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# The political economy of active labour market policy

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## **About the author**

Giuliano Bonoli is Professor of social policy at the Swiss graduate school for public administration (IDHEAP), Lausanne. He received his PhD at the University of Kent at Canterbury for a study on pension reform in Europe. He has been involved in several national and international research projects on various aspects of social policy. His work has focused on pension reform, labour market and family policies, with particular attention paid to the politics of welfare state transformation. He has published some forty articles and chapters in edited books, as well as a several books.

## **Abstract**

Active labour market policies have developed significantly over the last two decades across OECD countries, with substantial cross-national differences in terms of both extent and overall orientation. The objective of this paper is to account for cross-national variation in this policy field. It starts by reviewing existing scholarship concerning political, institutional and ideational determinants of ALMPs. It then argues that ALMPs is too broad a category to be used analytically, and develops a typology of four different types of ALMPs: incentive reinforcement, employment assistance, occupation, and human capital investment. These are discussed and examined through ALMP expenditure profiles in selected countries. The paper uses this typology to analyse active labour market policy trajectories in six western European countries, and shows that the role of this instrument changes dramatically over time. It concludes that there is little regularity in the political determinants of ALMPs. In contrast, it finds important institutional and ideational effects, the latter in the most recent phase in particular.

## **Keywords**

Active labour market policies, ALMP, unemployment policy,

## Introduction<sup>1</sup>

Active labour market policies (ALMPs) are an important area of social policy making. Over the last two decades, an active approach to labour market policy has been promoted by international agencies and adopted in several OECD countries. On occasions, this “activation turn” has generated impressive levels of political controversy, as it questions postwar notions of citizenship based entitlements to social benefits. These developments have impacted also on the funds that are assigned to active policies. Among OECD countries, between 1980 and 2003 the proportion of GDP invested in this field has nearly doubled, from 0.4 to 0.7 percent of GDP. While the increase in ALMP spending has been a general trend, massive cross-national differences persist. In 2003, for instance, spending ranged between 0.2 % of GDP (USA) and 1.6% Denmark. ALMPs in different countries are also very different in terms of content, as will be shown below.

Extreme levels of cross-national variation are not the only puzzle one encounters when studying ALMPs, though. One key question that remains unresolved concerns the political determinants of the reorientation of labour market policy towards activation. ALMPs were pioneered in Sweden, as early as in the 1950s, hence many ascribed their development to the strength of left wing political actors, the Social democrats and the unions (Esping-Andersen, 1990, Huber and Stephens, 2001, Huo et al., 2008). Others, also focussing on the Swedish case, have emphasised the role played by employers (Swenson, 2002). Finally, it has also been argued that left wing parties tend to oppose investment in ALMPs, because these, by bringing more people to the labour market, may undermine access to employment and higher wages for core workers, who constitute the left’s key constituency (Rueda, 2007).

This paper aims at clarifying the question of the political determinants of ALMPs, by looking at actual policy developments over time in OECD countries. It is argued that the lack of consensus on the issue is the result of three problems. First, as recognised by many in the literature, the notion of ALMPs encompasses some very different types of interventions, and it is unreasonable to expect all of them to be associated with the same configuration of political determinants. Second, the role played by ALMPs in the economy changes over time. The Swedish 1950 pioneer scheme had different objectives from current British, German or even current Swedish policy. Third, putative political determinants of ALMPs interact with other important factors, more of an institutional and ideational nature, and these need to be taken into account. On this basis, this paper offers a more complex, and arguably more accurate, answer to the question of what are the political determinants of ALMPs.

## The determinants of active labour market policy

### Political explanations

There are many contested issues in comparative public policy, but few have generated as clear a controversy as the identification of the political determinants of active labour market policy (ALMPs). In Esping-Andersen's account of the development of different worlds of "welfare capitalism" emphasis on ALMPs is considered to be one of the defining features of the "Social democratic" welfare regime. The power resources of the left allowed the labour movement to impose a costly and effective system of labour market policies, capable of securing full employment in the context of a rapidly changing economic structure (Esping-Andersen 1990: 167-168; Huber and Stephens 2001: 184). This view is confirmed in quantitative analyses (Huo et al., 2008, Iversen and Stephens, 2008) who find Left power to be positively and significantly related to spending on ALMPs. Social democratic parties, in their view, have promoted "employment friendly" labour market policies. In this respect they differ from Christian democratic parties, who have intervened in the field of employment by protecting jobs and by facilitating early retirement (Huo et al. 2008: 17-8).

Partisan effects on ALMP spending are at the centre of another recent study, which challenges the view that Left power is associated with high ALMP spending. In it, David Rueda develops a more complex view of Social democrats' relationship with ALMPs. First, he argues, Social democrats in postindustrial societies are increasingly confronted with a dilemma. Recent socioeconomic transformations have split the potential clientele of Social democrats into two groups, insiders and outsiders. Insiders constitute the traditional constituency of Social democracy: manual workers, low to middle paid wage earners, public sector workers, etc. Outsiders are those who are experiencing disadvantage: unemployed people, atypical workers, excluded people. Social democratic parties can theoretically cater for both clienteles, but sometimes the interests of one group clash with those of the other one. Under these circumstances, Social democrats will tend to defend the interest of insiders, better organised and more likely to respond with electoral support than outsiders (Rueda, 2007).

This is the case with active labour market policies. Rueda argues that these policies are in the interest of outsiders, because they facilitate the re-entry into employment, but they are detrimental to insiders, for two reasons. First, insiders being protected by employment protection legislation against the unemployment risk, they are unlikely to see the point in co-financing these policies as tax payers. Second, ALMPs stimulate labour supply and may create competition for (scarce) jobs or downwards pressures on wages. As a result, Social democratic parties are unlikely to support these policies. In his own words:

*"ALMPs are designed to promote entry into the labour market of outsiders who will underbid insiders' wage demands. Since insiders are the core constituency of social*

*democratic parties, my argument implies the absence of any government partisanship effects on ALMPs” (Rueda 2007: 74).*

This claim is confirmed in Rueda’s statistical analyses, where Left power as a predictor of ALMP spending is either not significant or even negative (see p. 92).

The view that in the Nordic countries, particularly in Sweden, ALMPs were imposed by powerful labour movements upon reluctant employers has been challenged also by qualitative researchers. They claim that the Nordic, and in particular the Swedish version of active labour market policy, was part of a major cross-class compromise that allowed Social democrats to pursue their political objectives without endangering the profitability of capital (Katzenstein, 1985). ALMPs, unlike passive income protection policies, have what it takes to be regarded positively by employers. Having workers equipped with up-to-date skills and promoting labour supply are objectives to which most employers can subscribe. As will be seen below, Swedish employers did not resist the development of this policy tool (Swenson 2002).

The claim that ALMPs are the result of a cross-class compromise can be useful in generating hypotheses that go beyond the Nordic countries. If we accept the view that ALMPs are a form of labour market intervention that has positive effects for both employers and employees, then the puzzle is why such win-win solutions to employment problems were not adopted more generally throughout western Europe. Why did countries like France, Germany or Italy in the 1970s turn to employment protection and labour supply reducing policies instead of ALMPs?

### **Institutional explanations**

Many accounts of the development of ALMPs have focused on the extent to which pre-existing policies could be combined with an active approach. Bismarckian type social insurance schemes are considered more difficult to reorient towards active labour market policy. In Germany, for example, the social insurance principle, which implies the acquisition of entitlements through the payment of contributions, cannot easily be reconciled with notions of conditionality and compulsion, that are common in most of today’s active labour market policy systems (Clasen, 2000). In the same vein, constitutional rights to given or to minimum income levels can also act as an obstacle to some “demanding” forms of ALMP, or “activation” (Eichhorst et al., 2008a). In addition, since both passive and active measures are financed out of the same budget, as unemployment increases during a recession increased “automatic” spending on passive benefits crowds out spending on ALMPs (Manow and Seils, 2000). In France, the social partners’ involvement in the governance of unemployment insurance has also acted as an obstacle to the development of ALMPs, since the trade unions feared more state intervention in the running of the scheme (Clegg, 2005).



It is also important to point out that institutional effects may change over time. This point has been made more in general in relation to the development of “new” social policies, such as childcare and other services but also active labour market policies. What is important is the relative timing of the emergence of demand for these new policies and the process of population ageing. Countries where pressures to develop new policies emerge relatively early (in the 1970s) can more easily set up comprehensive systems of active labour market policy because spending on this new policy does not face strong competition (yet) from spending on old age pensions (Bonoli, 2007, Fargion, 2000). In contrast, countries where pressures appear first in the 1990s or in the 2000s face considerably bigger difficulties, because for a large number of voters the key budgetary priority is not the expansion of these services but is the preservation of the current generous pension system. This hypothesis helps us understand the divergence between the Nordic countries on the one hand and Continental and southern Europe on the other. Quantitative evidence linking the timing of key developments to spending on ALMPs and other new social policies confirms this hypothesis (Bonoli, 2007, Bonoli and Reber, forthcoming).

### **Diffusion of policy ideas**

Over the last two decades, active labour market policies have spread across OECD countries suggesting that some diffusion process may be going on. Of the various diffusion mechanisms that are mentioned in the literature, learning seems the most adequate to account for the success of ALMPs (Braun and Gilardi, 2006, Hall, 1993). Countries facing mass unemployment may find a source of inspiration in promising experiences carried out elsewhere.

Qualitative studies lend support to the policy diffusion hypothesis. They have shown that governments looking for new solutions to the unemployment problem have studied and learned from experiences done elsewhere. In Germany, the reorientation of unemployment policy adopted in 2002, was decided after having commissioned studies on and organised fact finding missions in countries like Denmark, The Netherlands and in the UK. Various elements of the new arrangement are clearly reminiscent of the UK approach to activation (Seeleib-Kaiser and Fleckenstein, 2007). The UK, in turn, is said to have found its inspiration in the US Clinton reforms of the early 1990s. Other studies have emphasised the role played by international agencies such as the OECD and the EU, who since the mid-1990s have clearly promoted a reorientation of unemployment policy in the direction of activation (Armingeon, 2007, Armingeon and Beyeler, 2004).

Efforts in this direction have been particularly strong within the European Employment Strategy (Goetschy, 2001, Zeitlin and Pochet, 2005, de la Porte and Nanz, 2003). Interviews with policy-makers suggest that in the field of employment policy, countries are learning from one another and that the process is sped up the European Employment strategy (Lopez-Santana, 2006).

## Types of active labour market policy

Active labour market policies have different origins and take different shapes. In Sweden, active labour market policies were developed as early as the 1950s, with the objective of improving the match between demand and supply of labour in the context of a rapidly evolving economy, essentially by financing extensive vocational training programmes (Swenson, 2002). At the opposite extreme, the term “active” can be used to describe the approach developed in various English speaking countries, which combines placement services with stronger work incentives, time-limits on reciprocity, benefit reductions, and the use of sanctions, the so called “workfare” approach (King, 1995, Peck, 2001). In fact, as many have pointed out, active labour market policy is a particularly ambiguous category of social policy (Barbier, 2001, Barbier, 2004, Clasen, 2000, Clegg, 2005).

Some authors have attempted to deal with this problem by distinguishing between two types of active labour market policies or activation: those which are about improving human capital, and those which use essentially negative incentives to move people from social assistance into employment. Examples of such classifications are found in Torfing (Torfing, 1999) who distinguishes between “offensive” and “defensive” workfare. Offensive workfare, which is the term used to describe the Danish variant of activation, relies on improving skills and empowerment rather than on sanctions and benefit reduction, as is the “defensive” variant found in the US. Taylor-Gooby, makes the same point using instead the terms of “positive” and “negative” activation (Taylor-Gooby, 2004). In a similar vein, Barbier distinguishes between “liberal activation”, characterised by stronger work incentives, benefit conditionality and the use of sanctions, and “universalistic activation”, which is found in the Nordic countries and continues to rely on extensive investment in human capital essentially through training, though he recognises that a third type might exist in Continental Europe (Barbier, 2004, Barbier and Ludwig-Mayerhofer, 2004) .

Dichotomies between human investment and incentive-based approaches to activation are a useful starting point in making sense of an ambiguous concept. However, they probably constitute an oversimplification of the real world and run the risk of carrying value judgements. A different type of distinction is found in Clegg, who identifies two policy mechanisms that can be subsumed under activation: circulation and integration. The idea behind circulation is to improve the chances of an unemployed person to enter in contact with a potential employer, through placement services, for example. Integration, instead, refers to instruments that more directly bring the jobless into employment, like benefit conditionality or sheltered employment (Clegg, 2005): 56).

Here, I also want to depart from the dichotomic value laden distinction that has dominated debates on ALMPs. I suggest distinguishing between four different ideal-types of ALMPs, which, like all ideal-types are unlikely to exist in a pure form in the real world: incentive reinforcement, employment assistance, occupation, and human

capital investment. The key objectives and tools of each ideal-type are presented in table 1.

Type	Objective	Tools
Incentive reinforcement	Strengthen positive and negative work incentives for people on benefit	- Tax credits, in work benefits - time limits on reciprocity - benefit reductions - benefit conditionality - sanctions
Employment assistance	Remove obstacle to employment and facilitate (re-)entry into the labour market	- placement services - job subsidies - counselling - job search programmes
Occupation	Keep jobless people occupied; limit human capital depletion during unemployment.	- job creation schemes in the public sector - non employment-related training programmes
Human capital investment	Improve the chances of finding employment by upskilling jobless people	- basic education - vocational training

**Table 1** Four ideal types of active labour market policy

The first type of ALMPs, incentive reinforcement, refers to measures that aim at strengthening work incentives for benefit recipients. This objective can be achieved in various ways, for example by curtailing passive benefits, both in terms of benefit rates and duration. Benefits can also be made conditional on participation in work-schemes or other labour market programmes. Finally, incentives can be strengthened through the use of sanctions. Elements of incentive reinforcement exist everywhere, but they are particularly strong in English speaking countries.

The second type, which I term “employment assistance”, consists of measures aiming at removing obstacles to labour market participation, without necessarily impacting on work incentives. These include placement services, job search programmes that increase the likelihood of a jobless person establishing contact with a potential employer. Counselling and job subsidies may be particularly useful to beneficiaries who have been out of the labour market for a long time or who have never had a job, who are often shunned by employers. For parents, an obstacle to employment may be the lack of childcare, belonging to the employment assistance variant. With the exception of placement services, employment assistance is probably

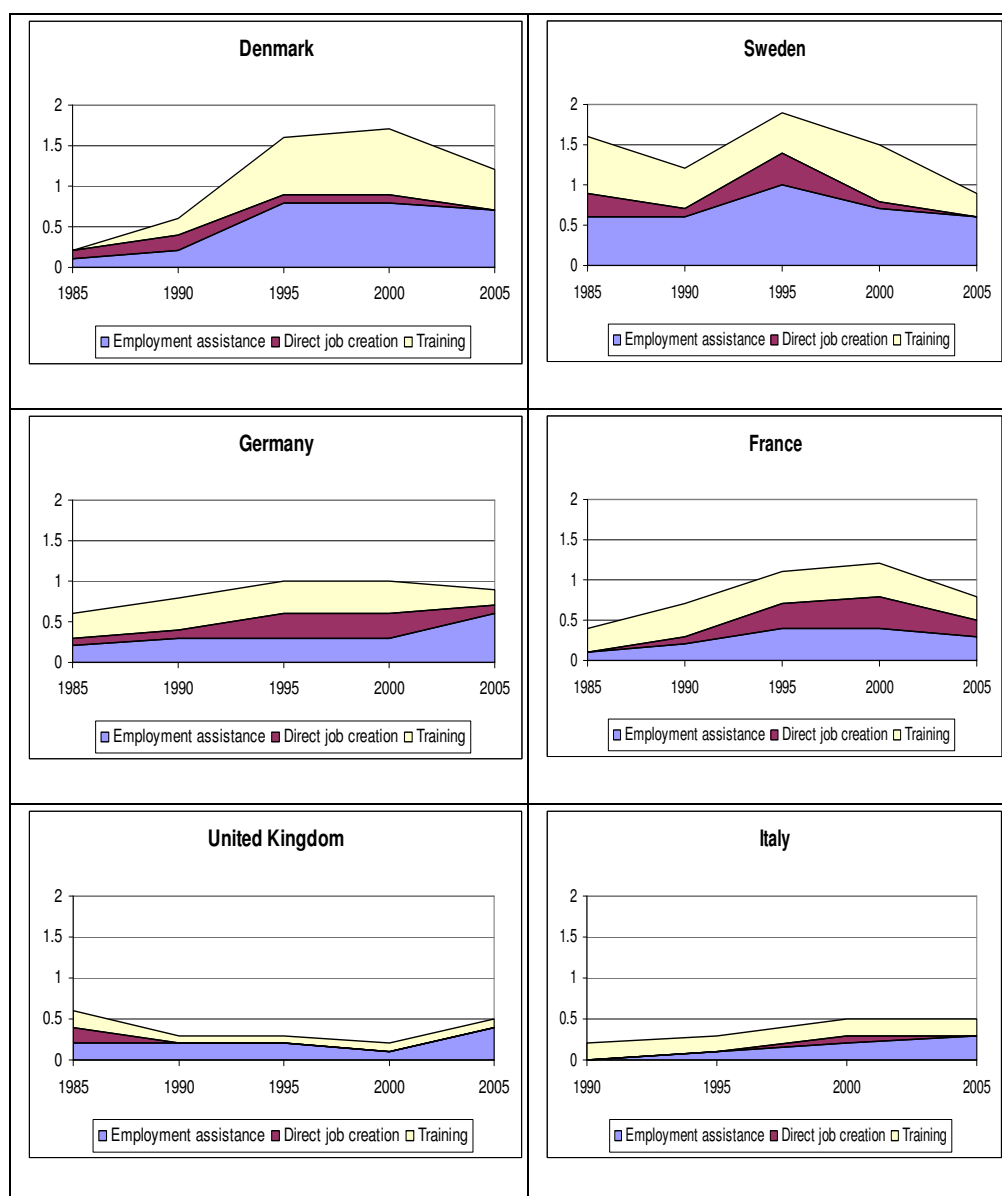
the newest type of ALMPs. It is common in English speaking countries (combined with incentive reinforcement) but also in Nordic and Continental Europe.

A third type of active labour market policy can be labelled as “occupation”. Its objective is not primarily to promote labour market re-entry, but to keep jobless people busy, also in order to prevent the depletion of human capital associated with an unemployment spell. This type of ALMP consists of job creation and work experience programmes in the public or non-profit sector, but also training in some cases, such as shorter courses, which do not fundamentally change the type of job a person can do. Continental European countries in the 1980s and early 1990s have been among the main users of this type of ALMP.

Finally, ALMPs can consist of providing vocational training to jobless people or, if needed, basic education. The idea here is to offer a second chance to people who were not able to profit from the education system or whose skills have become obsolete. The provision of vocational training to jobless people is most developed in the Nordic countries.

It would be extremely helpful to operationalise these four ideal-types with measurable indicators, and then map their variation across time and space. Unfortunately, available data allow only a very crude approximation of this exercise. There have been attempts to summarize with indicators the key institutional features of activation in different countries (Hasselplüg, 2005, OECD, 2007). The results obtained, however, are not entirely convincing, and do not match expectations based on more qualitative knowledge of many of the countries covered. This is due to a number of problems, among which the fact that these data sources are based on formal regulation, which can differ significantly from actual implementation. An alternative way to map, at least in part, cross-national variation in ALMPs on the basis of the ideal types discussed above, is to use expenditure data on sub-programmes. The OECD provides this information since 1985 for most of its members. Available categories are: Public employment services and administration, employment subsidies, job rotation schemes, start-up incentives, training and direct job creation.

These data allows us to operationalise three of the four ideal types presented above as shown in table 2: Employment assistance which includes the OECD spending categories “public employment services and administration, employment subsidies, job rotation schemes, and start-up incentives”; occupation, which includes the category “direct job creation”, and human capital investment which includes the category “training”. In this way, we are able to trace the evolution over a 20-year period of the relative effort made in the different components of ALMP.



**Figure 1** ALMP spending profiles in six OECD countries, 1985-2005

*Source: Graphs constructed on the basis of data obtained from OECD.Stat (available on [www.oecd.org](http://www.oecd.org))*

ALMPs spending profiles presented in figure 1 reveal a number of important observations. First there is obviously a cyclical effect, shown by the decline in overall spending between 1995 and 2005, which can be explained with the decline of unemployment (especially in Sweden, Denmark and France). The increase in overall spending in the UK, instead, calls for political explanation, as this took place in the context of declining numbers of jobless. Second, if one compares trends over the 20-year period covered, there is clearly a reduction in the size of direct job creation, which is relatively important in France, Germany and Sweden until the mid-1990s,

but then declines everywhere. Third, over the same period of time, one sees employment assistance gaining importance everywhere, except in Sweden where spending on this function is basically stable over time. Spending on training, finally, does not show a clear trend over time (except in Denmark where it peaks in 2000). The biggest variation in relation to training is across countries, not time, with the Nordic countries being the biggest spenders, the UK the lowest and the continental European countries somewhere in-between.

OECD spending data needs to be considered with caution since the distinctions adopted by the OECD do not always match national categories, and sometimes information is missing on given categories for several years. The results presented in figure 1, however, are broadly compatible with the expectations put forward above, and with the findings of the qualitative literature, which distinguished between two or three different approaches to activation.

### **Active labour market policies across time**

The development of ALMPs spending profiles over time suggests that this area of social policy has undergone substantial change over the last two decades. ALMPs, however, pre-existed data collection by the OECD (which begins in 1985 for most countries). This section looks at the development in this field of labour market policy since the 1950s, when Sweden embraced an active approach in labour market policy. In fact, one can identify three periods in the development of ALMPs in OECD countries. First, the 1950s and the 1960s, when in the context of labour market shortage, countries developed active policies in order to provide appropriately skilled workers to expanding industrial economies. In this period the key objective of policy was investment in human capital. The second period follows the oil shocks of 1973-75. ALMPs have to face a considerably more difficult environment, characterised by persistent high unemployment. In this context, in many countries the key function of ALMPs becomes occupation. Finally, since the mid-1990s, labour market policy aims essentially at encouraging and facilitating labour market re-entry of unemployed persons and other non-working individuals. The tools adopted here consist of various mixes of incentive reinforcement and employment assistance.

What precisely happened during these three periods is reviewed next. The account focuses on six countries selected so as to represent the various types of welfare regime that exist in western Europe: Sweden, Denmark, Germany, France, Italy and the UK. Each period-section adopts a different order in the presentation of country developments, starting with each time with the “pioneers” of the relevant use of ALMPs and then moving on to other countries. This strategy needs to be seen in relation to the “policy diffusion” hypothesis presented above. For the sake of brevity, only countries where a relevant development takes place are reviewed in each period<sup>2</sup>.

### The postwar years: ALMP in the context of labour shortage

Most experts agree that ALMPs were born in Sweden with the so called Rehn-Meidner model. Put forward in 1951 by two trade union economists, Gosta Rehn and Rudolf Meidner, this strategy had several objectives: equality in the wage distribution, sustainable full employment and the modernisation of Swedish industry. Equality and full employment were to be promoted through a solidaristic wage policy, which basically meant identical wage increases across all sectors of industry. The egalitarian wage policy had both intended and unintended effects. Among the intended effects, was a strong incentive for Swedish producers to invest in productivity enhancing technologies. If productivity lagged behind, imposed wage growth would push out of the market less competitive companies. This represented a strong push for the modernisation of Swedish industry.

But of course, not every industry would be able to keep up with the pace of wage increases agreed centrally. Low productivity industries were to be priced out of the market as collectively bargained wages increased. It was in order to deal with the workers that would as a result find themselves unemployed that Rehn and Meidner conceived ALMPs. As less productive companies were pushed out of the market, the workers they made redundant were to be retrained and made available for expanding, high productivity industries (see, e.g. Swenson 2002: 275; Benner and Vad 2000: 401; Mabbet 1995: 141ff.; Anxo and Niklasson 2006).

According to Swenson, however, ALMPs constituted also a response to one of Swedish employers recurrent problems at the time: shortage of labour. By quickly retraining workers who had lost their jobs, ALMPs ensured a steady supply of appropriately qualified labour. If the idea of setting up an active labour market policy came from the trade unions, it was clearly acceptable to and possibly desirable for employers as well. In fact, as seen above, according to Swenson, it was probably them who suggested it in the first place (2002: 275). On the basis of extensive historical research, he concludes that:

*“Employers warmly endorsed activist training and mobility measures even before the labor confederation included them as the centerpiece of their plan for economic stabilization and industrial development (the “Rehn-Meidner Model”). ... Organized employers were not merely resigned to hegemonic Social Democrats and hoping to appease them for special consideration on particular details, for nicer treatment in other domains, or to avoid public disfavor. They knew what they wanted. Sometimes they liked best what they got and got what they liked best”. (2002 : 11).*

The Rehn-Meidner model is a unique feature of Swedish economic history that was not repeated elsewhere. However, the idea of an active labour market policy in a rapidly modernising economy characterised by labour shortage was found appealing in other places as well. Sometimes, the tools used were different though, because the starting point was also different. This was the case of Italy, where unemployment was

not the result of people being laid off by declining industries, but of labour surplus in the Southern part of the country.

During the 1950s and 1960s two decades of strong growth that Italians remember as the “economic miracle”, Italy was also concerned with a labour shortage problem. Expanding industries in the North needed adequately trained workers. The South still constituted a major reservoir of labour, but essentially unskilled. In order to improve the matching between skill demand and supply, a law on apprenticeship was adopted in 1955. It made provision for on-the-job training and lower salaries for trainees. The scheme, however, did not take off. Employers were generally not allowed to select apprentices, who were sent to them by labour exchange offices, and the trade unions complained that the law was being used to underpay young workers (Gualmini 1998: 108).

Moves in this direction were also made in the case of France. In 1963, the Gaullist government embarked on a reform of the unemployment compensation system that would have facilitated access to (re-) training for unemployed people. This proposal encountered nonetheless the strong opposition of the trade unions, who feared increased state intervention in the management of unemployment insurance (UNEDIC). In France, unemployment insurance, as the rest of social security, is run jointly by the social partners who have traditionally resisted government intervention in what they consider a “private” institution (Bonoli and Palier, 1997, Palier, 2002). The result was a watered down version of the initial proposal. The episode highlighted the tension between an insurance based unemployment compensations system run by the social partners and a public policy objective: the upskilling of unemployed people in the context of labour shortage. The social partner’s and particularly the trade unions’, narrow understanding of unemployment compensation as an insurance scheme severely limited the scope for injecting active and training measures into unemployment policy (Clegg, 2005)176-9.

Only a few years later, Germany was to follow the same path, with the adoption of the the 1969 Employment promotion act (*Arbeitsförderungsgesetz*). The law was adopted by the short lived first “Grand coalition government” in Germany’s postwar history. The CDU-SPD coalition, lead by the Christian democrats, lasted only three years (1966-1969), but played an important role in shaping postwar labour market policy. The coalition came against the backdrop of the 1966-67 recession, after a row over budget broke out between the CDU and the FDP, the parties that formed the previous government. Its approach to social and economic policy anticipated many of the themes that have been popularised by political leaders in the 2000s. According to Alber:

*“To combat the economic crisis, the new government intended to shift public expenditure from social consumption to social investment. Various transfer payments were curbed, and for the first time, educational issues were given priority. ... As a first step towards a more active labour market policy, the competence of the unemployment insurance scheme was extended to include the promotion of vocational training” (Alber 1986: 14).*



The law was largely based on a proposal prepared by the SPD in 1966, at the time still in opposition. It emphasised a new, preventative, role for labour market policy, based on the adjustment of the workforce skills to technological change. The new law instituted the Federal Institute of Labour (*Bundesanstalt für Arbeit*) responsible for unemployment compensation insurance, but also for continuing education, re-training, employment services for the disabled and job creation programmes, and for training (Frerich and Frey, 1996). At the same time, a new law on vocational training was adopted, which significantly consolidated the system put in place seventy years earlier (Thelen, 2004): 241).

Contrary to a widespread perception among welfare state scholars, the postwar years were not an era of passive income protection. On the contrary, initiatives were taken in several European countries to reinforce the active dimension of unemployment protection, essentially through vocational training. This made sense. In a context of rapid economic growth and labour shortage, to retrain jobless people so that they could provide the labour force needed by expanding industries was an obvious thing to do. The developments reviewed above show little consistency in terms of political determinants though. The idea of linking training to unemployment policy came from political parties distributed across the political spectrum: the Swedish social democrats, the French Gaullists, Italian Christian democrats and a coalition government in Germany. These political forces have little in common, except perhaps a centrist orientation in economic and social policy matters.

### **Facing the employment crisis: ALMPs in the context of mass unemployment**

The economic context of labour market policy changed dramatically after the oil shocks of 1973-75 and the subsequent economic crisis. All of a sudden, labour market policy had to deal with a new problem: mass unemployment. The idea of an active labour market policy was present in most countries, but the unfavourable economic context meant the labour market policy, no matter how active, could achieve little. Against this background, we see the emergence of a different ideal-type of ALMPs, the one I have labelled occupation, which does not really aim at putting jobless people back into the labour market, but more at keeping them busy and slow the deterioration of human capital associated with unemployment. This new function of ALMPs developed across countries, but through different channels that reflected previous policy.

In response to the employment crises of the 1970s *Sweden* radically transformed its system of active labour market policy. It is noteworthy that the crisis years (mid-1970s to the late 1980s) did not result in open unemployment in Sweden. This was partly the result of the expansion of public sector employment, which took place over the same period of time, but also a consequence of the liberal use of ALMPs. In fact, by providing an occupation to otherwise jobless persons, ALMPs allowed Sweden to keep employment at pre-recession levels (Mjoset, 1987): 430). This was obviously a rather new function for ALMPs, which was adopted by default

in the context of a stagnating economy with little net job creation outside the state sector.

What role did ALMPs play during those years? To find out, we have to turn to the evaluation literature. In the Swedish case, from the 1970s onwards, ALMPs resemble increasingly alternatives to market employment. On offer one finds essentially training programmes and relief works i.e. temporary jobs arranged mostly in the public sector. Typically, these jobs were used to renew entitlement to unemployment insurance (theoretically limited to 14 months). During these years, there was a relative shift away from supply-side measures towards demand side interventions: i.e. job creation programmes (Anxo and Niklasson 2006: 360). Micro-level evaluations pointed out that most of these schemes were rather ineffective in terms of favouring labour market re-entry (Calmfors et al., 2001). The original aim of ALMPs, to upskill workers so that they can enter more productive occupations, had somewhat fallen out of sight. Swedish ALMP had clearly moved towards the “occupation” type described above. During the same period (in 1974), Sweden adopted also a relatively strict employment protection law (Emmenegger, 2009). The 1970s can thus be characterised as a period of departure from the postwar Swedish model, with the country adopting many of the policy options that were being developed in Continental Europe.

With unemployment rising, Germany turned to active labour market policies in the second half of the 1970s. These measures were based on the Employment promotion act of 1969. In a development that is reminiscent of the Swedish story, the objective of this law shifted from the general upskilling of the workforce, to a tool aimed at reducing open unemployment, even though training continued to play an important role. The post-crisis years were characterised by a stop-and-go approach to ALMPs, partly due to the funding mechanism of these measures. Both passive and active unemployment benefits are financed out of the same fund. When unemployment is high, passive expenditure increases automatically, leaving less resources to finance active measures (Manow and Seils, 2000): 282. For example, after a sharp increase in the number of beneficiaries of ALMPs from 1,600 in 1970 to 648,000 in 1975, the numbers involved declined to 545,000 in 1982, under budgetary pressures (Frerich and Frey, 1996): 177; (Seeleib-Kaiser et al., 2008) 43 .

Active labour market policies were back with the return to power of the Christian democrats. The Kohl government, elected in 1982, expanded ALMPs in the context of a “qualification offensive” based on various labour market and training programmes. Between 1982 and 1987, the total number of participants in such programmes rose from 555,000 to 1.4 million (Frerich and Frey, 1996, Seeleib-Kaiser et al., 2008) 43). Most of these concerned training and employment assistance, but an increasing number of people (some 10%) were on job creation schemes in the non-commercial sector (ABM). During the second half of the 1980s, Germany had yearly expenses on active labour market policy of around 1% of GDP, which was above the OECD average. The figure was slightly up from the first half of the decade (around 0.7% of GDP, see Clasen 2005, table 4.5.).

Things were to change with unification in 1991. As former GDR companies underwent restructuring, redundant workers were given access to early retirement and labour market programmes, which again had the objective of limiting open unemployment. Spending on ALMPs peaked in 1992 at 1.8 % of GDP. At that time, however, the lion's share of active spending went to job creation programme (Manow and Seils 2000: 293; Clasen 2005: 61-2). The move was effective in reducing open unemployment. It was not, however, able to prevent a massive surge in the unemployment rate following the recession of the 1990s.

Other countries, which did not develop extensive ALMPs before the crisis, were somewhat slower in introducing active elements in their unemployment policy afterwards. In France, tensions between the government and the trade unions arguably delayed the adoption of such measures (Clegg 2005). However, starting from the mid-1980s French active labour market policy is a rapid succession of different tools targeted sometimes on different groups. In general, their objective is "occupation", i.e. providing an occupation to jobless people rather than labour market re-entry. Typically, much emphasis is put on the notion of "social insertion" or the possibility to participate to society without being in paid employment (Dufour et al., 2003, Barbier and Fargion, 2004). In practical terms, these measures consist of subsidised temporary jobs in the public or in the non-profit making private sector.

The development of French ALMP started in 1984 with the adoption of the TUC (*Travaux d'utilité publique* – public utility works) for jobless youth by the Socialist government. These were soon complemented in 1986 with the PIL (*Programmes d'insertion locale*) targeted on long-term unemployed and introduced by a Gaullist government. By 1989, these were replaced by CES (*Contrats emploi-solidarité*). In 1988 a general means-tested benefit was introduced (RMI, *Revenu minimum d'insertion*) which theoretically included an activation component in the shape of an insertion contract signed between the beneficiary and the authorities. In fact, as extensive evaluation of this programme showed, its ability to move beneficiaries into the labour market was extremely limited (Palier, 2002): 302-3). The French approach to activation is characterised by a strong emphasis on occupation, accompanied by a strong rhetoric of social inclusion, or "*insertion*". This trajectory was confirmed by the Socialist government of the late 1990s (1997-2002). Beside the well known law reducing weekly working hours to 35, the government introduced new job creation programmes, aimed at the young, subsidising jobs in non-commercial sectors for up to five years (Clegg, 2005):222.

During the post-crisis years and well into the 1980s and early 1990s, occupation is an important function of ALMPs. Training continues to play a key role, as shown by the spending profiles presented in figure 1 above. However, in such an unfavourable labour market context, training programmes can *de facto* become more akin to occupation than to effective human capital investment. The evaluation literature suggests that this might have been the case throughout most of the 1980s and early 1990s. This is a result reached in one of the first meta-analyses of

evaluation studies of ALMPs, where two OECD economists conclude that many labour market programmes are ineffective or even counterproductive in terms of their ability to bring jobless people back to the labour market (Martin and Grubb, 2001). This may be the result of the predominant orientation of ALMPs (occupation) in the time span covered by the study (1980s and early 1990s)<sup>3</sup>.

### **ALMPs since the mid 1990s: the “activation turn”**

The mid-1990s signal a new reorientation of ALMP in OECD countries. The economic context has changed. First, after the mid-1990s labour market conditions in most OECD countries begin to improve. Second, unemployment is essentially the result of an excess supply of low skill labour, and low skill workers may find it difficult to earn more from work than what their benefits are worth. The result is the development of a new role of ALMPs, which emphasises stronger work incentives and employment assistance. This reorientation is signalled also by a change in the language used and the increasing reference to the term “activation”. OECD countries clearly move in this direction, but in a perhaps surprising order. The pioneers of this new phase are clearly not those who initiated ALMP in previous periods. Arguably, the pre-existence of active policies with a different objective, slows down the development of activation.

Among the first to embrace the new activation paradigm in employment policy is Denmark, a country which up to then had done relatively little in the field of ALMPs (see figure 1). The Social democratic government elected in 1993 adopted a series of reforms that transformed the Danish system of unemployment compensation. The 1994 reform removed the possibility of re-gaining entitlement to unemployment insurance through participation in labour market programmes. It also set a seven-year limit to unemployment benefit. This period was subdivided in two phases: first a passive period of four years and then an active period of three years. Work availability requirements were also strengthened and individual action plans were introduced (Kvist et al 2008: 243; Madsen 2000). In addition, the reform introduced also the decentralisation of employment services, making it possible for labour offices at the regional level to develop labour market programmes suitable for their area.

The reform was based on the recommendations made by a tripartite outfit known as the Zeuthen committee, consisting mostly of representative of both the trade unions and employer organisations. The social partners obtained important concessions, such as an important role in the implementation of labour market measures. At the same time, however, they agreed to reorient unemployment policy in the direction of activation (Kvist et al 2008: 245).

Subsequent reforms further strengthened work incentives and employment assistance elements. The duration of the entitlement period was reduced first to five years (1996) then to four years (1998). The “passive” period was also shortened to

two years and to six months for unemployed people younger than 25. After this period, claimants had both a right and an obligation to a labour market programme.

The year 1998 signalled a further acceleration of the trend towards activation. First policy for youth unemployed took a strong step towards strengthening work incentives and investment in human capital. Measures adopted included a six-month limit on standard unemployment benefit for the under 25 and the obligation to participate in training for 18 months, with a benefit equal to 50% of the standard unemployment benefit. Second, with the adoption of a “Law on active social policy”, the principle of activation was extended to social assistance claimants (Kvist et al 2008: 241-3). Like in past reform, together with incentive-strengthening measures, more inclusive instruments are also adopted. This is the case of a programme known as flexjobs, which subsidises up to two thirds of labour costs for disabled people, without time limits (Hogelund, 2003).

Other countries followed the Danish lead in reorienting their unemployment compensation systems towards activation. Under Conservative rule, the UK had developed an approach clearly based on incentive reinforcement, with a series of reductions in unemployment benefit (Atkinson and Micklewright, 1989, King, 1995). A more significant step in the direction of activation is taken by the new labour government elected in 1996, on the basis of a centrist orientation in social and economic policy which became known as the Third Way. Concretely, a whole range of programmes targeted on various groups of non employed persons were developed since the mid-1990s. These consist mostly of employment assistance. They are coupled with incentive reinforcement, for instance with the introduction of a tax credit programme in 1998 (Clasen, 2005, Clegg, 2005). This orientation was further pursued in subsequent years, and is visible in the spending profile of UK's ALMPs, which especially in 2005 put by far most of the emphasis on employment assistance.

Sweden was somewhat slower to reorient its ALMPs towards activation, but since the late 1990s labour market policy places considerably more emphasis on incentive reinforcement and employment assistance than in the past. Work requirements have been strengthened so that those who are still jobless after 100 days of unemployment may be required to accept a job anywhere in the country and a wage up to 10% lower than the unemployment benefit (Clasen et al. 2001: 211). The unemployment insurance reform of 2001 further strengthened the pro-employment orientation of active labour market policy. This was done through a number of measures. First, the possibility to renew entitlement to unemployment insurance through participation in labour market programmes was abolished. Second, the reform introduced an “activity guarantee” for long term unemployed people or people at risk of becoming long term unemployed. This consists of more individualised activities clearly geared towards re-employment (Swedish Government, 2002, Timonen, 2004).

Germany is another latecomer to the activation paradigm, even though since the mid-1990s policy has clearly adopted this overall orientation (Clasen, 2005). One important step in this direction was the adoption of the so-called Job Activation Act in

2001. The reform included several of the measures that one finds in the standard activation toolbox: stricter monitoring of job search, the profiling of jobless people, reintegration contracts, wage subsidies (Clasen 2005: 72).

These changes, however, were not regarded as going far enough by the Schroeder government. In fact, only a few months after the adoption of the Job Aktiv Act, a new commission was set up and given the task to make proposals for the modernisation of labour market policy. The commission was headed by Peter Hartz, a former manager at Volkswagen. Its proposals included several measures, ranging from support to unemployed people who want to set up their own business, to the creation of a “Personal service agency”, a temporary placement service for unemployment people. However, the most visible and controversial proposal was the merger of long term unemployment benefit and social assistance (the so called Hartz IV reform), which resulted in benefit reductions for many recipients (Fleckenstein, 2008).

The activation paradigm, combining the incentive reinforcement and employment assistance has clearly gained influence over the years. Combined with an expanding economy until 2008, it has also produced more encouraging results than in previous years, so that more recent meta-evaluations of the micro-level effects of ALMPs provide a more optimistic picture of the potential of ALMPs (Eichhorst et al., 2008b, OECD, 2006). Their macro-level impact is more uncertain, though it may be the case that an emphasis on activation reduces the negative impact of job protection regulations on the long term unemployed (Pontusson, 2005) . But activation has not reached every corner of Europe. Italy, for instance is clearly lagging behind in this respect (Samek Lodovici and Semenza, 2008), France may have started moving in this direction in the late 2000s, with the merger of employment services and benefit agencies, and the transformation of RMI into RSA (*Revenue de solidarité active*), effective since 1<sup>st</sup> June 2009.

## Discussion and conclusion

It is clear from the evidence presented in this paper, based both on country expenditure profiles and narrative accounts of policy developments, that the notion of active labour market policy can encompass very different policies, with respect to their objectives, the tools they use and the way they interact with passive unemployment compensation systems. This results in a fundamental ambiguity which may actually be partly responsible for the success experienced by this policy idea over the last 20 years or so, since ambiguous concepts can act as focal points of political agreement (Palier, 2005). However, lack of clarity makes it difficult to use the notion of ALMP as an analytical tool. This observation calls for a more fine grained distinction between different types of active labour market policy, according to objectives pursued and tools used.

Second, the narrative accounts presented above show that there is little regularity across time and space of the political forces that are behind major ALMP initiatives. Even within each period we find a mix of left wing and centrist political parties among the initiators of ALMPs. On many occasions, a key role is played by the Christian democrats, in Germany with the 1969 employment promotion act, and during the 1980s and early 1990s. In Italy, the law on apprenticeship is adopted under clear Christian democratic rule. Using the four ideal-types presented in section 3 above, it appears that Social and Christian democrats share similar preferences for two types of ALMPs: human capital investment and occupation. Conservative and liberal parties have often supported incentive reinforcement instead.

Employment assistance, a type of ALMPs that emerged more recently as a cornerstone of employment policy, seems to be associated with left power. The four countries that embraced this policy option since the mid 1990s (Denmark, UK, Sweden and Germany) did so under left of centre governments. This may be related to the fact that budgetary problems and constraints imposed by economic globalisation have severely curtailed the room for manoeuvre to introduce traditional left wing labour market policies. An emphasis on employment assistance in the 1990s and early 2000s allowed left wing party to propose an option that was at the same time different from what their right wing competitors were favouring (retrenchment and the reinforcement of market incentives) and compatible with budgetary and international economic constraints.

Institutional factors have certainly played an important role as well in shaping ALMP trajectories across time. The narrative accounts presented here show that the countries which developed ALMP tools during the postwar years, essentially Sweden and Germany, were among the first to use them as a means to keep jobless people occupied during the employment crises of the 1970s and 1980s. France followed suit, but considerably later. Subsequently, the fact of having developed an ALMP system based on occupation caused a delay in the reorientation towards activation. The pioneers in this third phase were countries, Denmark and the UK, which had not developed these tools to any significant extent in previous years.

Institutional explanations make reference also to a possible crowding out effect from expenditure on traditional social programme (mostly pensions), which impedes the development of extensive ALMPs systems. This argument may play a role in the current phase of welfare state restructuring, by encouraging countries to turn towards the less costly variants of ALMPs, essentially incentive reinforcement and employment assistance, and shun the more costly ones, training and occupation. This view is compatible with the evidence presented above, and with the fact that during the mid-1990s – 2008 period of relatively strong economic growth, countries did not turn to vocational training to upskill jobless people, but preferred the less costly alternatives. This move was rather generalised, even though countries that invested in training in the past kept the lead in this sub-field.

Finally, it is clear from the above accounts that ALMPs as a policy idea has spread across countries, especially in the most recent period. Within each period, new variants of ALMPs are first tested in pioneer countries and then spread to other ones, where they often meet resistance, but little by little gain ground, supported also by international agencies.

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<sup>2</sup> Note that the selection of information presented here is based on more extensive country case studies, which look systematically at labour market policy developments in the six countries. Case studies can be obtained from the author.

<sup>3</sup> More recent metaevaluations have reached more encouraging results (see e.g. OECD 2006).



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