

Independent policy learning: Contextual diffusion of active labour market policies

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This chapter analyses in which ways diffusion based on interdependent policy learning explains the spread of active labour market policies (ALMP) in the OECD countries. By applying error correction models using multiplicative spatial Prais-Winsten regressions for analyzing the diffusion of ALMPs in 22 OECD countries from 1991–2013, we find evidence of governments adapting labour market policy strategies that have proven successful, that is, perform well in increasing labour market participation in other countries. However, interdependent learning is conditional on the institutional framework: policy-makers rather learn from the experience of other countries in the same welfare regime. Even more importantly, the results bear witness to the importance of the European Employment Strategy (EES) as an international coordination framework facilitating policy learning.

Keywords: Policy diffusion, spatial modeling, conditional policy learning, active labour market policy

1 Introduction

Within the transformation of welfare states of OECD countries in past decades, active labour market policies (ALMP) have marked a corner stone of what has been called the “activation” or “social investment” turn (Bonoli 2013; Morel, Palier & Palme 2012). While passive labour market policies (PLMP) aim primarily at social protection and income replacement via unemployment insurance or assistance schemes, ALMPs represent an important tool for raising labour market participation and combatting unemployment. ALMPs consist of different tools like training, employment incentives, and job creation schemes (Bonoli 2010, 2013). As with active social policies in more general, ALMPs are seen as a promising approach for challenges arising from deindustrialization and concomitant structural changes in employment, with which all Western democracies are confronted. Activation strategies have also been strongly promoted by international organisations, particularly by the OECD since its Jobs Study (1994) and by the European Union (EU) with the implementation of the European Employment Strategy (EES) in 1997. ALMPs were first implemented in the Nordic welfare states, but gradually intensified by deindustrialization, they have gained ground in all OECD countries. However, the tools of activation, the level of spending on ALMPs in absolute terms and the relation of passive and active labour market policy spending in particular as well as the timing of the turn varies greatly across the OECD countries (Bonoli 2010, 2013). Alike, the effectiveness of ALMPs varies remarkably, depending of the type of activation program. In general, though, there is some evidence of the positive effect of activating unemployed (Kluve 2010; Martin 2014).

With the increasing importance of ALMPs, a large body of literature on the political economy of ALMPs has emerged (e.g. Armingeon 2007; Bonoli 2010, 2013; Swank 2011; Tepe & Vanhuysse 2013; van Vliet & Koster 2011; Vlandas 2013). The socio-structural transformations of deindustrialization feature a necessary but insufficient condition for changes in labour market policies towards more activation (Bonoli 2013:7). However, variance in labour market activation is also ascribed to both domestic politics, i.e. budgetary constraints and partisan politics. Furthermore, several authors recognize the potential importance of international factors for labour market reforms and diffusion processes in particular. Only few empirical studies so far explicitly study the impact of diffusion processes on ALMPs in a macro-comparative setting (Casey & Gold 2005; Franzese & Hays 2006; Swank 2011; Visser 2009). The empirical evidence of diffusional impacts is mixed. On the one hand, economic interests and externalities channeled via interdependencies between economic competitors and neighboring countries seem to be associated with domestic labour market strategies to some extent (Swank 2011). Franzese and Hayes, find that the subsidiarity principle of the EES results in free-riding on the ALMPs of neighboring countries (Franzese & Hays 2006). On the other hand, there is surprisingly little evidence of interdependence-based learning effects despite the similarity of the socio-economic pressures for adequate labour market policy solution across the OECD countries. The same applies for soft coordination and coercion mechanisms pursued by supranational organizations, and the EES, in particular (Bonoli 2013; Casey & Gold 2005; Visser 2009). Of the early contributions, van Vliet and Koster (2011) as well as Armingeon (2007) find

evidence for positive effects of the EES and mutual learning on the activation turn in LMPs. However, a macro-comparative analysis of diffusion dynamics of ALMPs which can be linked to learning from successful policies is still lacking. This is a research desideratum which we explicitly address in this chapter.

This study focuses on the effects of interdependent policy learning on the diffusion of active labour market policies in the OECD countries. In particular, we ask whether governments learn from labour market policies of other countries that have proven successful. By success, we mean good performance in increasing labour force participation and in preventing unemployment in accordance with the expressed goals of activation programs. Theories of policy learning stress that learning and concomitant (non-)adaption is always contextual and thus conditional on the domestic and international framework within which the policymakers operate (cp. Gilardi 2010; Weyland 2007; Meseguer 2009).¹ We therefore develop a model where policy learning is conditional on both the observation of success and the domestic institutional context (modelled via welfare regimes) as well as the international context. Our results show that policymakers learn from successful ALMPs, but mainly within welfare regimes, that is, in a similar institutional setting and legacy. Additionally, the EES as international coordination initiative to support ALMPs is a powerful amplifier of learning processes. This study thus not only contributes to explaining the activation turn of OECD labour markets, but also to recent scholarship on conditional spatial interdependence in policy-making based on learning (Dolowitz & Marsh 2000; Gilardi 2010; Gilardi, Füglistner & Luyet 2009; Neumayer & Plümper 2012; Volden 2006; Wasserfallen 2014).

We proceed by first discussing the theoretical rationale behind the assumption of policy learning as a mechanism for diffusion of ALMPs in section two. Drawing on the scholarship on interdependent policy-making, we develop hypotheses on from what governments may learn and how their decisions to adapt experiences in connected abroad may be filtered by the institutional context. Section three presents the operationalization of the dependent and the independent variables and the methodological decisions. The empirical results of the analyses are discussed in section four. We close by summing up the argument and discussing the broader implications of the results in the conclusion.

2 Interdependent Learning, Institutional Contextualization and Labour Market Policy Change: The Theoretical Argument

There is a broad scholarly consent about the fact that policy makers are not only affected by their domestic environment when making decisions, but also by policies, ideas and institutions in connected countries (Graham, Shipan & Volden 2013; Maggetti & Gilardi 2014; Shipan & Volden 2012). The process of the spread of ideas, reforms and institutions across countries, which is accelerated by the increasing interaction patterns in the era of globalization, is captured by the theoretical concept of spatial interdependence, leading to

¹This is also true for further mechanisms of policy diffusion, see e.g. Neumayer & Plümper 2012.

diffusion. Diffusion may result from geographic, cultural, institutional or otherwise defined proximity via four main mechanisms; competition, learning, emulation and coercion (Braun & Gilardi 2006; Elkins & Simmons 2005; Gilardi 2013; Jahn 2006; Shipan & Volden 2008; Shipan & Volden 2012; Simmons & Elkins 2004).

In case of labour market policy change, the question whether activation policies spread across borders based on learning is particularly interesting in the OECD countries. Learning is most commonly defined as a process in which policy makers use the experience of others to update their beliefs on the consequences of policies (Dobbin, Simmons & Garrett 2007; Dolowitz & Marsh 2000; Gilardi 2010; Meseguer 2004, 2006, 2009). From the rationalist perspective, policy makers who decide under uncertainty about the ultimate consequences of policies “engage in a purposive search for information about possible results of policies, observing vicarious experiences” (Meseguer 2009:18). Consequently, governments as rational learners update their previous beliefs about the expected outcomes of certain policies abroad and adopt successful policies. Different contextual factors can thereby be crucial for the intensity of learning. From the perspective of the diffusion approach, dense interaction patterns due to historical, cultural or political commonalities or economic exchange between countries amplify and enable learning, thus potentially leading to diffusion of policies.

So far, diffusion and, in particular, diffusion by learning has only rarely been considered in the ALMP literature (for quantitative approaches, see Franzese & Hays 2006; Hays, Kachi & Franzese 2010; Swank 2011); for qualitative approaches, see Casey 2009; Visser 2009). However, the results of these studies are contradictory. Some empirical studies show that neighboring countries benefit from ALMP efforts in other countries and these countries are intended to free-ride on other countries efforts (Franzese & Hays 2006; Hays, Kachi & Franzese 2010). As a result, diffusion occurs but is driven by free-riding. Yet other studies find a positive relationship between competition-driven diffusion and ALMPs which is filtered by the interaction of domestic and international factors (Swank 2011). The role of learning in ALMP diffusion has gained only little attention, although there is some evidence on interdependent policy learning in passive labour market policies (Gilardi 2010).

We start by the assumption that ALMPs are likely to diffuse across OECD countries, because most of them are confronted with similar pressures caused by structural changes in the labour market and budgetary constraints in financing their welfare systems. Simultaneously, there is an increasing interaction density among the OECD countries in general (Swank 2011). Such functional pressures do not per se imply similar policy solutions or convergence, but they constrain a necessary condition for the spread of ALMPs (Bonoli 2013) and make monitoring other countries’ solutions more likely. This assumption also entails that policy makers are rational actors despite their ideological background and partisan affiliation, pursue the common goal of increasing labour market participation and learn from successful measures in other countries (Volden 2006; Weyland 2007).

Even in a highly interdependent setting, however, countries are not likely to learn similarly from all countries and not even from all successful countries. According to Franzese

and Hays, countries are more likely to learn from other countries with cultural or demographic similarities, since these factors are more crucial than (geographic) proximity (Franzese & Hays 2006: 184). Interdependence is not uniform among the units of analysis and therefore, newer approaches to policy diffusion account for contextual and conditional factors which filter and modify the impacts arising from interdependence (Neumayer & Plümper 2012; Wasserfallen 2014). In case of labour market policy diffusion, the type of welfare state sets institutional frame and policy legacy which potentially conditions and filters impacts coming from abroad. Therefore, we account for the potential impact of the institutional setup of the welfare states as a potentially important context factor in our analysis. In case of ALMPs and social policy in more general, we argue that policy makers are more likely to learn from members of the same welfare regime. First, welfare regimes originate from similar socio-cultural roots, so that the same argument which is often used in the diffusion literature, namely that families of nations feature a particularly dense and effective interaction patterns, applies here. Common socio-cultural roots, in turn, amplify diffusion processes. Second and more importantly, countries in the same welfare regime share the same kind of institutional setting and organizational principles of social and labour market policies, building the legacy on which activation policies fertilize (Esping-Andersen 1990, 1999). Rational learning from policy measures which have proven effective in a similar institutional framework is more likely than learning from policy success in completely different settings (Casey & Gold 2005; Meseguer 2005, 2006; Radaelli 2004). This applies for both simple learning from the policies in general within the same welfare regime and for learning from the success of peers in the same regime. As Meseguer puts it “governments learn rationally but from close, successful performers” (Meseguer 2006:57).

The role of international organizations in promoting certain policies is also crucial for diffusion. Firstly, internationally coordinated action offers a platform for development and dissemination of policy solutions and tools. Learning from the experience of others is easier in an environment of shared knowledge and joint action. Secondly, international organizations and coordinated action also forms social norms and thus pushes social learning of adequate measures and esteemed goals (Hall 1993; Sabatier 1988; Checkel 2005; Radaelli 2008). In case of ALMPs, the implementation of the EES in 1997 which was later manifested in the Open Method of Coordination (OMC) clearly offers an institutional frame for promoting ALMPs in the EU member states, thus additionally reinforcing diffusion of ALMP policies (Franzese & Hays 2006; De la Porte & Jacobsson 2012; van Vliet & Koster 2011). With its peer-review system of labour market programs, the EES is an important institution in promoting successful ALMP measures that previously have been proven effective in other countries.²

Because of the similar problem pressure and the concomitant reforms in most of the OECD welfare states in past few decades and the amplifying role of the EU, the OECD and the World Bank in promoting active social and labour market policies, learning is probably the most powerful mechanism of interdependence affecting social and labour market policies

²The OECD has also actively promoted ALMPs, but the impact of its recommendations is less evident than that of the EU (Armingeon 2007). Due to our case selection of solely OECD member states, we cannot account for OECD effects, though.

Table 1: Possible combinations of institutional similarity and policy success

		Previous policy success in observed country	
		Yes	No
Institutional similarity	High	A: Learning from success of similar countries <i>Observation:</i> Increase of ALMPs lead to higher employment rates in other countries within the same welfare regime <i>Consequence:</i> Successful policy moves of other countries within the same welfare regime will be adopted <i>Expectation:</i> very likely; strong positive relationship	B: Learning from failure of similar countries <i>Observation:</i> Decrease of ALMPs lead to lower employment rates in other countries within the same welfare regime <i>Consequence:</i> Policy makers learn from unsuccessful policy moves in a similar setting and move into the opposite direction <i>Expectation:</i> unlikely; slightly negative relationship
		C: Learning from success of dissimilar countries <i>Observation:</i> Increase of ALMPs lead to higher employment rates in other countries outside of welfare regime <i>Consequence:</i> Policy makers learn from successful policy moves in a dissimilar setting and adjust their own policy portfolio accordingly, despite institutional differences <i>Expectation:</i> likely; slightly positive relationship	D: Learning from failure of dissimilar countries <i>Observation:</i> Decrease of ALMPs lead to lower employment rates in other countries outside of welfare regime <i>Consequence:</i> Policy makers learn from unsuccessful policy moves in a dissimilar setting and move into the opposite direction <i>Expectation:</i> highly unlikely; strong negative relationship
	Low		

in general and ALMPs in particular (Armingeon 2007; De la Porte & Jacobsson 2012). Specifically, in search for suitable policy tools, governments are likely to learn from their peers, especially if their policy reforms have led to intended outcomes (Volden 2006; Gilardi 2010; Gilardi, Füglistner & Luyet 2009). In case of ALMPs, positive outcome performance can be defined as increasing labour market participation rate - bringing not only the unemployed, but also the so far inactive segments of the working age population like homemakers, women in particular, and disabled in the labour market. This reflects the goals of the activation strategy even more adequately than reducing unemployment alone.

Table 1 illustrates our assumptions, their theoretical background, and consequential expectations. The core of our argument is that learning from policy success and policy failure is conditional on the institutional similarity between two countries. We argue that it is rather unlikely that countries look straight at the top-performers without taking institutional similarities into account that guarantee a certain degree of policy compatibility (Casey & Gold 2005). This implies that learning from success is rather conditional on the degree of institutional similarity of two countries. As argued above, we think that the common principles of financing welfare as well as expenditure patterns can be derived from the welfare regime distinction. In the case of ALMPs, it is standing to reason to use welfare regimes as a proxy for similarity of the welfare architecture, since the implementation of

active measures depends on a multitude of factors, e.g. benefit conditionality, underlying principle of (male or adult) breadwinner model, women's employment, self-responsibility, and overall generosity of the welfare state.

Taking all these information together, we can derive four hypotheses from our theory that will be tested in the empirical part of this chapter. Firstly, countries that are similar should exhibit higher similarities in their policy outcomes than countries that are considerably different. We expect that there is a considerable degree of learning from successful policies between similar countries, thus our first hypothesis states that

Hypothesis A: Policy makers learn from successful ALMP measures of other countries within the same welfare regime.

Secondly, policy makers do not solely look on successful policies, but also take information from failing policies into account, which strengthens their beliefs which policies should be implemented to achieve a certain goal, and, in turn, which policies do not help in achieving a certain policy goal (Dunlop 2017; Volden 2016). This approach of taking informations of positive and negative policy examples into account helps in evaluating and comparing policy reforms and in getting a more coherent picture. Therefore, our second hypothesis states that

Hypothesis B: Policy makers learn from unsuccessful ALMP measures of other countries within the same welfare regime.

Thirdly, theory suggests that successful policies diffuse across multiple jurisdictions and also dissimilar countries when they have been exceedingly successful. While this objection contradicts our main argument, we think that – at least to a lesser degree – this is true. However, while we do not deny that this relationship empirically exists, it is far less frequent and only applicable to simple policies that can be implemented despite institutional differences. Thus, our third hypothesis states that

Hypothesis C: Policy makers learn from successful ALMP measures of other countries outside of the welfare regime.

Fourthly and finally, there is the possibility that policy makers could learn from unsuccessful examples of other countries that are institutionally distinct. However, since we argued that the effect of negative learning is comparatively weak to that of positive learning, we finally hypothesize that

Hypothesis D: Policy makers do not learn from unsuccessful ALMP measures of other countries outside of the welfare regime.

To sum up, our hypotheses outline possible combinations of policy learning nexuses and institutional similarity. Diffusion of ALMPs in the OECD countries is channeled by learning from successful examples and, to a lesser degree, by learning from unsuccessful

examples. We expect countries participating in the EES to exhibit even stronger relationships of learning, as the EES offers a forum of exchange, institutionalized assessment and evidence-based recommendations.

In the following section, in a first step we will show descriptive empirical evidence of converging ALMP expenditure. In a second step, we will explain the operationalization of the independent variables in general and the spatial lag variables operationalizing learning, in particular.

3 Data and Methods

3.1 Dependent variable

The focus of our argument lies within the spatial interdependencies of the adaption of active labour market policies. In contrast to passive LMPs, which grant income replacement in case of unemployment, ALMPs seek to (re)integrate unemployed and inactive persons into the labour market. We use the most commonly used measure of ALMPs, public expenditure on ALMPs per unemployed³ as our key dependent variable. Because we are interested in the growing importance of ALMPs, we look at the changes in the variable. The data stems from the OECD.stat database and includes expenditure on several different types of ALMPs: public employment services and administration of activation programs, direct job creation, employment incentives targeted at employers, job-rotation and job-sharing measures, start-up incentives, supported employment and rehabilitation, and training.

Table 2 presents a descriptive overview of ALMP spending in 22 countries from 1991 to 2013. There is considerable variance both in the level and the change of ALMP expenditure. It shows that Social Democratic countries exhibit the highest levels in ALMP spending, followed by Conservative and countries within the Liberal cluster. Southern European countries have, on average, the lowest spending on ALMPs. The Netherlands, which is the country with the highest average ALMP spending per unemployed spends around ten times more than the United States and eighteen times more than Greece. Differences in levels are also large between welfare regimes: On average, the Social Democratic welfare states show highest investment in ALMPs, followed by the Conservative welfare states. However, trajectories in ALMP spending follow different paths in the Social Democratic regime, e.g. Sweden having reduced its ALMP investment radically in the 1990s while at the same time other countries in the Social Democratic regime have further increased spending. Most of the Conservative countries are catching up to higher levels, whereas ALMP spending has decreased in most the Anglo-Saxon countries. In Southern European welfare states, ALMPs remain mostly marginal and spending overall decreases, with the exception of Italy. Countries within the EU participating in the EES show significantly higher levels of ALMP spending than countries outside of the EU and in general the increases in spending have been higher.

But have ALMPs proven effective in increasing labour market participation, that is, have they been successful? Notwithstanding the fact that changes in employment rates

³The variable is measured in constant 2010 US \$, with correction for purchasing power parity.

Table 2: ALMP expenditure in 22 OECD countries from 1991–2013.

	Mean	SD	Start	End	Δ
Conservative					
Austria	9955.04	2735.25	6954.36	11865.92	4911.56
Belgium	7841.85	1337.96	7903.73	7619.22	−284.50
France	8771.94	1293.22	6967.81	7091.91	124.10
Germany	10101.07	1810.44	12997.22	10327.38	−2669.84
Luxembourg	15274.15	5453.80	13785.37	16263.20	2477.83
Switzerland	12225.41	2998.24	8740.55	11614.69	2874.15
<i>Total</i>	10694.91	3815.22	9558.17	10797.06	1238.88
Liberal					
Australia	4299.15	1023.47	1847.15	3267.84	1420.69
Canada	3304.35	376.41	3263.41	2557.70	−705.71
Ireland	9170.33	4278.18	3403.02	5873.23	2470.21
Japan	4079.12	2006.36	8593.63	3117.94	−5475.69
New Zealand	2956.18	1659.97	1184.49	2663.94	1479.45
United Kingdom	3421.81	1353.87	2849.49	2004.22	−845.27
United States	2318.17	505.85	2165.16	1651.28	−513.88
<i>Total</i>	4221.30	2896.18	3329.48	3019.45	−310.03
Social Democratic					
Denmark	21778.08	8036.22	5398.84	20920.51	15521.67
Finland	7411.85	1798.04	9100.56	9488.50	387.94
Netherlands	22838.78	9874.79	11515.08	9611.30	−1903.78
Norway	19402.13	2809.82	13616.94	15974.09	2357.14
Sweden	15813.02	6254.17	36983.85	13384.15	−23599.70
<i>Total</i>	17448.77	8500.24	15323.06	13875.71	−1447.35
Southern European					
Greece	1247.10	435.50	1426.85	559.65	−867.20
Italy	4122.71	1861.02	2062.51	2638.76	576.25
Portugal	4372.32	1771.73	5017.35	1545.56	−3471.79
Spain	3103.10	1736.57	2410.70	1475.20	−935.50
<i>Total</i>	3211.31	1974.80	2729.35	1554.79	−1174.56
<i>Non-EES</i>	7119.29	6087.21	6796.61	6707.42	−89.19
<i>EES</i>	10682.69	8144.38	8585.12	8044.58	−540.53
<i>Total</i>	8809.44	7349.07	7644.91	7341.65	−303.27

Note: Values represent spending of ALMP per unemployed, at constant prices (2010) and constant PPPs (2010), in US Dollars. Data is taken from The OECD Social Expenditure Database (SOCX). The subdivision of welfare regimes is based on Esping-Andersen (1990) and Ferrera (1996).

can be traced back to multiple factors, 77 per cent of increases in ALMP expenditure coincide with subsequent increases in employment rates in our sample, while 58 per cent of decreases correspond with employment rates in the following year. In times of economic recession like the one at the beginning of the 1990s or the most recent crisis around 2008, less increases in ALMP expenditures were implemented and yet where implemented, they proved less effective in enhancing employment. In general, ALMPs thus prove successful to a moderate extent in our measure in general, which conforms to more differentiated findings about the effectiveness of ALMP programs (cp. Kluge 2010; Martin & Grubb 2001; Martin 2014). The presence of success is an important precondition for the empirical

Table 3: Functional form and connectivity function of spatial lag variables

		Previous policy success in observed country	
		Yes	No
Institutional similarity	High	A: Learning from success of similar countries	B: Learning from failure of similar countries
		<i>Spatial lag:</i> SUCCESS (REGIME)	<i>Spatial lag:</i> FAILURE (REGIME)
	<i>Functional form:</i> $\kappa w_i y_{j,t} = y_{j,t-1} \times \text{Success}_{j,t-1} \times \text{Regime}_{i,j}$	<i>Functional form:</i> $\kappa w_i y_{j,t} = y_{j,t-1} \times \text{Failure}_{j,t-1} \times \text{Others}_{i,j}$	
	<i>Connectivity:</i> $j =$ countries within same welfare regime as i	<i>Connectivity:</i> $j =$ countries within same welfare regime as i	
Low	C: Learning from success of dissimilar countries	D: Learning from failure of dissimilar countries	
	<i>Spatial lag:</i> SUCCESS (OTHERS)	<i>Spatial lag:</i> FAILURE (OTHERS)	
<i>Functional form:</i> $\kappa w_i y_{j,t} = y_{j,t-1} \times \text{Success}_{j,t-1} \times \text{Regime}_{i,j}$	<i>Functional form:</i> $\kappa w_i y_{j,t} = y_{j,t-1} \times \text{Failure}_{j,t-1} \times \text{Others}_{i,j}$		
<i>Connectivity:</i> $j =$ countries outside welfare regime of i	<i>Connectivity:</i> $j =$ countries outside welfare regime of i		

proof of our argument on interdependent learning.

3.2 Independent variables

Before we discuss the regression model, we present the independent variables which will be used to explain changes in our dependent variable. The first group of independent variables are the spatial lags and their specific operationalizations, which capture the learning nexuses hypothesized in the previous section. The second group of independent variables capture institutional, socio-economic, and political characteristics and are subsumed under control variables.

3.2.1 Spatial lags

In quantitative studies, spatial interdependence and impacts of diffusion are most commonly modeled by means of a spatial lag, which is based on a theoretically defined proximity matrix indicating the interdependence of units (Franzese & Hays 2004, 2008). In order to examine whether learning by success explains changes of ALMP expenditure, we generate a set of spatial lag variables in three steps.

In the first step, lagged values of the dependent variable y_{jt-1} of every other country within the sample are generated in a new variable. We assume that learning from success as well as policy failure is a rather fast process, as policy makers can monitor short-term labour market changes in other countries, and also because the need to find solutions to higher labour market participation is pressing (Swank 2011). In the second step, we look how differences within that variable are connected to changes in the outcome of a variable

that captures the degree of success of a certain policy. That way, success is expressed via a dummy variable when another country has increased (or decreased) its expenditure on ALMPs and subsequently achieved an increase in labour market participation rate the following year. Consequently, we create another variable that captures policy failure when increases (or decreases) ALMPs expenditure within the observed country resulted in a decrease in labour market participation rate the year after. In the third and final step, we multiply these variables with spatial weighting matrices that either include all countries within the same welfare regime of a country, or all countries outside the welfare regime, respectively. The connectivity matrix is coded ‘1’ for membership in the same welfare regime (i.e. Social Democratic, Conservative, Liberal and Southern European regimes) based on Esping-Andersen (1990) and Ferrera (1996).⁴ In this step we account for the assumption that spatial proximity (expressed as institutional similarity) of the examined units determines from whom policy makers preferably learn. As described in the theory section, the combination of both theoretical connectivity criteria (success/failure and welfare regime/others) results in four possible outcomes that are captured by our spatial lag variables.

To capture countries within our sample participate in the EES, we include a dummy variable for countries participating in the EES, beginning in 1997. This variable plays an important role in conditional diffusion of ALMP, as we point out later in the description of the specification of a multiplicative model.

3.2.2 Control variables

To capture the functional pressures by business cycles and resulting growth and decline of employment, we include GDP per capita as well as unemployment rate into our models. Additionally, we also include the employment rate, since it is an important indicator for overall employment and possible gender bias in labour market participation. We also include the degree of deindustrialization into our models. It is measured by an indicator introduced by Iversen and Cusack (2000), and is operationalized by the result of 100 minus the sum of manufacturing and agricultural employment as a percentage of the working age population. We expect the socio-economic control variables to explain an ample amount of differences in ALMP expenditure, because of the functional relationship of spending for ALMPs and economic performance. In order to account for the anticipated effects of partisan government, we include a variable measuring the government position on a left right axis (Jahn 2011a; Jahn et al. 2017). Contrary to a variable simply measuring strength of a particular party in government, this measure is time-variant, sensitive to political systems of countries, and portrays changes of ideology far more accurate. Additionally, we also include the distance of the veto player into our analysis to model possible domestic institutional constraints (Jahn 2011b; Tsebelis 2002). The variable captures the policy distance of the agenda and the ideologically furthest (yet relevant) veto player for policy bargaining. Since the literature is divided on the impact of partisanship on preferences of

⁴Japan and Switzerland are ambiguous in their attachment to one of the welfare regimes. Following the classification by Huber and Stephens (2001) and Armingeon (2007), we assign Japan to the Anglo-Saxon and Switzerland to the Continental European regime.

ALMP spending, we expect no incisive influence of ideology on ALMP spending. Likewise, we expect little inhibiting impact from veto players on ALMP spending.

3.3 Regression model

In order to test our hypotheses, we analyze changes in ALMP expenditure in 22 OECD countries⁵ from 1991 until 2013 with an error correction model (Beck & Katz 2011; De-Boef & Keele 2008; Podesta 2006). The estimation of the coefficients is conducted via Prais-Winsten regressions with panel specific autocorrelation structure and panel corrected standard errors. This ensures that the errors of the coefficients will be unbiased and unaffected by panel specific characteristics. The structure a general form of an additive error correction model is as follows:

$$\Delta y_{i,t} = \alpha_0 + \alpha_1 y_{i,t-1} + \sum \beta_k \Delta X_{i,t}^k + \sum \beta_l X_{i,t-1}^l + \varepsilon_{i,t} \quad (1)$$

where disturbances in the equilibrium of the dependent variable Δy_{it} are estimated by the constant α_0 , a lagged dependent variable $\alpha_1 y_{i,t-1}$ (the so-called long-run multiplier), two vectors X representing differences as well as as lagged levels of independent variables of unit i , and white noise represented by $e_{i,t}$.

We modify equation 1 in four essential respects and transform the model into a multiplicative spatial lag model. Firstly, we include a structural break term β_e that subsumes all countries participating in the EES after the year 1997. Secondly, row-standardized spatial lag variables representing different weighting matrices w described in the previous section will be added to the equation. Thirdly, two interaction terms β_m and β_n that are the arithmetic product of the structural break term and the spatial lag variables will be added to investigate the different forms of learning inside and outside of the EES, respectively. Fourthly, we include unit fixed effects β_d to account for unobserved panel heterogeneity and unaccounted panel specific dynamics. These four additional specifications result in the following equation:

$$\begin{aligned} \Delta \text{ALMP}_{i,t} = & \alpha_0 + \alpha_1 \text{ALMP}_{i,t-1} + \sum \beta_k \Delta X_{i,t}^k + \sum \beta_l X_{i,t-1}^l + \beta_e \text{EES} \\ & + \beta_m \text{EES} \times \sum_j \left[\frac{w_{ijt}}{\sum_j w_{ijt}} \Delta \text{ALMP}_{j,t} \right] \\ & + \beta_n \text{EES} \times \sum_j \left[\frac{w_{ijt}}{\sum_j w_{ijt}} \text{ALMP}_{j,t-1} \right] \\ & + \sum_{d=1}^{n-1} \beta_d \text{Panel dummies} + \varepsilon_{i,t} \end{aligned} \quad (2)$$

where i is a country at a specific time t which is influenced by the policy reforms of another country j . The two vectors capture changes and differences economic and domestic

⁵Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and United States.

politics variables. The spatial lag variables have four different functional forms outlined in table 3 that represent the assumed nexuses of learning formulated in our hypotheses that will be tested in our models.

4 Results

To test our theoretical propositions, we estimate one base model and eight models with different spatial lags, which are all presented in Table 3. In each of the models the same set of exogenous control variables is included to test the hypotheses on diffusion of ALMP while maintaining a constant number of control parameters. The root mean squared error (RMSE), which represents the standard deviation of the differences between predicted values by the model and empirical values, has considerably low values.⁶ Regarding the estimated coefficients as well as their standard errors, our results remain robust against alternative model specifications.

The first model serves as our base model and solely estimates the impact of domestic political, economic, and institutional variables on ALMP expenditure. On average, a third of the overall disturbance in spending equilibrium gets corrected in the following year, as can be seen with the help of the parameter measuring previous levels of the dependent variable. The results show that, within the base model, differences in ALMP spending are mainly influenced by variables representing short-term economic constraints, namely changes in unemployment rates and economic growth, as well as participation in the EES. When increasing unemployment, expenditure for ALMPs decreases, presumably because spending on income compensating PLMP benefits increases. When GDP is growing, it opens up opportunities for policy reforms and expanding activating measures. Overall, changes in ALMP spending in countries participating in the EES are significantly higher. We will further explain this relationship between changes in ALMP expenditure and the EES in the following models that incorporate spatial lags for success and failure of policy developments.

Factors representing domestic politics bear little to no explanatory potential for ALMP expenditure change. Left governments are associated with a positive change in ALMP spending which is in line with conventional partisan theory of welfare state development. However, partisan effects are insignificant in every model and therefore we cannot make substantial inference on the presence of a non-random effect of parties from these findings. Also, institutional barriers to policy change which in our case are represented by the ideological distance of the government to its veto players, have no significant effect. These findings of no significant influence of both government ideology and policy distance to veto players are in line with research on ideological influence on ALMPs in particular and active social policies in more general, since the ideological fight over welfare policies is primarily focussed on compensating benefits (Bonoli 2013; cp. also Beramendi et al. 2015).

⁶Interpreting the ratio of explained variance in an error correction model with fixed effects is futile, since one can easily exchange the dependent variable with levels instead of differences and every parameter except the lagged dependent variable change, while getting a much more higher ratio of explained variance. However, the RMSE is robust to parameter exchange in the dependent variable and therefore a more reliable parameter for judging on model fit.

Table 4: Diffusion of ALMP expenditure in 22 OECD countries from 1991–2013.

Dependent variable: $\Delta ALMP$ per unemployed (in US-Dollars (2010), ppp.); mean = -101.56, SD = 2312.67

	A Success (regime)		B Failure (regime)		C Success (others)		D Failure (others)	
	Model A1	Model A2	Model B1	Model B2	Model C1	Model C2	Model D1	Model D2
ALMP per unemployed $_{t-1}$	-0.34*** (0.05)	-0.33*** (0.04)	-0.35*** (0.05)	-0.34*** (0.05)	-0.34*** (0.05)	-0.34*** (0.05)	-0.34*** (0.05)	-0.33*** (0.05)
<i>Economic controls</i>								
Δ Unemp. rate in %	-859.02*** (122.25)	-786.36*** (118.01)	-775.84*** (117.09)	-776.47*** (117.00)	-827.22*** (123.04)	-817.82*** (123.51)	-828.85*** (122.08)	-807.73*** (120.63)
Unemp. rate in % $_{t-1}$	-32.11 (57.88)	-36.69 (57.32)	-60.73 (56.23)	-57.27 (56.66)	-16.95 (58.83)	-13.10 (58.73)	-35.00 (57.36)	-32.74 (57.21)
Δ Civ. emp. ratio	-145.03 (130.90)	-135.91 (124.61)	-188.67 (124.76)	-190.07 (123.15)	-164.12 (128.37)	-164.65 (128.06)	-192.73 (129.97)	-201.41 (128.71)
Civ. emp. ratio $_{t-1}$	59.72 (42.09)	67.50 (42.68)	51.71 (40.13)	46.79 (39.99)	57.08 (40.80)	60.52 (40.97)	61.31 (40.56)	62.10 (40.05)
Δ GDP per capita	124.26*** (40.47)	116.71** (40.27)	112.12** (39.03)	112.43** (39.08)	125.31** (41.00)	123.23** (41.28)	136.48** (42.48)	139.61** (42.47)
GDP per capita $_{t-1}$	1.44 (15.55)	0.37 (16.42)	0.28 (13.68)	1.61 (13.48)	5.18 (14.61)	3.60 (14.45)	4.17 (14.36)	5.58 (14.03)
Δ Debt (% of GDP)	8.60 (13.00)	11.20 (11.91)	8.19 (11.92)	7.67 (11.80)	11.21 (12.40)	10.23 (13.90)	10.48 (12.39)	9.73 (12.29)
Debt (% of GDP) $_{t-1}$	-9.62 (5.86)	-6.25 (5.80)	-7.18 (5.76)	-7.31 (5.47)	-6.67 (6.14)	-6.57 (6.04)	-6.29 (5.95)	-6.01 (5.65)
<i>Domestic politics parameters</i>								
Δ Government (LR)	-6.03 (25.28)	-4.95 (24.19)	-10.26 (23.77)	-12.35 (23.75)	-5.90 (25.25)	-6.98 (25.27)	-7.06 (25.09)	-4.76 (25.15)
Government (LR) $_{t-1}$	-8.36 (22.40)	-4.13 (22.08)	-12.76 (20.93)	-11.40 (20.53)	-8.07 (22.81)	-7.15 (22.62)	-6.77 (22.62)	-5.78 (22.32)
Δ Veto player (LR)	2.00 (13.94)	-2.69 (14.26)	-0.39 (13.45)	-1.67 (13.45)	-1.78 (13.66)	-1.03 (13.90)	-1.84 (13.65)	-2.30 (13.75)
Veto player (LR) $_{t-1}$	3.72 (13.15)	-3.83 (13.66)	2.03 (12.68)	-1.74 (12.41)	-4.76 (13.09)	-5.01 (12.87)	-0.05 (13.41)	-3.53 (13.29)
<i>Diffusion parameters</i>								
EES	1138.00*** (320.50)	264.71 (344.68)	1160.28*** (270.06)	1302.72*** (282.47)	949.48*** (311.12)	714.09 (408.99)	1180.16*** (292.08)	1530.37*** (347.16)
Δ Spatial lag	0.29* (0.13)	0.29*	-0.58*** (0.15)	0.07 (0.04)	0.07 (0.04)	0.07 (0.04)	-0.11** (0.04)	0.07 (0.05)
Spatial lag $_{t-1}$	0.32* (0.16)	0.32*	-0.54** (0.20)	0.12** (0.04)	0.12** (0.04)	0.12** (0.04)	-0.16** (0.05)	-0.16** (0.05)
Δ Spatial lag (non-EES)		-0.05 (0.22)		-0.48 (0.31)		0.06 (0.04)		-0.07 (0.05)
Spatial lag (non-EES) $_{t-1}$		-0.21 (0.23)		-0.28 (0.38)		0.08 (0.05)		-0.03 (0.07)
Δ Spatial lag (EES)		0.50*** (0.14)		-0.64*** (0.15)		0.08 (0.05)		-0.15** (0.05)
Spatial lag (EES) $_{t-1}$		0.70*** (0.19)		-0.68** (0.21)		0.16** (0.06)		-0.29*** (0.08)
Constant	-2422.52 (2511.91)	-3050.42 (2594.67)	-1373.67 (2587.55)	-1285.68 (2592.81)	-3213.76 (2578.92)	-3158.47 (2594.57)	-2600.37 (2543.15)	-3092.53 (2576.67)
N	506	506	506	506	506	506	506	506
No. of countries	22	22	22	22	22	22	22	22
Panel length	23	23	23	23	23	23	23	23
Adj. R2	0.409	0.426	0.429	0.429	0.414	0.414	0.413	0.417
RMSE	1649.4	1624.5	1616.9	1618.4	1646.4	1648.2	1646.1	1643.0
Avg. rho	0.266	0.279	0.253	0.244	0.268	0.264	0.265	0.251

Note: Prais-Winsten regression estimates with panel-specific autocorrelation structure and panel-corrected standard errors (in parentheses). Unit fixed effects included, but not shown. The operationalization of the spatial lag variables is corresponding to the head of the table. $N_{(non-EES)} = 240$. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

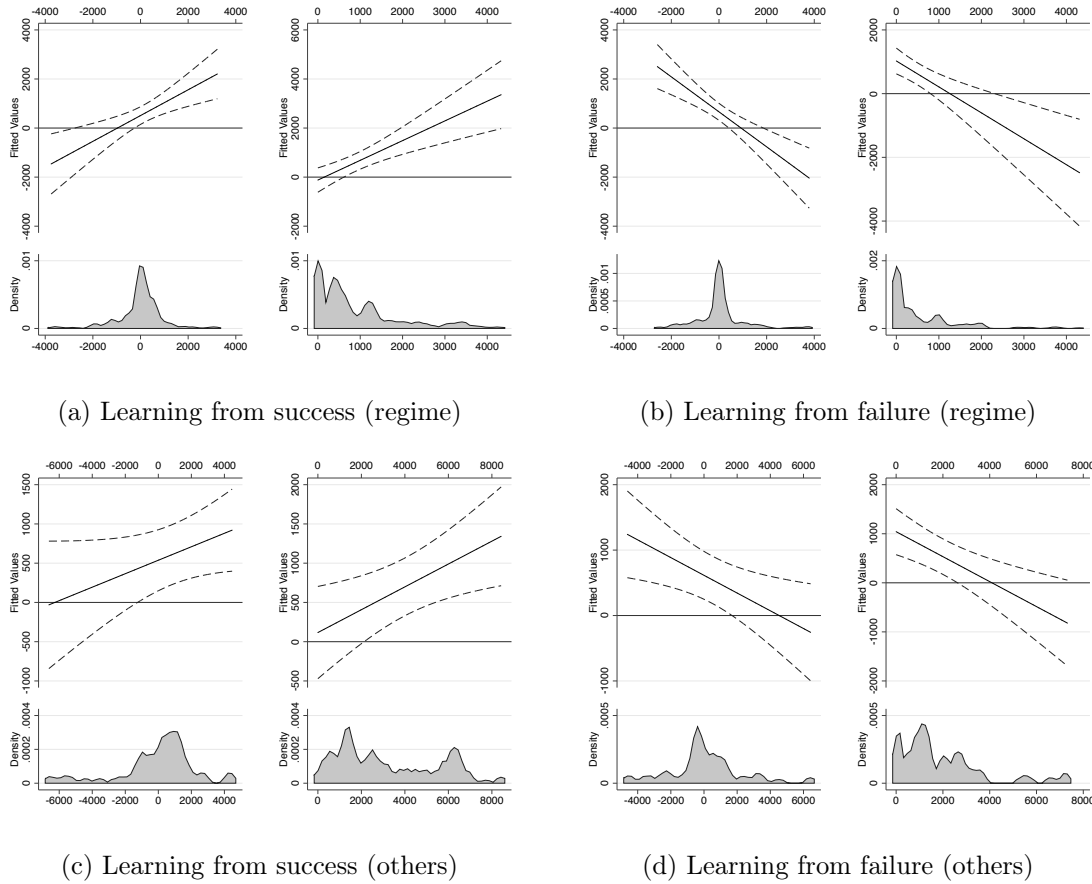


Figure 1: Fitted values of changes in ALMP expenditure per unemployed over range of spatial lag variables.

Note: In each cell, plots on the left represent first differences (short-run effects) of the spatial lag variable, while plots on the right represent levels (long-run effects). Estimates are taken from the multiplicative terms interacted with the EES. Kernel density plots on the bottom of each graph show the empirical distribution of the spatial lag variable, respectively.

In the remaining models we test our hypotheses on the effects of interdependent learning from success and failure with the intermediate conditional role of welfare regimes. Therefore, each model contains a set consisting of a short-term and a long-term row-standardised spatial lag variable considering successful or unsuccessful policy moves of either all countries within the same welfare regime or outside of the regime in the sample.⁷ Figure 1 shows the effect of the spatial lags in the short and long-run on predicted values of ALMP expenditure.

Models A1 and A2 incorporate the spatial lags operationalizing policy success within welfare regimes and show whether governments learn from the success of ALMP policies in other welfare regimes and, as a consequence, adjust their own policies accordingly. The models show that there is a positive effect of spatial influence in the short as well as the long-run on ALMP expenditure. When interacting the spatial lag variables with the EES country-years, we can see that the overall positive influence of diffusion is solely driven by

⁷The assignment of each country to a welfare regime is documented in Table 2.

countries participating in the EES, because these coefficients are exclusively significant. This verifies hypothesis *A*, that policy makers learn from the success of others, particularly when these other policy makers have implemented their policies in a similar institutional framework, which we operationalized with welfare regimes. However, when there is no learning framework present like the EES, then we can see no significant effect on policy changes.

When looking at the models B1 and B2 that are incorporating the variables for policy failure within welfare regimes, we can see that the relationship becomes overall negative. This shows that not only are policy makers learning from positive successful examples, but also from negative examples that have shown ineffective outcomes. Again, when modeled in a multiplicative interaction term, we can see that this relationship is driven by EES membership, clearly suggesting that an institutionalized learning framework helps in evaluating effective *and* ineffective policies.

Models C1 and C2 contain spatial lags that measure successful policy moves outside the welfare regime. Both models show that policy success of others has a significantly positive influence on changes in the equilibrium of ALMP expenditure, however only in the long-run. Furthermore, this effect is restricted to countries participating in the EES. The fact that we can observe this effect exclusively in EES member countries and in the long-run shows that the EES framework helps in overcoming institutional barriers and that policies can ‘travel’ outside of welfare regimes, when the time frame is large enough. It clearly shows that ALMPs are becoming increasingly important in the EU and that, despite institutional barriers that potentially decrease the probability of policy learning, ALMPs are becoming more and more present in policy portfolios of EU membership countries.

Policy failure has a significantly negative effect on changes in ALMP expenditure in the short and long-run, as models D1 and D2 show. Again, as in previous models, this effect is only present in countries participating in the EES. Again, this shows that the EES is essential in evaluating success and failure of policy reform. This shows that in the nexus of policy reforms both increasing and decreasing of ALMP expenditure and its outcomes are taken into account. This finding is also backed by the fact that within the models of policy failure the constitutive term for EES membership is still positive and significant and the spatial lags exert a negative influence on the dependent variable, indicating that both learning from success and failure take place in the regression models.

5 Conclusion

The main finding of this chapter is that diffusion of labour market policy activation via learning is indeed evident in modern welfare states since the beginning of the 1990s. Policy makers learn from the success or failure of ALMPs in increasing labour market participation rates in other countries. However, learning is conditional to the institutional context. First, policy makers are more likely to learn from LMPs of their peer countries within the same welfare regime. Referring to the experience of other countries with similar welfare architecture bears advantages which directly affect the payoffs of a policy change. Selective learning makes it easier to estimate the consequences of a policy within the specific insti-

tutional and even cultural setting. Given the similar institutional nexus of labour market and social policies as well as the similar levels of ALMP spending within welfare regimes, monitoring the shifts and their effects in peer countries offers policy makers some certainty about the consequences of changes in LMP effects at a similar starting level. Our findings strengthen both the view of the role of interdependence and also path dependency of welfare policy change resulting from the institutional context of the welfare regimes (Pierson 2001). Furthermore, a simple emulation of foreign concepts seems unlikely in this case, since there are subtleties in the institutional arrangements of different countries even if they feature the same welfare regime (Casey & Gold 2005).

Second, and even more unequivocally, our results give further evidence on the importance of international co-ordination and intergovernmental organizations in policy learning. The EES powerfully fortifies diffusion of successful ALMP policies, regardless of whether we observe change in spending levels or the levels as such. The EES framework may, first, foster exchange on experiences, solutions and best practices and thus increase the information which policymakers can access to in search for solutions in their own country. Second, the coordinated action also promotes social norms and thus promotes social learning and – eventually – paradigmatic change of social policy. A further socialization-related aspect not considered further in this study is that intergovernmental organizations may also play a crucial role in competition-driven diffusion by setting limits to the extent of competition that is considered acceptable. Although this argument was developed with regard to tax policies (Gilardi & Wasserfallen 2016), it may also apply for free-riding dynamics of interdependence of labour market policy (cp. Franzese & Hays 2006).

Regarding the different operationalizations and functional forms of our spatial lag variables that accounted for institutional framework as well as previous (un)successful policies, our analysis demonstrated that it is important to account for the underlying theoretical concept within the construction of the variables (Gilardi 2016; Neumayer & Plümper 2016). As we have demonstrated, a mere accounting of geographical proximity when constructing spatial lag variables would not have resulted in variables capturing the complex dynamics of learning from successful policies of other countries with the a similar welfare architecture.

While the results give rather strong evidence on the diffusion dynamics of ALMPs in the OECD countries, our use of ALMP expenditure as the dependent variable bears some shortcomings. Since activation policies at labour markets comprise of very different tools (Bonoli 2013; Martin 2014), a more detailed look at which tools actually diffuse and which of the ALMPs are more prone to learning dynamics would be desirable. Different tools would also require different measures of success. However, we are still largely lacking such detailed data over time and across countries on ALMPs. Case studies would complement our macro-comparative results and, moreover, also deepen our understanding on how exactly policy-makers learn, how they evaluate success and how and when they update their prior beliefs.

In general, the results of this study attest to the importance of the institutional framework for interdependent policy making and thus further endorse the plea for explicitly considering the relevance of time-invariant or slowly changing institutional contextual fac-

tors in the study of policy diffusion (cp. Neumayer & Plümper 2012; Wasserfallen 2014). Assumptions on the mechanism and intervening factors on learning should thereby be modelled in empirical analyses of spatial dependency (cp. Gilardi 2016; Neumayer & Plümper 2016). Regarding the developments within the time-series analyzed in this study, the results emphasize the continuing relevance of the welfare regime types. However, regarding active social policies, we can see that an institutionalized policy learning framework such as the EES can push boundaries of policy learning solely restricted on institutionally similar countries, especially in the long-run. Although we do not consider political outcomes of labour market policy reforms in this analysis (cp. Gilardi 2010), the significant effect of policy learning from successful policy outcomes of peers featuring similar institutional and cultural settings may also imply that policy makers monitor and anticipate the political acceptance of similar moves and their consequences in similar welfare states. Therefore, outcomes in both policy and politics should be accounted for when analyzing diffusion by learning. Finally, our findings point out the potential of international tools like the EES in intensifying learning from best practices. The direct and conditional effects of such learning networks should be included in studies of policy diffusion to accurately model the indirect influence of other policy jurisdictions on reforms in a country. As the previous chapters in this edited volume have shown (*Note to Claire: references to chapters Reitig; Fasois; Daviter could be inserted here*), case studies of the spread of specific policies deepen our understanding of the dynamics of learning in an institutionally constrained environment to complete the overall picture.

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Appendix

Table 5: Descriptive statistics for dependent and independent variables, 1991–2013.

	Mean	SD	Min	Max
<i>Dependent variable</i>				
Δ ALMP per unemployed	-101.56	2312.67	-23549.59	11668.21
ALMP per unemployed $_{t-1}$	8911.00	7603.50	457.38	48356.58
<i>Economic controls</i>				
Δ Unemp. rate in %	0.13	1.15	-3.39	6.60
Unemp. rate in % $_{t-1}$	7.29	3.74	0.58	24.79
Δ Civ. emp. ratio	0.19	1.26	-5.78	4.67
Civ. emp. ratio $_{t-1}$	69.17	9.53	45.24	106.24
Δ GDP per capita	-0.02	2.18	-8.21	12.97
GDP per capita $_{t-1}$	117.83	32.44	66.36	252.72
Δ Debt (% of GDP)	1.65	6.41	-19.38	56.16
Debt (% of GDP) $_{t-1}$	69.48	34.84	4.64	215.36
<i>Domestic politics parameters</i>				
Δ Government (LR)	0.02	3.11	-18.80	18.20
Government (LR) $_{t-1}$	2.14	5.60	-12.79	21.84
Δ Veto player (LR)	0.14	4.16	-21.93	23.79
Veto player (LR) $_{t-1}$	7.47	7.92	0.00	36.82
<i>Spatial lags</i>				
Δ Success (regime)	-34.74	913.71	-3572.88	3072.64
Success (regime) $_{t-1}$	847.48	924.60	0.00	4148.83
Δ Failure (regime)	27.76	799.01	-2714.86	3609.01
Failure (regime) $_{t-1}$	462.60	669.48	0.00	4104.90
Δ Success (others)	-121.34	2148.19	-6090.88	4255.57
Success (others) $_{t-1}$	3023.71	2187.46	0.00	8618.62
Δ Failure (others)	107.81	2030.29	-5184.62	6906.42
Failure (others) $_{t-1}$	1699.25	1635.56	0.00	7756.48

Note: Values represent spending of ALMP per unemployed, at constant prices (2010) and constant PPPs (2010), in US Dollars. Data on dependent variable and economic controls is taken from OECD.stats. Domestic politics parameters are taken from PIP database (Jahn et al. 2017).