

Dingeldey, Irene

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Activating labour market policies and the restructuring of welfare and state: a comparative view on changing forms of governance

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Zentrum für Sozialpolitik

Irene Dingeldey

**Activating Labour Market Policies
and the Restructuring of ‘Welfare’ and ‘State’
A comparative View on Changing Forms of Governance**

ZeS-Arbeitspapier Nr. 01/2009

Zentrum für Sozialpolitik

Universität Bremen

Parkallee 39

D-28209 Bremen

eMail: i.dingeldeldey@zes.uni-bremen.de

Herausgeber:
Zentrum für Sozialpolitik
Universität Bremen
- Barkhof -, Parkallee 39
28209 Bremen
Tel.: 0421/218-4362
Fax: 0421/218-7540
e-mail: srose@zes.uni-bremen.de
<http://www.zes.uni-bremen.de>
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Summary

Analysis of the change of governance in activating labour market policy in Denmark, the UK and Germany supports the restructuring thesis advanced in the course of the debate on how to classify the change in the welfare state. New objectives, such as 'the promotion of employability', have been accompanied by a general trend towards a decline in state responsibility for service delivery and a reduction of rights to transfer payments. At the same time, however, the state's responsibility as guarantor in respect of rights to social services has increased and the obligation to work has been introduced, in conjunction with an increase in reflexive forms of governance. Thus the observed restructuring has brought about a change in the nature of both 'welfare' and 'state'.

Although the outlined trend of changing forms of governance and statehood is to be found in all three countries, level and scope of certain instruments and governance forms vary strongly, and characterise the emergence of quite different activating policies, respectively a convergent divergence of welfare state development.

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Introduction

In comparative research on the welfare state, the question of whether the social policy reforms introduced since the 1980s or 1990s should be regarded as a dismantling, a stabilisation and growth or a restructuring of the welfare state continues to evoke considerable controversy. In the present article, we ask, what kind of welfare state development can be observed, on the basis of the evolution of activating LMP (labour market policy) in Denmark, the UK and Germany since the early or late 1990s. Therefore we focus on changes in governance, analysing if new objectives such as the furtherance of employability or a change in the division of labour between state and private actors have entailed a reduction, an extension of state activity or a severe change in the forms of state intervention. The results are supposed to contest the above mentioned controversy and to highlight if there is only a change of ‘welfare’ or also of the ‘state’ taking place. Furthermore we will see, if the trend of changing forms of governance and statehood is to be found in all three countries and if level and scope of certain instruments and governance forms are equal.

1 Literature Review and Theoretical Context

1.1 Change in the welfare state: some elements of the debate

In the debate on change in the welfare state the consolidation argument is usually supported by predominantly quantitative analyses with largely stable (Pierson 1996) or rising rates of social expenditure (Castles 2001, Castles 2004). The dismantling argument, on the other hand, is usually substantiated with data on reductions in benefits (Allan/Scruggs 2004, Korpi/Palme 2003). Advocates of the restructuring argument often combine these two perspectives and point to the maintenance of or even the increase in total social expenditures within quantitative analysis while at the same time using qualitative analyses to reveal that specific programmes have been dismantled or that individual policy areas have been subject to a process of institutional restructuring (Bonoli, et al. 2000, Clasen 2005, Obinger/Starke 2008).

The ‘extreme’ argument of a paradigm shift in the welfare state is usually substantiated by pointing to changes in welfare state objectives, benefits and institutions and to the associated changes in social rights (Andersen 2005, Cox 1998). Other authors have linked these changes observed to a change of state structures, interpreting them, however, within rather different normative connotations either as a shift towards the enabling state (Gilbert 2002, Gilbert/Gilbert 1989) or – more negatively – to the workfare state (Jessop 1995).

The change within labour market policies towards an activation approach plays a prominent role in all of these concepts. Empirical studies in this field are pointing at a reduction of transfer payments and the increased importance of active labour market measures (Hvinden 2003). This is sometimes linked to an understanding of a change of public intervention referring to the increasing conditionality of social rights and the introduction of workfare elements as being part of a contract between individual clients and labour market administration (Bredgaard/Larsen 2005, Handler 2003, Sol/Westerveld 2005). Other studies highlight organisational changes arising out of new public management strategies such as the partial privatisation or contracting out of employment services, but also the reorganisation of public administration have been observed across many countries (Borghi/van Berkel 2007, Bruttel/Sol 2006, Finn 2005b, Finn, et al. 2005). But the relating of these changes in labour market policies to a transformation of the state towards an ensuring state (Schmid 2004) so far has been conducted only on an explorative basis. Out of a comparative point of view both fundamental changes as well as the maintenance of regime varieties are confirmed (Barbier 2005, Dingeldey 2007, Esping-Andersen 1998, Serrano Pascual 2007a).

Thus, the debate on welfare state change seems to be closely linked to the so-called ‘dependent variable problem’ in comparative welfare state research, that is to the choice of object to be observed and explained (cf. (Clasen/Siegel 2007, Esping-Andersen

1990:14, Starke 2006), the present article wants to contribute to this debate turning the spotlight on to a particular aspect of the welfare state, namely the change in governance and the development of public responsibilities. As reforms performed in labour market policy may mirror broader developments of the change of the welfare state, the present analysis wants to give a full and systematic empirical overview to the changing forms of governance including both the governance of social rights and the production and coordination of welfare services. The findings will be related to the questions of increasing or declining state responsibilities, respectively to the restructuring of the welfare state itself and the convergent or divergent development of these changes across different welfare state types. In order to develop the respective research design, we must first explore the particular relationship of governance and social policy.

1.2 Governance and social policy: An interpretative Approach

The notion of governance, which was developed originally by institutional economists, has been used and further developed in many different contexts (for a general overview see (Kooiman 1999:68, Pierre 2000). Following Renate Mayntz, governance should be used as a generic term denoting ‘all co-existing forms of collective regulation of societal matters, from those based solely on the state to those based solely on civil society’ (Mayntz 2004). Thus governance denotes the structures as well as the processes of regulation and control (Mayntz 2005:15, Pierre/Peters 2000:14).

In empirical research that has been conducted to date on, governance is widely associated with change, but interpretations of the changes that have taken place diverge considerably. Some authors have spoken of the “hollowing out of the state” (Rhodes 1994, Rhodes 2000), that is of the erosion of the nation state and of its responsibilities and decision-making capacities. This is grounded in an increasing internationalisation and Europeanisation of policy making as well as in the privatisation of public enterprises and utilities due to neo-liberal ideology and new public management theories. Another aspect of this process is the assumption that the state is increasingly dominated by self-organising policy networks (Rhodes 1994). Counter arguments, however, highlight the respective processes and the growing importance of networks provoke the opposite reactions and institutions, namely a growth of strategic co-ordination and central control by the state. This reflects the growing complexity of governance as a process of ‘filling in’ rather than ‘hollowing out’ (Taylor 2000).

Researchers asking for a transformation of the state, confirm that the fabric of the state is unravelling, with its central components drifting apart in different directions (Zürn/Leibfried 2005). Due to this point of view, however, processes both of internationalisation and privatisation are understood as being restricted to partial tasks, which require complementary functions still being performed by the nation state. Over all within processes of privatisation the state must maintain regulatory functions combined with a kind of ‘decision of last resort’. This is interpreted both as a change and an in-

creasing complexity of state functions (Genschel/Zangl 2007:14f). To characterise change of governance and the evolving form of statehood the concept of an 'ensuring state' is used, which was developed by German researchers as an ideal type model (Schuppert 2005).

In order to be able to put the notion of governance to profitable use in a comparative analysis of welfare states and social policy, however, further clarification of the typologising of the various forms of governance and of our understanding of them is required. The particular set of problems posed by the governance of social policy have their roots in the fact that, contrary to what is implied in many typologies of governance (Bevir/Rhodes 2003, Pierre/Peters 2000:14), in social policy there never have been any pure regulatory structures; rather a welfare mix (Evers/Olk 1996) has always dominated, although it varies considerably with the type of welfare state regime in place. This has been demonstrated effectfully by Esping-Andersen who used the governance of welfare as a distinguishing aspect of welfare state types (Esping-Andersen 1990).

The exercise of functions in social policy is generally based on a separation of tasks and cooperation; this in turn depends on a division of responsibilities between the state and social actors, with various sub-tasks being allocated to a number of different bodies. In order to identify the object of investigation, therefore, we will follow Schuppert (2003: 335) in making a distinction between responsibility as guarantor, responsibility as funder and responsibility as service provider. Our understanding of governance itself draws on an actor-centred interactive concept as developed by (Scharpf 2000) or (Kooiman 2005 (2003)). Accordingly, a change in governance will be seen either as a shift in the division of responsibilities between various actors and/or a change in the mode of interaction.

Within that approach, a number of different public actors are identified, including central government, regional authorities, municipalities and independent, intermediate-level financial organisations, such as some of the social insurance funds. The private actors include collective, market-based actors and third-sector organisations, as well as families and individuals. The modes of interaction include the standard ones, such as hierarchy, competition and solidarity, as well as co-governance, which denotes, for example, the co-production of services by different actors and/or the establishment of networks. Hierarchical governance is identified as the central governance modus of the state and associated both with steering (political) and control (bureaucracy). Most important is, however, that (Kooiman 2005 (2003)) denotes also changes within hierarchical governance, defined as shifts "from command to regulation", "from procuring to enabling" and "from benevolence to activation". Thus the actor-based interactive approach provides a basis for detailed analysis of the changes in country-specific changes concerning the mix of governance in labour market policy.

Furthermore, the governance of the relationship between the welfare state and the individual is a fundamental aspect of welfare state policy, but one that is largely absent from current typologies of the various forms of governance. According to (Marshall

(1949) 1963), the welfare state can be said to grant social rights to the individual. However, these rights may be withdrawn and may vary in scope. Thus social rights to de-commodification can be regarded as a form of public intervention mediated by transfer payments that offer temporary compensation for social risks and allow individuals to subsist without labour market participation. In contrast, aiming at 'employability', which may be understood as a right to commodification, requires the provision of services, which enable the individual to take part in the labour market. In order to be effective, public regulation has to be combined with forms of cooperation or co-production between administrative and individual actors. To ensure the cooperation of the individual, however, the process of enablement is closely linked to the increased conditionality of rights to transfers or to mandatory activation, i.e. enforcement, which must be regarded as another standard form of hierarchical intervention.

The weight each of the various forms of intervention carries is a matter of political choice and the various possible combinations of intervention may give rise to a number of different types of activating LMP (Dingeldey 2007). Thus an understanding of the welfare state can be developed that regulates the particular tension between commodification and de-commodification – a thinking that first was promoted by leftist and feminist writings (Knijn/Ostner 2002, Lenhardt/Offe 1977). The ongoing reforms then may be understood as a re-interpretation of social rights with respect to individuals' labour market participation, and be interpreted – in line with Kooiman - as change within hierarchical governance.

Closely linked to the new policy approach is the distinction between first and second-order social policy (Kaufmann 1998) which, at a sort of meta level, broaches the issue of the mode of welfare state intervention itself, thereby pointing to a further aspect of the change in governance. First-order social policy is defined as *direct, problem-based intervention by the welfare state* in social circumstances; second-order policy, on the other hand, emerges in the wake of the differentiation of the welfare sector or as a problem arising out of social policy and relates to the governance of the intervention apparatus itself. An example is the administrative reorganisation in order to ensure a closer cooperation between administrations traditionally concentrated on the provision of income support, on the one hand, and the provision of placement services and training on the other. Additionally, the homogenisation of unemployment support is mentioned as a way to adapt unemployment protection to the needs of flexible post industrial labour markets (Clasen/Clegg 2006).

Kaufmann stresses, furthermore, that interventions by the welfare state have increasingly to reflect the conditions determining the effect of the intervention; ultimately, those effects cannot be achieved solely through direct intervention, i.e. commands, prohibitions and incentives, but can only influence the behaviour of target groups by controlling the institutional context and/or enabling structures (Kaufmann 1994:31). Thus producing a certain behaviour of individuals requires the broad reflection of their living conditions and identify possible preferences and needs. The translation of these reflec-

tions may then be implemented only within an holistic approach of policy making, coordinating the regulation of incentives, service provision and infrastructure within labour market policy but also across various policy fields. In an ideal-typical model, the goal of employability requires such an enabling structure over all for those with difficulties to access the labour market. Hence, any attempt to ensure the employability, for example of women with young children, but also of people with health problems or debts requires the coordination of labour market policy with measures of other policy fields. The respective processes of cross policy field coordination and re-regulation of institutions we will call reflexive governance.

All together the particularities of governance in social policy, respectively the empirical analysis of most recent changes may provide empirical evidence if the changed role for the state, is just geared towards a minimal state or one geared to reflexivity and handling complex coordination functions.

1.3 Research Design

We will use a most divergent case design analysing labour market policies in Denmark, the UK and Germany, each country representing a different type of welfare state and gender regime (Esping-Andersen 1990, Sainsbury 1999), in order to show if there is a similarity of changes, respectively a convergent development due to activating policies. The particular national welfare state development as well as labour market institutions and the difference of the setting of existing programmes and forms of governance are therefore outlined as the starting point of the reform, in advance to the analysis of changes.

With respect to the presented interpretative approach of governance in social policy the following empirical study analyses three dimensions of the governance of activating LMP. The first of these is the shift in the balance of responsibilities between the state and collective actors with respect to the production of labour market services. The second is the changing relationship between the welfare state and the individual with respect to the right to decommodification, enablement and the enforcement of commodification. The third concerns the relation of the state to itself, respectively the use of reflexive forms of governance, which are identified both as central restructuring processes within the public sector, and the process of coordination across policy areas, which is exemplified by the promotion of the employability of women with dependent children.

Finally the findings are summarised and used to give details concerning the combination of welfare state retrenchment and expansion resulting in a fundamental restructuring of 'welfare' and 'state'. Within that convergent trend, however, ongoing diversities may be identified and characterised as varieties of activation.

2 Governance of Activation Policies

2.1 Context and Timing of Labour Market Reforms

Since the 1990ies quite different international organisations like the OECD (OECD 1989, OECD 1994) and the European Union (Europäische Kommission 2006) (Jacobsson 2004) promoted the change towards an activating LMP. The respective strategies were both inspired by neo-liberal thinking and by political normative writings of more leftist authors in different countries advocating a transformation of the welfare state towards a social investment state (Giddens 1998) or an activating welfare state (Bandemer/Hilbert 2001, Blanke/Bandemer 1999). The respective ideas were taken up by national governments and translated to social policy strategies that included changes of objectives of the welfare state and in benefits as in governance.

A main distinction between a Keynesian version of active labour market policy and an activating approach as ideal types is that the former was aiming at a better matching of labour supply and demand, respectively an improvement of labour market structures whereas the later promotes an improvement of individuals' employability, including not only an improvement of individuals' labour market access, but also a modification of work attitudes and personal behaviour (Serrano Pascual 2007b).

Activating LMP was introduced and continued in Denmark, the UK and Germany at different times and by different government constellations: The Social Democrat-dominated government in Denmark elected in 1994 was a pioneer in this regard, introducing activating LMP as part of its first labour market reform in the same year. Since then, there have been further activating reforms in 1995 and 1998. With the more recent programme, known as More People in Work, which came into force in 2003, the then newly elected conservative government changed the set of policy instruments and priorities. In particular, it sought to restrict or eliminate altogether any opportunities to remain out of the labour market while in receipt of benefits (OECD 2003). Further legislation in 2005 (A new chance for all) introduced benefit cuts and even more restrictive work requirements for social assistance recipients, mostly migrants and young people. But with the Welfare Reform Agreement in 2006 also for unemployment recipients activation requirements have become more strict (Andersen/Pedersen 2007).

In the UK, activating policy began with the introduction of the job seeker's allowance in 1996, when the Conservative Party was still in power. However, the introduction of activating LMP was completed under New Labour, which launched the New Deal or Welfare to Work Programme in 1998, as high unemployment was already beginning to fall. The New Deal was first targeted at the young unemployed (NDYP), the long-term unemployed (NDLTU; renamed ND25+ in 2001) and at lone parents (NDLP). Programmes for partners of the unemployed (NDPU) were introduced in 1999, followed in 2000 by a programme for the unemployed aged 50 and above (ND 50+) and finally in

2001 by one for disabled people (NDDP) (OECD 2002:60). Thus there was a steady increase in target groups and changes were made to particular regulations in order to establish a more inclusive approach to activation.

As a consequence of German reunification, it was not the restructuring but the expansion of traditional instruments of active labour market policy, particularly of job creation schemes, that was on the agenda in the beginning of the 1990s (Heinelt/Weck 1998). Although unemployment benefit did suffer some cuts, labour market policy did not change direction until 1998 with the reform of the Employment Promotion Act, which had actually been drawn up under the Kohl government. The incoming SPD-Green coalition government produced two waves of rather contradictory activating policy reforms. The Job Aktiv Act of 2002 was essentially an enabling and preventive instrument, which also promoted women's labour market participation. The Hartz Reforms, also called the First to Fourth Law for Modern Services in the Labour Market, which came into force between 2003 and 2005, have not only furthered the restructuring of the labour administration but also partly withdrawn these measures, facilitated flexible forms of employment, like marginal part-time jobs, and – most importantly – cut the benefits of the long-term unemployed.

2.2 Shifting Balance of Responsibilities between the Welfare State and Collective Welfare Providers

In this section, we analyse activating labour market reforms in Denmark, the UK and Germany, focusing in particular on shifts in the balance of responsibilities among collective actors with respect to different objects of governance, namely regulation (1), financing (2) and service provision (3). We start with a brief introduction to the situation before the reforms.

As a common development in all three countries, the responsibility for regulation remains within the public sector. The most widespread change of governance is a shift in the balance of responsibilities in the delivery of labour market services towards private organisations. This trend of contracting out was accompanied both by an increase of competition and co-governance. Changes of financial responsibilities in contrast are of more indirect nature and importance.

In *Denmark* the entire system of labour administration is strongly corporatist, which means that the social partners participate in regulatory and decision-making processes at all levels of public administration. The benefit system is administered by the trade unions, although public control was introduced in 1969 in order to generalize benefit levels and conditions. The Employment Service (AMS) is subordinated to the Ministry of Employment and provides job placement services and active labour market programmes. Nevertheless, at national as well as regional level, so-called labour market councils were called on to give advice to the public administration prior to reforms.

Labour market training, which historically in Denmark was aimed primarily at the employed and was opened up to the unemployed only recently, is regarded as a public task. Thus vocational training programmes take place mainly in regional training centres, which form part of the public labour market training system (AMU System). The AMU is the product of cooperation between the organisations of the social partners and the public authorities, operating together within a tightly structured network.

(1) With the introduction of activating LMP, regulation was decentralised while the influence of the social partners increased. Since the 1990s in particular, planning and managerial competences have increasingly been devolved to the regional labour market councils, including decisions on contracting-out and the design and scope of the tendering rounds. As the social partners are members of these councils, this has undoubtedly strengthened their influence. The municipal reform which came into force in 2007 again withdrew managerial labour market competencies from the corporatist governed regional labour market councils to the municipalities and is therefore under suspicion to have been used to reduce trade union influence (Andersen/Pedersen 2007).

(2) The social partners have seen a slight rise in their share of the funding of labour market policy programmes, particularly with regard to labour market training. Labour market policy in Denmark has traditionally been financed by the contributions paid by members of the (voluntary) unemployment insurance scheme (about 15-20 % of costs) and by taxation. The labour market reforms of 1994 and 1997 introduced a so-called labour market contribution (particularly for employees), which was intended to supplement the financing of labour market training. Since 2001, the social partners, or more precisely their representatives on the newly established labour market training funding council (AUF), have been responsible for raising the funding required for adult training courses provided to meet employers' skill requirements. The AUF may recommend that particular programmes should be jointly funded by employers or that participants seeking higher qualifications should pay the fees (OECD 2001).

(3) The delivery of labour market services still falls largely within the public domain, although elements of marketisation have been introduced. In 1990 the public employment services' monopoly on placement services was abolished in order to give "other actors" an opportunity. The first tendering round in 2003 led to the conclusion of contracts with private enterprises (57%), trade unions (25%) and public institutions (18%). Thus in 2004 an average of about 30% of the unemployed population were referred to "other actors". Furthermore the introduction of a so-called taximeter system linked payments to labour market training providers (AMU) to the number of participants in programmes (OECD 2001).

In the *UK*, the labour market administration is part of the national civil service and unemployment benefits are administered and paid out by local offices. Under Margaret Thatcher, the newly constituted Employment Service (ES) was made directly answerable to the government in the shape of the Ministry of Education and Employment. This removed all powers of codetermination from the social partners. The ES was managed

by targets. In accordance with new public management theories, the provision of labour market services was privatised. Thus the implementation of labour market training programmes was delegated to the training and enterprise councils (TECs), a recently established, employer-dominated network. The TECs were managed by output-related contracts and allocated budgets. The training programmes themselves were delivered by private providers (Dingeldey 1997:250).

(1) Under New Labour, the trend towards privatisation was maintained, although some regulatory responsibilities were returned to the public sector. Because of problems with inefficiency and performance, New Labour replaced the TECs with the learning and skills councils (LSCs), which are much more accountable and rooted in the public sector. The LSCs were made responsible for the distribution of resources for training and education beyond initial general education (excluding the universities). The training programmes themselves are still delivered by private organisations under contract to the LSCs.

(2) As the funding of unemployment benefits was always mainly tax based, there were hardly any changes. Furthermore, the decrease in the number of unemployed people has been offset by the relative stability of the number of recipients of income support and incapacity benefit for persons of working age, both of which are non-contributory (Finn, et al. 2005).

(3) The already high level of marketisation in the provision of services has actually increased still further under the Labour government. Private placement services had always been allowed in the UK (Konle-Seidl/Walwei 2001). New Labour has privatised the implementation of labour market programmes to a considerable degree. About 10 % of the New Deal budget is channelled into programmes for particular target groups, which are delivered by private organisations. Thus the delivery of programmes for young unemployed people has been contracted out in 10 regions. In the year 2000, the establishment of 15 employment zones (EZ) (most disadvantaged regions with above-average unemployment) was accompanied by the privatisation of the provision of all employment programmes for the long-term unemployed in these areas. Public providers also competed in the tendering, particularly Working Links, a public-private joint venture between the ES and a private placement organisation, which competed successfully in eight cases (Finn/Knuth 2004).

In *Germany*, benefits and services for the unemployed are provided within the unemployment insurance system, headed by the Federal Employment Office, now named the Federal Employment Agency (BA). The unemployment insurance fund is a self-governing agency within which the social partners have rights of codetermination. Although contributions and benefits are determined politically, it enjoys considerable autonomy when it comes to implementation. Labour market programmes have always been delivered by third parties, mostly by non-public, third-sector organisations and – to a minor extent – by profit-making organisations.

(1) Most recent reforms have reduced the influence of the social partners on the regulation of labour market services. Since 2003, tripartite codetermination within the BA is limited to the administrative council, which only has a controlling function, while the executive committee is appointed for a limited period only (Konle-Seidl 2003).

(2) As in the UK, there has been a shift from contributory to non-contributory benefits. As long-term unemployment has increased, so the relative importance of the tax-funded unemployment assistance, or its UB II replacement, has increased as well.

(3) Since the public sector's share in service provision has always been small, the trend towards further marketisation has been rather limited. When the public placement services' monopoly was broken at the end of the 1990s, private providers acquired a 5% share of total provision (Konle-Seidl 2003). Since 2002, the drive to privatise has intensified but has not proved to be very successful. The introduction of vouchers for private placements services led to only about 70,000 successful placements between April 2002 and June 2004 (Hujer, et al. 2005: 9). In addition, in 2004, the placement of 396,000 unemployed people was partly and of 239,000 in whole handled by third parties appointed by the employment agencies (Bundesregierung 2006:125). The so-called PersonalServiceAgencies (PSAs) were created by a tendering procedure and regulated by contract in order to use temporary employment as a placement instrument. In 2004, the PSAs offered employment to between 27 and 33,000 people, which was very considerably below expectations (Bundesregierung 2006:138).

The introduction of UB II in 2005 was combined with the creation of customer centres, which were supposed to end differences in the treatment of unemployment benefit recipients, on the one hand, and, on the other, those claiming social assistance (administered by the municipalities). Recipients of UB I and UB II are still dealt with in different offices, as UB II is administered by 434 consortia formed by local PES offices and the municipalities (in 69 cases, municipalities took over completely) (Kemmerling/Bruttel 2005). Thus municipal responsibility for implementing labour market policy has increased.

Beyond most common trends, the regulation and financing of labour market policy also display particular national differences. In Denmark, the retreat of the state has been accompanied by a strengthening of the role of the social partners, with regard to both regulation and partly financing - the former being a side effect of the decentralisation of regulatory responsibilities. This trend, however, has been reversed again only recently. In the UK, the provision of services is increasingly dominated by market-based actors, but if inefficiencies are considerable, the example of training policy has demonstrated that a partial reversion of responsibility away from a network-based structure back to a stronger supervision of the public sector is viable. The same seems true for Germany, where codetermination within the BA has been curtailed.

2.3 The Changing Relationship between the Welfare State and the Individual

Activating LMP in Denmark, the UK and Germany is here discussed in order to outline the changes of social rights as a notion of changing forms of hierarchical governance. Thus, the right to decommodification is analysed, with a focus on the generosity and duration of transfers for the unemployed (1). Enforcement is analysed by examining the use of contracts between the individual and the labour market authorities, the regulations governing the duty to work and/or mandatory activation (2). Finally, the enablement of labour market participation as a right to commodification will be discussed by examining the development of training measures (3).

The data presented below confirm that, in all three countries, entitlement to social benefits has been restricted through cuts in the level and/or duration of unemployment benefits. This reduction in decommodification has been accompanied by the introduction of contracts between the employment service and individual clients, increasing enforcement of labour market participation, some form of mandatory activation and increasing control and sanctions. Furthermore, public intervention in the form of social enablement, and further (vocational) training was expanded, advancing also forms of co-production and cooperation. The only exception is the decline in further vocational training in Germany.

In *Denmark* the high level of labour market participation that existed before the reforms, has been maintained and in some cases increased (activity rate of nearly 80.1 %, employment rate of 76.9 % and unemployment rate of only 4.0 % in 2006). In certain target groups, particularly women with children (2006: 76.5 %) and older workers, labour market participation has risen significantly (OECD 2007a:46), while part-time rates for women were declining until recently (25.6 % in 2006) (OECD 2007b:246). This good labour market performance has been accompanied by an activating LMP that emphasises social enablement, but also increased enforcement while the level of decommodification has been cut only selectively.

(1) The compensation rate of unemployment benefit has remained unchanged at the fairly generous level of 90% of the former wage. However, combined with a rather low income ceiling, unemployment benefit in fact functions almost as a flat-rate benefit (relatively lower compensation rates for higher income); between 1994 and 1999 the duration of unemployment benefit was reduced in stages from eight to four years (Andersen/Pedersen 2007, Torfing 1999).

(2) Since 2002 any 'reasonable' job offer must be accepted from the first day of unemployment. During the initial period of entitlement to unemployment benefit, known as the benefit period, claimants are offered 'activation measures', i.e. opportunities to re-enter the labour market. Since 2006 after 4 weeks of unemployment an interview with the insurance fund has to be attained. If, after nine months unemployment

(six months for those under 30), no job has been found, a so-called activation period starts, during which claimants have the right and duty to take part in education or job training. This is followed up by a new activating programme whenever a person is “out of touch with the labour market” for more than six months (OECD 2003:182f). Following the introduction of individual action plans in 1994, a contract between unemployed individuals and their personal advisers in the employment service must be set up no later than the time at which an unemployed individual receives his or her first offer of a place on an activation programme.

(3) Since 1995, between 10,000 and 37,000 unemployed people have taken part each year in courses designed to supplement their initial secondary education. Since 2001, an apprenticeship for adults attracted at least 5,000 participants per year. Additionally, some short labour market training programmes have helped to intensify job search during the activation period, and counselling or language courses are being offered to migrant workers (Statistikdatenbanken Denmark 2005). In sum, the great relevance of labour market training is perhaps best demonstrated by the training expenditure rate, which remains high at 0.53% of GDP in 2005 (OECD 2007b:271) after decreasing over the last years due to changes in the programme structure and a decline in the number of unemployed participants.

Until 2006 in the *UK*, improved labour market performance (employment rate of 72.5 %, unemployment rate of 5.4 %) and growing labour market participation (activity rate of 76.7 %) had gone hand in hand with a significant decrease in long-term unemploymentⁱ (from 45.4% of total unemployment in 1994 to 22.1% in 2006) (OECD 2007b)). Furthermore, the increase in the activity rate of lone mothers to over 55% in 2004 may possibly be related to activating LMP (HM Treasury 2005) (general employment rate of mothers in 2006: 61,7 % (OECD 2007a)). However, these broadly positive developments conceal the continued existence of large numbers of poorly paid jobs and high levels of (low-hours) part-time employment, particularly among women, whose part time rate is 38.8 % which accounts for 77.6 % of all part-time employment (OECD 2007b). The labour market policy that helped to produce this improved labour market performance made considerable use of financial work incentives and enforcement but also created social enablement measures.

(1) A major reform of unemployment benefit had already been implemented in 1996, when the contributory unemployment benefit and non-contributory income support for unemployed claimants were replaced by the jobseekers' allowance (JSA). The level of benefit was designed as a flat-rate payment fixed at the level of the lower benefit. The JSA retains a contributory component that lasts only six months (previously 12), so that 40% of all unemployed individuals claim the means-tested allowance (OECD 2006). This has led to a decline in net replacement rates to less than (14 % of APW-Income plus housing benefit and family supplements) (OECD 2004:24), which, however, provides a comparatively low level of social protection.

(2) Since 1996, the actions of the unemployed have been monitored fortnightly by officials who have received new discretionary powers, enabling them to issue a job-seekers' directive, which requiring individuals to look for jobs in a particular way and to take certain steps to 'improve their employability'. The New Deal was made mandatory for the major target groups, namely the young unemployed (after six months of unemployment), for those older than 25 (after 18 months) and, since 2002, for the partners of the unemployed as well (< 45 years, no children). For lone parents, the only obligation is to attend work-focused interviews; participation in programmes is still voluntary (as it is for older workers and the disabled) (OECD 2002:60). The New Deal scheme starts with a so-called gateway period (up to four months for the young unemployed), in which intensive help and support for job search are offered. This is followed by the intensive activity period, during which the various target groups are offered different activation options. In the most highly developed NDYU programmes, these are subsidised employment, working on an environmental task force or in the voluntary sector or up to twelve months' free training. In addition, the New Deal introduced individual action plans, which are signed when clients enter the gateway period. Non-compliance or a failure to follow up job offers is sanctioned by benefit withdrawal (Clasen/Clegg 2003).

One particular British strategy that has played an important role is the activation of so-called workless households (mainly for the low-wage sector and/or in the form of (female) part-time employment) through in-work benefits. 'Making work pay' is the slogan summarising what is in fact the keystone of New Labour's strategy for reducing welfare dependency. It involved a restructuring in 1999 of what was then known as the working family tax credit and its subsequent replacement in 2003 by the working tax credit (WTC), available to all adults; families with children could, in addition, claim the child tax credit (CTC). These reforms were intended to eliminate poverty traps for those on benefits and to increase disposable market income through transfer payments that vary depending on the number of children in the family (HM Treasury 1998). In 2003/4 more than 1.6 Million families were claiming WTC and more than 5.5 CTC, spending on which amounted to almost £ 15.4, respectively 8.6 million poundsⁱⁱ (HM Revenue & Customs Analysis Team 2006), which exaggerates the spending on active LMP measures.

(3) Since 1998 in the NDYU about 13.5 % and since 2001 in the ND +25 about 10.4 % of all unemployed people in the respective groups have been activated (Bivand 2005). Among the young unemployed about one half chose the training option, but there is no information on the quality of the particular programmes. In the case of the long-term unemployed aged over 25, it is known that only a minority (about 740 or 7 % out of all those being activated between 2001-2004) find places on one-year programmes, such as Education and Training Opportunities (ETO), that work towards a recognised vocational qualification. Nearly half of all activated persons attend programmes of much shorter duration that aim to improve basic skills (BET) or to update work-related skills (IAP) (Bivand 2005). For lone parents, the distribution of training programmes might be

expected, at best, to be similar. In view of a partly increasing but comparatively still very low level of expenditure on labour market training (0.09 % of GDP) in 2004/5 (OECD 2007b:276), it can be assumed that training and skill enhancement is still rather underdeveloped in the UK.

The labour market in *Germany* is characterised in 2006 by a growing but still modest activity rate (75.0 %), an also growing but still particularly low employment rate (67.2 %) and decreasing but still rather high unemployment (10.4 %). The picture is completed by a fairly high female part-time rate (39.2 %), a significantly low employment rate of mothers (54.9 %) and rising long-term employment (from 44.3 in 1994 to 57.20 % in 2006) (OECD 2007a, OECD 2007b). This situation may be described as an ongoing labour market crisis, which has been exacerbated by an indecisive labour market policy that has combined a decrease in decommodification and an increasingly punitive attitude to the long-term unemployed with a general reduction in the provision of training measures.

(1) The first wave of benefit cuts was implemented in 1993, before a proper activation policy was introduced. Since then, the replacement rates for unemployment benefit have remained unchanged at 60% for single claimants and at 67% for recipients with dependants during the first year of unemployment. Until 2005, means-tested unemployment assistance (UA) paid 53% for singles or 57 % for recipients with dependants of former wages to the long-term unemployed. Since then, UA and social assistance (SA) have been merged into Unemployment Benefit II (UB II), which is designed as a flat-rate payment fixed close to the level of the lower benefit, offering €345 per month (no difference between West and East Germany since 2006), plus supplements for children and/or adult dependants as well as for housing costs (Bundesministerium für Arbeit und Soziales 2006).

(2) Also in Germany every unemployed person signs a so-called integration agreement, which documents his or her commitment to job-seeking activities since 1998. Occupational protection has been removed in stages for all unemployed persons. The use of sanctions and/or periods of exclusion from unemployment benefit has increased considerably since the mid-1990s. Although resignation remains the main reason for the imposition of sanctions (applying in 56.9% of cases in 2004), a refusal to accept reasonable job is now the reason given in an increasing share of cases (34.7%) (Bundesagentur für Arbeit 2006).

Under German law, it has always been possible for recipients of SA to be required to work for their benefit. The new legislation has maintained the possibility of recruiting UB II recipients for work in the general public interest, which means that these work opportunities are usually offered by public or third-sector employers. It is up to employment service advisers to decide whether such compulsory job offers should be made, hence, in contrast to Denmark and the UK, mandatory activation has not been generalised. In 2005, 6.7% of the long-term unemployed were obliged to take up such jobs, although they do not give rise to proper employment relationships, but just provide

benefit recipients with an additional income of 1 or 2 Euros per hour (Koch/Walwei 2005).

(3) Further vocational training was used extensively in Germany during the reunification process, so that the cutbacks in recent years have to some extent to be seen against that background. Nevertheless, Hartz I+II undoubtedly marked a change of direction. The general guidelines suggest that the only schemes that should be subsidised are those that offer individuals a good chance of finding employment. The regulations governing the duration of benefit entitlement, the level of payment and eligibility for participation in training schemes were made more restrictive (Kühnlein/Klein 2003). These changes have been accompanied by an increase in short-term schemes such as labour market training (assessment, general facilities for job applications) and programmes targeted primarily at the young unemployed (preparation for vocational training and vocational training). The number of participants in high-quality programmes such as further vocational training has decreased rapidly from more than 720,000 in 1993 to 114,350 in 2005 (Bundesagentur für Arbeit 2006). Thus spending on labour market training has decreased strongly but in a comparative perspective still remains at a middle level of 0.25 % of GDP in 2005 (OECD 2007b:272).

Most common changes of governance in this dimension are accompanied by still very different settings concerning the regulation of decommodification and activation: The level and duration of unemployment benefit remained high in Denmark, while it decreased for all unemployed to a very low level in the UK and was reformed as a two-tire system in Germany, that provides rather low benefits for the long term unemployed. The requirement to work and the activation is most compassing in Denmark, restricted to steadily increased target groups in the UK and limited to the long term unemployed, but implemented only selectively in Germany. This goes along with increased or at least maintained “rights” to training opportunities in Denmark while they were decreased in Germany and despite small improvements never really developed in the UK. The UK, however, is the only country to make extensive use of in-work benefits, that is supplementary benefits conditional on a minimum level of labour market participation. These developments go along with still rather divergent labour market performances in the different countries although this may not easily be related to the single influence of activating LMP, as it is understood that earlier developments and macroeconomic performance may have been of much greater influence to, for example, the level of labour market activity or unemployment rates.

2.4 The changing relation of the state to itself or reflexive forms of governance

In all three countries some kind of mergers of administrative structures and/or benefit systems for the different groups of unemployed took place. Furthermore, the maintenance and/or extension of the role of the state as guarantor and enabler as part of the

change in governance has been accompanied by an increased importance of cross policy field coordination.

The reorganisation of state organisations in *Denmark* reveals a high degree of reflexivity, since the merging of service areas has been accompanied by a complementary organisational change at various levels. Responsibility for vocational training was transferred in 2001 from the Ministry of Labour to the Ministry of Education in order to improve the coherence of initial education and vocational training. Additionally, the competences of the Ministry of Labour and of the Ministry of Social Affairs were merged to a large extent when the Ministry for Employment was founded, so that since then activating labour market policy measures for all people who are unemployed and fit for work have been delivered by the same ministry. And since 2007, the job offices for recipients of unemployment benefits and social assistance recipients have been combined in one string system of Job Centres at local level. So far, however, the two administration in the job centres remains separate except in 14 municipalities experimenting with a joint administration (Andersen/Pedersen 2007).

In contrast to these more recent reforms, the coordination of labour market and family policy has been geared to the so-called individual adult worker model since as long ago as the 1960s. This means that, with the exception of a tax-free allowance for economically inactive spouses, virtually all 'subsidies' for the single breadwinner model have been abolished (Dingeldey 2001). As part of the activation policy, the already extensive provision of child care has been increased still further as by 2005, the coverage rates for childcare facilities had risen to 61.9% (0-2 years), 95.2% (3-5 years), 80.2% (6-9 years) and 10.1% (10-13) (Statistics Denmark various). Not least for this reason, however, the coordination of labour market and family policy can be regarded as a successful form of reflexive governance, since the various individual measures connect perfectly with each other. Even before the end of the parental leave period, offers of child care are made that are virtually always full-time places (Dingeldey 2006). Overall, therefore, Denmark can be said to have achieved a guarantee of universal employability through forms of reflexive governance.

In the *UK*, the establishment of the Jobcentre Plus agency between 2002 and 2006 entailed the amalgamation of responsibilities for unemployment and incapacity benefits and other welfare benefits with those of the Employment Service (Finn 2005a). The new 'one-stop-shops' are now responsible for job placement, the implementation of labour market policy measures and the granting of transfer payments for all benefit claimants of working age. This has resulted in a considerable simplification of the benefits structures.

Increased state intervention in the shape of reflexive forms of governance can also be seen in the coordination of labour market policy with the introduction of in-work benefits and a national minimum wage, which represented a new departure in the UK. Mention should also be made in this regard of the expansion of childcare. Given that these policies started virtually from zero, considerable efforts have been made. The 3 and 4-

year olds now all benefit from some form of early education (nursery schools or reception classes) (DfSSF/DfIUS 2007). In many cases, however, care is provided only for a few hours in the morning and/or only for several weeks a year (DfES 2006). Nevertheless, the scope and quality of the services provided must be regarded as modest. Moreover, there is a lack of coordination in the detail, for example between the ‘guaranteed’ amount of child care (12.5 hours per week) and the minimum working time required to be eligible for working tax credits (16 hours per week). Ultimately, this means that (single) parents are enabled only to take part-time jobs offering a limited number of hours’ work per week.

In *Germany*, however, even greater problems have emerged in the implementation of reflexive forms of governance. The objective of making the Bundesagentur für Arbeit (Federal Labour Agency) responsible for administering the two transfer payments for the unemployed (unemployment benefits I and II) and establishing Job Centres as one-stop-shops for all the unemployed has proved impossible to put into practice (Konle-Seidl, et al. 2007). Since the necessary reform would have meant removing responsibility for supporting and placing unemployed welfare recipients from the municipalities, the proposal met with considerable resistance from the *Länder*. The result was a muddled compromise (Knuth 2006b:19). Whereas the contributions-based unemployment benefit I is administered by 178 local employment agencies, 356 *Arbeitsgemeinschaften* (ARGE), joint agencies combining former local PES (government supported temp-work agencies) and municipal social assistance offices, were set up to administer unemployment benefit II (Konle-Seidl, et al. 2007:38). Moreover, there are 69 so-called *Optionskommunen* that have chosen to keep the administration of unemployment benefit II wholly in municipal hands, eschewing any PES involvement (Knuth 2006b:18). The problematic aspect of the new division of labour that has emerged in this way is that the ‘marshalling yard’ from which unemployed people were dispatched into other benefit systems has not, in the final analysis, been abolished but simply modified. Thus 90% of those previously in receipt of social assistance were classified as fit for work (Konle-Seidl, et al. 2007:43), since it was in the municipalities’ interest to transfer as many (potential) recipients of social assistance on to unemployment benefit II as possible. Conversely, it was not in the Federal Employment Agency’s interest to finance employment promotion measures for potential long-term unemployed, because if they fail to get a job before their entitlement to unemployment benefit I expired, the Agency had both to fund the employment promotion measures and pay a further penalty (*Aussteuerungsbeitrag*) before the clients were transferred to unemployment benefit II (Konle-Seidl, et al. 2007:42). In order to avoid this negative incentive, the 6th law of change concerning the SGB III changed the respective regulation and now the Federal Employment Agency has to finance 50 % of all cost of labour market integration for all recipients of unemployment benefit I (Eingliederungsbeitrag) (Steffens 2009).

Furthermore, as far as promoting the employability of women with dependent children is concerned, it is now clear that the efforts that have been made to put in place a system of coordination cutting across different policy areas have resulted in an inconsistent and

contradictory incentive structure for such women seeking to enter the labour market (Dingeldey 2006). Both the part-time option available under the parental leave scheme and the new regulations governing parenting benefit and, above all, the obligation to work that applies to both partners in 'communities of need' in receipt of unemployment benefit II are increasingly aimed at getting both parents and/or spouses or partners into employment. For mothers on benefit the general exemption from labour market activation has been maintained, as long as the children are younger than three years or do not have access to childcare places. Thus, the regulation of UB II entails possibilities to enforce labour market participation of all other women and mothers with older children although if they had been a homemaker during all their lifecourse (Knuth 2006a).

In contrast, the 'splitting' system used to assess married couples' tax liabilities and the obligation to provide support in marriage and other partnerships (e.g. with regard to the so-called 'communities of need' in receipt of unemployment benefit II) are still geared to the single (male) breadwinner model or offer incentives for women with dependent children to seek only marginal part-time jobs. Furthermore the employment opportunities of women with dependent children are particularly restricted by the inadequate provision of childcare facilities, although they have been extended by recent policy reforms. In West Germany in 2005 for the under-3s 9.6 places per 100 children were provided (compared with 39.8% in East Germany). For the 3-6 age group, the supply is much better (85.2% in the West, 95.7% in the East), but only 27% were full-time in West Germany compared to 98 % of the places in East Germany in 2005 (Fuchs/Peucker 2006: 66/34). There were also very few places in after-school clubs, particularly in the West (5.0 %, compared with 41.0 % in East Germany) (Spieß, et al. 2002).

Thus in Germany, the development of reflexive forms of governance seems to be only moderately successful or incomplete over all if the labour market participation of mothers/wives is concerned as social policy is dominated by conflicting policy models (Dingeldey 2006). At best, the infrastructure and the regulation of financial incentives combine to ensure that (married) couples and parents participate in the labour market, but on unequal terms.

Thus, comparative analysis confirms a shift in state action towards reflexive forms of governance in order to promote employability for all citizens, implemented albeit to varying degrees and with varying degrees of success in the various countries.

3 The restructuring of the welfare state as a change in the nature of 'welfare' and 'state'

In all three countries analysed, the most recent labour market reforms are all underpinned by the notion of labour market activation, in which the promotion of employability is a major goal. The implementation of that goal goes along with major changes of

governance in the three dimensions analysed, namely the relation between the state and collective actors as service provider, the state and individual clients and, finally, the relation of the state to itself.

The described development, however, does not follow a single logic of retrenchment or retreat of the state. Focusing on the changing forms of governance – as the dependent variable for the analysis of welfare state change – we can confirm the thesis of welfare state restructuring as the reduction of state responsibility for the delivery of labour market services and the reduction of rights to transfers is combined with an increase of enforcement of labour market participation, the extension of public guarantees concerning labour market and social services and a move towards reflexive forms of governance in order to enable labour market participation of all citizens. All together this confirms a change in the function of the state, its changed role as coordinator and within the proper forms of hierarchical intervention, affecting strongly the connotation and provision of social rights. In this sense, the restructuring of the welfare state towards an activation welfare state corroborates the emergence of an ensuring state (Schuppert 2005), indicating a change in the nature not only of welfare but also of the state itself.

As the outlined labour market reforms include a change of settings, instruments and goals, respectively general ideas, both with respect to the performance of ‘welfare’ and ‘state’, they even meet the criteria given by Peter Hall in order to characterise a paradigm shift (Hall 1993). As this paradigm shift takes place in most different welfare state regimes, on a first glance this implies a convergence of welfare state development.

Beyond the outlined general and convergent changes due to the paradigm shift, however, differences in initial conditions and in the emphasis given to individual reform measures in the different welfare state regimes, supported the maintenance of old or the creation of new differences between the various countries in the extent of private service provision, the level of individual welfare benefits and the specific focus on social capability or financial incentives. Using the outlined categories, on a second glance, we can identify the following variations of activating labour market policy. In contrast to typologies that highlight enablement and workfare as the main distinguishing elements of different activation types (Barbier 2005), the foregoing empirical analysis confirms a close link between the strength of enablement and enforcement at the one side, and the generosity of benefits and the creation of financial incentives at the other side.

In the universal welfare state of *Denmark*, for example, high levels of transfer payments have been retained, without increasing financial work incentives significantly. Nevertheless almost universal employability was achieved primarily by expanding the provision of social services and the extension of enforced activation. This is closely linked to extended forms of reflexive governance, respectively long established cross policy field coordination in order to support a family model oriented towards the individual adult worker model. Furthermore, the privatisation of service delivery is accompanied not only by an increase of market-based, but also of third sector provider.

Against the background of relatively low benefit levels characterising the liberal welfare state, in *the UK* reflexive forms of governance were applied most successfully with respect to the reform of the labour administration, the integration of benefits and its coordination with financial incentives in the tax system. Big progress was made with respect to an increase of child care facilities, although its reflexive coordination with work requirements still includes major deficits, whereas the improvement of vocational training may be regarded as having failed completely. Thus, policies of enablement but also enforced activation remain selective and/or restricted to particular target groups. The privatisation of service delivery has increased the role of market based actors, and the social partners do play a significant role in activation labour market policy, the regulation of the minimum wage being the only exception.

In the conservative welfare state of *Germany* changes so far mainly entail a reduction in welfare benefits and a promotion of flexible forms of employment. On the background of still high unemployment rates until 2005, neither enablement and labour market enforcement nor the creation of financial incentives seems to be a dominant strategy. This is closely related to a low capability of reflexive governance, which is due both to institutional restrictions of the federal system and to contradictory family models followed through in different policy fields.

Thus, in a comparative view, most similar trends of development are combined with ongoing path dependent trajectories of labour market development that may be characterised as convergent divergence, both in terms of 'welfare' and 'state' development.

4 References

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ⁱ Being unemployed for more than 12 months.

ⁱⁱ The figures for CTC and WTC are not to be summed as many families claim both credits.