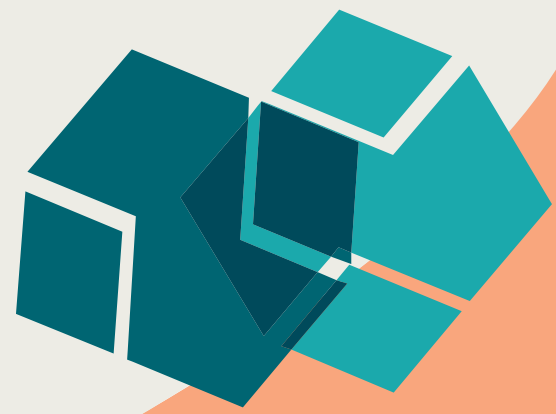




Working Paper Series GRINCOH

Growth-Innovation-Competitiveness
Fostering Cohesion in Central and Eastern Europe



Serie 4
Societies and social change

Paper No. 4.05.2

How Can We Measure the Quality of Labour Market Related Decision-Making and Policy Design in Central- and Eastern European EU Member States and What Are Its Structural Determinants?

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2013

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Please cite as:

Váradi B., (2013), 'How Can We Measure the Quality of Labour Market Related Decision-Making and Policy Design in Central- and Eastern European EU Member States and What Are Its Structural Determinants?', GRINCOH Working Paper Series, Paper No. 4.05.2

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Abstract

We construct a proxy for the quality of labour market decision making and policy design in the 2007-2010 period in Central and Eastern Europe, based on ALMP spending over GDP over the male employment gap, corrected for ESF spending. Considering theory, previous studies and the case of Hungary and the Czech and Slovak Republic, we identify a set of structural determinants that may have caused the LMP quality proxy we constructed to be high or low. We apply fuzzy-set qualitative comparative analysis to identify combinations of those factors that might explain the cross-country variation and discuss our results.

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1. Introduction¹

Honouring the demarcation line of the respective disciplines, economic research usually stops at making policy recommendations based on its findings, sadly aware that they are often not followed by politicians and bureaucrats. The economist leaves it to political scientists to try to explain *why* those are or are not followed. As far as labour market policies in the Central and Eastern European member states of the EU are concerned, efforts at shedding light on this second question have, with the exception of a very few comparative studies have taken the shape of individual country case studies, based on interviews and the minute analysis of laws and decrees. That is the proper way. But here we have taken a different effort, following earlier cross-country research, attempting at a ten-country comparison to (1) find a reliable proxy for the quality of labour market related decision-making and policy design, and (2) to try to answer what structural explanations are most likely to contribute to explain the differences, resorting to the method of fuzzy-set qualitative comparative analysis. This is certainly no silver bullet, but we hope that this might help make future country case studies look at the most important explanations, help the policy makers in those countries and at the EU Commission find indirect but potentially powerful ways to improve policy, and thereby, the outcomes in the labour market.

We consider the ten formerly socialist CEE EU Member countries at the time of starting this project: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. As far as the time scope is concerned, we started with the 2004-2013 period. Our need for comparable data, and the fact that Bulgaria and Romania acceded later to the EU than the other eight states caused us for most of what follows to restrict our scope to the 2007-2010 span. This period includes the time the global economic downturn reached the region.

Below, after a brief summary of the most pertinent previous work, we first take a look at what can be said about the quality of decision making and policy design in general and about labour market decision making and policy design in the Europe of the early 21st century in particular: does it matter? How could we proxy it? What could affect it? Then we sample what we know about the structural determinants of the quality of labour market decision making and policy design in the ten CEE countries, with two special examples: Hungary, and the comparison of the Czech Republic and Slovakia. Based on these, in the next section we construct, tabulate and discuss the ranking we propose, shortlist structural explanatory factors worth considering in our case, carry out our analysis and conclude.

2. Literature Review

Concentrating just on papers closest to our focus, and ones comparative in their approach, we built on Vis (2012) in focusing on ALMP spending as a dependent variable and applying a special technique, fuzzy-set qualitative comparative analysis, although she looks at not *levels* and their *structural* determinants but changes in it under different governments. Vlandas (2010) reviews regression-based as well as qualitative studies, fifteen in all, on what might determine ALMP

¹ This paper is a part of work package 4 the EU-financed GRINCOH research project, the financial support of which is gratefully acknowledged. The author thanks Adrienn Győry, Endre Tóth, Gábor Csomor and Zsolt Csáfordi for their research assistance and Ágota Scharle and Jan-Hinrik Meyer-Sahling for their helpful suggestions at the outset but remains responsible for any errors remaining.

spending and argues, as we do to some extent, for disaggregating ALMP spending, although he takes a different route, singling out one component of ALMPs, employment subsidies. Bonoli (2010) compares Western European cases on a longer timescale and stresses institutional and ideational explanations. Rueda (2007) analyses the ways in which the leftist or rightist parties in government affect labour market protection legislation. Restricting our attention to the region, Meyer-Sahling, (2009) looked at civil service reforms in the region, Cazes, S. and Verick, S. (2010) surveyed the role of labour market policies and institutions in development in a broad set of countries, Graziano (2012) discusses the role of the EU re activation policies in member states, Kuddo (2009) compares active labour market programs in Eastern Europe with those in Central Asia trying to make policy suggestions, whereas Fialová and Schneider (2008) describe labour market institutions and their effect on labour market performance in the new EU member countries. Graziano and Winkler (2012) compare activation policies in the Czech Republic and Italy; Sirovátka (2008) those in the Czech and the Slovak Republics.

3. Quality of labour market decision making and policy design: does it matter?

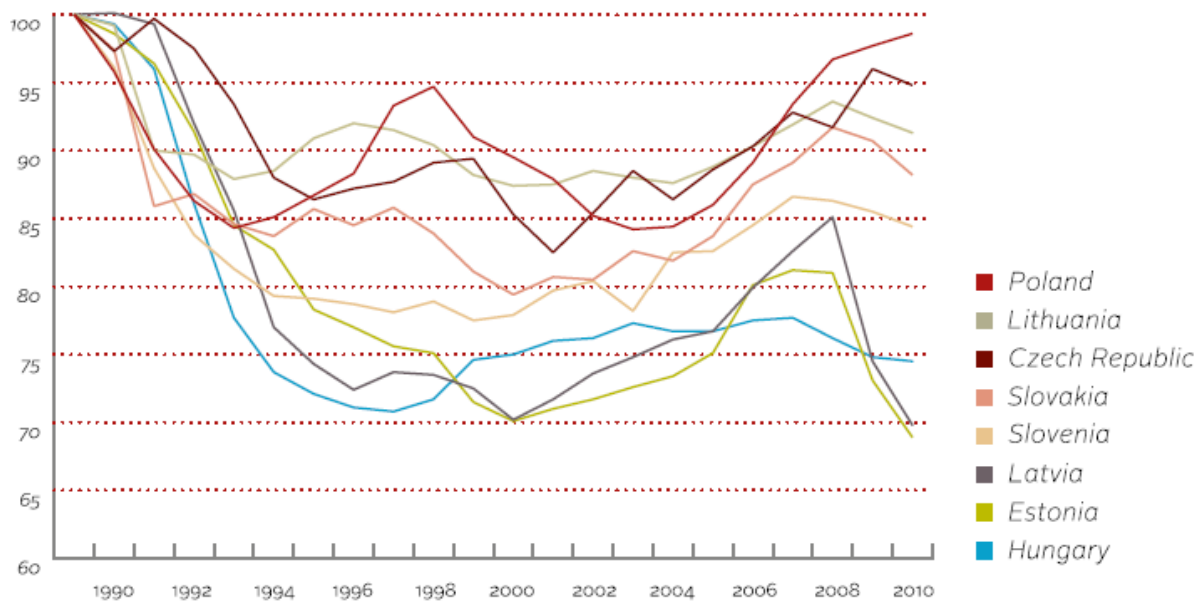
What could affect it?

The state is usually a powerful agent in the world studied by science. In many fields, from the study of international conflict to urban studies it is taken for granted that the design of policy and the decision by politicians in power to adopt it has the capacity to affect outcomes. Of course this need not be true for every field of empirical inquiry: governments to date can hardly expect to have a major affect in phenomena studied by geologists or astronomers. It is, however, considered true for most areas discussed by Economics: policy has an undisputedly large, albeit often indirect role in affecting the production, distribution, and consumption of goods and services: this insight is implicitly paid tribute to by the custom of appending policy implications to papers of applied economics. There can be exceptions to this rule: theoretically it is quite possible to find such powerful explanatory mechanisms across time and countries that leave no room for the agency of policy designers and adopters. But, beyond the most fundamental microeconomic principles, tested in labs, none springs to mind. We argue, though, that the phenomena that labour economists study, like the level and change of employment and wage variables are certainly not among them.

In fact, several panel studies like Rottmann and Flaig (2011) and the literature they review suggest that “although the results are still somewhat mixed (OECD 2004), there seems to emerge a consensus that labour market institutions are one of the most important determinants of unemployment.”

Employment rates, which have causes beyond the directly economic ones, indeed show a great variation across Central at Eastern European countries, as shown by their trends from the end of Socialism

Figure 1. Changes in Employment in Eight CEE countries 1989-2010 (1989=100)



Source: Fazekas and Scharle (2012), Figure 1.

It is impossible to exclude the possibility that those difference are due to different policies across nations.

The institutions though that could explain those difference, however, range from legal traditions to pension systems, from union strength to education policy. Even if we concentrate on labour market policies proper, like labour taxation, unemployment benefits, employment protection legislation, wage setting, or working time regulations, and active labour market policies, these are different norms, designed and implemented by different agencies, calling on different skills and consultations with different groups, having effects in different horizons and on different constituencies that effect the motivations of political decision makers in different ways. Can one generalize and identify a one-dimensional structurally determined component in all this? Does it make any sense to judge all this on one scale “better” or “worse” in different countries?

This is a legitimate question: e.g. Vlandas (2010) calculates correlations across different ALMP subcategories to argue we should not. Finding such a measure certainly does not make the painstaking analysis of the details by country and period case studies superfluous. We have two arguments for trying to establish an LMP-quality proxy at all here. First, at least in small or mid-sized, not too-large, non-federal countries like all the ten we discuss here, the set of people who design and decide on policies affecting the labour markets is not that huge. It is mostly the staff of the labour or economic or finance ministry and the headquarters of the public employment agency, and the politicians who oversee them whose capacity and willingness to propose and make good decisions we are judging. Second, similar, but even more general unidimensional measures of government quality, like the World Bank Government Effectiveness Index (also used by us below), or the Quality of Government measure of the professionalism of public administration have been routinely and fruitfully used in cross-country comparative research (E.g. Rothstein et al., 2010). If that makes sense at such general level, why not try for labour policy?

The next question arising is how would we construct such a measure? We argue that, in our universe of 21st century Europe, the best measure for the quality of labour market policy design and decision making is a time average of budget spending on active labour market policies as a percentage of GDP, in proportion to the size of the labour market problem to tackle. The arguments are as follows:

- ALMP-s are meant to affect almost exclusively the labour market (as opposed to other measures with multiple effects like changes taxes or social transfers) and they are in the purview of designers of labour market policies, thus they are the best choice to concentrate to policy quality in this field, as opposed to measures that combine labour and social policy or labour and fiscal policy concerns.
- The exhaustive meta-analysis of Card et al. (2010) concludes that, with some variation and with the possible exception of subsidized public sector employment programs that have the least favourable impact estimates, well targeted ALMP programs have tangible positive effects: job search assistance programs are best in the short-run impacts, whereas classroom and on-the-job training programs tend to show better outcomes in the medium run.
- A further hint to suggest that higher ALMP spending could be used as a proxy for good LMP could be the fact that Scandinavian countries tend to spend proportionally higher than the rest of Europe, with even the (per GDP) lowest spender among them, Norway, allocating more than all Central and Eastern European countries but one (Eurostat data, 2007-2010 average values used below in table 2.).
- Introducing ALMPs is also often advocated by the EC for member countries: “Although this analysis cannot be taken as conclusive evidence, these results nevertheless suggest that EU
- Member States can improve participation while maintaining income cohesion by spending/investing in ALMPs of the right sort. As an example, the high level of ALMPs spending in some countries (e.g. in Scandinavia) might be partly to offset their rather generous unemployment benefit systems and to push unemployed individuals back to work [...]” EC (2005).
- With the exception of public works that we exclude from our measure, they tend to be politically less advantageous than alternative measures. Vis (2012) and Rueda (2005) argue that ALMPs benefit labour market outsiders (e.g. the unemployed and temporary workers) most, who are less active politically and less important electorally for mainstream parties, who, in turn, typically make up the government. Since ALMPs are costly in the short run, this limited possibility for reaping electoral gains puts a high political price on pursuing ALMPs. This, in turn, suggests that a higher spending level on them is a sign of higher quality policy design and decision-making: if a politically less expedient policy is pursued, there must be other reasons to do so, and the belief that such spending is efficacious could be one.
- Such policies often require more preparation, design, monitoring and evaluation than simpler alternatives like passive policies. One standard design challenge is considering the incentives arising from the interaction of ALMP efforts with benefit systems, as discussed for the region by Peters et al. (2008).
- Moreover, for using expenditure on them for structural cross country comparison, spending on them has to be averaged over several years (to get rid of year-over-year changes), and

that should be considered both in proportion to the GDP and to the size of the problem addressed, as suggested by Vis (2012).

If we can construct such a measure, there emerge two questions of causality:

- (1) Does the measure indeed matter? Do countries with higher quality labour market decision making and policy design *ceteris paribus* achieve better labour market outcomes?
- (2) What affects it?

In this paper, we shall not discuss the first question, which should be the topic of further investigation.

As far as the second question is concerned, we first refer to the theoretical framework of Botero et al (2004) who propose that regulation of labour can be explained under three theories:

- (1) Efficiency theory – the most efficient regulation emerges.
- (2) Political power theory – political power (by way of political institutions) determines regulation
- (3) Legal theory – Legal tradition determines regulation

Since accepting (1) would obviate our premise, and all ten countries have a civil law system tradition, tainted by a socialist period, thus providing no meaningful variation in (3), our explanations must come from (2): the exercise of political power (by way of political institutions).

This still allows for a plethora of causes to consider. Scharle and Váradi (2013) surveyed the literature for plausible explanations for policy changes in employment policy:

- (1) Actor based: ideas, values and interests of citizens, organised elites and external actors and communication targeted at them.
- (2) Political-institutional: institutions of interest mediation, the length of the policy window, path dependence, the quality of bureaucracy, etc.
- (3) General structural: demography, GDP, fiscal crises (we can also add the effect of globalisation and trade openness, which are the premise of their paper).

This intimidating list neatly subsumes the explanations Vis (2012) proposes for the change of level a similar variable to ours during the rule of different governments in a broader set of countries. She suggests that governments increase spending on ALMPs only when the socio-economic situation is improving, that the political hue of government could matter, that the level of corporatism (including union and employer organization coverage and strength) and economic openness of the country should matter, and finally, if there is political pressure upon the government caused by high unemployment level, that could contribute to higher ALMP spending, too.

Vlandas (2010) collects fifteen explanatory variables suggested in one paper or another, most of which overlap with those of Vis (2012), but he also lists fiscal variables, like spending on other programmes and deficit levels.

We take up what explanations could matter and can be identified in our set of countries below, in section 5., but now let us take a closer look at what we know about some of the countries under

scrutiny in the next section. This should point us to plausible explanation for differences in our set of countries.

4. Labour market policy making in CEE countries: some evidence.

Given the limitations of this paper, we do not attempt a comprehensive overview of the extensive literature on labour market policy making in ten countries, most of it in local languages. Following our top-down approach, we use this part to generate insights about the most important causal mechanisms operating across countries to whittle down the potential explanations for LMP differences across CEE countries to a manageable list. For that, first we look at some general comparative data, and qualitative comparisons for inspiration, then we single out a few countries, to wit, Hungary and the Czech and Slovak Republics for closer scrutiny.

Cross-country quantitative data

The one general English language database on labour market policy measures for the region is the Labor Market Reforms Database² (LABREF), which systematically records, on an annual basis, information (like policy area, design, scope and durability) on reforms that are likely to have an impact on labour market performance. LABREF covers nine broad policy areas, one of which is ALMP measures. In table 1. we compiled some descriptive information from it for the ten countries under scrutiny, concentrating on active labour market policy changes only. Unfortunately the information is largely qualitative, not necessarily exhaustive, and important pieces of information (e.g on how much was spent on measures or whether they were monitored) are often missing. Country-by-country tables with more detailed information about individual programs and timing has been relegated to the (web) appendix, available from the author.

While the number of individual reforms launched per se does not say much, since it might easily be just as good policy to put more effort into designing fewer measures better than launching more different programmes, it lends itself to form a ranking over the countries of the region. If we believe that those that launched more reforms are better at LMP, Poland leads the pack, followed by the three Baltic countries, then Hungary and Bulgaria tied, then Slovenia, the Czech Republic, and, again in dead heat, Slovakia and Romania.

It is also worth noting that planning to evaluate ex post the measures is none too widespread in Europe in general, but it is certainly more the exception than the rule in the region. If we take the frequency of the presence of at least the intention to evaluate ALMPs for an indication of quality of policy, Latvia, Lithuania and Poland get the first three prizes with more of their reforms to be evaluated than is average in the 27 member EU, Slovenia, Bulgaria and Estonia plan to evaluate at least one measure, whereas the other countries do not want to bother to seriously check whether what they do has the desired effect.

² http://ec.europa.eu/economy_finance/db_indicators/labref/

Table 1. Number of ALMP reform measures in Central and Eastern Europe

Country_name	Year adopted								Ex-post evaluation foreseen	As % of measures adopted
	2004	2005	2006	2007	2008	2009	2010	Sum		
Bulgaria	2	3	2	0	2	1	4	14	1	7.1
Czech Republic	7	1	0	1	0	1	1	11	0	0.0
Estonia	2	2	0	0	6	8	4	22	1	4.5
Hungary	3	4	0	1	5	0	1	14	0	0.0
Latvia	3	2	3	6	0	1	6	21	9	42.9
Lithuania	4	0	2	3	0	4	6	19	6	31.6
Poland	6	2	1	9	3	2	0	23	4	17.4
Romania	0	3	0	1	0	3	1	8	0	0.0
Slovakia	2	1	0	1	0	2	2	8	0	0.0
Slovenia	3	2	0	0	0	5	2	12	1	8.3
CEE All	32	20	8	22	16	27	27	152	22	14.5
EU27	79	73	45	74	86	96	85	538	101	18.8

Source: EU LABREF database, own calculations Note: Cells flagged in dark gray contain one public works measure each

Another important piece of information on labour policy is budget expenditures on ALMPs.

Table 2. ALMP spending as a % of GDP, excluding public works spending

Country name	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Average 2007-2010
Bulgaria	x	X	0.17	0.18	0.15	0.14	0.14	0.10	0.06	x	0.11
Czech R.	0.15	0.16	0.21	0.22	0.25	0.28	0.24	0.25	0.29	x	0.26
Estonia	x	0.07	0.06	x	X	x	x	x	0.23	0.23	0.23
Latvia	x	0.08	0.10	0.20	0.24	0.16	0.11	0.23	0.34	0.24	0.21
Lithuania	x	0.15	0.14	0.17	0.22	0.29	0.20	0.28	0.26	x	0.26
Hungary	x	X	0.25	0.24	0.24	0.23	0.24	0.22	0.23	x	0.23
Poland	x	X	X	0.40	0.44	0.48	0.53	0.60	0.66	x	0.57
Romania	x	0.10	0.11	0.11	0.11	0.09	0.08	0.06	0.05	x	0.07
Slovenia	x	X	X	0.22	0.20	0.14	0.14	0.27	0.32	x	0.22
Slovakia	x	X	0.13	0.28	0.26	0.18	0.21	0.24	0.32	x	0.24
EU (27 countries)	x	X	X	0.66	0.63	0.59	0.60	0.71	X	x	0.63

Source: Eurostat, own calculations Note: Cells flagged in dark gray were averaged from less than four years due to missing data

x: missing data

We shall discuss levels below, which are all below the EU average. What is worth noting, though, is that Poland stands out as the only country in the region where ALMP spending as a share of GDP uniformly and rapidly increased from 2005 to 2010.

This, unfortunately, does not tell the full picture, since Eurostat data apparently do not fully incorporate ALMP spending from the European Social Fund. In table 3. we present planned spending

on active labour market policies in the ten countries both as a percentage of the ESF budget of the country and as a percentage of 2007-2013 GDP:

Table 3. ESF spending on ALMP, 2007-2013, as planned in 2007

Country_name	EUALMP	EUALMP/ESF	EUALMP/ESF	GDP	EUALMP/GDP	ESF/GDP
Bulgaria	205	1169	17.5	256264	0.08	0.46
Czech Republic	514	3775	13.6	1036283	0.05	0.36
Estonia	109	392	27.8	111402	0.10	0.35
Hungary	138	3629	3.8	689343	0.02	0.53
Latvia	84	551	15.2	146366	0.06	0.38
Lithuania	58	1028	5.7	213795	0.03	0.48
Poland	1282	9707	13.2	2478100	0.05	0.39
Romania	476	3684	12.9	908935	0.05	0.41
Slovakia	61	1481	4.1	462414	0.01	0.32
Slovenia	119	708	16.8	249899	0.05	0.28

Variable:

Explanation:

Source:

EUALMP European Social Fund Spending on active and preventive measures to support employment minus public works spending, 2007-2013, million Euros

http://ec.europa.eu/social/esf_budgets/results.cfm

ESF Total European Social Fund Spending on all measures, 2007-2013, million Euros

http://ec.europa.eu/social/esf_budgets/results.cfm

EUALMP/ESF Proportion of European Social Fund Spending on active and preventive measures to support employment, 2007-2013, Euros, percentage

http://ec.europa.eu/social/esf_budgets/results.cfm

GDP SUM of GDP 2007-2013 in million Euros

Eurostat

EUALMP/GDP European Social Fund Spending on active and preventive measures to support employment as a percentage of GDP, 2007-2013

ESF/GDP Total European Social Fund Spending as a percentage of GDP, 2007-2013

Cross-country qualitative studies

Cazes and Verick (2010) in their ILO-recommendations for low and middle-income states identify active and passive labour market policies, strong institutions of social dialogue, good policy design practices (sequencing, policy packages consisting of measures strengthening, not weakening each other) and improving the capacity of public employment services as necessary measures for a good policy mix. They also identify “inadequate tax bases” and “little fiscal space” as a challenge for developing countries that want to improve their labour market policies.

Country case: Hungary

As a part of an effort to survey two decades (1990-2010) of employment policy, Váradi, Cseres-Gergely and Galasi, and Bódis used interviews and media analysis to probe for determinants of the quality of policy making at the national level.

Váradi (2012a, 2012b) found that, in the beginning of the nineties, the speedy surge in the number of the unemployed caused the government to establish regulation and set up and finance the public employment service. Later, he found, the motivation and preparedness of leading civil servants diminished because of ill-considered reorganization of the whole civil service, as well as frequent changes in the locus of the ministry in charge of employment policy within the executive branch. For such reasons “developing policy alternatives (by civil servants or experts) – is not characteristic of Hungarian reality. [...]by the end of the period under consideration, civil servants had hardly any influence on developing solutions and measures. Ex ante evaluations are even less frequent, perhaps because politicians define policy instruments [...] without defining social, economic and political objectives first; or perhaps because everything is done in haste and there is never any time; or perhaps civil servants do not have the experience and autonomy to undertake ex ante assessments.” This, he argues, is the more conspicuous, because since 2004 Hungary is part of an Europe-wide policy cycle that would very much encourage and build on such a practice of policy design as is almost completely lacking in Hungary.

Cseres-Gergely and Galasi (2012) survey the evidence base available for employment policy in Hungary and the use policy designers make of it. They say that policy makers seldom relied on the (available) micro-level data that could have been eminently useful for policy evaluation and design.

Their interviews revealed that it was not lack of information by the bureaucrats that caused this. They also contend that the lack of interest could not be explained by reasons of fiscal stringency: programme evaluations would have cost 4-5 orders of magnitude less than the programmes at stake.

They conclude that the problem was political in nature. “The employment agency was never strong enough to make long-term plans and strategies; however, there were always political considerations that defined the directions that were deemed ‘correct’ in the absence of thorough analysis of a problem. As a result, mid-level officials could not convince their superiors of the importance of such analyses, and thus could not allocate sufficient resources to establish or involve analysis and research capacities. Furthermore, even if there is the occasional achievement, if it is not utilized then those middle-ranking officials lose their motivation to undertake or commission regular impact evaluations. The interviews we conducted revealed that, even though the ministry departments relied on outdated techniques, they still produced more diverse (and more) data than were required by top-level officials.

Bódis (2012) describing the human resources of the employment agencies, writes that “The national centre, reinforced before EU accession, ran the large-scale development programmes, but had neither the strength nor the will to influence the procedures of job centres and staff members. It is even doubtful to what extent the development programmes were able to mobilize the whole of the knowledge possessed by the staff and encourage them to systematically compare new knowledge with experience gained at job centres.”

Two-country comparative case: Czech Republic and Slovakia

In the Czech Republic, Sirovátka et al. (2004) mention an increase in unemployment (from 1995) a government change (in 1998) as triggers for increased ALMP spending, whereas a drop in 2002 was, according to them, due to a budget crisis due to floods. Sirovátka (2005) finds the capacity constraint at public employment agencies binding, Sirovátka and Kulhavý (2006) and Sirovátka et al (2007) identify the advent of EU funds in 2004 as the reason for the next upswing in ALMP spending but severely criticize the design of several individual programmes, targeting, and the amount of paperwork required. Graziano (2012) claims that the influx of ESF funds contributed to the emergence of new trends in LMP in the Czech Republic like marketization.

In Slovakia, Gyárfášová et al. (2006) identifies bad targeting and capacity problems as reasons for suboptimal active labour market policies. Reptová (2007) finds that one of the problems concerning the improvement of the employment of people living with disabilities in Slovakia is the perverse incentives that guide the financing of public employment agencies. Brutovská (2008) blames a set of hasty policy changes and a lack of fitting policies to regional differences for ALMP failures. Vagač et al. (2011) complains that training offered as a part of ALMP often their target, they offer skills that there is little labour market demand for. Duell and Kureková (2013) find that low funding of ALMPs can be explained with public sector inefficiency, the low quality of ESF-supported project selection procedures that may lack transparency, and internal rules concerning advance payments prohibiting smaller NGOs from applying for funds. Interaction between public employment agencies and other bodies in the collection of information and follow-up, they claim, is not formalized enough.

The Czech Republic and Slovakia, one country from their birth after the first world war until their peaceful breakup in 1993, offer perhaps the most convenient twin case of two-country comparison in employment policy in the region. Sirovátka (2008) carried out this. Based on interviews and institutional analysis he asked how the governance framework (and implementation conditions) influenced the profile and impact of activation policies realized in the Czech and Slovak Republics during 2003–2006. He argues that the perceived failure of activation was due to the fact that in the Czech Republic, the strategy was implemented inconsistently. Instead of policy intentions, he claims, activation has been ever more powerfully shaped by bottom-up policy determinants. He finds that in Slovakia, the strategy was implemented more consistently, but there, in turn, the goals were set in a too short-sighted manner, so the drop in registered unemployment achieved did not translate into true employment in the open labour market, either.

5. A measure of quality of labour market decision making and policy design for Central and Eastern Europe, and tentative explanations for cross-country differences in it

Above we argued that the best measure for the quality of labour market policy design and decision making is a time average of budget spending on active labour market policies as a percentage of GDP, in proportion to the size of the labour market problem to tackle. The task to calculate such a measure for each country requires a few specifications and additional adjustments.

For reasons of data availability and comparability, we considered the average ALMP spending / GDOP values of the years 2007-2010.

First, we make the argument that expending resources on public works should be excluded from the ALMP expenditure we consider. Based on a quantitative analysis after disaggregation of ALMP into different policies, Vlandas (2010) doubts that “direct job creation [which includes public works - BV] is driven by similar dynamics as employment incentives and supported rehabilitation.” Köllő and Scharle (2012) convincingly argue that if not all of the empirical evidence worldwide, the majority of it, as well as the little that is available for Hungary, a country operating a major public works scheme at present suggest that the government hiring out-of-work people primarily for the sake of employing them is not a good policy. Lubyová (1997) makes the same case for Slovakia.

Interventions to directly create jobs are controversial since they can have significant (non-labour) costs and uncertain benefits, especially beyond the short term. A large-scale direct job creation program is justified at times of economic downturn, when aggregate demand is depressed and there are few vacancies (EC, 2006; Kuddo, 2009).

Second, analysing Hungarian data, we found that the Eurostat data (presumably because of reporting variation by member states) do not seem to fully and consistently contain ALMP-related spending financed directly, through the European Social Fund, by the European Union. These cohesion programmes, in turn, as shown in table 3. above, are hardly negligible in size. Our problem is that neither the European Commission, nor LABREF database has timely comparable data on ALMP spending in individual member states from this source. We try to deal with this problem by approximation: we divided the amount planned to be spent on such purposes in 2007 for the whole of the 2007-2013 programming period (in Euros) by the cumulative GDP for the whole period (also in Euros, viz. column EUALMP/GDP in table 4., to obtain a highly artificial measure of the ALMP-related expenditures per GDP from ESF.

Adding this to the original expenditure measure (the last column in table 2.) will possibly have a number of biases: it could constitute double accounting and overestimate the true value if the Eurostat statistics if some of the ESF spending also shows up there too, but underestimate it if some of the ALMP-related ESF spending will not be eventually fully spent by the end of the period. To cover all bases, from here on we calculate both the “raw” and the “ESF-corrected” ALMP-measures.

The last step is to allow for the fact that the size of the ALMP budget should not just be considered in proportion to the GDP of the country, but also in proportion to the population whose employment it is targeted to help. Unlike Vis (2012), who uses unemployment numbers to do this, we used the complement of the male adult employment rate. We think this is the best measure as the problem of female and below-20 employment is, to a large extent, related to other policy measures (child benefits, public education). Dividing by that, we obtain the numbers in the last columns of table 4.:

Table 4. Deriving ALMP-based LMP-quality proxies

Country_name	Average 2007-10	EUALMP/GDP	ALMPCORR	100-EMP	ALMPEMP	ALMPEMPCORR
Bulgaria	0.11	0.08	0.19	26.9	0.41	0.71
Czech Republic	0.26	0.05	0.31	19.2	1.38	1.64
Estonia	0.23	0.10	0.33	24.6	0.93	1.33
Hungary	0.21	0.02	0.23	32.0	0.66	0.73
Latvia	0.26	0.06	0.32	26.9	0.96	1.18
Lithuania	0.23	0.03	0.25	29.4	0.77	0.87
Poland	0.57	0.05	0.62	28.2	2.02	2.20
Romania	0.07	0.05	0.12	29.0	0.24	0.43
Slovakia	0.22	0.01	0.23	25.0	0.87	0.92
Slovenia	0.24	0.05	0.28	23.9	0.99	1.19

Variable: Explanation: Source:

Average 2007-2010 Average ALMP spending over GDP 2007- 2010 according to EUROSTAT table 2.

EUALMP/GDP table 3.

ALMPCORR The sum of the previous two columns

100-EMP 100 - the male employment rate for Eurostat/LFS

ALMPEMP Average 2007-2010 divided by 100-EMP

ALMPEMPCORR ALMPCORR divided by 100-EMP

If, as we claim, ALMPEMPCORR is as adequate a structural measure of the quality of labour market decision making and policy design in the ten countries as can be constructed, it is worth a closer look.

Let us tabulate the rankings our proxies generate!

Table 5. Four rankings of LMP quality

Country_name	ALMPEMP	ALMPEMPCORR	Number of measures	Proportion of Evaluations planned
Bulgaria	9	9	5	5
Czech Republic	2	2	8	7
Estonia	5	3	2	6
Hungary	8	8	5	7
Latvia	4	5	3	1
Lithuania	7	7	4	2
Poland	1	1	1	3
Romania	10	10	9	7
Slovakia	6	6	9	7
Slovenia	3	4	7	4

Source: Previous tables

At the bottom of the list are the two Southeast European states. Just above them, in the 8th position, Hungary, that spends about the same (low) percentage of its GDP from the budget on non-public works ALMP as Estonia, Lithuania, Slovakia and Slovenia, but has a greater employment problem to tackle with it than the others. Lithuania and Slovakia come next, with similar spending levels, but Lithuania has a larger employment gap, if not as large as Hungary. The order of the next

three, Latvia, Slovenia and Estonia is the only part of the ranking that is sensitive to whether we correct the Eurostat data with the ESF data or not, that is, whether we look at the second or the first column of table 5. It is Estonia that spends most by far of its structural funds on ALMP. It is the Czechs, who spend a relatively sizable chunk of their GDP on a problem that is less than it is for the others, who get the silver medal, and Poland, with a much more generous ALMP-budget than the others, comes in first. Of course we can say that Poland could afford to be more generous than the others, as its cumulative real GDP growth rate over the 2006-2010 period was the highest in the region. But that cannot be the full story: Slovakia was not motivated by its stellar 2007 growth rate to similarly increase its ALMP budget, and countries in downturn did not get rid of their ALMP spending either.

What might also surprise us is also that the three Baltic states, often referred to as poster children from Eastern Europe and as successfully emulating Scandinavia in many respects of policy do not come out on top at all (3rd, 5th and 7th place).

This is in line with the conclusion of Toots and Bachmann (2013), who, surveying the welfare and employment policies of the three states conclude that poor performance in meeting new social risks poses a greater challenge for the [three Baltic] post-communist welfare states than their lag in terms of gross welfare expenditure and who blame Baltic political elites to just „push the old things harder” instead of moving towards building what they call an efficient ‘social investment state.’

For some cross-validation, let us compare this ranking with the previous ones based on the sheer number of ALMP measures introduced and the proportion planned to be evaluated from LABREF (table 1., reproduced as rankings in table 5.). For the one that just counts reforms, we find that countries at the top (Poland) and at the bottom (Romania) are the same, but the number of measures taken ranks Lithuania, Latvia and Bulgaria higher, the Czech Republic lower, than the spending proxy we constructed.

If we compare our ranking to the measure of the readiness to evaluate ALMP-reform, we find no full coincidence either. Poland there, too is in the top three and Romania and Hungary near the bottom, and the ranking of Slovenia and Slovakia is similar, too, but the Czech Republic, ranked high for spending does not seem to want to evaluate, whereas Lithuania evaluates, but does not spend too much.

We interpret these comparisons as cautious reinforcement that our ranking might be of some use.

Assuming that these values do indeed reflect the quality of labour market policy design and decision making, the next question is: can we explain why they are high or low in different CEE countries?

We have two serious challenges to face: the issue of the explanatory variables to consider and the issue of method to establish anything approximating causality.

As far as explanations are concerned, we suggested in section 3. that they should come from three groups:

- (1) Actor based: ideas, values and interests of citizens, organised elites and external actors and communication targeted at them.

- (2) Political-institutional: institutions of interest mediation, the length of the policy window, path dependence, the quality of bureaucracy, etc.
- (3) General structural: demography, GDP, fiscal crises (we can also add the effect of globalisation and trade openness, which are the premise of their paper).

From the first, both the Czech case and Vis (2012) suggest that the ideological bent of the party/parties in government could have an effect on ALMPs. While we did calculate an average measure of that for the 2007-2010 period and included it in our calculations below, we do not expect it to have a great effect in our sample, for three reasons:

- (1) As explained at length by Vis (2012), the theoretical direction of the effect is far from clear: while we would expect the leftist parties, representing the salaried, to push for better LMP, they often represent those already employed, whereas the marginalised who can be helped by ALMPs have very little political voice. This might explain why Missetics (2013) and the literature he surveys (e.g. Cerami, 2008, for the Visegrád countries) does not find such an effect when regressing welfare spending on partisan variables. Indeed, the direct correlation between our LMP quality proxies and a partisanship proxy goes in the opposite direction than expected.
- (2) Given the data we have, our dependent variable represents a longer period that often includes changes of government. Here we look for structural explanations that characterize a country for a longer period. This takes us to the third reason to omit this variable:
- (3) The necessary averaging over four years washes out most of the variability from this variable.

From the second, measures of corporatism have been suggested by some papers surveyed by Vlandas (2010), but, according to the proxies of corporatism, there is hardly any variation in that in the region, and the issue was not mentioned in the papers on the three countries we reviewed above, so we decided not to include it. As far as political institutions and path dependence is concerned, we decided to represent the limited variability in that by using two proxy variables, one for the three Baltic and one for the two Balkans countries in our sample. While inelegant, because implicit, given the limited number of degrees of freedom we are faced with, this seems to be the best strategy to capture the many social and institutional factors that are specific to the three sub-regions in our sample.

There are two further political arguments both coming up in our case studies and argued for by Vis (2012): that unemployment creates a political demand for higher quality LMP, and that economic growth makes it affordable. For proxying the first, though, we face a problem of multiple endogeneity: the quality of LMP should also affect unemployment. What is more, we constructed our LMP quality proxy by dividing spending by the male employment gap. To solve this problem, we suggest this: let use long-term unemployment, the part of unemployment least likely to be solved by easy measures or an economic upswing, averaged over the three years before the period the proxy comes from, 2004-2006, as the proxy for the strength of social demand for high quality labour market policies. This is as structural a proxy as we can construct, and it avoids the endogeneity problem.

The level of development is already implicitly allowed for by dividing ALMP spending with GDP. As far as economic growth is concerned, we used real GDP growth rates from 2006 to 2010. We included

the year before, 2006, because there is a lag: deciding for spending in 2007 it is how much more there is to spend than the previous year that might make governments to try new, costly, but better policies.

Finally, a variable that emerges the strongest from the case studies, but also from theory, is that what might affect LMP quality is the quality of the public administration and government in general: adequate capacities and time allocated, information base, policy-making, monitoring and evaluation routines, attention, responsiveness. Explaining the quality of LMP with the quality of policy making in the country in general may seem a tautology, but it is not one: more knowledgeable and motivated bureaucrats, better organised ministries and agencies should produce higher quality labour market policies. Upon comparing the variance of two measures often used to proxy such quality, the quality of government indices of Gothenburg University (Rothstein et al, 2010) and the World Bank's Government Effectiveness index³ for our ten countries, we chose the latter as a proxy. Endogeneity could be an issue here, too: better LMP would raise the measure of government effectiveness as well, but in our judgement, LMP is a small enough slice of government activity overall to make this a minor problem.

From the third set of factors, one widely included by Vis (2012) and others is a measure of trade openness, also suggested to represent the degree of globalization of the country. Again, we did include that in our calculations, but we had no high expectations for its explanatory power in this region: no mention of this was found in the case studies, there is no clear theoretical mechanism how more trade openness would cause a country to have better LMP (cf. the lengthy discussion in Vis, 2012) and in our sample all countries are very open to trade, with the exception of Poland and Romania, so the measure we would use would be a measure of the size of the country.

We tabulate the explanatory variables and their values below, in table 6.

Table 6. Explaining quality of labour market decision making in CEE

Country_name	dependent variables		independent variables						
	ALMPEMP	ALMPEMPCORR	Regional		Structural				
			BAL T	SOUTH	GOVEFF	GROWTH0610	UNEMP	GOVPARTY	OPENNESS
Bulgaria	0.41	0.71	0	1	0.00	7.21	6.1	2.25	118
Czech Republic	1.38	1.64	0	0	0.97	6.67	4.1	1.75	131
Estonia	0.93	1.33	1	0	1.15	-8.62	4.0	1.75	165
Hungary	0.66	0.73	0	0	0.73	-4.64	4.0	4	163.3
Latvia	0.96	1.18	1	0	0.59	-13.56	4.1	2.25	105.7
Lithuania	0.77	0.87	1	0	0.67	-2.29	3.1	2.5	136.5
Poland	2.02	2.20	0	0	0.54	18.49	9.5	2	86.2
Romania	0.24	0.43	0	1	-0.24	5.36	4.3	2.25	77.9
Slovakia	0.87	0.92	0	0	0.84	16.07	3.1	3.75	160
Slovenia	0.99	1.19	0	0	1.08	3.23	11.3	4	130.6

³ <http://info.worldbank.org/governance/wgi/index.asp>

Variable:	Explanation:	Source:
ALMPEMP	Average ALMP_ Spending as a percentage of GDP, 2007-2010, excluding public works over the proportion of Men not Employed	Own calculations
ALMPEMPCORR	Average ALMP_ Spending as a percentage of GDP, 2007-2010, excluding public works, according to Eurostat plus Average Active ESF spending 2007-2013 as a percentage of GDP over the proportion of Men not Employed	Own calculations
BALT, SOUTH	Regional proxies	
GOVEFF	World Bank Government Effectiveness index, 2007-2010 average	http://info.worldbank.org/governance/wqi/index.asp
GROWTH0610	Real GDP Growth rate, 2006-2010	Eurostat, own calculations
UNEMP	Long-term unemployment, 2006-2010 average	Eurostat, own calculations
GOVPARTY	Partisanship in government 2007-2010 average: 1=right, 5=left	Armington et al. (2012), own calculations
OPENNESS	Trade openness in 2009-2011	http://stat.wto.org

This takes us to the second thorny question: how would we try to establish causation here?

With N=10 and five independent variables, regression analysis is out of the question.

We present the correlation table of the variables below, which establishes that our ESF-corrected LMP-quality proxy is highly correlated to the uncorrected specification, and gives us some cause to suspect that indeed a more effective government produces better labour market policies and higher long-term unemployment might have caused higher quality LMP. It also reinforces our scepticism as far as partisan affiliation of governments and trade openness as explanations are concerned. Alas, to confirm that this is not pure noise, we would need exactly the multiple regression analysis we do not have enough observations to carry out.

Table 7. Correlation matrix of dependent and independent variables

	ALMPEMP	ALMPEMP-CORR	GOVEFF	GROWTH0610	GOVPARTY	OPENNESS	UNEMP
ALMPEMP	1						
ALMPEMP-CORR	0.97805	1					
GOVEFF	0.47944	0.476587	1				
GROWTH0610	0.35263	0.286936	-0.2017	1			
GOVPARTY	-0.23691	-0.36811	0.2357	0.074754879	1		
OPENNESS	-0.12877	-0.14247	0.6956	-0.26525956	0.433497	1	
UNEMP	0.42985	0.447486	0.0883	0.345560891	0.188634	-0.35248	1

The method comparative political scientists have recently started to use for shedding some light on a situation like this is fuzzy-set qualitative comparative analysis (FS/QCA). It is a method for N=5-50 sample sizes that uses set-theory (Boolean Algebra), extended by the use of fuzzy set inclusion to incorporate more than binary variables. It bridges qualitative and quantitative analysis as it builds on familiarity with the cases, but still helps to find cross-case patterns, the usual domain of quantitative analysis. It is meant to uncover the logical combinations of factors that could lead to different outcomes in different cases: does A and B and C cause X? Or A and B or C? For more about the method, see Schneider and Wagemann (2003) and Ragin (2008), whose software, fs/QCA, I used for my calculations.

Policy-making research produced in the last ten years using FS/QCA overwhelmingly focuses on Western democracies. In the ECE region Hansen (2005) used it to analyze spatial planning in the Baltic countries, and Mihaila and Tanasoiu (2008) to understand the formation of competition policy.

For labour market policy in specific, FS/QUA has been used for EU or OECD countries. In old EU member states between 1985 and 2003, Ochel and Rohwer (2009) explored the conditions of reduced employment protection. Covering 22 OECD countries from the mid-1990s, Jackson (2006) investigates employees' representation within corporate boards. Analyzing western democracies, Emmegger (2010) examines the determinants of job security regulations. Avdagic (2010) and Aleman (2009) both explain variations in the emergence of social pacts between governments, employees, and unions in the 1990s; the former does so for 14 European countries, and the latter for new democracies globally.

Closest to our topic, for the period 1985-2003, for 53 governments around the world, Vis (2012) examines increased governmental spending on ALMP using the selfsame method.

Needless to say, this method is no magic wand that solves the problem of insufficient degrees of freedom to make statistically meaningful conclusions, rather it is a neat way to build hypotheses about what combinations of different causal factors are most likely to have caused the observed values of the dependent variables.

Relegating the technical details of our calculations to the appendix, the analysis yields the following results. We ran two specifications, one with ALMPEMP, the uncorrected LMP quality proxy, and one with ALMPEMPCORR, the corrected version as in dependent variable.

In the first, with a frequency cutoff at 1, and a consistency cutoff at 0.756096, the complex solution (this aims at best fit sacrificing parsimony in explanation) yielded a solution with coverage of 0.624 and consistency of 0.865 as follows (* stands for logical "and," ~ for negation, several strings one after the other have the "or" relation):

$$\text{goveff}_n * \text{growth0610}_n * \text{unemp}_n \sim \text{balt} * \sim \text{south} \tag{1}$$

$$\text{goveff}_n \sim \text{growth0610}_n * \text{unemp}_n * \text{balt} * \sim \text{south}$$

Whereas the parsimonious solution we obtained (with a slightly lower solution coverage of 0.806 and solution consistency of 0.735) contains these two explanations:

$unemp_n \sim south$ (2)

$goveff_n2 * unemp_n$.

When using the proxy incorporating ESF-spending (ALMPEMPCORR), with a frequency cutoff at 1 and a consistency cutoff at 0.880733 as the complex solution (the best fit) we obtained

$goveff_n2 * growth0610_n * unemp_n \sim balt \sim south$ (3)

$goveff_n2 \sim growth0610_n * unemp_n * balt \sim south$

the same solution as above, whereas this specification yielded the parsimonious solution

$unemp_n * goveff_n2$ (4)

albeit with solution coverage: 0.696 and solution consistency: 0.724.

6. Discussion

What do our results mean in lay terms? Let us interpret the most elegant (albeit not the best fitting) answer (this is, the „parsimonious“ solution) in the second specification (4) first. This is indeed a simple and powerful story. It says that there are two variables that explain relatively high quality labour market policies in the region: general government effectiveness (“supply”) and a serious long-term unemployment challenge (“demand”): where the government works well and there is something to be done re the labour market, it will get it done.

The parsimonious solution in the first specification (2) tells a more complicated story: a CEE country is likely to have decent quality LMP if either it has a high long-term unemployment level to fight and it is not cursed with the institutions, heritage and society prevalent in South-East Europe ($unemp_n \sim south$), or it has both an effective government to build on and a long-term unemployment problem to address ($goveff_n2 * unemp_n$), or both. In other words, if you have a serious labour market challenge to address, two roads can lead you to good labour market policies: either an effective government, i.e. capable set of bureaucrats and politicians that only need to address this special problem to find good solutions, or, if your government is not working that well,

at least you should have the institutions, heritage and society of Central Europe or the Baltics that make it possible for you to develop good policies at least in this specific field of action. If your country is located in the Balkans and you do not have a high quality government to start with, you had better improve the quality your public administration as a whole, otherwise you will not have good LMP.

The other, more cumbersome but slightly better fitting answer to the same question (results (3) and (4)) is this.

There are two paths to good labour market policies in this region. Both apply only in CEE countries that have institutions, heritage and society of Central Europe or the Baltics (~south), and an effective government to build on (goveff_n2) and a long-term unemployment problem to fight (unemp_n). Beyond these necessary conditions, though, two paths emerge: in Central Europe (~balt*~south: the Visegrád four + Slovenia) it is further necessary for the quality of LMP to be high to have economic growth (growth0610_n), whereas in the Baltics (balt) it is the lack of economic growth (*~growth0610) that calls forth good labour market policies. This answer can be interpreted as saying that there is no good labour market policy without the public administration in general being effective. It also dooms Romania and Bulgaria (as well as other SEE countries not in the sample) to have bad LMP for ever no matter what. On the other hand, it flashes out the possible alternative effects of an economic crisis: if the institutions and social mores are as they are in Visegrád countries, that is an obstacle in the way of good labour market policies which would only emerge under the conditions of growth (presumably because the increasing tax revenue is easier to allocate to newfangled policies than it is to spend on such policy when fighting over a shrinking budget. In the Baltics (perhaps because of their smaller, more cooperative national elites) an economic crisis can result in such a reallocation of resources and priorities that results in a proportionally more generous spending on good labour market policy.

It is also worth mentioning that these explanations do not include differences in whether governments were leftwing or rightwing parties and whether the country is more or less open to trade: these factors do not seem to matter that much in the CEE region.

All three stories seem to make sense. What is common in all is that a serious social challenge in the shape of serious long-term unemployment is necessary to provoke the response that is decent quality labour market policy. This is also in line with the positive correlation between this variable and the dependent one.

Let us also note that whichever story we adopt, improving the only explanatory variable that can in any way interpreted as a control variable, general government effectiveness, cannot hurt the quality of labour market policy design and decision-making. This, again, is in line with correlations.

Let us repeat that neither of these stories have the force that statistical significance alone can lend. What they are, are structured hypotheses built on our proxies, theory and case studies, to be tested possibly on a broader set of cases, and chiefly, to help case studies locate the actual bottlenecks to bridge and levers to pull to improve employment policy in the region.

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Appendix: details of the FS/QCA calculations

In order to carry out such calculations, variables have to be translated to values in the [0,1] interval, with the interpretation that 1 means the variable fully belongs in the set, 0, that it belongs to the complement set, whereas values in between mean that it belongs more or less to the set. This can be done in different ways, how it is done is by no means innocuous. This is how we constructed the five explanatory variables we used:

Table 8. Transformation of variables for fs/QCA

Variable	Original variable	Transformation
almpemp_n	ALMP	linear transformation with sample maximum (Poland) and minimum (Romania) as breakpoints
almpempcorr_n	ALMPEMPCORR	linear transformation with sample maximum (Poland) and minimum (Romania) as breakpoints
south:	SOUTH	dummy, no need to convert
balt:	BALT	dummy, no need to convert
unemp_n:	UNEMP	linear transformation with two breakpoints: 2% or below: no serious long-term unemployment challenge (0), 5% or above: there is such a challenge (1).
growth0610_n:	GROWTH06	linear transformation with two breakpoints: we set 1 at the highest value in the sample (Poland, 18,49%), 0 at no or negative cumulative growth in four years.
goveff_n2	GOVEFF	linear transformation with breakpoints at 0 and 1.