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# The Impact of Economic Globalization on the Employment Policies in 19 Western Democracies from 1985 to 2010. Limited Change or Radical Shift towards Workfare?

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**Abstract:** Among the most significant issues facing welfare states are the implications of economic globalization for employment policies. This issue is confronted from the viewpoint of workfarism, the incentives created by social policies for increasing participation in the labor market. To measure the limited changes involved, the analytical framework also includes institutional stickiness, pointing to the capability of welfare state institutions to resist external pressures. Panel data on capital flow, an active labor market policy (ALMP), and unemployment benefit (UB) expenditures in 19 welfare states between 1985 and 2010 are drawn from the Organisation for Economic Cooperation and Development (OECD) and the KOF Index of Globalization (KOF). The Vector Autoregressive Moving-Average model with exogenous regressors (VARMAX)-regression analysis found institutional stickiness to be a more significant factor than capital flow in 61% of the observations. The impact of capital flow was particularly significant in the United Kingdom, and in northern and continental Europe, and a tendency toward workfarism was detected in 37% of the welfare states. From a comparative perspective, the impact via the increased capital flow to workfare-related policies is a matter of contrasts rather than a unilateral phenomenon.

**Keywords:** economic globalization; employment policy; capital flow; VARMAX-model; workfare

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## 1. Introduction

The impact of economic globalization on employment policies in the Western democracies is one of the most politically influential discussions ongoing in the social sciences. The regulationist theory [1–5] posits that intensified globalization has resulted in a tendency towards workfare states. According to this train of thought, welfare policies are rearranged to stimulate labor supplies by raising the incentives to participate in the labor market. These supply-side interventions in employment policies adjust the levels and conditionality of welfare benefits, whereby the unemployed are obliged to work or retrain to receive benefit entitlements.

The regulationist theory identifies that economic globalization as the main driving force behind workfarism is an international phenomenon. In this theoretical setting, employment policies are affected by economic globalization through global labor supply-oriented competition, causing policy-makers to accommodate workfarist policy recommendations [2]. This mechanism does not necessarily constitute a neoliberal retrenchment strategy, however, since there is considerable variance in interpretations of supply-side labor market policies among Western decision-makers [3]. This study employs the regulationist distinction between offensive and defensive workfarism, as discussed in detail in the following chapter [4].

The objective here is to analyze whether the increase of economic globalization has resulted in tendencies towards workfarism in Western democracies since the mid-1980s, as suggested by the regulationist theory. This study's indicator of economic globalization is the flow of capital, the central measurable element of economic globalization in the regulationist theory [2], and also [6,7]. Changes in employment policies towards workfarism are gauged through the levels of unemployment benefits (UB) and active labor market policy (ALMP) expenditures. Data are obtained from the Organization for Economic Coordination and Development [8] and KOF [9]. The analysis is conducted through the VARMAX-procedure [10], the classic model for analyzing time-series data with exogenous variables [11].

The research period begins in 1985, a choice influenced not only by data availability but also by the fact that the widening of global fiscal markets started in the 1980s and accelerated in the 1990s [11], possibly paving the way for workfarist tendencies [2,5]. Moreover, workfarism began to gain political influence in Western welfare states in the 1980s [12]. To capture workfarist trends at the beginning of the 21st century, data are analyzed until 2010. The 19 countries examined are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK, and the US.

The next section reviews the central theories used in welfare state globalization discussions. It demonstrates that, compared to the conventional theories in the field, the regulationist distinction between offensive and defensive workfarism provides original insights into the issue. The research design section operationalizes these concepts and examines the methodological aspects of the study. After the results are described and embedded into the regulationist framework, the perspectives provided by the other globalization theories are discussed. This article contributes to the literature by assessing the diagnostic potential of the regulationist distinction between offensive and defensive workfarism in an advanced time-series analysis and comparing it to alternative theoretical approaches.

## 2. Economic Globalization and Workfarism

Although this study departs from the state-centered approach of the regulationist theory, the analysis can accommodate other theoretical interpretations. Before turning to globalization theories, however, the widely acknowledged theory on the internal logic of economic globalization is worth noting. In the early 1960s, Mundell [13] and Fleming [14] adapted a model to the standard economics to articulate that monetary independence, international capital mobility, and stable exchange rates cannot be achieved simultaneously in an open economy. Through institutional processes that liberalized the markets for goods, services, and finance, such as the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the European Union (EU), and the European Economic and Monetary Union (EMU), European countries achieved capital mobility and stable exchange rates by restricting their economic policy independence [15]. At the same time, economic globalization moved beyond the direct influence of national governments. Taking various positions on the Mundell-Fleming model, numerous theories have been proposed about the possible impact of economic globalization on welfare policies [16,17].

The regulationist theory maintains that the increase in economic globalization induces national decisions-makers to recalibrate their social policies towards a market orientation. According to this thesis, decision-makers are concerned about national competitiveness in the global economy. In the context of employment policy, this implies that the recalibration is focused on policies that increase the supply of labor. By raising the incentives to participate in the labor market, workfare-oriented employment policies reinforce the supply side that is assumed to positively affect national competitiveness [1–5]. The related but distinct functionalist argument, posited by the “globalist school”, suggests that the impact of economic globalization on social policies follows the logic of the prisoner’s dilemma, whereby free capital flows into a resort where the profits relative to the risks are maximal [18,19]. Unlike “the globalist school”, the regulationist theory does not predict a universal neoliberal impact of globalization on welfare policies, since it theorizes that pressures for increasing competitiveness in the global economy are ultimately mediated politically at the national level. The regulationist theory is operationalized in this research at the end of this chapter, where the distinction between offensive and defensive workfarism is defined.

Departing from functionalism, Jahn [20] understands globalization as an interaction between political actors, arguing that globalization should be perceived as policy diffusion between countries. Using spatial regression analysis, Jahn measures diffusion through international trade dependencies and theoretically relevant breaking points, such as EU membership. This study concludes that globalization has a systematically negative impact on domestic policy, while domestic politics play a central role in welfare expenditures.

A competing theory maintains that nations will preserve the distinctive features of their welfare states because of the increase in economic globalization. Social policy is seen to generate a competitive advantage when it is synchronized according to the mode of innovation, which varies substantially across coordinated and liberal market economies. It has also been argued that while globalization introduces new risks for citizens, it also mobilizes democratic demand for a compensation corresponding to these new sources of uncertainty [21]. Burgoon helped describe the possible mechanism underlying state expansion. Arguing that a country’s dependency on the low-wage sector in exports increases its welfare spending through the public demand that market failures be corrected. In addition, spending is

seen to be allocated to active labor market policies since both citizens and investors support policies such as training and moving allowances. On the other hand, unemployment benefits are controversial due to their compensatory function, while investors may see them in a passivating light [22]. In addition, Garrett [23] argues that welfare characteristics are likely to be maintained, since the politics traditionally associated with the left may be as attractive to international investors as the traditional politics of the right.

Arguing from the “compensation thesis”, Auer, Efendioğlu, and Leschenke [24] maintain that the impact of economic globalization is particularly positive in active labor market policies. Here, the ALMPs are understood as insurance against the labor market instability caused by globalization, and the compensatory function encourages policy-makers to increase ALMP spending. Auer and the others provide quantitative evidence for their argument. They reveal in a county-by-country plot-graph a positive relationship between economic globalization and ALMP expenditure if the average spending values of 1970 to 1990 are used. Burgoon [21] found suggestive evidence supporting the compensation thesis in the context of ALMPs indicating, via a pooled Ordinary Least Squares (OLS) analysis of 19 countries covering 1980 to 1994, that training and relocation benefits were increased as the economic globalization intensified. In a pooled panel analysis covering 1982 to 2003, however, Potrafke [25] reports contrary findings. The impact of the domestic political factors was found to be more significant than economic globalization. Potrafke identifies employment protection as the only employment-related variable significantly negatively affected by economic globalization.

Welfare states may also be perceived as “immovable” objects when confronting otherwise “irresistible” forces, such as economic globalization. Pierson [26] concurs that in the context of parliamentarism, a simple majority is difficult to obtain and sustain for an unpopular causes. Quite sensibly, politicians are assumed to prioritize their odds of re-election and to avoid public blame [27]. The second source of institutional stickiness is path-dependency referring to the social and economic factors negatively affecting institutional readiness for recalibration. For example, a lack of institutional learning capability can effectively prevent fundamental change. In this thesis, the crucial factor in the analysis of welfare institutions is the passage of time. As an institution grows older, the cost of its reformation increases correspondingly to the generation of resilient elements [28]. This study uses the broader meaning of institutional stickiness: the institutional capability to resist exogenous pressures.

The theory of institutional stickiness in the context of employment policy has been elaborated by Wood [29]. Analyzing the institutional and political contexts in the UK, Sweden, and Germany from the 1970s to the 1990s, he identifies the interests of employers as a crucial factor in the analysis of employment policy development. The theoretical mechanism is based on the observation that in coordinated market economies, such as Sweden and Germany, the responsibility for employment policy preparation resides mainly in institutionalized labor market parties. In addition to the nexus for policy initiatives, employers are also an important veto-player. They can pursue their own interests regarding the continuance of or change in a favorable labor market system and its policies. In liberal market economies such as the UK, employers favor low-cost competitive strategies since their collective capacity for more ambitious policies is restricted.

In their highly influential work, Iversen and Cusack [30] claim that rather than economic globalization, the employment structure measured by de-industrialization is causing welfare reformation. By analyzing data spanning the 1960s to the early 1990s, they support the argument that the development towards de-industrialization increases instability in the labor market, which fuels demand for state intervention among citizens and ultimately increases welfare spending. The latest empirical

evidence rejects the claim that economic globalization plays no role in welfare state development. Brady and Lee [31] found that during the 1980s, countries exposed to globalization increased their welfare spending. However, this trend turned into a retrenchment policy for most spending types over the course of the 1990s and 2000s. Busemyer [32] found that economic globalization showed more significance than de-industrialization in a regression analysis of pooled data from 1980 to 2004. In addition, Brady, Beckfield, and Seeleib-Kaiser [33] explored pooled data on decommodification, social welfare expenditures, and social security transfers covering 1975 to 2001 for 17 Western countries, finding that domestic political and economic factors showed more significance than economic globalization, while de-industrialization showed no significance.

Below, the study clarifies its definition of workfarism. In discussions during the welfare state crises of the 1980s, the “hysteresis explanation” gained support as a decisive interpretation of persistent unemployment [34]. In their pioneering work, Blanchard and Summers [35] labeled the situation whereby the unemployment rate depends on the previous unemployment rate as “hysteresis”. In their econometric model, incumbent workers are assumed to prevent the employment of the jobless due to irresponsible wage bargaining. They also introduced three complementary explanations for persistent unemployment: the skills erosion in the incidence of long-term unemployment, dependency on welfare benefits, and social apathy towards re-employment. Evidence from the comparative research supports the hysteresis explanation [36], while other research rejects it [37]. Moreover, hysteresis is theoretically ambiguous and has been interpreted differently in different empirical studies.

Despite the confusion about the nature of hysteresis, workfarism is argued to resolve it by intervening in the alleged “dependency culture” at several levels [3]. The logic is straightforward: the alleged addiction to welfare benefits is mediated by a reduction in unemployment benefit [38]. Proponents of workfarism argue that this reduces welfare dependency by raising the economic incentives to work or retrain. Workfarism sees unemployment benefits as passivating, which exposes them to the politics of cost-cutting [1,2]. Standard neoliberalism deepens this notion by asserting that publically financed unemployment benefits should be seen primarily as a cost for production [4].

The workfarist solution to imagined or real hysteresis utilizes active labor market policies in a distinctive way. According to Ainley [39], workfarism alters the idea of ALMPs through a combination of increased labor market flexibility, cuts in unemployment benefits, and strengthening of the entitlement conditionality. When welfare services are reoriented to the needs of the private sector, individual preferences concerning personal freedom are left secondary. Jessop [2] states that this reorientation is most likely to occur in ALMPs, since it directly affects the “present and the future status of the workforce”. Put differently, ALMP and UB blend into each other when compulsion becomes the defining feature of the public system [40].

Many studies on workfarism have been conducted on the micro and meso levels, while only a few macro-level studies exist. For example, Trickey [41] compares French, German, Dutch, Norwegian, Danish, and British employment and minimum wage programs that workfarist elements supported in the 1990s despite the political colors of the governments. Künzel [42] examined workfarist trends in France and Germany by analyzing eight local case studies on minimum income programs. Findings similar to Trickey’s have been reported by Kananen [43] on the recent development of employment policies in Nordic countries. From the macro perspective, Vis [44] employed fuzzy-set ideal type analysis on 16 countries covering 1985 to 2002, finding that Denmark is the only country that changed

radically towards a workfare regime, while the radical shifts in New Zealand and Ireland were towards a “liberal welfare” regime.

As mentioned, the regulationist theory maintains that a substantial variance in the execution of supply-side labor market policies can occur between national policy-makers and governments [3]. To take account for such differences in national strategies, this study utilizes the regulationist distinction between offensive and defensive workfarism. In offensive workfarism, ALMP is understood as a positive investment in human capital and employability. The government that pursues the offensive ALMP strategy assumes that maintaining the work skills of the unemployed improves the labor supply through enhanced skill-matching in the labor market. By this criterion, the Danish employment policy represents offensive workfarism. The role of the ALMP in defensive workfarism is the exact opposite of what it is in offensive workfarism. Defensive workfarism is associated with the neoliberal type of workfare found in the US. Here, the assumption is that an efficient labor market is ideally achieved through market-based cost of hiring and that the function of workfarism is generating negative incentives to participate in the labor force. The political commitment to increase the labor market supply is illustrated by benefit curtailments for the able-bodied unemployed. Both types of workfarism include increased financial incentives to participate in the labor markets via reduced unemployment benefits. It is worth noting that the scholarship does not agree about the benefits of the ALMP. For example, Bonoli [45] argues that direct job creation produces the negative outcomes, since its goal is artificially “keeping the unemployed occupied”. However, the next section clarifies the operationalization for statistical analysis based on the concepts of offensive and defensive workfarism, in which the ALMP is seen in a positive light [4,5].

### 3. Research Design

The objective of this study is to examine whether increased economic globalization measured by capital flow has resulted in tendencies towards workfarism in the 19 Western democracies between 1985 and 2010. Before examining this question, a preliminary question requires answering: (1) How does institutional stickiness explain the development of ALMP and UB compared to capital flow? After this preliminary question is answered via statistical analysis, the results are embedded into the analytical framework of workfarism. The main research question is then formulated: (2) According to the results, does capital flow explain the tendencies towards an offensive or defensive type of workfarism in the 19 Western democracies?

The data for the dependent variables are collected from the OECD [8]. Both ALMP and UB spending, as percentages of gross domestic product (GDP), are divided by the unemployment rate. Due to data dispersion, Italy’s values for ALMP spending between 1985 and 1988 were collected from “Employment Outlook July 1992” [46], and Italy’s ALMP spending for 1989 was calculated by averaging the values from 1988 to 1990. Due to data unavailability, the UK’s ALMP spending for 2010 is calculated through averaging the two preceding years. The total number of observations for the dependent variables is 38.

The “dependent variable problem” is a critical issue in welfare state research. The main disadvantage of the raw OECD expenditure data is that they may not sufficiently account for the “demand factor” [47]. For example, unemployment benefit expenditure as a percentage of GDP increases automatically when unemployment rises. However, the replacement data sets, such as the Comparative

Entitlements Dataset (CWED) and Strategic and Comparative Intelligence Professionals (SCIP), may be flawed as well, as they may be sensitive to wage rises that vary cross-nationally [48]: if the average wage rises, the replacement rate automatically declines because it is measured as a percentage of the average wages, even if no benefits have been cut. Moreover, the replacement rate data have been found to fluctuate considerably more than the expenditure data [49], an apparent source of inconsistency for the VARMAX time-series model, which is based on a stationarity assumption [10]. Taking the lesser of the two evils, this study improves the expenditure data by controlling the main source of demand in the employment policies (*i.e.*, unemployment), as done in Vis [44], Hudson and Kühner [50], and Moreira and Lødemer [51]. This does not offer an optimal solution to the dependent variable problem in the field of employment policy, but is merely an attempt to cope with its presence.

This study utilizes the flow of capital as an indicator for economic globalization; it is the central measurable element of economic globalization [17–19] and is considered a main driving force of workfarism as an international phenomenon by the regulationist thesis [1–5]. Data on capital flow are provided by Dreher [9], who captures the main elements of this multifaceted phenomenon. In Dreher's data, capital flow is constructed from nations' foreign trade (23%), foreign direct investment (29%), portfolio investment (27%), and income payments to foreign nationals (22%), all calculated as a percentage of GDP. In addition to the scarce disaggregated data, this study uses aggregate data to address the research questions. Rather than perform an analysis of a specific subcategory of capital flow or ALMP, this study examines the theoretically expected tendencies towards workfarism at the general level in 19 Western democracies.

Linear regression model estimation and diagnostic checks are carried out using SAS's (version 9.4) VARMAX procedure, designed for stationary data. After fitting to the model parameters, the procedure conducts tests on, for example, heteroscedasticity, autoregression, and the white noise error [10]. A full mathematical description of the VARMAX model and a comparison to the other main linear regression models are provided by Hamaker and Dolan [52]. The model was introduced in the 1980s [53], and its future prospects for time-series analysis appear promising [54,55]. In practice, the VARMAX procedure has been employed to gauge the effect of oil prices on competitiveness [56], the importance of information timeliness on the predictability of stock and future returns [57], and the impact of conditional cash transfer programs on poverty and social capital [58].

The VARMAX-procedure has two advantages over models more often used in the social sciences, such as the pooled OLS procedure. First, as an extended Autoregressive Moving-Average (ARMA) model, the VARMAX does not assume that the error terms of the data are normally distributed, allowing researchers to avoid the risk of auto-correlation. Second, the VARMAX allows researchers to avoid heteroscedasticity, since the model does not assume that the variability of the dependent variables' error terms across the independent variable is homoscedastic [10,11,52,54,55]. The variability among the countries with higher employment policy expenditures is higher than that among the countries with lower ones. The heteroscedasticity risk is considerable, which would compromise the reliability of the analysis where a more common OLS-based model was used. Considering data pooling, the regulationist theory rejects the hypothesis that the impact of economic globalization on employment policies is commensurable across the Western nations [3], or "welfare regimes" [1,2,4,5]. Since this theoretically drawn research focus is analyzing the differences between individual countries, this research avoids the data pooling that could diminish the variation among countries.

In addition to methodological and theoretical considerations, the VARMAX procedure was chosen due to the nature of the two research questions. Answering the preliminary question requires estimating the correlations of the dependent variables with all of their past values [5]. For this purpose, the VARMAX model incorporates the lagged dependent variable (LDV), denoting to institutional stickiness. If the coefficient of LDV is negative, the model indicates a negative institutional impact. If the coefficient is positive, the model indicates a significantly positive institutional stickiness. A particularly resilient impact of institutional stickiness is associated with the LDV-2 variable, which indicates (according to the model) that the previous year's value is also a significant factor.

Answering the main research question requires producing results indicating statistical tendencies and embedding them into a theoretical distinction between offensive and defensive workfarism. The VARMAX model estimates the turning point (XL) in the relationship between the dependent variable and the independent variable [10]. The negative or positive coefficient of the XL indicates that UB or ALMP expenditure started to either decrease or increase in light of the capital flow after the given time point. For example, XL10 indicates that a significant correlation (either positive or negative) occurred in 2000. Embedded in the theoretical framework, both types of workfarism expect a decrease in UB expenditure [4,5], meaning that the correlation between capital flow and UB is assumed to be negative (*i.e.*, a negative XL coefficient). The crux of the matter is thus the ALMP: a positive XL coefficient implies offensive workfarism, while defensive workfarism is reflected by a negative XL coefficient, and a significantly positive result between UB and capital flow is not theoretically expected.

Two equations are calculated for each country, as guided by the diagnostic parameters estimating the fitness of the model. The first example (Equation (1)) is from Sweden, but it also applies to other countries with similar statistical diagnostics on the tendency towards defensive workfarism. For Sweden, the ALMP attained the statistical requirements with an XL of 16, and both LDVs were restricted. Thus, the trend changed into a negative correlation with the capital flow in 1994. The second possibility (Equation (2)) is exemplified by Finland, for which the model concurred when the UB XL was 20, and both LDV's received significant loadings. The diagnostic checks imply that the decreasing trend of UB may have changed (*i.e.*, low significance) in 1990 according to the capital flow, but the main factors of the equation are the LDV coefficients, which imply a high institutional stickiness. The outcome, therefore, is that Finland has been influenced mainly by institutional stickiness, and shows a weak trend towards offensive workfarism.

The two possibilities for the model execution outlined above can be stated as

$$\Delta y_t = \mu - y_{t-1} + \theta x_{t-16} + \varepsilon_t = \theta \Delta x_{t-16} + \Delta \varepsilon_t \quad (1)$$

$$\begin{aligned} \Delta y_t &= \mu - (1 - \phi_1)y_{t-1} + \phi_2 y_{t-2} + \theta x_{t-20} + \varepsilon_t \\ &= \phi_1 \Delta y_{t-1} + \phi_2 \Delta y_{t-2} + \theta \Delta x_{t-20} + \Delta \varepsilon_t \end{aligned} \quad (2)$$

where  $y$  is the dependent variable (UB or ALMP) at moment  $t$ ,  $\mu$  is the constant, and  $\theta$  is the coefficient of the independent variable (capital flow) at moment  $t$ . The independent variable  $x$  indicates the capital flow at time  $t$  (XL), while  $\varepsilon$  is the error term, and  $\Delta$  is the difference operator. Compared to Equation (1), Equation (2) includes  $\phi$ , the coefficient of the lagged dependent variable (LDV) at moment  $t$  that is incorporated according to the model diagnostics. Granger's [59] causality test was conducted by SAS software to verify the results of the regression analysis. As expected, capital flow affected the dependent variables when they were estimated significant, but not the other way around. Since these results did not alter the conclusions, they were omitted.



The limitations of this research should be kept in mind when assessing the results. First, considering the temporal context (e.g., the varying cross-national practices in local job centers, sanctioning rules and obligations for the unemployed), analyzing UB and ALMP from the perspective of capital flow as an indicator of economic globalization should be sufficient for analyzing trends in national employment policies at the macro level. Second, this study basically agrees with the award-winning study by Vlandas [60] which shows that in the optimal situation, the researcher should use non-aggregated ALMP data. In practice, however, the current state of the regulationist theory provides merely the one-dimensional distinction between offensive and defensive workfarism. Incorporating a novel theoretical two-dimensional taxonomy of the ALMPs would overcrowd this study. In addition, the data unavailability problem would have been more significant if the non-aggregated ALMP data provided by the OECD were used. Third (and germane to the theoretical limitations), some control variables are excluded from this analysis, since the regulationist theory understands the shift towards workfarism as primarily a response to economic globalization.

#### 4. Results

Table 1 describes the research variables for 1985, 1997, and 2010. The aim is to show the basic bivariate patterns before proceeding to the regression analysis. The descriptive data is sorted by the capital flows-values standard deviation in order to illustrate the rather varied increase in capital flow across the 19 Western countries.

**Table 1.** Active labor market policy expenditure (ALMP), unemployment benefit expenditure (UB), and capital flow as percentage of GDP in 19 Western welfare states in 1985, 1997, and 2010.

	ALMP			UB			Capital Flow			
	1985	1997	2010	1985	1997	2010	1985	1997	2010	SD
Spain	0.01	0.02	0.04	0.13	0.10	0.15	29.0	60.0	77.3	24.49
Sweden	0.63	0.19	0.09	0.26	0.20	0.11	49.3	79.5	87.7	20.24
Finland	0.13	0.10	0.10	0.17	0.22	0.18	46.2	68.8	82.9	18.48
Italy	0.17	0.04	0.02	0.09	0.05	0.16	33.6	60.7	67.9	18.11
Austria	0.05	0.07	0.15	0.25	0.30	0.28	57.7	68.6	89.9	16.38
Germany	0.05	0.09	0.08	0.16	0.25	0.18	30.2	40.9	60.2	15.21
Portugal	0.01	0.06	0.05	0.04	0.09	0.12	57.4	65.4	83.1	13.15
Australia	0.03	0.03	0.03	0.14	0.13	0.10	46.9	63.7	71.0	12.34
Denmark	0.14	0.30	0.21	0.44	0.38	0.18	64.9	78.4	86.3	10.86
Norway	0.19	0.18	0.14	0.19	0.17	0.13	59.9	69.2	79.5	9.83
Greece	0.01	0.02	0.02	0.04	0.04	0.06	53.9	48.9	67.1	9.38
US	0.03	0.03	0.01	0.08	0.05	0.08	24.1	36.1	40.4	8.45
Switzerland	0.12	0.14	0.11	0.29	0.30	0.17	74.1	81.2	90.5	8.22
France	0.05	0.09	0.09	0.12	0.12	0.15	37.8	44.4	54.2	8.21
Netherlands	0.12	0.17	0.18	0.45	0.54	0.39	84.2	88.6	95.3	5.58
Belgium	0.10	0.10	0.15	0.18	0.17	0.18	86.1	91.6	96.0	4.98
Canada	0.03	0.03	0.02	0.17	0.11	0.10	67.5	77.1	72.7	4.84
United Kingdom	0.03	0.01	0.01	0.13	0.07	0.04	55.6	56.5	63.4	4.27
Ireland	0.05	0.10	0.06	0.20	0.17	0.21	93.3	94.9	99.3	3.10
Sample AVG	0.10	0.09	0.08	0.19	0.18	0.16	55.34	67.08	77.09	

Data: Dreher [3]; OECD [9]; ALMP and UB expenditures as a percentage of gross domestic product (GDP) are divided by the unemployment rate. Abbreviation AVG denotes average and SD to standard deviation.

The increase in capital flow was most rapid in Spain, Sweden, Finland, and Italy. Capital flow in Austria and Germany nearly doubled since the mid-1980s. The increase was most explicit in the countries least exposed to the capital flows of the 1980s. In countries such as Ireland, Belgium, and the Netherlands, capital flow was playing a central role even before 1985; thus, increases in those countries were relatively minor. The average values for the 19 countries indicate a decreasing general trend in employment policy expenditure, although there is considerable variation. Sweden, Germany, Denmark, Switzerland, the UK, and the Netherlands show a downward trend in ALMP and UB expenditures, while Portugal, the US, France, and Ireland show stable or increasing the expenditure levels. A preliminary observation suggests a tendency towards defensive workfarism in Sweden, Denmark, and Germany, and towards offensive workfarism in Austria. In addition, the impact of institutional stickiness appears dominant in countries where development of the capital flow and the employment policy expenditures were moderate, like Canada and Belgium.

The results of the regression analysis are categorized in the following way. Table 2 presents the countries where capital flow after a given moment (XL) gained more significance than did institutional stickiness (LDV). Table 3 presents the countries where institutional stickiness was more significant than capital flow was. Table 4 shows the countries where the results (according to the direction of the explanatory variables) were mixed. The results according to the relevant research questions are summarized at the end of this section.

Table 2 demonstrates that in five nations out of 19, capital flow gained more significance than institutional stickiness did after the given time-point (XL). In addition, four of the countries have a tendency toward either offensive or defensive workfarism. These results are interesting for several reasons. In Denmark, capital flow is strongly related to UB during the whole research period, and ALMP expenditure is significantly and negatively associated with capital flow after 1997 (XL 13). In Germany, the negative loading of capital flow is strong in ALMP and significant in UB. In Sweden, the UB correlation is highly significant, and the impact received the same statistical significance as in Denmark. Contrary to the other countries in Table 2, the US moved away from workfarism after 1998 from the UB perspective. Finland shows a trend toward offensive workfarism after 1996 (XL 14).

Table 3 presents the nations where the LDV received higher statistical loading than capital flow did, representing half of the 19 countries. As expected, the LDV has a mainly negative impact. However, a parallel development of LDV and capital flow appears in France, Ireland, Greece, and Italy for UB. In the UB of Austria and Ireland, and in the ALMP of the UK, the statistical loadings of LDV and capital flow are at the same significance levels. Resilient institutional stickiness (LDV-2) is found in Belgium, France, the UK, Portugal, and Spain. In the UK, a tendency toward defensive workfarism can be detected, although the impact of LDV should clearly be noticed. As in the US, Ireland moves away from workfarism after 2000 from the UB perspective. Interestingly, Austria's results indicate a tendency towards offensive workfarism that lasted the whole research period (XL 0/XL 0), although the cushioning impact of LDV must be taken into account.

Finally, Table 4 shows the countries that display varying results for capital flow and institutional stickiness. In Switzerland and Australia, the capital flows do not explain ALMP development. Greece receives significant loadings for both ALMP and UB. It should be noted, however, that the UB result is highly correlated to the LDV. In Italy, ALMP highly correlates with LDV, while UB expenditure is largely dependent on institutional stickiness. In the Netherlands, the negative impact of capital flow on UB and ALMP is cushioned by institutional stickiness after the mid-1990s (XL 14/XL 13).

**Table 2.** The countries where capital flow was more significant than institutional stickiness.

UB			ALMP			UB			ALMP		
<b>Germany</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	<b>Denmark</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 5	−3.14	0.006 **	XL 5	−4.04	0.0008 ***	XL 0	−9.92	0.0001 ***	XL 13	−3.55	0.0062 **
LDV-1	2.83	0.0116 **	LDV-1	2.74	0.014 *	LDV-1			LDV-1		
LDV-2			LDV-2			LDV-2			LDV-2		
<b>United States</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	<b>Finland</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 12	3.73	0.0039 **	XL 13	−3.03	0.0144 *	XL 20	−6.85	0.0207 *	XL 14	5.5	0.0006 ***
LDV-1			LDV-1	2.99	0.0152 *	LDV-1	6.43	0.0233 *	LDV-1		
LDV-2			LDV-2			LDV-2	−7.75	0.0162 *	LDV-2		
<b>Sweden</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>						
XL 16	−7.29	0.0003 ***	XL 12	−3.14	0.0105 *						
LDV-1			LDV-1	2.26	0.0470 *						
LDV-2			LDV-2								

The sign of the *t*-value indicates the direction of the general trend. The *p*-value reports the levels of significance, which are highly significant <0.001 (\*\*\*), significant <0.01 (\*\*), and almost significant <0.05 (\*). Acronym UB refers to unemployment benefit expenditure and ALMP refers to active labor market policy expenditure.

**Table 3.** The countries where the institutional stickiness was more significant than capital flow.

UB			ALMP			UB			ALMP		
<b>Austria</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	<b>Ireland</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 0	5.57	0.0184 *	XL 0	2.97	0.0076 **	XL 10	3.31	0.0062 **	XL 9	−2.58	0.0228 *
LDV-1	2.85	0.01 **	LDV-1	3	0.007 **	LDV-1	3.72	0.0029 **	LDV-1	6.43	0.0001 ***
LDV-2			LDV-2			LDV-2			LDV-2		
<b>Belgium</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	<b>Portugal</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 4	−2.10	0.0502	XL 9	1.73	0.1074	XL 12	−2.35	0.0404 *	XL 10	−1.72	0.113
LDV-1	6.44	0.0001 ***	LDV-1	2.88	0.0128 *	LDV-1	4.87	0.0007 ***	LDV-1	4.54	0.0007 ***
LDV-2	−3.30	0.0041 **	LDV-2			LDV-2	−2.61	0.0262 *	LDV-2	−2.3	0.0406 *
<b>France</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	<b>Spain</b>	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 10	2.40	0.0334 *	XL 12	−3.56	0.0052 **	XL 0	−1.02	0.3181	XL 6	2.62	0.0187 *
LDV-1	8.78	0.0001 ***	LDV-1	5.53	0.0003 ***	LDV-1	10.01	0.0001 ***	LDV-1	6.82	0.0001 ***
LDV-2	−4.70	0.0005 ***	LDV-2			LDV-2	−4.90	0.0001 ***	LDV-2	−3.91	0.0012 **

Table 3. Cont.

UB			ALMP			UB			ALMP		
United Kingdom	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	Norway	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 3	−2.55	0.0194 *	XL 8	−3.01	0.0093 **	XL 0	−2.97	0.0076 **	XL 8	−2	0.0658
LDV-1	9.21	0.0001 ***	LDV-1	3.06	0.0085 **	LDV-1	3.93	0.0008 ***	LDV-1	2.35	0.0336 *
LDV-2	−4.17	0.0005 ***	LDV-2			LDV-2			LDV-2		
Canada	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>						
XL 9	−0.24	0.8136	XL 7	−1.7	0.11						
LDV-1	5.68	0.0001 ***	LDV-1	2.45	0.0268 *						
LDV-2			LDV-2								

The sign of the *t*-value indicates the direction of the general trend. The *p*-value reports the levels of significance, which are highly significant <0.001 (\*\*\*), significant <0.01 (\*\*), and almost significant <0.05 (\*). Acronym UB refers to unemployment benefit expenditure and ALMP refers to active labor market policy expenditure.

Table 4. The countries where the results between the institutional stickiness and capital flow were mixed

UB			ALMP			UB			ALMP		
The Netherlands	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	Italy	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 14	−3.30	0.0109 *	XL 13	−2.67	0.0258 *	XL 9	2.83	0.0143 *	XL 6	−0.55	0.5877
LDV-1	2.76	0.0257 *	LDV-1	4.41	0.0017 **	LDV-1	6.46	0.0001 ***	LDV-1	8.65	0.0001 ***
LDV-2			LDV-2			LDV-2			LDV-2	−2.89	0.0106 *
Switzerland	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>	Australia	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>
XL 7	−3.32	0.0047 **	XL 0	0.28	0.7793	XL15	−5.89	0.0006 ***	XL 20	0.65	0.5799
LDV-1	0.93	0.3647	LDV-1	6.81	0.0001 ***	LDV-1			LDV-1		
LDV-2			LDV-2	−3.58	0.0019 **	LDV-2			LDV-2		
Greece	<i>t</i>	<i>p</i>		<i>t</i>	<i>p</i>						
XL 2	2.54	0.0193 *	XL 12	2.82	0.0182 *						
LDV-1	4.03	0.0007 ***	LDV-1								
LDV-2			LDV-2								

The sign of the *t*-value indicates the direction of the general trend. The *p*-value reports the levels of significance, which are highly significant <0.001 (\*\*\*), significant <0.01 (\*\*), and almost significant <0.05 (\*). Acronym UB refers to unemployment benefit expenditure and ALMP refers to active labor market policy expenditure.

The information required for answering the preliminary research question appears in the three tables above. Institutional stickiness is a more significant factor than capital flow in most of the 19 welfare states. The UB and ALMP variables are equal to the total of the 38 observable results; for 23 (61%), institutional stickiness was a more significant factor than capital flow. However, capital flow gained more explanatory power than institutional stickiness in 14 (37%) observations out of the 38. The data included one observation, Australian ALMP, that did not receive a significant loading for either of the explanatory factors.

Table 5 presents the answer to the main research question. The dark grey quadrant indicates the tendency towards defensive workfarism from the perspective of capital flow. This quadrant shows that defensive workfarism was detected in Germany, Denmark, the Netherlands, Sweden, and the UK. According to the data analysis, Finland and Austria are located in the light grey quadrant of offensive workfarism, indicating an increase of ALMP spending and a reduction of UB from the perspective of capital flow. It is also important to note that the theoretical dichotomy of offensive *vs.* defensive workfarism is not exhaustive: it explained the development in only seven countries out of 19 (37%). This result provides avenues for theoretical contributions from future research.

**Table 5.** Active labor market policy expenditure (ALMP), unemployment benefit expenditure (UB) from the perspective of capital flow in 19 Western democracies according to the data analysis.

		UB						
		+++	++	+	-	--	---	.
ALMP	+++				FIN			
	++				AUT			
	+			GRE				ESP
	-		USA, IRL	FRA			SWE	
	--				UK		DEN	
	---				NET	GER		
	.			ITA	PRT	CHE, NOR	AUS	CAN, BEL

Notes: The number of positive or negative signs denotes the statistical loadings and the direction of the regression analysis. For example, “+++” implies a statistically highly significant (\*\*\*) positive result. A full stop (.) implies a non-significant regression result between the dependent variable and the capital flow. The light shading denotes the offensive workfarism, while the dark shading refers to defensive workfarism; The country acronyms are: Australia (AUS), Austria (AUT), Belgium (BEL), Canada (CAN), Denmark (DEN), Finland (FIN), France (FRA), Germany (GER), Greece (GRE), Ireland (IRE), Italy (ITA), the Netherlands (NET), Norway (NOR), Portugal (POR), Spain (ESP), Sweden (SWE), Switzerland (CHE), the United Kingdom (UK), and the United States (USA).

The expansion of capital flow from 1985 to 2010 has had diverse impacts on the employment policy expenditures of the 19 countries. For most, changes were limited, while in the others the flow of capital is indisputable for the analysis. In addition to the theoretically expected results, state-augmenting tendencies were detected in traditionally neoliberal Ireland and US.

The impact of capital flow on employment policy expenditures was bounded in Greece, Spain, Italy and Portugal, although the increases in capital flow were rapid. Put differently, the economically contingent reorientation of employment policies has been trivial, despite nations’ transformations into

open economies. The level of ALMP spending remained low at the aggregate level during the research period, in addition to the stagnant UB spending.

Capital flow also had a limited impact on employment policies in Switzerland, Norway, and Belgium, for a reason different from that which applies to Mediterranean countries: these countries had been open to international capital since the 1980s, but they maintained relatively high expenditures on employment policies at the aggregate level. Despite the different mechanisms, institutional stickiness has had a negative influence in both late- and early-developed institutional settings.

Economic globalization measured by capital flow has had a significant negative impact on employment policy expenditures in the UK, and in northern and continental Europe. In Finland and Austria, the changes in ALMP spending denoted a more employment-friendly offensive workfarism. However, a trend towards defensive workfarism was dominant in Sweden, Denmark, Germany, and the Netherlands; although expenditure is still above average, the downward trend towards defensive workfare is clear.

## 5. Conclusions

This article has demonstrated that the regulationist theory may provide a valid framework for the analysis of the impact of economic globalization on welfare policies. Specifically, the distinction between offensive and defensive workfarism is useful in interpreting the time-series regression results. Applying the functionalist logic indicates that northern and continental European nations appear to have recalibrated their employment policies towards workfarism in response to the global economic pressure to increase labor market efficiency. Although neoliberal defensive workfarism was dominant when economic globalization was significant, the tendency towards more employment-friendly offensive workfarism was also found in Finland and Austria. Moreover, theories assuming the state-augmenting impact of economic globalization were widely unsupported, since only Greece showed weak signs of an increase in both types of employment expenditure. Overall, the results generally support the thesis proposed by Pierson and colleagues, positing that institutional stickiness generating limited change is a more powerful predictor than economic globalization is.

However, these results are open to further interpretation in ways outside the scope of regulationist theory and its main rivals. In terms of domestic political and economic interaction, for example, Wood has emphasized the importance of employer preferences and their capability for collective action. Amid the complex political process of mediating the pressures commonly associated with economic globalization, well-organized employers in coordinated market economies may be more able to steer employment policies according to their workfarist preferences. Moreover, Jahn's spatial perspective emphasizing the interaction between countries could also provide an explanation. Since the workfarist trend connects most of the countries in northern and continental Europe, the working mechanism might also be the policy diffusion created through the political elites operating between these closely interconnected countries. As has been shown, workfarism as an international phenomenon provides interesting possibilities for future research.

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## Conflicts of Interest

The author declares no conflicts of interest.

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