

# BEYOND ACTIVATION: REFORMING EUROPEAN UNEMPLOYMENT PROTECTION SYSTEMS IN POST-INDUSTRIAL LABOUR MARKETS

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**ABSTRACT:** Though activation has been a key theme in recent comparative scholarship on social policy, existing research has arguably failed to capture some important cross-national differences in the extent of welfare state adaptation it entails. Conceptualising activation as but one unemployment policy reform indicator alongside ‘unemployment support homogenisation’ and ‘unemployment policy co-ordination’, and empirically sketching reform trends in four European states, this article argues it is possible to identify a cleavage between countries where activation policies are part of an unambiguous adaptation of labour market policies to the emergent post-industrial economy, and countries in which similar trends of policy adaptation have been more constrained, hesitant and uneven. To account for this fracture it is necessary to understand the differing ways that conventional unemployment policies were institutionally articulated within national political economies, as this bears on the feasibility of a new paradigm of labour market regulation emerging.

**Key words:** labour market policy; activation; comparative analysis; welfare reform; European social policy; post industrialism

## 1. Introduction

The concept of activation has gradually been gaining prominence across Europe in recent years, and is today an important keyword of EU labour market policy discourse. Most narrowly, it involves developing tighter links between unemployment protection policies and active labour market policies. More broadly, activation is about increasing labour market entry

and participation, and phasing out temporary labour market exit options for working age claimants (early retirement, disability and long-term sickness benefits). In its narrow and sometimes also its broad meaning, activation implies making established welfare rights more conditional on job seeking efforts.

Partly for this reason, activation has also been a key theme in recent comparative scholarship on welfare states. Empirically, these studies first concentrated on the cross-national development of policies for classic activation targets, such as the unemployed (Gilbert and Van Voorhis 2001; Hvinden *et al.* 2001) or working-age social assistance claimants (Lødemel and Trickey 2001). More recently, some analysts have pointed out that the increasing 'employment orientation' in social policy has implications for whole national social protection systems, and have drawn pension policies or national tax systems into more holistic comparative assessments of activation dynamics (e.g., Barbier and Ludwig-Mayerhofer 2004).

In this literature, there are also considerable differences of interpretation and explanatory emphasis. Narrower policy-centric studies have underscored the consonance and convergence of cross-national developments (e.g., Gilbert 2002; Handler 2004), a perspective that in the European context has provided evidence for the policy impact of new political ideas, such as 'third way' social democracy (cf. Green-Pedersen *et al.* 2001), as well as more recently for the influence of supranational coordination efforts (cf. Trubeck and Mosher 2003). Broader system approaches to activation have challenged this impression of a cross-national convergence, however, and argued that when placed in their societal context distinctive types of activation can in fact be identified. Thus, alongside 'liberal' activation, which emphasises the extensive use of tax-credits to subsidise low-paid work, limits the role of social policies or active labour market programmes and implies only modest efforts in training and skill enhancement, Barbier (2004, 2005) also identifies a 'universalistic' activation, which continues to provide high standards of social protection, and emphasises training, skill development and the quality of employment. The conclusion is thus no longer one of convergence, but rather of distinctive national paths to activation that reproduce and update pre-existing differences in societal approaches to social provision.

Though each of these perspectives has helped to advance understanding of activation and its determinants, the argument we advance in this article is that both fail to capture some important patterns of cross-national similarity and difference in contemporary social policy development, and following from this some salient dynamics of contemporary welfare state restructuring dynamics. By adopting a de-contextualised focus on particular policy instruments, narrower approaches to activation do indeed exaggerate the extent of change and convergence in this area of

welfare state development. But by placing activation in a macro-societal context, broader approaches arguably overestimate the extent and universality of overarching stability. Adopting a mid-range approach that analyses activation in its more immediate unemployment policy context, we argue here that it is in fact possible to identify a conspicuous fracture between those countries where the development of activation policies *has* been part of a coherent and explicit transformation of the welfare state, and those where its development has been framed and accompanied more by resistance to such change.

Our analysis departs from a discussion of the implications of the emergence of post-industrial labour markets for the nature of employment-related social risks and the effectiveness of the public policies that were developed in the past to offset these (section 1). We then identify three orientations that, in ideal typical terms, would be expected to feature in an adaptation of these policies to the new economic context. Activation is one of these policy orientations, alongside what we call ‘unemployment support homogenisation’ and ‘policy co-ordination’ (section 2). When empirical trends on all these reform dimensions are traced for four European states (Denmark, France, Germany and the UK), we see how activation policies in Europe are nested in quite differing trajectories of unemployment policy adaptation (section 3). To explain these patterns it is necessary to understand the differing institutional mechanisms through which conventional unemployment policies were articulated within national political economies, as these have impacted on the practicability of adapting labour market policies to a new social and economic environment (section 4).

## **2. Post-industrial labour markets and the limits of unemployment insurance**

One of the most significant changes in the developed world over the past 30 years has been a quickening transition from a primarily industrial to an increasingly service-based economy, creating pressures for a less routinised organisation of production within firms and at the level of the economy as a whole. Just as the industrial labour market only fully ‘emerged’ with the help of political intervention (cf. Polanyi 1944), so the transition to flexible, service-based economies has also been a highly political process. The causal arrow between economic transformations and policy change runs in both directions (Wood 2001), and there remain important differences across developed countries in the scope and nature of the labour market re-regulation projects. Nonetheless, a universal trend towards a purposeful re-casualisation of employment relationships can be identified.

This has a number of implications for the problem of joblessness. With increasing labour market volatility and selectivity, transitions into and out of employment have become rather more frequent and, at certain stages of the life cycle in particular, more protracted (cf. Schmid 2002). The decline of industrial production has also resulted in the permanent disappearance of the principal repository of unskilled manual jobs, with the result that labour market integration has become more heavily dependent on individual skills and experience (Berman *et al.* 1998; McIntosh 2004). Finally, given the more limited scope for productivity gains in services, capital accumulation depends on increasing levels of flexibility, often implying – especially in ‘low-end’, task-intensive sectors – a downward adjustment of wages and employment conditions for workers.

The unemployment insurance schemes that remain the core institutions of labour market policy in most European countries were born into – and helped to consolidate (cf. Salais *et al.* 1986; Walters 2000) – a quite different labour market setting. Their underlying assumption was that periods of unemployment would essentially result from cyclical, short-lived, downturns in economic activity. While providing an income to the unemployed ensured that consumption did not slump during bad times, providing it on a contributory basis encouraged workers to adopt regular ‘productive habits’ during the good. Thus, unemployment insurance always combined a social and an economic rationale, a fact that is perhaps too quickly forgotten in contemporary debates (Clasen 1999). The difficulty today is not that protection against joblessness is simply too heavy a ‘burden’ on the new economy, but rather that unemployment insurance, in its conventional form, appears increasingly ill suited to performing the same synthesis between social and economic objectives under radically changed labour market conditions.

In this context, firstly, unemployment insurance manifests social limits. With the expansion of atypical forms of work and the increased ‘churning’ at the bottom end of the labour market, it is often difficult for workers to establish (full) eligibility to contributory-based unemployment protection for future periods of joblessness. This applies particularly to women, who are over-represented in atypical employment and have more irregular employment trajectories than men (Grimshaw and Rubery 1997). Coverage is also a problem for job starters who, much more than before, often have a prolonged period of unemployment early on in working life. A contributory unemployment insurance system inherently provides no help to those who have never worked. Finally, having been designed to essentially cover the risk of short-term cyclical or frictional unemployment, unemployment insurance benefits seem ill-adapted to the problem of long-term unemployment, which is considerably more prevalent than at any time before the 1970s, particularly among those with low or no

professional qualifications. Even when unemployment benefits are not time-limited, it is not sure that they alone represent an adequate response to the needs of those who have been out of the labour market for some time.

The second set of apparent limits to conventional unemployment insurance is more economic. Though at a time of 'permanent austerity' (cf. Pierson 2001) it is a burden that is perhaps more acutely felt, this goes beyond unemployment benefit payments merely being seen as a drain on scarce public resources. Thus, the decline in employability that comes from long-term unemployment is according to hysteresis theory a source of inflationary pressures in the labour market (Layard 2000). Furthermore, due to downward flexibility of wages and/or employment conditions at the bottom end of the labour market, there is a far greater risk of unemployment benefit recipients today facing disincentives to work. More generally, where management of the economy once relied mainly on the use of macro-economic, demand side stimuli, leaving labour market policy to play an essentially supportive and stabilising role, today – with Keynesian regulation having fallen into discredit – it is contended that labour market policies must themselves become stimuli for economic adjustment and growth, notably by intervening more actively in the labour market reintegration and raising the 'employability' of those without work (Esping-Andersen 2002; Ferrera *et al.* 2000).

These different policy problems overlap in significant ways. If the coverage of unemployment insurance is inadequate, then it is likely that more of the unemployed will be reliant on the means-tested social assistance benefits that, due to high effective tax rates on return to work, are particularly associated with financial disincentive problems. To the extent that social advances can therefore improve certain economic bottlenecks, it is far from clear that the current evolution of labour markets sounds the death knell for unemployment protection *per se*. What is clear, however, is that there are good arguments for making significant adaptations to traditional structures of unemployment protection, as well as embedding it within a broader pro-active labour market strategy that sees an increasing emphasis on 'active' relative to 'passive' policies.

### **3. A three-fold adaptation strategy: Activation, policy co-ordination and support homogenisation**

Though the different dimensions of the reform agenda for unemployment policy in the post-industrial labour market are linked, they can for analytical purposes be separated into three main orientations. The first and most commonly discussed programmatic orientation is the *activation*

of benefits, whereby unemployment protection is reformed to make it an instrument apt to increase the 'proximity' of the unemployed to labour markets. Active labour market policies such as labour exchange services and training programmes of course have very long histories of their own. Contemporary proponents of activation policies highlight the positive role that such measures can play in a labour market context where it is seen to be desirable to use periods of unemployment to adjust the qualifications and aspirations of the unemployed, and argue that they should be far more closely articulated with conventional provision of income maintenance. This would imply, for example, directly financing training and employment measures out of unemployment insurance receipts, or tightening the links between benefit administration and individualised support with job search. It is also increasingly argued that participation in active measures become a formal condition for the continued receipt of benefit, thereby using the latter to counteract perceived disincentive problems posed by the flexible re-regulation of the labour market.

As suggested above, it is possible to identify a continuum between 'high road' and 'low road' variants of activation, corresponding to rather different political and ideological predispositions (e.g., Barbier 2004; Lødemel 2004; Torfing 1999). At the high road end, unemployment benefits might be used to finance periods of training that better equip the unemployed for competition for jobs matching their aspirations and expectations. At the low road end, conditions for the continued receipt of benefit might be tightened to force the unemployed with few or obsolete skills to adjust their aspirations and expectations to match opportunities and salaries available at the 'low end' of the labour market. In both cases, however, the provision of temporary support to the unemployed is explicitly used as lever to modify labour market transitions.

The second orientation for post-industrial unemployment policy calls for institutional reforms modifying the position and function of unemployment insurance institutions within the broader landscape of national social and labour market policy, and specifically for the increased *co-ordination* of unemployment protection with other policy streams and institutions (e.g., European Commission 1998; OECD 1997). The activation of benefit provision is argued to call for closer co-operation between administrations traditionally concentrated on the provision of income support, on the one hand, and the provision of placement services and training programmes on the other (Clasen *et al.* 2001). Programmatic re-orientation and institutional reform in labour market policy are thus perceived as complementary and mutually reinforcing.

A third and final programmatic re-orientation relates to eligibility and entitlement criteria for benefits and services during unemployment. In industrial-era unemployment insurance, the access to and generosity of

benefits was often differentiated according to seniority and/or prior contribution conditions, with among other motivations that of rewarding the stable employment relationships that were crucial to the functioning of industrial capitalism, and of ensuring that skill and status differentiations, as well as normal consumption patterns, were reproduced and maintained during temporary economic downturns. Now that employment relationships are far less stable, and workers are exhorted to be more adaptable in matching their skills to available jobs, the economic functionality of such arrangements is contested. In a rapidly changing labour market, an unemployment insurance scheme granting rewards in accordance with traditional status and skill differentials, i.e., status confirming, seems poorly equipped to provide protection and incentives which are congruent with a flexible post-industrial economy. For example, generous entitlements to benefit (in level or duration) for workers with longer contribution histories are sometimes considered an impediment to necessary labour market adjustment.

The programmatic orientation that emerges from such considerations can be called the *homogenisation of unemployment support*. All European welfare states developed with differentiated, generally two-tier (insurance and assistance), systems of unemployment support (Kvist 1998), with the top tier reserved for those with better contribution and employment histories. Today, not only does a stable employment career owe patently less to 'character' than it does to luck, but the distributive trade-off between the protection of the lucky and that of the unlucky appears more acute. In principle, then, there is a case to be made for all systems being re-designed to ensure that access to basic support during periods of joblessness reflects the realities of how post-industrial labour markets operate, where necessary financing corrections to the 'undershoot' of inherited systems by removing any manifestations of 'overreach' that may exist in the benefit *status quo*.

In practice, of course, public policy understandings of notions such as 'undershoot' and 'overreach' may be heavily biased by ideological considerations, which also intruded into assessments of the 'appropriate' generosity of golden age unemployment insurance systems. In other words, the homogenisation or standardisation of unemployment support can in principle take a variety of forms, between the extremes of downward alignment of transfers on those traditionally poorly protected, and something closer to the generalisation to all groups of conditions once available only to workers in stable employment. But although the substantive implications of these extreme policy options are obviously very different, in both cases there is a decisive break with a model of unemployment insurance calibrated to the needs of a disappearing industrial economy.

In combination, these three policy orientations can be used as indicators to track the extent to which unemployment protection schemes have been reformed to reflect the changing profile of post-industrial labour market structures. Their apparent limit as indicators is that they are in themselves incapable of capturing the precise content and nature of such reforms, between the extremes of ‘upward’ and ‘downward’ generalisation of benefit rights, or ‘high road’ and ‘low road’ activation strategies, which might be seen as the most crucial questions with respect to the adaptation of unemployment protection to the changing profile of labour market risks. Their utility, however, is in helping to demonstrate that – ‘beyond activation’ – there is actually no single, universal dynamic of adaptation of unemployment protection systems to post-industrial labour markets in the recent reform trajectories of different countries.

#### **4. Patterns of post-industrial adaptation in european unemployment policies**

This can be seen in through comparison of four European countries, Denmark, France, Germany and the UK.<sup>1</sup> In all four cases, unemployment insurance was a core institution of post-war labour market policy, though the systems differed – and still differ – quite considerably in their generosity and distributive profile. Danish unemployment benefit entitlements count among the most generous and UK unemployment benefits among the least generous in Europe, while standard replacement rates in France and Germany are closer to the EU average (OECD 2004a). Regarding activation, ‘universalistic’ Denmark and ‘liberal’ UK are also often seen in the literature as representing the closest real-world approximations to two polar types (Barbier 2004; Torfing 1999). France, meanwhile, is suggested by Barbier (2004: 244) to display the contours of a possible ‘third model’, ‘between’ Denmark and the UK and sharing elements of its activation approach with both. With respect to patterns of adaptation of unemployment policies to the post-industrial labour market and the three reform variables outlined above, however, we show in what follows that – notwithstanding and without underplaying their very real differences – Britain and Denmark actually have far more in common with each other than either has with France, or indeed Germany.

1. We draw here partly on legislative data from a broader study of changes in European social security since the early 1980s, funded by the British Economic and Social Research Council (ESRC; grant reference 000223983).



#### 4.1. Denmark

Denmark has long had one of the least differentiated unemployment benefit systems in Europe. Though unemployment insurance provides nominally earnings-related benefits, benefit thresholds and ceilings mean transfers resemble a flat-rate system for large sections of the unemployed. For unemployed persons with above average earnings, replacement rates thus tend to be considerably lower than in Germany or France (OECD 2004a). Eligibility conditions are also loose in comparative perspective (52 weeks of paid work in the previous three years), and this after being considerably tightened in a reform of the mid 1990s (Kvist 2002).<sup>2</sup> The openness of the system is reflected by the fact that, despite a very flexible labour market, about 85 percent of all unemployed received unemployment insurance in 2004 (Danmark Statistik 2005: table 160). Moreover, the gap in financial support between insurance and assistance benefit is small (unemployed social assistance claimants receive currently about 80 percent of average insurance benefits, Madsen 2006).

It could in fact be said that 'golden age' Danish labour market policy was already adapted to the post-industrial labour market, at least as regards eligibility and entitlement to unemployment benefit. Under the twin pressures of tight public budgets and high unemployment, some reforms to unemployment insurance in the mid 1980s actually started to push tentatively away from this model, embracing greater selectivity and differentiation in unemployment benefit. In most cases, however, such moves were rapidly reversed. Thus, though eligibility conditions for unemployment insurance were tightened in 1985, and a lower rate benefit was introduced for those who no longer had access to full benefits, this reform was overturned in 1988 and full-rate benefit was reinstated. Similarly, the more generous entitlements for older workers implemented between 1992 and 1994 – which allowed effective retirement from the labour market on full unemployment benefit for those as young as 50 – have been progressively scaled back in counter-reforms since 1996. Weak trends to differentiation of benefits have thus been superseded by a dynamic of re-homogenisation, even if this process remains incomplete. Though important cuts have continued in Danish unemployment benefits in the 1990s, these have come not through selective reductions in nominal benefit levels, but instead through general changes in the maximum duration of benefit entitlement, reduced in successive stages from seven to four years between 1993 and 1998. Finally, the Danish unemployment insurance system has become somewhat less differentiated since the 1980s

<sup>2</sup> Eligibility was prior to this reform established by 26 weeks contribution in 3 years.

due to a gradual but continuous decline of the ceiling in unemployment insurance in relation to average earnings (Hansen 2005; Lind 2004). As a result, an even larger proportion of the unemployed is now in receipt of flat-rate transfers rather than benefits which reflect former differentials in wages.

If *de facto* weakly differentiated unemployment benefit support has increased somewhat but is nothing new to Denmark, the remarkable embrace of activation in the 1990s represents a considerable novelty. Since 1993 there has been a vast expansion of activation measures, with a particular emphasis on training programmes, which are both a ‘right and a duty’ for the unemployed (cf. Andersen and Etherington 2005; Goul Andersen 2002; Torfing 1999). The length of time that it is necessary to be unemployed before being subject to activation has been reduced in successive reforms. Parallel changes in social assistance legislation have ensured that the principle applies equally to the insured and non-insured unemployed.

The new labour market policy orientation has been accompanied, finally, with an increased effort of institutional co-ordination. The pre-existing institutional actors in labour market policy – the trade union-run unemployment insurance system, local authorities who are in control of social assistance, and the state-run public employment service – have to date retained their institutional identity, but their activities are increasingly channelled through and co-ordinated by tripartite labour market authorities operating at regional level (Dahl *et al.* 2002; Ebbinghaus 2002: 17). Moreover, an important reform of the local authority structure in 2007 will be accompanied by the development of a new structure for the governance and delivery of labour market policy. While maintaining the nominal dual benefit structure, the reform is intended to lead to a homogenisation of unemployment support as far as public employment and job integration services are concerned, aimed at abolishing what remains of the effective distinction between insured and non-insured job seekers (Larsen 2005).

#### 4.2. France

The French unemployment benefit system contrasts strongly with the Danish, as does its recent reform trajectory. Firstly, insurance benefits reflect prior labour market status very far up the income distribution, due to the highest ceiling for benefits of any European country (CERC 2005: 58). The insurance system has, secondly, coped with a context of consistently high unemployment since the early 1980s mainly by tightening eligibility conditions rather than directly reducing benefit

entitlements. Important reforms in 1982–1984 tied benefit eligibility and entitlement more closely to prior contributions, and created a separate tax-financed system, providing modest flat-rate benefits, for some of those with inadequate contributory records.

Further reforms in 1992 tightened the contributory requirements for unemployment insurance once again, causing a sharp fall in the number of people covered the scheme, from around 45 percent in 1992 to just over 40 percent in 1997 (UNEDIC *Unistatis* 2005). Although these latter cuts were more than repaired by subsequent reforms, enacted notably in the period of strong economic growth at the turn of the century, the differentialism of policy has not been fundamentally challenged, and coverage remains the privileged adjustment variable for unemployment insurance. Though coverage rates of unemployment insurance had climbed back up to around 53 percent in 2003, they have been in decline once again for the last 18 months (*ibid.*), in part as a delayed result of new restrictive reforms announced in 2002. Daniel's (2001) claim that French unemployment benefit policy in recent decades is more a story of growing *differentiation* than homogenisation thus remains largely valid.

There has, however, been a growing emphasis on activation in France, mainly through the expansion of special employment measures in the public and private sectors (Barbier 2004). For young people especially, such schemes have implicitly replaced benefits no longer available in the increasingly selective unemployment benefit system (Enjorlas *et al.* 2000). The minimum income scheme (*Revenu Minimum d'Insertion*, RMI) has since its introduction in 1988 also required beneficiaries, at least formally, to submit to measures that will facilitate their social or professional insertion. But attempts to introduce this principle into, and articulate it with, the unemployment insurance system have until recently been decidedly limited. Only with the *Plan d'Aide au Retour à l'Emploi* (PARE) was a bolder proposal for the systematic activation of unemployment insurance benefits finally brought forward, becoming operational in 2001.

The introduction of the PARE was not, however, accompanied by significantly improved policy coordination, or a streamlining of the institutional framework for French unemployment policy (CERC 2005). Different aspects of French labour market policy are still made largely in isolation from one another, by separate and autonomous institutions. Levels of trust and co-operation between these different institutions are often low, as conflicts between the public employment service (ANPE) and the unemployment insurance system over the implementation of the PARE highlighted (Tuchszirer 2002). Though the recent 'law on social cohesion' returned to the theme of policy coordination, not least to try and

promote 'single gateways' to services for the unemployed (Rousseau 2005), progress towards implementation has to date been slow and difficult, and there is every chance that the structural reforms adopted will ultimately be far from the fundamental changes originally advertised in the law (Véricel 2005).

#### 4.3. Germany

The reform trajectory in Germany has, at least until very recently, been somewhat similar to the French, characterised by increasing differentiation of rights for the unemployed, relatively little systematic emphasis on activation at federal level, and limited institutional reform activity. Incremental legislative change during the 1980s and 1990s tightened benefit eligibility and reduced the generosity of unemployment protection at the margins of the labour market, e.g., for job starters and those with repeated spells of joblessness. By contrast, replacement rates remained largely untouched for claimants in receipt of unemployment insurance, and particularly those with dependent children. In fact, the position of core workers, i.e., those with longer contribution records (above a certain age), actually improved as a result of repeated rounds of extending entitlement periods to unemployment insurance in the 1980s (to a maximum of 2.5 years). This trend was reversed only recently when unemployment assistance was merged with social assistance in 2005, thereby creating a much larger pool of unemployed people who no longer rely on wage replacement based support. Far from homogenisation unemployment protection, however, in a certain sense the recent legislation has cemented a dual unemployment support structure by widening the gap between a smaller core of claimants in receipt of earnings-related and insurance-based support, and a larger periphery of applicants for the new means-tested unemployment assistance (ALG II) (Clasen 2005).

This dualism is expressed in the relative proportion of the two types of unemployment support, with 47 percent of all unemployed persons receiving unemployment insurance in 2004, compared with 56 percent on unemployment assistance (Statistisches Bundesamt 2005).<sup>3</sup> Their relative generosity also varies considerably, with average unemployment assistance payments representing about 67 percent of the level of unemployment insurance in 2004 (for married claimants). Since the introduction of ALG II there have been some former unemployment assistance claimants

3. The figures add up to above 100 percent because some recipients receive both types of support.

who have gained financially (Blos and Rudolph 2005), but more have witnessed a reduction in the level of unemployment support. Thus, the division between the two forms of support has widened rather than narrowed.

Activation type policies are not new to Germany, but at federal level were introduced more selectively and with much less vigour than in Denmark. While local authorities have had the right to 'activate' long-term unemployed persons for some time, claimants of unemployment insurance have not been subjected to a routine form of 'work-testing' or transfer to mandatory activation programmes. Despite recent legislation introducing tighter job suitability criteria for continuous benefit entitlement and a stronger emphasis on individual cooperation with job search activities, an automatic 'activation' period, corresponding to the Danish or British legislation, has only been introduced recently (2005), and even then only for a relatively small group of the unemployed, the young unemployed under the age of 25 in receipt of the ALG II benefit (see below). Moreover, at the time of writing it remains to be seen whether this policy is reflected in actual policy implementation.

As for institutional reform, policy co-ordination has always been hampered by institutional impediments, such as the joint funding of active and passive labour market policy and a multi-level policy structure involving the federal government, the Federal Labour Office (BA), local authorities and separate social insurance notably public pension or health insurance schemes, all of which are affected by legislative changes of unemployment insurance (Clasen 2005). Hence, instead of a uniform policy approach, cost shifting has been a perennial problem. The merger of tax funded unemployment assistance and locally funded social assistance into the new unemployment assistance (ALG II) has remedied the scope of this problem to some extent. Co-ordination deficits can be assumed to remain however, both within the remit of ALG II since the structure incorporates two different governance models, and between ALG I and ALG II (Ludwig-Mayerhofer 2005). In short, the replacement of a three-tier with a two-tier structure can be said to have consolidated rather than challenged the dual system of labour market policy, with better benefits and access to training and other forms of up-skilling still structurally favouring claimants of unemployment insurance.

#### 4.4. The United Kingdom

Recent British reforms, finally, have broken radically with traditional pattern of labour market policy. Unlike in Germany or France, the 1980s

and 1990s saw a gradual homogenisation of benefit rights for the unemployed. In contrast to Denmark, however, this was pursued via an alignment of all rights to social support on the situation of the previously *least* well-protected. The modest earnings-related supplement (ERS) paid to the unemployed with the longest contribution records was abolished in 1982, before reforms in 1988 tightened the contribution requirements for access to insurance-based unemployment benefit (UB). More importantly, however, the duration of entitlement of UB was reduced from one year to only six months with the introduction of Jobseekers Allowance (JSA) in 1996, and their monetary value aligned with means-tested benefits for the jobless (so-called 'income-related JSA'). New Labour did not overturn these reforms on its return to office in 1997, and as a result, while around half of the unemployed received insurance-based benefits in 1980, this figure was only 16 percent by 2001 (Clasen 2005: 59). Insurance-based benefits have been made so exclusive and modest that they are becoming increasingly irrelevant to the social protection of the jobless in Britain.

Activation has also been a major feature of recent British labour market policy. Successive reforms under the Conservatives in the 1980s and 1990s moved towards a 'stricter benefit regime', by tightening the conditions of active job-search for the receipt of unemployment benefits, relaxing the definition of appropriate employment, and toughening sanctions for non-compliance (Finn 1997). After the running down of employment and training programmes from the late 1980s onwards, more 'positive' activation measures were essentially limited to providing increased help with job-search, through initiatives such as 'Restart' interviews. As well as making compulsion in labour market policy more explicit, New Labour's New Deal initiative since 1997 has built on the Restart concept through its 'gateway period' of intensive counselling and employment guidance for the unemployed, although it has also reintroduced some more investment-intensive training and job subsidy programmes. Despite a significant and growing emphasis on activation, not merely for the unemployed but also for other working age beneficiaries of social support (the disabled, lone parents, jobless partners of the registered unemployed), actual expenditure on active labour market policies in the UK nonetheless remains one of the lowest in Europe.

These developments, finally, have been accompanied by significant institutional change in labour market policy. Firstly, social assistance for the jobless and contributory UB were merged and harmonised with the creation of JSA in 1996. Secondly, there has been an ever-closer co-ordination between the administrations charged with employment policy and benefit policy, respectively, culminating in their recent merger to create a 'Working Age Agency'. At the delivery level, too, benefit

and job search services are increasingly brought together in the so-called 'Jobcentre Plus', which is now the point of contact not only for the registered unemployed, but also for all working age benefit claimants, facilitating the transition of UK labour market policy from an emphasis on unemployment to an increasing emphasis on 'worklessness' (Clasen 2005).

#### 4.5. Comparative assessment

Summarising the development of unemployment protection policies since the early 1980s from the perspective of our three indicators of adaptation to post-industrial labour markets, we see two quite clearly contrasting patterns across the four countries (cf. Table 1). The Danish and British policy trajectories involved all of the programmatic and institutional reform options outlined above. Alongside activation, a clear trend towards unemployment support homogenisation and policy coordination can be identified in both countries, even though the extent of benefit differentiation remained somewhat more pronounced in Denmark than in the UK. Although very different political programmes have – as emphasised by many recent comparisons of activation policies – been pursued within it, labour market policies in Denmark and the UK have in other words both taken paths that are geared to the novel problems posed by the emergence of post-industrial labour markets. Despite the quickening pace of labour market change in both countries, this has been much less true in Germany and France. Activation has certainly figured in the rhetoric of German and French policy makers, and has featured to a certain degree in reforms to unemployment policies over the past two decades. But not only has the embrace of activation been somewhat tentative and unsystematic, it has also developed within a broader policy trajectory where unemployment support has remained at least as differentiated as in the past, and where efforts of institutional reconfiguration and co-ordination have been, in any case until very recently, largely non-existent.

**TABLE 1. Patterns of adaptation to post-industrial labour markets in recent unemployment policies**

	<i>Denmark</i>	<i>France</i>	<i>Germany</i>	<i>UK</i>
Activation of benefits	+	- / +	- / +	+
Co-ordination of policy institutions	+	- / +	- / +	+
Unemployment support homogenisation	- / +	-	-	+
Policy adaptation	High	Low	Low	High

In short, when we look beyond activation we can see quite considerable variations in the extent to which recent unemployment policies in European countries have responded to the particular nature and problems of post-industrial labour markets. As suggested in the next section, recognising these differing patterns of adaptation furthermore directs attention to a range of explanatory factors for current patterns of unemployment policy reform that have received insufficient attention in the recent comparative literature.

### **5. Explaining reform trajectories: Institutional frameworks and political economy structures**

Structural comparisons of unemployment protection systems tend to concentrate on distributive policy outputs, for example through consideration of the coverage and level of benefits offered. On such variables, three or four ideal-typical ‘models’ of unemployment protection can thus be identified in Europe (e.g., Esping-Andersen 1990; Gallie and Paugam 2000). But such models fail to capture other crucial dimensions of underlying variation, such as the managerial and financial frameworks of unemployment protection, or their relations to the sphere of industrial relations. Our claim here is that it is the setting of these institutional mechanisms and relationships – specifically governance systems, funding modes and interdependencies with national political economy structures – which have constrained political action on unemployment policies in Germany and France, and obstructed a fundamental overhaul of unemployment policy of the type seen in Denmark or the UK. The following discussion shows this by highlighting how different institutional features inherited from ‘golden age’ French and German unemployment policy have interfered with contemporary reform agendas in first France and then Germany, drawing contrasts where relevant with the Danish and British cases.

The French case provides evidence for the limitations that the *devolved governance* of unemployment insurance can place on policy adjustment. In many countries, some managerial and governance responsibilities for public unemployment insurance (and other social policies) have traditionally been devolved to non-statutory organisations, such as trade unions, acting alone or in partnership the state and/or with employers’ associations (Crouch 1999; Ebbinghaus 2002). The French unemployment insurance system is an extreme example of such devolution, with the national unemployment *caisse*, UNEDIC, a formally private institution governed jointly by the social partners, and where decisions regarding adjustments to benefits and contributions are made through collective agreements, and then validated by the state so they can be generalised across all firms. Rarely



needing to come before Parliament, reforms are often enacted with minimal political debate and limited upstream media attention. The ‘industrial bias’ that is evident in recent French labour market policies stems partly from this decision-making and governance structure. By contrast, in a traditionally entirely state-controlled system like the British, political actors have both the obligation and the opportunity to design policies more suited to (competing interpretations of) the ‘general interest’.

It is true that the voluntary, trade union-managed ‘Ghent system’ of unemployment insurance in Denmark is also, in formal terms, a non-state institution. Here, however, the importance of the interaction between devolved governance and the *financing structure* of unemployment insurance becomes clear. The Danish system of unemployment insurance is only to a small extent funded by flat-rate contributions from insured employees. In 2004 this share was about 17 percent of the total cost, with the rest stemming from tax revenue (AS Samvirke 2005). Should unemployment rise, the state’s share would increase further. This gives Danish governments considerable political leverage and control. Though they usually consult with the unions (Ebbinghaus 2002: 16), it is the government that in Denmark takes the lead in unemployment insurance reforms, which are a prerogative of Parliament (Ploug 2006). By contrast, since 1984 French unemployment insurance has been auto-financed entirely out of contributions by workers and employers, an arrangement the social partners are attached to because of the legitimacy it affords to their managerial role in unemployment insurance, and which acts as a powerful argument against political ‘interference’ in this domain.

Looking at the debates surrounding some recent French reforms, we can see how that this institutional configuration has effectively kept unemployment support homogenisation and policy coordination off the agenda. Regarding the former, for example, when in 1992–1993 negotiations between the social partners in UNEDIC were blocked – the employers refusing further increases in contribution rates, the unions any reduction in benefit levels – a possible solution to avoid increasing the exclusivity of the unemployment protection system would have been for the state to take on a permanent role in the financing of unemployment insurance, as it had in a brief period between 1979 and 1984. This, however, was impossible for the government to envisage without increasing its governance role in the system.<sup>4</sup> As this was something the

4. The chronic ‘buck-passing’ between the social partners and the state that resulted from *paritaire* management and partial tax-financing being combined in the ephemeral *régime unique* between 1979 and 1982 was one of the considerations underlying the clarification of financial responsibilities effected by the distinction between ‘insurance’ and ‘solidarity’ adopted in 1984.

social partners in unison, in turn, refused to envisage, the only remaining option was a more *de facto* transfer of financial responsibility to the state, by increasing the differentiation of rights for the unemployed according to contribution conditions. With respect to policy coordination, the key problem is that French governments are in a weak position to impose institutional reforms when certain institutions are managed by the social partners, but at the same time unwilling to hand over effective control over unemployment policy to private actors – the latter being in large part the explanation for the Jospin government’s initial hostility to the PARE initiative in 1999–2000 (cf. Freyssinet 2002).

In France, then, both unemployment support homogenisation and policy co-ordination has to date been difficult to reconcile with the established division of governance and financing responsibilities. Indeed, the unsystematic – and curative rather than preventative – nature of French activation initiatives, concentrated until recently largely on those with the weakest attachments to the labour market – an ‘employment policy dedicated only to those excluded from UNEDIC’ (Daniel and Tuchsirer 1999: 381) – can also be understood with reference to the perceived need to respect the established institutionalised division of managerial and financial labour for unemployment policy.

Though the social partners also play a role in the German system of unemployment insurance, the leverage of the state in the system is – contrary to conventional wisdom – considerably greater than in France (Clegg and Clasen 2004; Kerschen and Kessler 1990). Financial responsibilities are less clearly partitioned than in France, too; while unemployment insurance is entirely funded by employers and employees, annual deficits are met out of general taxation. Of wider relevance than in France however has been the ‘tight coupling’ (cf. Hemerijck *et al.* 2000) between unemployment insurance and Germany’s wage bargaining system. Though a two-way relationship between social policies (and especially unemployment insurance policies) and modes of labour market regulation exists everywhere, in few countries has this relationship been as explicit and as institutionalised as in Germany.

The historical development of Germany’s social insurance system generally cannot be understood without reference to its role in collective bargaining and industrial relations (Manow 1997). In unemployment insurance, for example, the rule that no unemployed person must accept a job offer below the wage set in collective bargaining, which is a constitutionally protected prerogative of the social partners, has allowed the German model of wage coordination to function effectively on an industry-wide level (Manow 2002). Despite recent reforms that have put considerable pressure on the model, the notion that unemployment insurance provides ‘deferred wages’ (cf. Rhodes 2000) to core workers

continues to be a constitutive element for the smooth functioning of the industrial relations system, particularly within the more export oriented high skill sector of German industry. This principle was reiterated by the otherwise reform-oriented 'Red-Green' former government, rejecting proposals for a uniform reduction of unemployment benefit generosity as economically and socially unjustified, unlikely to improve work incentives and as potentially undermining the requirement of a 'clearly discernible' distance between contributory based benefits and means-tested support (Bundesregierung 2004: 38). The influence of such notions, and their linkages to the collective bargaining system, have guided the retrenchment efforts of the 1980s and 1990s away from core workers and towards more peripheral groups in the labour market (Clasen 2005).

In both France and Germany, the position of core workers has been largely protected in recent policy debates, and this has limited the scope for more wholesale unemployment policy reform. In some ways, such a core worker bias not surprising, given that these categories of employees have, in both countries, traditionally enjoyed very high levels of social security. Net replacement rates of insurance benefits for short-term unemployed people with average and especially above average previous earnings are amongst the highest in the EU (OECD 2004a), and French and German workers on permanent contracts enjoy considerably higher levels of in-work protection (e.g., against dismissal) than in either Denmark or the UK (see OECD 2004b). This does not mean, however, that the likelihood for far-reaching unemployment policy reform is simply a function of levels of employment protection. The protection of regular workers against individual dismissal is for example much higher in the Netherlands than either France or Germany, and yet Dutch unemployment policy was, like the Danish, significantly reformed during the 1990s, with activation initiatives taking on a more systematic character and the nexus between work and welfare being far thoroughly re-worked (cf. Clasen *et al.* 2001; Green-Pedersen *et al.* 2001). Rather than any sudden and significant decline in the power and influence of core workers, it was instead a series of institutional reforms over a long period, recalibrating the linkages between industrial relations and social protection and reinforcing the power of the state in the social protection system, that were the preconditions for this more fundamental adaptation of unemployment policy (Visser and Hemerijck 1997; Hemerijck 2006).

In short, there appears to be a significant correlation between the nature of certain institutional frameworks and relationships in which unemployment insurance policies have traditionally been embedded and the likelihood of the wholesale adaptation of these policies to the challenges of post-industrial labour markets in the contemporary period. For the four countries covered here, it seems that devolved governance structures

**TABLE 2. Institutional parameters of unemployment insurance and adaptation to post-industrial labour markets**

	<i>Denmark</i>	<i>France</i>	<i>Germany</i>	<i>UK</i>
Devolved governance	+	+	+	–
Self-financing	–	+	+	–
'Tight coupling'	–	–	+	–
Policy adaptation	High	Low	Low	High

coupled with a high degree of self-financing (rather than tax funding), or tight institutional links between unemployment insurance and political economy structures, serve as obstacles for a smoother reform path towards adapting unemployment support to post industrial labour markets (cf. Table 2). As the Dutch example demonstrates, these institutions can themselves be changed, even if this process is likely to be long and difficult. Up to the present, however, this has occurred neither in France nor in Germany, and helps us understand why even if activation policies have developed somewhat in both cases, this has been far less as part of a wholesale redirection of unemployment policies than has been the case – for all their other differences – in Denmark and the UK.

## 6. Conclusion

In this article we have argued that it is fruitful to see activation policies as but one dimension of reform in European unemployment protection systems. Unemployment policy change is currently taking place in the context of – though are not necessarily driven by – the emergence of post-industrial labour markets. When the other dimensions of possible unemployment policy developments related to this seismic shift are isolated and analysed cross-nationally, we can see firstly that the development of activation is in general compatible with quite differing degrees of policy adaptation to this new socio-economic environment, and secondly that it reflects quite variegated patterns of welfare state stability and change.

From a cross-national descriptive perspective, firstly, some interesting lines of fracture emerge. As our empirical analysis has shown, an analytical framework that goes beyond activation helps to identify distinct parallels between Denmark and the UK, two countries that often end up in different 'boxes' in comparative analyses of activation alone. Our intention is in no way to challenge the claim that British and Danish activation initiatives stand at the centre of quite different frameworks for regulating joblessness in the post-industrial labour market. It is rather to point out that the very fact that these initiatives stand at the centre of frameworks

for explicitly regulating joblessness under post-industrial labour market conditions is something that Denmark and the UK do share, and which sets them apart from countries like France and Germany, where institutional factors have made similar adaptation processes much more difficult.

Theoretically, this in turn has implications for the applicability and appropriateness of both the ideational-ideological and more institutional explanations that have been deployed to account for perceived patterns of cross-national similarity and difference in unemployment policy development in the recent comparative literature on activation. With respect to causal claims regarding ideational factors – such as the importance of new ‘third way’ discourses, articulating novel principles regarding the balance of rights and responsibilities – our account questions their real pertinence for the cases of France and Germany (cf. also Clasen and Clegg 2004), where unemployment policy reforms are more institutionally constrained, and have been more directed to patching-up existing policies than forging a new model for regulating joblessness. At the same time, though, we also argue in favour of a more differentiated perspective on the importance of institutions. The institutional structures of British and Danish unemployment policies have, according to our analysis, in fact generated few serious impediments to the fundamental reform of unemployment policies. Though unemployment protection was everywhere developed within industrial labour markets, the intensity of its institutional articulation with the regulation of these labour markets varied considerably, and we should therefore expect the constraints that institutional factors place on the development of new policies to do so also.

Rather than understanding the development of unemployment policies in post-industrial labour markets in purely political or purely institutional terms, then, it is instead important to appreciate that different institutional configurations may themselves create quite varied openings for political action and leadership. If as we argue the extent of adaptation to post-industrial labour markets varies substantially in European unemployment policies, it is in large part because the underlying amenability of the welfare states built up in post-war Europe to politically directed change does too.

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