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**Activating Policies as Welfare State Restructuring  
A comparative View on Changing Forms of Governance**

by

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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 provision, a reduction in transfer payments and a tightening of the conditions of eligibility. At the same time, however, the state’s responsibility as guarantor in respect of 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’.

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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 development or a restructuring of the welfare state continues to evoke considerable controversy. In the present article, it is argued, on the basis of the evolution of activating labour market policy in Denmark, the UK and Germany since the early or late 1990s, that the welfare state has been through a period of restructuring. In advancing this argument, we will focus on changes in governance in order to show that new objectives such as the furtherance of employability or a change in the division of labour between state and private actors have entailed both an extension of and a reduction in state activity and a change in the forms of state intervention.

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

Some contributors to the debate on change in the welfare state have suggested that recent developments show that the welfare state has undergone extensive consolidation or even further expansion. Others suggest, on the contrary, that it is being dismantled. A third group takes the view that the welfare state has been restructured to the point where it is possible to speak of a change of paradigm. 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 while at the same time using quantitative 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 2007, Siegel 2002). 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).

Thus the debate would seem to be very 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. (Esping-Andersen 1990:14, Green-Pedersen 2004, Starke 2006). Furthermore, change is conceptualised in different ways, either quantitatively as an increase or reduction in welfare state expenditure and/or benefits or more qualitatively as a reduction in the social rights associated with the post-war welfare state. Thus also the question of welfare state convergence or divergence is a question of debate.

The present article seeks to turn the spotlight on to an aspect of the welfare state that has hitherto been largely ignored, namely the change in governance, that is, however, closely related with the change of social rights. The reason for this is that the change of direction towards the social investment state (Giddens 1998) or the activating welfare state (Bandemer/Hilbert 2001, Blanke/Bandemer 1999) that has been advocated in politically normative writings has been interpreted as a change as well as in the objectives of the welfare state and in benefits as in governance. Investigation of the welfare state reforms already implemented partially confirms this, with the changes observed being interpreted either as a shift towards the enabling state (Gilbert 2002, Gilbert/Gilbert 1989) or – more negatively – to the workfare state (Jessop 1995, Trube 2003). Activating labour market policy (activating LMP) plays a prominent role in all of these concepts and as a result empirical studies highlight the fundamental changes as well as the maintenance of regime varieties (Barbier/Ludwig-Mayerhofer 2004, Hvinden 2003, Dingeldey 2007).

### ***Governance and social policy: An interpretative Approach***

The notion of governance, which was developed originally by institutional economists (Williamson 1979), has been used and further developed in many different contexts (for a general overview see (Benz 2004:21f, Kooiman 1999:68, Pierre 2000, Schuppert 2003:395ff). Following Renate Mayntz, two basic uses of the term can be identified. The first is the use of governance as a generic term for various modes of coordinating social action (through hierarchies, markets, communities, organisations etc.); in this usage, the term primarily denotes the structures rather than the process of governance or steering. The second, which developed primarily in the context of international relations, is the use of governance as an explicit counter concept to hierarchical forms of government in which state authorities exert

control over the people in a given society<sup>1</sup>; in this usage, the term refers primarily to the processes of governance or control.

Renate Mayntz now proposes that these two uses of the term should be combined and that 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 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. Other authors, in contrast, point to a change in the function of the state, a change to which they attach largely positive connotations. In the German debate, this change has been characterised more precisely as the shift to the cooperative (Ritter 1979, Benz, 1997 #922) or ensuring state (Hoffmann-Riem 2000, Schuppert 1997, Schuppert 1999, Schuppert 2005).

In the analyses of various areas of social policy that fall within the scope of this strand, some of which are comparative, the main focus is also on the change in the division of responsibilities between the state and social actors. They include studies of the governance of education systems (Windzio, et al. 2005), the regulation of privatised old-age insurance schemes (Leisering 2006), the re-regulation of healthcare systems (Rothgang 2006, Wendt, et al. 2005). The studies conducted within the area of labour market policy highlight the general change of regulatory structures (Schmid 2004) (Borghini/van Berkel 2007), and in particular the reorganisation of public administration arising out of new public management strategies such as the partial privatisation or contracting out of employment services (Arnkil/Spangar 2004, Finn, et al. 2005, Knuth, et al. 2004, Konle-Seidl 2003)(Bruttel/Sol 2006, Finn 2005). Others emphasise the 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, Dingeldey 2007, Handler 2003, Sol/Westerveld 2005). In addition, there are countless studies that examine changes in individual instruments, such as the introduction of contracts (Finn 2005, Sol/Westerfeld 2005) or of voucher systems (Kühnlein/Klein 2003, Steuerle, et al. 2000). So far, however, no full and systematic overview to the changing forms of governance has been offered, nor has the analysis of changes of

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<sup>1</sup> Further specific uses of the term can be found in the literature on international relations (‘global governance’) and political economy (‘corporate governance’ and the normative term ‘good governance’). They will not, however, be given any further consideration here.

governance in labour market policy be related to the question of increasing or declining state responsibilities, respectively to the restructuring of state interventions, although such a view may contribute to the present debate on welfare state development from a different angle.

In order to be able to put the notion of governance to profitable use in a comparative analysis of welfare states and social policy, 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, Lütz 2004, 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 by Esping-Andersen who used governance as a distinguishing element of welfare state types (Esping-Andersen 1990).

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. In order to be able to investigate the change of governance in social and labour market policy, therefore, specific categories have to be developed.

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 (1993), 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 the co-production of services by different actors and/or the coordination between different actors possibly through

the establishment of networks. Thus the actor-based interactive approach provides a basis for detailed analysis of the changes in country-specific governance mixes in labour market policy, making it possible to distinguish national variants within the general trend of privatisation.

However, since the relation between the welfare state and the individual and, more specifically, the regulation of individuals' labour market participation, plays a key role in labour market policy, we also need to be more precise about the various forms of state intervention. 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 a re-interpretation of social rights following changes in the modes of governance may cast a spotlight on the regulation of individuals' labour market participation, which in particular is based on an understanding of the welfare state that regulates the particular tension between commodification and de-commodification (Knijn/Ostner 2002, Lenhardt/Offe 1977).

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, the provision of social services may be regarded as social enablement, in which enablement to take part in the labour market, i.e. commodification, is a central element. In order to be effective, this mode of governance requires individuals to cooperate in the co-production of the service; consequently, 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 state 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).

Closely linked to this 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. 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). This in turn points to a changed role for the state, one geared to handling complex coordination functions.

In an ideal-typical model, the goal of employability requires a corresponding enabling structure. Any attempt to ensure the employability of women with young children, for example, requires the coordination of labour market and family policy measures across different policy areas, which in turn requires a change in the organisation of the state itself. This can be seen as a change of governance in the direction of increasingly reflexive governance.

The following empirical study therefore analyses three dimensions of the governance of activating LMP in Denmark, the UK and Germany, each country representing a different type of welfare state and gender regime (Esping-Andersen 1990, Sainsbury 1999). 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 both central recruitment processes within the public sector, which are identified as *reflexive forms of governance*, and the process of coordination across policy areas, which is exemplified by the promotion of the employability of women with dependent children.

The analysis is supposed to support our argument that the changing forms of governance in activating LMP involve a combination of welfare state retrenchment, expansion and an expansion of reflexive forms of governance and can therefore be classified as restructuring. Within that development we expect both converging and diverging trends of welfare state development, as the indicated paradigm shift<sup>2</sup> of labour market policy is implemented across the various regime types but channelled by different initial conditions and reform priorities.

### ***Context and Timing of Labour Market Reforms***

Activating LMP was introduced at different times in Denmark, the UK and Germany. 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

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<sup>2</sup> Peter Hall defines a paradigm shift as a third order change that includes a change of “*the instrument settings, the instruments themselves, and the hierarchy of goals behind policy*” (1993:279).

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 (Andersen 2001, OECD 2003).

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 2002b: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 Aqtv 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 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.

### ***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.



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 (Arnkil/Spangar 2004:8/113f).

(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 (Knuth/Schweer/Siemes 2004). 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 provision of labour market services still falls largely within the public domain, but elements of marketisation have strongly increased. 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”. Since the introduction of a so-called taximeter system, payments to labour market training providers (AMU) has been linked 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).

(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 (Knuth/Schweer/Siemes 2004).

(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) and training measures are still delivered by private organisations under contract to the LSCs. But New Labour has increased privatisation as about 10% of the New Deal budget is channelled into programmes for particular target groups, which are delivered totally 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 8 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.

In all three countries, the responsibility for regulation remains within the public sector. The most widespread trend in changing forms of governance is a shift in the balance of responsibilities in the provision of labour market services towards private, profit-making organisations. However, the extent of private-sector involvement varies considerably from country to country. As far as the regulation and financing of labour market policy is concerned, contradictory trends can be observed. In Denmark, the role of the social partners has been strengthened, with regard to both financing and regulation - the latter being a side effect of the decentralisation of regulatory responsibilities. 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 the public sector is viable. The same seems true for Germany, where codetermination within the BA has been curtailed. In both countries, the funding structure of labour market policies has remained fairly stable

### *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 that have taken place in the right to decommodification, 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 will be discussed by examining the development of training measures (3).

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%, employment rate of 75.5 % and unemployment rate of only 4.9 % in 2005). In certain target groups, particularly women with children and older workers, labour market participation has risen significantly, while part-time rates for women are declining (24.9 %) (OECD 2006). This good labour market performance has been accompanied by an activating LMP that emphasises social enablement, although the level of decommodification has been cut and enforcement increased.

(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 (Torfing 1999).

(2) 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. The most recent reform introduced that any 'reasonable' job offer must be accepted from the first day of unemployment. If, after one year of 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 (Andersen 2002:70f, 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. Evaluation studies suggest that the Danish approach to activating LMP is dominated not by the compulsory aspects but rather by the core values of Nordic social and labour market policy, namely the treatment of "the citizen/user/clients as individual human being in his/her own right" (Olesen 2001:104f/134).

(3) One particularity of the Danish labour market reform was that between 1994 and 2001 the so-called job-rotation programmes offered those in employment the opportunity to take training leave for up to one year in order to create employment opportunities for unemployed workers, who would replace them temporarily (other options were sabbatical or parental leave). However, unemployed individuals could also choose the training option in order to interrupt their period of unemployment (Compston/Madsen 2001). When the programme was at its peak in 1995, more than 9,731 employed and 29,706 unemployed people were on training leave. Since then, the entire programme has been phased out because of increasing demand for labour.

Nevertheless, education and training, particularly for the unemployed, continues to be promoted. 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 0.54% of GDP in 2004 (OECD 2004) after decreasing over the last years due to changes in the programme structure and a decline in the number of unemployed participants.

Until 2005 in the **UK**, improved labour market performance (employment rate of 72.6%, unemployment rate of 4.6 %) and growing labour market participation (activity rate of 76.1%) had gone hand in hand with a significant decrease in long-term unemployment (from 45.4% of total unemployment in 1994 to 22.4%) (OECD 2006)). 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). 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, who account for 77.3 % of all part-time employment (OECD 2006). The labour market policy that helped to produce this improved labour market performance made considerable use of work incentives and enforcement but also created and made increased use of 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 2004a:24), which 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 jobseekers' directive, which requiring individuals to look for jobs in a particular way and to take certain steps to 'improve their employability' (Trickey/Walker 2000:188). 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. 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 2002b:60).

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. Although many programme advisers are not overly rigorous in policing the rules, many of them believe that the fear of being sanctioned motivates clients to attend client interviews and support service and training sessions (Joyce/Pettigrew 2002). By September 2002, the target of 40% of participants finding unsubsidised employment during the gateway period had almost been reached, and it is assumed that these practices played an important role in this success (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 so called 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 pounds<sup>3</sup> (HM Revenue & Customs Analysis Team 2006), which exaggerates the spending on active LMP measures.

(3) The various New Deal programmes offer training as an option after the gateway period. Half of the young unemployed choose 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 few find places on one-year programmes, such as Education and Training Opportunities (ETO), that work towards a recognised vocational qualification. The majority attend programmes of much shorter duration that aim to improve basic skills (BET) or to update work-related skills (LOT) and job search skills (SJFT) (Dingeldey 2007,

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<sup>3</sup> The figures for CTC and WTC are not to be summed as many families claim both credits.

Sommerville/Brace 2004). For lone parents, the distribution of training programmes might be expected, at best, to be similar. In view of the comparatively low level of expenditure on labour market training (0.02% of GDP) and apprenticeships (0.10) in 2002/3 (OECD 2004b), it can be assumed that training and skill enhancement is still rather underdeveloped in the UK. The labour market in **Germany** is characterised in 2005 by an activity rate that remains modest (73.8 %), a particularly low employment rate (65.5 %) and very high unemployment (11.3 %) (OECD 2006). The picture is completed by a fairly high female part-time rate (39.4 %) and rising long-term employment (from 44.3 in 1994 to 54.0 % in 2005) (OECD 2006). 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 (unemployment exceeding 1 year). 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) Every unemployed person signs a so-called integration agreement, which documents his or her commitment to job-seeking activities since 1998. Labour market experts tend to take the view that the signing of this agreement is a formality that does not significantly influence relations between individuals and the employment service. 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).

Occupational protection has been removed in stages for all unemployed persons in Germany. 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).

The data presented above 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 increasing enforcement of labour market participation, through the introduction of contracts between the employment service and individual clients, some form of mandatory activation and increasing control and sanctions. Furthermore, public intervention in the form of social enablement has been increased, as reflected in the expansion of placement services and further (vocational) training. The only exception is the decline in further vocational training in Germany. However, over and above this general convergence, major differences between the countries persist as a result of country-specific trajectories. For example, the degree of decommodification, i.e. the level and duration of unemployment benefit, has remained high in Denmark, in combination with an increase in social enablement with regard to training opportunities. One of the striking features of the German reforms is that social enablement in the form of training has been decreased, while the major increase in enforcement (cuts in benefits and mandatory activation) has been limited to the long-term unemployed. The UK,

finally, 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.

### *Reflexive forms of governance*

In all three countries, albeit to varying degrees and with varying degrees of success, the maintenance and/or extension of the role of guarantor as part of the change in governance has been accompanied by an expansion of reflexive forms of governance.

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, support and placement services for all unemployed people have been combined at local level as well in 90 newly established state-run job centres (Linke Sonderegger 2007:81).

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. As part of the activation policy, the already extensive provision of child care has been increased still further. 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) (Denmark Statistics: various). Half-time day-care places have been converted into full-time places, while good-quality care has been maintained (OECD 2002a:102/162). 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. The obverse of this policy, however, is that, at least for those on low to average incomes, it is scarcely

possible any longer to devote time to raising a family outside of the legally regulated periods of parental leave. Thus the mode of welfare state regulation has contributed to the standardisation not only of men's and women's career trajectories but also of the family phases.

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 (Knuth/Finn 2004:7). 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 UK in the establishment of holistic objectives such as the fight against child poverty, which was to be achieved by encouraging parents, particularly single parents, to seek employment. To this end, labour market policy measures were coordinated, as already described and in a way that represented a new departure in the UK, with the introduction of in-work benefits and a national minimum wage. Mention should also be made in this regard of the expansion of childcare. Due to the National Childcare Strategy, approximately 90 % of 3 and 4-year olds now have a place in nursery schools or reception classes. The number of places in day nurseries (9.5 places/100 children in 2001) as well as in after-school clubs (8.2 places/100 children in 2001) have also increased considerably. Given that these policies started virtually from zero, considerable efforts have been made. 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 able only to take part-time jobs offering only 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

2006:19). Whereas the contributions-based unemployment benefit I is administered by 178 local employment agencies, 356 *Arbeitsgemeinschaften* (ARGEn), 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/Eichhorst/Grienberger-Zinerle 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 2006:18). 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/Eichhorst/Grienberger-Zinerle 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 (Eichhorst, et al. 2006:385). Conversely, it is 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 expires, the Agency has both to fund the employment promotion measures and pay a further penalty (*Aussteuerungsbetrag*) before the clients can be transferred to unemployment benefit II (Konle-Seidl/Eichhorst/Grienberger-Zinerle 2007:42).

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). Thus 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. The employment opportunities of women with dependent children are particularly restricted by the inadequate provision of childcare facilities. In West Germany in particular, there were virtually no places for the under-3s and the provision rises only slowly (9.6% compared with 39.8% in East Germany in 2005). 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 (DJI 2005:28; Fuchs 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). This may be caused by the persistence of the idea that an increase in women's labour market participation increases unemployment. Thus 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. Furthermore, the federal government's scheme to co-finance more full-time schools as a response to Germany's low ranking in the PISA Study (Gottschall/Hagemann 2002) may have the side effect of positively influencing the employability of women with dependent children.

Nevertheless, 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. Thus in Germany, the development of reflexive forms of governance seems to be only moderately successful or complete when it comes to 'enforce' employability. 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, over all the analysis of the promotion of employability for particular target groups confirms that ultimately the new social policy objectives are associated with an extension of the state's responsibility as guarantor, being implemented by a shift in state action towards reflexive forms of governance. Since such forms of governance are heavily dependent on certain conditions being met, considerable differences can be observed between the various countries.

### ***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. Efforts to achieve that goal are reflected in various changes of governance of the relationship between the welfare state and the collective/corporatist and individual actors involved as well as with the state itself. The analysis of these three aspects of governance in different welfare state types indicates quite similar trends, albeit to a different extent: Major features are a shift in the balance of responsibilities between public and private actors in the production of welfare. Elements of welfare state retrenchment like benefit cuts and, to some extent, the privatisation of service delivery have been accompanied by increasing state intervention. This expansion has taken the form of increased state regulation and enforcement of individuals' labour market participation (workfare), but includes also increased funding of

placement and counselling services as well as training (enablement). In order to increase employability also institutional mergers and cross policy field coordination have taken place, like the creation of Job Centres plus (integrated services and benefit administration for all unemployed), the inclusion of work incentives in tax systems or an increase of child care services to improve mothers employability.

So in general we can see that the activating LMP is closely linked to a substitution of public transfers by increased regulation and funding of service provision, and the use of more reflexive forms of governance as well as the enforcement of clients' labour market participation. The trends of both decreasing and increasing state responsibilities as well as the changing forms of public intervention that are common to all the countries confirm the thesis of a general restructuring of 'welfare' and 'state'.

Ongoing differences can be observed in 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. Thus Denmark, for example, has achieved almost universal employability primarily by expanding the provision of social services while retaining a high level of transfer payments. Against the background of relatively low benefit levels, the UK, on the other hand, has emphasised the expansion of financial work incentives in the form of a negative income tax. Only in Germany are the changes still undefined or entail mainly a reduction in welfare benefits.

Furthermore, the governance view on activating LMP reveals a particular dialectic relationship: It's success, namely the enablement of universal labour market participation as to be observed in Denmark, seems to depend heavily on the development of reflexive forms of state intervention. Particularly reflexive governance, however, increases state influence and control on the way individuals live their lives (augments the standardisation of the lifecourse), and may therefore result in a decrease of individual rights and freedom. If reflexive forms of governance, however, are less successful and the enablement of universal labour market participation is not guaranteed, like in Germany or the UK, this results in a polarisation of labour market participation, that is more and more equivalent to patterns of social inequality and exclusion.

So finally we may conclude that the paradigm shift towards an activating labour market policy takes place in different welfare state regimes, but the transformation is heavily influenced by differences in initial conditions and by the emphasis given to individual reform measures and by reform capacities in the different welfare state regimes (due in part to path

dependency). The cross-national development therefore reveals a trend of convergent divergence.

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