the sociological institutionalism. After the introduction of “path dependency” as a hindering factor of Europeanization at the end of this section the paper will introduce the theoretical connection among these different driving forces and their possible outcomes for the policy convergence or divergence.

2.2.1 Outside-driven policy change and its sub-fields

Regarding the first dimension of the model of Europeanization elaborated by Schimmelfennig and Sedelmeier (2005), policy change can be EU-driven or driven by internal factors. If policy change is EU-driven it occurs in areas where EU poses adaptation pressure. The most obvious example for this EU driven policy change is the Accession Partnership. Accession Partnership regarding Hungary, Estonia and Slovenia covered 31 policy fields. One of them was dealing with the social and employment issues including the transposition and implementation of EU legislation in the fields of occupational health and safety, labour law, equal treatment of women and men. In addition it is emphasized to reinforce the related administrative structures (PES) and social dialogue (EC 2002 Accession Partnership Hungary, Slovenia, Estonia). Later on, after the accession domestic

policy makers followed the main directions of the European Employment Strategy (activation policies, provisions for a more flexible labour market) whose policy fields are also the areas of EU-driven Europeanization.

On the other hand, when policy change is driven by internal factors the voluntary compliance can be described by the lesson-drawing model. According to this model member states adopt EU rules because domestic policy makers are dissatisfied with their policies and by reviewing other international solutions they adopt those which are the most appropriate for their circumstances (Schimmelfennig and Sedelmeier 2005). In this model the power asymmetry and incentive structure do not have important weight, hence, the remaining part of the paper will not deal with this model any more. The reason of this drop out is that due to the enlargement the EU had a particularly strong bargaining position during the negotiation process and later - after the accession – the EU driven policy change occurred in an asymmetry power relation (Schwellnus 2005). This underlines the assumption that information and material asymmetries between the EU and CEE countries created a relationship which was determined more by external factors than internal factors.

2.2.2 The “logic of consequences” and the “logic of appropriateness”

Regarding the second dimension of the model of Europeanization elaborated by Schimmelfennig and Sedelmeier (2005) policy change driven by EU pressure is based on different instruments. These instruments determine in a large extend the logic of rule adoption such as “logic of consequences” (rationalist institutionalism) and “logic of appropriateness” (sociological institutionalism) (Schimmelfennig and Sedelmeier 2005, Schüttpelz 2004).

The “logic of consequences” as a part of the rationalist institutionalism emphasizes that the EU uses conditionality to influence candidate countries towards the compliance with the EU requirements. Conditionality means that the EU uses conditional incentives as a reward/punishment for states who comply/do not comply with the European requirements. It means that EU member states follow the “logic of consequences” where the main driving force of their behaviour is the calculus based projection for the future (Sedelmeier 2006, Schüttpelz 2004, Winchell 2006).

In contrast, the “logic of appropriateness” as a part of sociological institutionalism, emphasizes the process by which member states internalize values and norms. In this case persuasion and “social learning” constitute a more complex process of rule adoption (Schimmelfennig and Sedelmeier 2005, Vink 2007, Sedelmeier 2005). The ‘logic of appropriateness’ claims that the main driving force for compliance is socialization and social learning in which domestic actors internalize EU norms that they regard as legitimate (Sedelmeier 2006).

2.2.3 Instruments of the “logic of consequences”

According to the “logic of consequences” rule-adopting member states calculate their rewards and sanctions offered by the EU. Hence, member states behave as rational actors and their purpose is to maximize their power and benefits and minimize their costs and negative consequences of non-compliance. The most widespread instruments used by the EU are the funds (PHARE, European Social Fund etc.) and the obligatory legislations.

*Legislation and the Community **acquis*** include not only the Community law but also other acts under the second and third pillars of the EU Treaties such as common foreign and security policies or home affairs. During the negotiation process applicant countries have to accept the Community *acquis* and transpose them into their national legislation and implement them from the moment of accession (Europa Glossary 2006). Regarding the labor law, these legislations are of the most important tools of the establishment of minimum working standards and basic rights in the working place (basic working conditions, minimum requirements of labour standards, equal treatment for men and women, anti-discrimination) (EC Employment and Social Affairs, Labour Law 2007)⁵.

Funds can be divided into two parts. First is the PHARE⁶ as the main pre-accession aid to candidate countries. The aim is to support the candidate countries to adopt and implement the *acquis* and help them to establish an institutional setting which is able to manage the Structural Funds. PHARE focuses on two priorities: institution building and investment financing (Europa Glossary 2006). The second group of financial incentives is the European Social Funds. The Fund promotes long-term programmes based on the monitoring of National Action Plans for Employment in line with the Guidelines of the EES. New Member States started to receive money after their accession for the 2004-2006 (EC Employment and Social Affairs, ESF 2007). It is worth mentioning the

⁵ According to Sedelmeier and Schimmelfennig (2005) the impact of EU legislation on the domestic policy making is obvious as for instance in case of Hungary in June 1999 152 laws without any debate were passed out of the 180 just because they were part of the *acquis* (p. 2). This automatic acceptance can be seen as a reason why legislation is a part of conditionality and rational institutionalism.

⁶ Further information regarding the main objectives and amounts can be found in European Commission, Regional Policy (2006).

EQUAL as well which transfers money for policies with the aim to combat discrimination in the labour market.

2.2.4 Instruments of “logic of appropriateness”

The logic of appropriateness persuasion and co-operation play an important role. In this case the most important instruments used by the EU are social dialogue, partnership and mutual learning by peer-reviews and twinning programmes constitute the base of the framework.

Social dialogue is one of the most important instruments to build a widespread agreement among social partners on a national level⁷. Recently, the social partners took an initiative in 2004 to encourage action in areas such as equal opportunities and working conditions, core labour standards, training and lifelong learning and health and safety at work. It is obvious that social partners in candidate countries are extremely important and have a very different history than those in the old member states⁸. Hence, it is necessary to support and reinforce the work of the social partners in new Member States and candidate countries (EC 2005a).

Partnerships as Twinning and Peer Reviews are the most popular instruments of social learning. The Twinning Programme is the principal instrument of the PHARE programme. It involves practitioners, ministries, state agencies and other professional associations as a framework to work with their counterparts in member states. These stakeholders together develop and

⁷ In this paper we will focus mainly on the national level. However, it is inevitable that European level social dialogue gets increasing interest. See further information in a more detailed way: (EC Employment and Social Affairs, Social Dialogue 2007).

⁸ One of the basic indicators to measure the existence of social dialogue among member states in general and among Hungary, Slovenia and Estonia in particular is the Union density index which all of the three countries have decreased considerably during the last 15 years even in Slovenia (Anspal and Vork 2007 Praxis working paper No 27).

implement projects that facilitate the transposition and implementation of different part of the acquis communautaire. Twinning was introduced in Central and Eastern European countries in 1998 (EC 2001, EC 2007a). In the framework of the Mutual Learning Programme peer reviews are organized every six month (EC Mutual Learning 2007). During these meetings policy experts representing different member states elaborate successful policy solutions and assess whether this good practice can be transferred to other countries as well facing similar problems.

Open Method of Coordination (OMC) as soft governance helps national policies to progress towards common European goals while leaving the Member States the choice of how to achieve them (Winchell 2006). It is a key instrument of the Lisbon Strategy, co-coordinating the Member States' policies in the economic, employment, social protection and social inclusion areas. The method is based on:

- jointly identified objectives (adopted by the Council);
- jointly established measuring instruments (statistics, indicators, guidelines);
- benchmarking like comparison of the Member States' performance and exchange of best practices (monitored by the Commission).

In some cases the OMC involves "soft law" measures as well. These are binding in various degrees but never take the form and strictness of directives, regulations or decisions. It means that for instance in the context of the Lisbon strategy, the OMC requires the Member States to draw up national reform plans and to forward them to the Commission which regularly evaluates the progress in the line of the national plan. (Europa Glossary 2006).

Based on the content of this chapter, the instruments and incentives used by the European Union in order to push member states for a higher compliance can be summarized in Table 1.

Table 1: *Mix of instruments used by the EU to promote policy changes in the Member States*

| Instruments | External incentives model as the logic of consequences | Social learning model as the logic of appropriateness |
|-------------------|--|---|
| Future Membership | X | |
| Funds | X | |
| Legislation | X (however secondary legislation) | |
| Social dialogue | | X |
| OMC | | X |
| Partnership | | X |

Source: EC Employment and Social Affairs, Social Model (2007).

The question is how these models are useful for the explanation of compliance with the requirements and suggestions of the European Union. According to March and Olsen (March and Olson 1998 cited by Vink 2007) the logic of calculus based behaviour (rationalist institutionalism) and the logic of appropriateness (sociological institutionalism) go together perfectly well. *Hence, the second hypothesis is that the likelihood of compliance is higher in policy fields where rational and sociological instruments mutually strengthen each other.*

Table 2 shows the observed labor market policy sub-fields (identified in Chapter 1) and the mix of instruments used by the EU to promote policy change in member states. Knowing the degree of compliance, the hypothesis about the effectiveness of instruments promoting policy change in line with EES will be verified or falsified.

Table 2: *The degree of compliance by compliance by combination of different instruments*

| Labor market policy sub-fields | Instruments | Logic of compliance |
|--|-----------------------------|----------------------------|
| Hiring and firing rules – employment protection legislation (EPL) index - (Guideline No 20) | OMC | Sociological |
| Lifelong learning as a better match of education and LM demand (Guideline No 22 and 23) | Partnership PHARE ESF | Mixed |
| Active ageing as the increase of labour supply (Guideline No 16 and 17) | Partnership OMC | Sociological |
| Anti-discrimination policies in the labour market (Roma, early school leavers, women, disabled, older workers, low skilled workers) (Guideline No 18) | Legislation EQUAL | Mixed |
| Reconciling work and family life, promoting labour market flexibility (Guideline No 17) | Partnership Legislation | Mixed |
| Creating more and better jobs, and a more favorable environment for SMEs (small and medium enterprises) as the instruments for the higher labor demand (Guideline No 20) | Partnership ESF | Mixed |
| Better match of benefit system and job search incentives (Guideline No 17, 18 and 20) | Partnership OMC | Mixed |
| Labour law (Guideline No 20) | Legislation PHARE | Rationalist |
| Social Dialogue, Social partnership/collective bargain (Guideline No 21) | Partnership ESF | Mixed |
| Public Employment Services (Guideline No 19) | Partnership PHARE ESF | Mixed |

Source: Mutual Learning 2007, EC Employment and Social Affairs, Labour Law 2007, Anspal and Vork 2007, European Commission, Regional Policy 2006, EC Employment and Social Affairs, ESF 2007, European Commission 2005c,

Before introducing the methodology of the identification of the degree of compliance, the next section elaborates the theoretical role of path dependency. At the end of this section the paper will identify the different factors of path dependency.

2.3 Mediating factor as path dependency

In the time of internationalization of public policy scholars dealing with historical institutionalism widely agree that history matters. However, it is less clear *how* they matter. As Manning claims „path dependency” is generally used to explain system’s stability in a changing environment (Manning 2004). This stability occurs in spite of the changing circumstances because some unique initial conditions fix the development⁹ (Manning 2004). “Path dependency” emphasizes that “what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time” (Sewell 1996 cited Pierson 2000). It means that the reason why particular practices and institutions are difficult to change is the fact that countries or regions tend to follow their previous practices. If the established practice and the “way of doing things” have a strong “history” it is extremely difficult to change it because of the high cost of change (Pierson 2000). It means that “path dependency” should be a hindering factor of policy change. It is important to emphasize this because by definition, Europeanization only occurs when there is some misfit between domestic and European public policy. It means that the previous “path” is inconvenient for reaching the objectives set by the EU. When the previous policy path is in line with European policy process there is no misfit, hence, there is no Europeanization of that policy field.

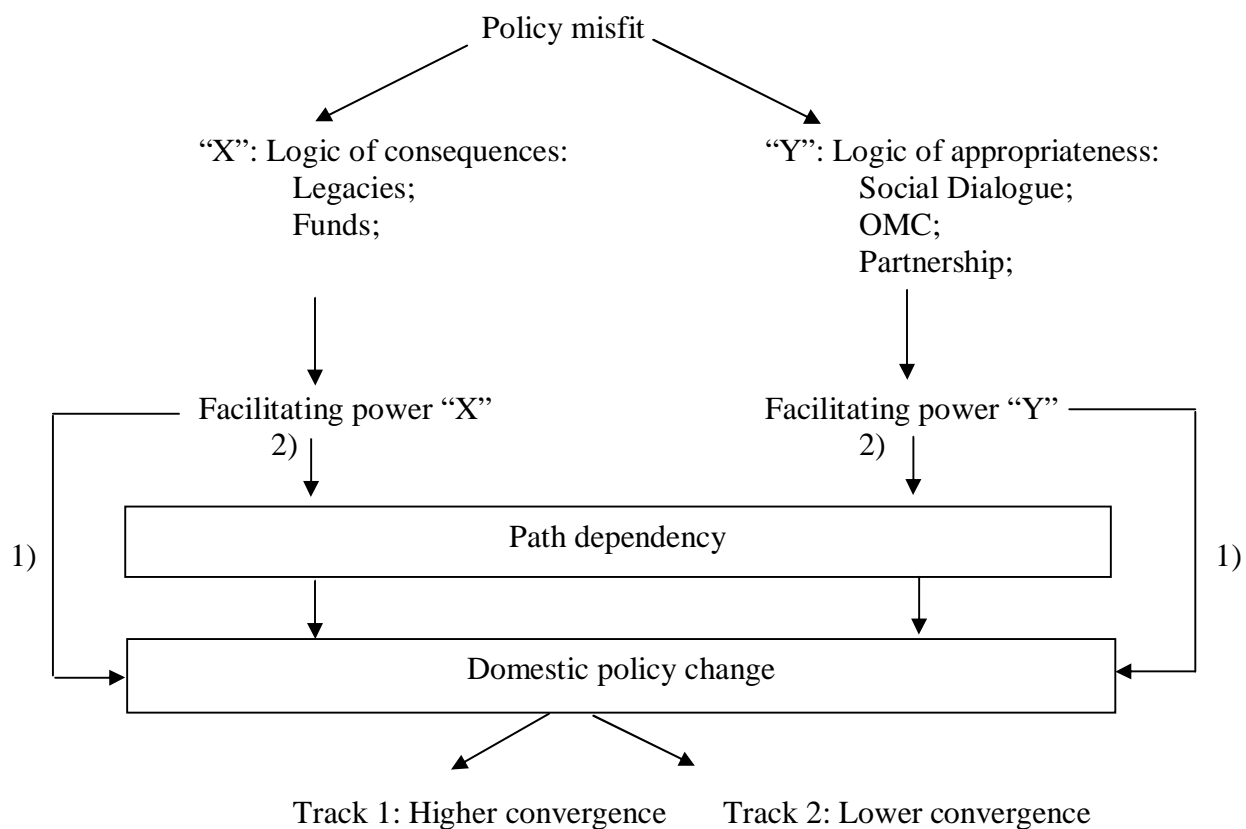
⁹ Manning quotes the most widespread example to illustrate the effect of “path dependency” which is the permanent resistance of any change of the IBM PC keyboard.

Taking into consideration “path dependency” as mediating factor of the policy change facilitated by external factors (by the EU) is extremely useful for the change of policy process in the accession countries in general and in the labor market policy change in Hungary, Estonia and Slovenia in particular. For instance in case of labor market policies, besides the new institutional setting that was required by the EU (Public Employment Services) new “ways of doing things” have also emerged like activation policies and promotion of flexibility, more attention to disadvantaged groups such as women, disabled and low skilled and/or older workers. The “clash” of the former and the new policy making processes, creates a situation where the future policy “outcome” (new policy making practice) depends on the relative power of “path dependency” and “facilitating power” of different incentives like funds, postponed membership, naming and shaming procedures etc. *Hence, our the third hypothesis is where previous practices are strongly embodied in the policy making process or institutional arrangement the effect of Europeanization is lower than in the policy domain where there is less “path dependency”.*

Combining all of the three hypotheses and applying the term of Börzel and Risse (2003) Figure 1 shows a logic of Europeanization taking into special consideration on “path dependency”. Based on Börzel and Risse (2003) the higher the misfit is the higher the adaptational pressure. Incentives and instruments facilitating the compliance with this adaptational pressure can follow the “logic of consequences” and the “logic of appropriateness” (Schimmelfennig and Sedelmeier 2005, Sedelmeier 2006, Vink 2007). The better the mix of EU instruments is the higher the adaptational pressure and the higher the likelihood of compliance to the EU requirements – which in this case is the policy convergence towards the Guidelines of the European Employment Strategy -. At the same

time, “hindering factors” play a crucial role regarding the degree of compliance. As the arrow number 2 shows the more embodied the given policy sub-field is within the former practice the lower the degree of compliance and the lower the “facilitating power” of instruments used by the EU. The “facilitating power” of EU instruments depends on the fact whether the observed policy practice is on the previous “path” or not.

Figure 1: *Model of Europeanization*



Source: Börzel and Risse 2003. Own contribution

2.3.1 Identification of “path dependency”

This section will identify the aspects being considered as practices or institutions representing previous „path”. In order to identify the factors which may hinder the Europeanization of labor market policies in Hungary, Estonia and Slovenia this paper applies the approach of Bohle and Greskovits (2006).

Bohle and Greskovits (2006) elaborated a classification based on four important areas such as marketization, industrial transformation, social inclusion, and macroeconomic stability. Every area is operationalized by several indicators based on which three types of capitalisms emerged after the transition in Central-Eastern European (CEE) societies. The first is the *neoliberal* type in the Baltic states as in Estonia, the second is the *embedded neoliberal* type in the Visegrád states as in Hungary, and the third is the *neocorporatist* type in Slovenia (Bohle and Greskovits 2006). Although, Bohle and Greskovits (2006) explain the causes of these different regime outcomes, this paper applies this typology as an operationalization tool of „path dependency” focusing on the labor market policy change. Applying Bohle and Greskovits (2006) classification the paper will justify the importance of the total expenditure on social protection (as a % of GDP) and the collective bargaining coverage rate from the point of view of labour market policy. At the same time will identifies different “paths” and positions taken by Hungary, Estonia and Slovenia.

As the first block of Table 3 shows total expenditure on social protection in Estonia is rather unequal and socially exclusive. At the same time Slovenia represents the opposite extreme example (see high % of total social protection expenditure in Table 3). Hungary is somewhere between these two cases. This factor is important because one of the main targets of the EES is to promote the

“better match of benefit system with the job incentives”. If a country has an embodied and relatively generous social protection system like Slovenia, the further retrenchment may be costly and policy convergence in this sub-field may be slower or insufficient.

The second panel of Table 3 shows Slovenia is the only country where social dialogue is well institutionalized. In case of Estonia the low coverage rate with the low spending on labor market policies and social protection system imply that workers are “left alone” in the labor market. In case of Hungary the coverage rate is between those in Slovenia and Estonia. (Bohle and Greskovits 2006). This factor is also important because the “social dialogue” is one of the instruments of the OMC and the implementation of EES. Countries which have difficulties in this corporatist framework will converge less to the EU requirements regarding this policy sub-field.

Table 3: *Policy fields of “path dependency” in Hungary, Slovenia and Estonia*

| | Total expenditure on social protection (2000-2004 average % of GDP) | Collective bargaining coverage rate (early 2000s % of employed) |
|----------|---|--|
| Hungary | 20,4 | 31-40 |
| Estonia | 13,6 | 21-30 |
| Slovenia | 25,0 | 90-100 |

Source: Bohle and Greskovits 2006. p. 8. Data about spending on active labor market policy in Hungary and Estonia: Anspal and Vork 2007. p. 17. Data about spending on active labor market policy in Slovenia: Joint Assessment of the Employment Policy Priorities of Slovenia July 2000. p. 24

This study will use the indicators mentioned above to test the explanatory power of “path dependency”. If path dependency has an effect on the policy convergence towards the EES,

- First, Slovenia should perform worst in the “better match of benefit system and job incentives” policy sub-field because it had an extensive social protection system which would be unpopular to cut back
- Second, Estonia should perform worst in the “social dialogue” policy sub-field because the collective bargaining coverage is the lowest and social dialogue is not part of its policy making process.

The next chapter will elaborate the applied definitions and methodology measuring labor market policy convergence in Hungary, Estonia and Slovenia.

CHAPTER 3: METHODOLOGY OF MEASURING COMPLIANCE

Measuring compliance is a difficult methodological task. This paper applies the most straightforward approach when based on Commission Reports the compliance of Member States to the European Employment Strategy is assessed by qualitative document analyses. Where it was possible I developed a scoring-system to assess the degree of compliance. However, there were some labor market policy sub-fields where the scoring-system was replaced to other indicators such as the employment protection legislation (EPL).

3.1 The scoring-system

Based on the qualitative analyses of the Commission Annual Progress Report 2006 of the National Reform Programme of Member States for the period 2005-2008 an evaluation scoring system was developed by which the comparison of the degree of compliance between Slovenia, Estonia and Hungary is adequate. These Commission Reports follow a common structure and the placement of the assessment has additional information. In the first part of the report the Commission assesses the general progress of the implementation of the National Reform Programme which should follow the *Integrated Guidelines for Growths and Jobs*. In the second part the Commission elaborates its detailed opinion of the progress by policy fields such as macro-economic policy, micro-economic policy and employment policy. The third part of the Commission Annual Progress Report 2006 concludes the main findings. In order to assess the policy convergence

towards the European Employment Strategy I evaluate the assessment of changes of employment policy (second part of the Commission Report) and the conclusion.

During the development of this scoring-system two aspects are taken into consideration. First, based on the typical evaluation expressions used in the second part of the report where the Commission elaborates its detailed opinion about the changes of employment policy, a 0-6 scale was constructed. 0 denotes the lack of compliance and 6 denotes the very good progress, hence the strong convergence towards the European Employment Strategy. This quantification can be seen in Table 4.

Table 4: *Quantification of evaluation expression used by the Commission's Annual Progress Report 2006*

| Evaluations | Score |
|---|-------|
| "Very good progress with..." | 6 |
| "Making a good progress..." | 5 |
| "Practices are being developed..." "Strengths are...." "A number of adequate measures have been taken..." | 4 |
| "Provision/revision etc. is welcomed. However, more remains to be done" "There have been initial signs of progress on..." "It will be important in the future..." | 3 |
| "Limited progress has been made..." "Announce new reviews...with a view making them more..." "Strengthening the obligations of ..." | 2 |
| "Weaknesses..." "Stronger action is required to..." | 1 |
| "Progress has been disappointing on..." "Efforts still missing..." "Previous reforms have slowed down..." "There are no signs of improved performances" | 0 |

The second aspect takes into consideration the structure of the Commission Report, and combines the actual placement of the Commission's assessment and the content of the assessment.

This aspect is the *complementary weighting procedure* which intends to handle the possible over or under-estimation of the progress of the given labour market policy sub-field. Labor market policy sub-fields mentioned *either*

- the last (concluding) paragraph of the second part of the report – in the detailed evaluation of labor market policy change -, which emphasizes whether “stronger actions are required” or not in the given labour market policy sub-field *or*
- the third part of the report where separate paragraphs elaborate labor market policy changes as “strengths”, “weaknesses” and other policy sub-fields needed to “be important to focus on”.

If a given labour market policy sub-field has a high score (4 or 5) based on the detailed evaluation of the employment policy (second part of the Commission Report) but it is mentioned or in the “stronger action is required” or in the “weaknesses” part as well the weighting procedure gives a lower score than the original. Similarly, if a given labour market policy sub-field has a high score (4 or 5) based on the detailed evaluation of the employment policy (second part of the Commission Report) but it is mentioned in the “strengths” parts as well the weighting procedure gives a higher score than the original. This weighting procedure is important in the middle of the scale (scores 2, 3 and 4) where the assessment of compliance is difficult because the borders between categories are blurred unlike the category of very good or disappointing which are usually easy to quantify. It is worth mentioning that policy sub-fields just mentioned under the headings of “strengths”, “weaknesses” or “stronger action required” without any additional evaluation have scores as well. In this case the placement (under the “strengths” heading or under the “weaknesses”

headings) identifies the score alone without any further weighting procedure. Hence, “strengths” are worth 4 points, “weaknesses” and “stronger action required” get only 1 point. The complementary weighting procedure can be seen in table 5.

Table 5: *The structure of the evaluation scoring system and its complementary weighting procedure*

| Original score based on the | Complementary weighting procedure if the policy sub-field is mentioned among the | |
|----------------------------------|--|---|
| | “strengths” | “weaknesses” or “stronger actions required” section |
| 6 | | |
| 5 | | |
| 4 | 5 | 3 |
| 3 | 4 | 2 |
| 2 | 3 | 1 |
| 1 | | |
| 0 | | |

Note: The calculation of the original score can be seen in table 4.

In case of Estonia a further consideration is also included into the calculation. Given the fact, that Estonia does not have a paragraph about the “weaknesses” of the Assessment of its National Reform Programme, the weighting procedure is inappropriate. At the same time, it seems to be reasonable to eliminate the reverse compensation as well (taking into consideration the “strengths”). In addition, to avoid the over-estimation of the performance of Estonia, the labour market policy sub-fields which are mentioned in the part of “it will be important” are scored with 3 points. In any case, Estonia performed very well, so the complementary procedure is not as necessary as in case of Slovenia or even Hungary.

The fourth chapter will introduce the results of the research by identifying labor market policy changes and their degree of compliance with the European Employment Strategy. The fifth chapter will discuss the main findings in light of the hypotheses that this research tends to verify or falsify. The last part of the paper will conclude the main findings.

CHAPTER 4: LABOUR MARKET INSTITUTIONS IN SLOVENIA, ESTONIA AND HUNGARY

This section focuses on the main changes of labour market policy and institutional arrangements such as employment protection legislation, active labour market policies (lifelong learning, active ageing, antidiscrimination policies, reconciliation work and family policies, job creation, better match of benefits and job incentives, labour law, social dialogue and public employment services). Labor market policy changes are assessed based on the results of Table 6.

Table 6: *The degree of compliance by labor market policy sub-fields*

| | Hun. | Est. | Slov. |
|---|------|------|-------|
| Overall assessment of the national employment strategy with a view of participation in the European Employment Strategy | 2/3 | 6 | 5 |
| Hiring and firing rules – (EPL) index - (G No 20) | 4 | 4 | 6 |
| Lifelong learning as a better match of education and LM demand (G No 22 and 23) | 2 | 3 | 3 |
| Active ageing as the increase of labour supply (G No 16 and 17) | 2 | 4 | 3 |
| Anti-discrimination policies in the labour market (G No 18) | 2 | 3 | 3 |
| Reconciling work and family life (G No 17) | 4 | - | 3 |
| Creating more and better jobs, and a more favorable environment for SMEs (G No 20) | - | 4 | 4 |
| Match of benefit system and job incentives (G No 17, 18 and 20) | 4 | 4 | 4 |
| Labour law (Guideline No 20) | 2 | 3 | 0/1 |
| Social Dialogue, Social partnership/collective bargain (G No 21) | - | 2/3 | 5 |
| Public Employment Services (G No 19) | 5 | 5 | 5 |

Source: European Commission 2006. The Commission's Assessment of National Reform Programmes for Growth and Jobs (Hungary, Estonia and Slovenia), Anspal and Vork 2007, Note: The degree of compliance varies between 0 and 6 where 6 is the perfect compliance with the EES requirements.

While according to the overall evaluation of the implementation of the National Reform Programme Hungary made limited progress, Estonia's performance is considered as "very good" by

the Commission. Slovenia also made good progress in the implementation of the employment policy part of the National Reform Programme. However, in some policy sub-fields the progress is not rapid enough, such as active ageing and the removal of barriers to youth employment (EC 2006 Hungary, Estonia and Slovenia).

To measure the hiring and firing rules and labor market rigidity the strictness of employment protection legislation (EPL) index was used (OECD 2004)¹⁰. As Anspal and Vork claim (2007), all of the Central and Eastern European member states had a relatively strict protection regulation before the transition. Later on the EPL index was significantly relaxed in order to create the legislative background for the labor reallocation due to the economic transition. Table 7 shows the decrease of the EPL index during the last decade. Slovenia introduced substantial labour code changes and its EPL index's drop is the biggest among the three observed countries. While Estonia's EPL index dropped close to the EU-14¹¹ average, in case of Hungary, a reverse process is considered. Specifically, an increase of the EPL index occurred which even with this change is far below the EU average (Anspal and Vork 2007). Given the fact that the EPL index of EU14 dropped by 0,2 point from the late 90s to 2003, any performance close to this level is honored with a score 4 (good performance by a number of adequate measures). Hence, the outstanding performance of Slovenia is honored by a score 6 (see Table 7).

¹⁰ According to the OECD methodology the employment protection legislation (EPL) index is calculated by 18 basic items in the area of i) protection of individual dismissal; ii) protection of collective dismissals; and iii) regulation of temporary forms of employment. These items are converted into a score from 0 to 4. The higher the score is the stricter regulation (OECD2004 p.102-106).

¹¹ Without Luxembourg.

Table 7: *Changes of the employment protection index and its conversion into a 0-6 scale*

| | EPL index in late 90s | EPL index in 2003 | Change | 0-6 scale |
|----------|-----------------------|-------------------|--------|-----------|
| Hungary | 1,5 | 1,7 | +0,2 | 4 |
| Estonia | 2,6 | 2,3 | -0,3 | 4 |
| Slovenia | 3,5 | 2,3 | -1,2 | 6 |
| EU 14 | 2,4 | 2,2 | -0,2 | 4 |

Source: Anspal and Vork 2007. p. 13 Figure 3.4

Lifelong learning as a better match of education and labor market demand is also a crucial policy sub-field of the EES. While in case of Slovenia and Estonia some progress have occurred in this policy sub-field it is clear that in both countries there are serious skill shortages in various sectors (EC 2006 Slovenia, Estonia). In case of Hungary some provisions have been introduced. However, this is one of the “weaknesses” of the Hungarian labor market policy change. One of the reasons for this general “weak” performance is the difficult match of the education system and labor market demand. This iteration process requires a lot of time and well established monitoring system which is a challenging task for the new member states.

Active ageing and activation policies are also targeted to increase labour supply. The performances regarding this policy field are as diverse as in policy fields of anti-discrimination policies in the labour market and policies aiming at reconciliation of work and family life. While Estonia performs better in the field of activation, Hungary shows considerable progress in the reconciliation of work and family life. Policy changes in the field of creating more and better jobs, and a more favorable environment for SMEs are substantial in case of Slovenia and Estonia. Both countries show significant progress in this respect which was positively evaluated by the

Commission as well. The other policy sub-field where all of the three countries perform better is the match of unemployment benefit system and job search incentives.

Labor law and social dialogue is one of the most interesting policy sub-field in case of Slovenia. According to the Assessment of National Reform Programme of Slovenia "...intensive negotiations with the social partners are delaying the revision of the Labour Relations Act, intended to promote "flexicurity" in the labour market" (EC 2006, Slovenia, p. 5). Hence, social dialogue which is one of the most important instruments of the implementation of the EES and which is highly promoted by the EU in this case is the "hindering" factor of the effective legislation. In case of Estonia the bargaining system is decentralized and the low unionization and the low coverage of collective bargaining are crucial features of the Estonian system (Anspal and Vork 2007). In line with Anspal and Vork (2007) the Commission report also emphasizes that the reinforcement of social dialogue "would be helpful for achieving progress" in labor market policy.

After this descriptive evaluation of the Hungarian, Slovenian and Estonian labor market policy progresses in line with the EES, the next chapter will discuss the main findings in the light of the hypotheses that this research tends to verify or falsify. First, whether there is policy convergence regarding labor market policy changes in Hungary, Estonia and Slovenia. Second, whether the likelihood of compliance is higher in policy fields where rational and sociological instruments mutually strengthen each other. Third, whether where previous practices are strongly embodied in the policy making process or institutional arrangement the effect of Europeanization is lower than in the policy domains where there is less "path dependency".

CHAPTER 5: CONVERGENCE OR DIVERGENCE

Applying Börzel and Risse's approach (2003) this research makes a distinction between the "convergence in outcome" and the "convergence in policy process". "Convergence in outcome" is the degree of compliance with the EES, while the "convergence in policy process" is the actual change of policy sub-field taking into consideration the direction of policy change defined by the previous domestic policy practice. The operationalization of the level of compliance quantifies the written assessment of the European Commission about the labor market policy changes in Hungary, Estonia and Slovenia. Based on Table 6 there is no strict evidence for convergence regarding the overall assessment of the national employment strategies in these three countries. While Estonia is considered as a "very good student" and Slovenia also made considerable progress in line with EES, Hungary made just "limited" progress. The degree of compliance seems to be very different regarding the labor market policy change and just a conditional convergence can be considered based on the assessment reports. *Hence, the first hypothesis regarding the policy convergence cannot be verified. It means that labor market policy change affected by the EU does not lead to "convergence in outcome" in any case.*

However, the overall policy convergence cannot be held based on this research; "convergence in outcome" of policy sub-fields does exist. However, the picture is sophisticated. It is possible to make a distinction in four cases. First, when there is a convergence in outcome – which is the compliance with the EES – by the convergence of processes – which is the same direction of policy change in all of the three countries –. Second, when there is a convergence in outcome –

which is the compliance with the EES – by the divergence of processes – which is the different directions of policy changes –. Third, when there is a divergence in outcome by convergence of processes and fourth, when there is a divergence in outcome by the divergence of processes. Applying this logic, Table 8 summarizes the different labor market policy sub-fields with the classification regarding their logic of compliance and the degree of convergence towards the EES.

Table 8: *Labor market policy sub-fields, their incentive structures and their degree of compliance*

| Labor market policy sub-files | Logic of compliance | Convergence/Divergence |
|--|----------------------------|---|
| Hiring and firing rules – (EPL) index - (G No 20) | Sociological | Convergence of outcome by divergence of process |
| Lifelong learning as a better match of education and LM demand (G No 22 and 23) | Mixed | Uncertain |
| Active ageing as the increase of labour supply (G No 16 and 17) | Sociological | Uncertain |
| Anti-discrimination policies in the labour market (G No 18) | Mixed | Uncertain |
| Reconciling work and family life, promoting labour market flexibility (G No 17) | Mixed | Convergence of outcome by convergence of process (Hungary and Slovenia) |
| Creating more and better jobs, and a more favorable environment for SMEs (G No 20) | Mixed | Convergence of outcome by convergence of process (Estonia and Slovenia) |
| Better match of unemployment benefit system and job search incentives (G No 17, 18 and 20) | Mixed | Convergence of outcome by divergence of process |
| Labour law (Guideline No 20) | Rationalist | Uncertain |
| Social Dialogue, Social partnership/collective bargain (G No 21) | Mixed | Divergence in outcome by convergence of process |
| Public Employment Services (G No 19) | Mixed | Convergence of outcome by convergence of process |

Based on Table 8 the fourth type of policy change, when there is a divergence in outcome by the divergence of processes is not identified empirically. There are four labor market sub-fields where results are uncertain. These are lifelong learning, active ageing, anti-discrimination policies and labor law. At the same time there are policy areas where “convergence in outcome” is inevitable. These are policies of reconciling work and family life; creating more and better jobs and provisions to establish and maintain an effective Public Employment Service system. All of these policy sub-fields have mixed incentives where the “logic of appropriateness” and the “logic of consequences” play an important role in the policy change in line with the EES. Only one policy sub-field has a “pure” rationalist incentive toolkit: the labor law. The results are uncertain in this policy field. Two policy sub-fields have a “pure” sociological incentives toolkit: employment protection regulations and the active ageing policies. While convergence occurred by policy divergence in the field of the employment protection, the results regarding the active ageing are uncertain. Taking into consideration all of these results *the second hypothesis which says that the likelihood of compliance is higher in policy fields where rational and sociological instruments mutually strengthen each other, can be verified.*

5.1 Convergence in outcome by convergence of process

Convergence in outcome by convergence of process implies a similar policy change towards the common EU requirements. Three policy sub-fields show this process: reconciling work and family life; creating more and better jobs and provisions to establish and maintain an effective Public Employment Service system.

Policies for the better match of labor supply and labor demand are fundamental parts of the EES (European Glossary 2007). Hence, the reconciliation of work and family life – which tends to increase labor supply –, and the creation of more and better jobs – which intends to increase labor demand – are important parts of the domestic labor market policies as well. The Public Employment Services as the institutional background of the EES is the third policy sub-field where direct convergence occurs. This network is the precondition of the future transfer of the European Social Fund from 2004. Hence, in all of the three countries the Public Employment Services (PES) have a central role in implementing the Lisbon Strategy (EC 2006b). In order to establish this institutional background new member states got assistance (PHARE and Twinning programme) from both the EU and other member states (EC Mutual Learning 2007). Taking into consideration all of this information, PES system had to be set up by 2004. The EU using the Accession Partnership and the fund and partnership programmes established a set of instruments by which it reached the convergence in outcome by the convergence by processes.

5.2 Convergence in outcomes by divergence of processes

It is possible to identify policy sub-fields where convergence happens by the divergence of processes. One of these areas is the *employment protection system* which provides the legislative background for the most flexible and mobile labour force movement. Changes in EPL occurred in both directions regarding Estonia, Slovenia and Hungary from the late 1990s to 2003. While regulations became stricter in Hungary, in case of Estonia and Slovenia employment protection relaxed. The most significant reform took place in Slovenia where the overall EPL index dropped from 3,5 to 2,3 during the last decade (Kajzer 2005 cited Anspal and Vork 2007). This result

underpinned the main feature of the Slovenian report about its progress towards flexicurity, which claims that the biggest challenge of the Slovenian labour market performance is the “rigidness” which can be reduced by the gradual decrease of employment protection (European Employment Observatory 2006). Although all of the three countries were gradually converged to the EU average, the policy processes by which Hungary, Estonia and Slovenia were getting closer to the EU average show divergence (see Table 9).

A similar process can be considered in the change of *unemployment benefit system* to reach a better match with job incentives. In case of Hungary in 2000 and 2001 the government introduced the „workfare reform package” (Fazekas 2004). The main feature of the “package” was that the conditions of eligibility were tightened and the maximum duration of the benefit was reduced from 12 months to 9 months; moreover, the wage replacement rate decreased as well. A further switch was introduced from the insurance based unemployment assistance (IUA) to means-tested regular social assistance (RSA) (Ferge and Juhasz 2004, Fazekas 2004). By contrast, the unemployment benefit system in Estonia consists of two complementary benefits: unemployment assistance and unemployment insurance. It is important that the replacement rate of unemployment assistance - which was introduced in 1991 - was about 7% of the average net wage (Leetmaa 2004 cited RWI Essen 2005). As Anspal and Vork (2007) claim that this low replacement rate was the reason for the introduction of unemployment insurance in 2003 to comply with the European Social Charter¹². In case of Slovenia, the most important changes promote greater activation of the registered unemployed and social benefit recipients by the increased conditionality (EC 2006 Slovenia). While

¹² The European Social Charter requires a decent level of income for every citizen and Estonia must introduce some additional provisions to ensure social inclusion.

the policy changes in Hungary and Slovenia are similar because of the more tightened eligibility criteria, Estonia follows a different path because of its different starting point (see Table 9).

Table 9: *Policy fields of convergence in outcome by divergence of processes*

| | Better match of unemployment system with job search incentives | EPL index |
|----------|--|-----------|
| Estonia | + | - |
| Hungary | - | + |
| Slovenia | - | - |

Source: Anspal and Vork 2007.

The “convergence in outcome” by the divergence of processes *implies that some intervening factors must have an effect on the direct relationship between the EU incentives and the domestic policy change. This leads us further towards the problem of “path dependency”*. Hence, “convergence in outcome” by the “divergence in processes” occurs because of the embodied previous rules and practices which change the straight impact of the EU on domestic policy change. Before discussing the role of “path dependency” the paper pays attention to the issue of social dialogue.

5.3 Divergence in outcome by convergence of process

The last labor market policy sub-field which can be considered as an area where “divergence in outcome” occurs by “convergence of process” is the union membership and bargaining coverage. Union membership and bargaining coverage are generally much weaker in the CEE member states than in the EU-15 (Anspal and Vork 2007). In addition the similar trend among Central and Eastern European countries is the declining union membership. One of the explanations of this decrease is

the proliferation of the service sector where the unionization of workers is more difficult. On the other hand the general loss of confidence in the unions after the transition also led to a decreased membership (Anspal and Vok 2006, Bohle and Greskovits 2006). Although social dialogue is one of the most important EU instruments in the labor market policy field, the significant drop of union membership from the 1990s shows the gradual divergence from the EU requirement in this respect. The only exception is Slovenia, where due to the total collective bargaining coverage social dialogue is the fundamental part of its corporatist regime (Anspal and Vork 2007, Bohle and Greskovits 2006).

5.4 The role of path dependency

To test the role of path dependency, the paper attempts to verify two hypotheses. First, Slovenia should perform worst in the “better match of unemployment benefit system and job incentives” sub-field because as Bohle and Greskovits claim (2006) it had an extensive social protection system which would be unpopular to cut back. Second, Estonia should perform worst in the “social dialogue” policy sub-field because the collective bargaining coverage is the lowest and social dialogue is not part of its policy making process (Bohle and Greskovits 2006).

It is important to emphasize that “path dependency” in this research means a “hindering factor”. Hence, the originally quite generous Slovenian social protection system should have been a “hindering factor” of the better match of unemployment benefit system with the job incentives. In fact, Slovenia such as the other two countries made a substantial progress in the match of

unemployment benefit system with the job incentives (EC 2006 Slovenia). As Table 6 shows all of the three countries got a score 4 for this policy sub-field and Slovenia made important changes in promoting greater activation of the registered unemployed and social benefit recipients. At the same time, the second hypothesis is verified, because Estonia's performance in the field of social dialogue is considered weak by not only the Commission but also by independent experts (EC 2006 Estonia, Anspal and Vork 2007). Social dialogue which is not traditionally part of the Estonian policy making culture works as a "hindering factor". Hence, path dependency in this latter example changes the likelihood of compliance with the EES requirements.

CONCLUSION

The aim of this paper was to examine the development of labour market policy of Slovenia, Estonia and Hungary due to the EU accession. The main question was to what extent these developments have constituted convergence towards “European” institutional structures and policy making procedure, and whether it depends on the path dependency of the previous policy practice of new member states. The paper used a set of reports from the EU Commission and EU member states and working papers from independent experts. A genuine scoring system was developed and the quantitative analysis provided evidence for the conditional convergence towards the EES depending on the dependency of the previous path.

Three hypotheses have been tested. The first one, which emphasized the convergence toward the EES requirements, is not verified. However, all of the three countries faced similar adaptational pressures, the degree of compliance seems to be very different regarding the labor market policy change and just a conditional convergence can be considered based on the assessment reports. While Estonia is considered as a “very good student” and Slovenia also made considerable progress in line with EES, Hungary made just “limited” progress in this respect. The second hypothesis which says that the likelihood of compliance is higher in policy fields where rational and sociological instruments mutually strengthen each other is verified. In addition, it seems that even in the labor market policy field – which is a field of OMC and is often considered as a policy area which remains a domestic competency –, incentive structures are the mix of “sticks” and “carrots”.

The third hypothesis which emphasizes the importance of “path dependency” says that where previous practices are strongly embodied in the policy making process or institutional arrangement the effect of Europeanization is lower than in the policy domain where there is less “path dependency” is just partly verified. For future research it would be interesting to elaborate more the effects of “path dependency” and test the possible constellations of facilitating and hindering factors taking into consideration the labor market policy fields where countries face serious difficulties.

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