A New Employability Paradigm
Cross-cutting Measures of Retrenchment/Restructuring
of European Employment Policies

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Abstract

This article investigates the convergence of European labour markets in terms of the adoption of stricter conditionality policies to boost employment. A most different country design is used to test this hypothesis of convergence by showing that the various countries are engaged in promoting more market-conforming employability schemes. The country cases represent three different welfare regimes and include: Denmark, Germany, and the United Kingdom. However, though the study expects convergence, it is recognized that the changes are introduced in different “policy packages” that both include “soft” and “harsher” measures. Convergence might be explained with functional necessity or similar cause-effects beliefs within a new economic paradigm, but the article highlights the political logic of this process. The study argues that the variation in the implemented policy packages can be given a political explanation. The main political “room of manoeuvring” is created by combining issue-areas into various policy packages.

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1 Policy convergence is here defined as any increase in the similarity between one or more characteristics of a certain policy (e.g. policy objectives, policy instruments, policy settings). Policy convergence thus describes the end result of a process of policy change over time towards some common point, regardless of the causal process (Knill 2005: 768; see also Bennett (1991) and O’Connor (2007)).

2 Esping-Andersen (1990) identifies three types of welfare regimes: liberal (characteristic of the English-speaking world), social democratic (associated with the Nordic countries) and conservative (typical of Continental Europe), see also Iversen and Wren (1998) and Huber and Stephens (2001b).
Introduction

Labour market adjustments are becoming more pronounced in the current era of combined pressures from globalization (Strange 1996; Schwartz 2000; Gilbert 2002; Soederberg 2005; Ohmae 2005; Friedman 2005; Greve 2006; ERM Report 2007) and post-industrial socio-economic changes (Baumol 1967; Iversen and Wren 1998; Pierson 1996, 2001; Esping-Andersen 1999, 2002; Iversen 2001; Armingeon and Bonoli 2006; Korpi 2006). On these occasions, it has been generally observed that so-called “co-ordinated market economies” have been pulled towards more market conforming liberal practices in their current paths of labour market adjustment (Campbell and Pedersen 2001; Campbell 2004; Andersen and Etherington 2005; Bredgaard et al. 2005; Schmidt and Hersh 2006, Clegg 2007).

In this article the term market conformity builds on neoliberal prescriptions of the 1990s: more “wage flexibility” (lower minimum wages, lower “reservation wages”, more wage dispersion), more mobility across geographical regions and occupations, and stronger work incentives and/or sanctions to make job seekers more flexible (OECD various years). For some commentators, this trend has marked a qualitative shift from welfare to “workfare”, and thus may be considered as a form of retrenchment of social rights (Jessop 1994, 1997; Torfing 1999, 2003; Peck 2001).

However, to investigate trends of convergence in European employability schemes we need a tool of measurement. The approach put forward in this article departs with the current strand of measuring welfare state change by focusing mainly on retrenchment (Pierson 1994, 1996, 1998; Green-Pedersen 2002a, 2002b, 2007; Hacker 2004; Clasen and Siegel 2007). This article contends instead that these national labour market reforms cannot be measured properly without using a combined retrenchment/restructuring framework to account for both the efforts and effects of current changes. It is argued that changes commonly take place in three different, but nonetheless compounded parameters: political behavior, policy outputs, and policy outcomes (Campbell 2004; Streeck and Thelen 2005; Crouch 2005; Campbell et al. 2006). To shed light on how these parameters interact, both

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3 One view of globalization is that the primary pressure for convergence is economic: The most prominent of these convergence theories is the “Race to the Bottom” (RTB) hypothesis, [...] which assumes that the pressure for convergence comes from the mobility of trade and capital flows, and that the size of these flows overwhelms the ability of the state to act contrary to market forces (Drezner 2001: 57).

4 “Post-industrial” changes are defined simply as the changes in employment profiles of affluent societies, which have become more increasingly service-based. Along with, the occurrence of demographic changes of their populace: their populations have aged and radical changes have taken place in their household structures (Pierson et al. 2001; see also Esping-Andersen 1999, 2002)

5 Workfare schemes can be broadly defined as schemes which “require people to work in return for social assistance benefits” (Lødemel and Trickey, 2001: 6). More specifically, workfare refers to conditional income maintenance programs under which recipients of public assistance are obliged to attend a training or education scheme or to undertake a work activity (Freedland and King 2005:130).
Retrenchment and restructuring are dealt with, enabling us to assess employability schemes as strategies of combining issue areas into various policy packages (Gornick et al. 1997; Heller 2001, Kaplow 2004). Policy outputs thus include efforts of restructuring and outcomes include effects of retrenchment in measuring the variation between the employability schemes.  

A combined retrenchment/restructuring framework is thus introduced to employ the notions of retrenchment and restructuring in two ways: (1) as two different strategies to achieve the common goal of a stricter employability paradigm. It is shown to be far easier for policy makers in Britain to promote labour market retrenchment without electoral losses (Ross 2000; Schmidt 2000, 2002; Taylor-Gooby 2004), whereas German and especially Danish legislators embark upon restructuring, although the employability schemes bear many similarities in terms of both outputs and outcomes (Coats 2006; Eichorst et al. 2006; Abrahamson 2006; Clegg 2007; Turner and Green 2007; Klitgaard 2007; Riley 2007). This implies that restructuring can be pursued in a more risk-free manner than retrenchment by advancing institutional changes of programs leading towards more market-conforming schemes; and (2) retrenchment versus restructuring strategies employ different instruments and thus create the variation between the three countries’ employability schemes. The new angle of this approach is to contend that the effects of retrenchment (accounted for in expenditure data) cannot account for the tactics of designing policy packages. The efforts of restructuring are thus enhanced to investigate the variations between stricter requirements and obligations on behalf of the job seekers, and to show how these schemes fit with different ways of reforming benefit entitlements systems in Denmark, Germany, and the United Kingdom (Bleses and Seeleib-Kaiser 2004; Abrahamson 2006; Funk 2007; Kvist and Pedersen 2007; de Koning et al. 2007). An additional task put forward in this article is briefly to discuss the policy implications of the various national tactics to boost employment. On this account, we are going to comment on the feasibility of the patterns of cross-national labour market convergence towards more market-conforming employability schemes.

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6 Restructuring is a largely diffused concept covering various meanings. Here, restructuring is defined as a political strategy of incremental change of programs and in an instrumental sense, it is defined as stricter conditionality schemes on behalf of the unemployed claimants.

7 According to Pierson, politicians worrying about their changes of being re-elected will shun retrenchment, unless they find some way of minimizing the electoral dangers (Pierson 1994). This research differs, however, from Pierson’s time-lag assumption (Pierson, 2001: 421). It is argued that, instead of making efforts to conceal cuts in expenditures, political leaders try to avoid them altogether by pursuing institutional change of programs targeted at more market-conforming schemes.

8 The assumption of cross-national policy convergence gains credibility by addressing the common statement of Blair and Schröder announced in 1999. And the Danish government’s stated ambition to shut down the activation industry in 2002 (More people at work 2002).
The Theoretical Argument

This study departs with the current strand of measuring welfare state change by its focus mainly on retrenchment (Pierson 1994, 1996, 1998; Green-Pedersen 2002a, 2002b, 2007; Hacker 2004; Clasen and Siegel 2007). In this literature, the question of what drives politicians to reform is highly under-researched, and relies to a large degree on the assumption that reforms are due to economic constraints (Huber and Stephens, 2001b; Kithschelt 2001; Castles 2001, 2004). By contrast, this article anticipates that the driver of change is a new European employability paradigm (Hall 1993; Dolowitz and Marsch 1996, 2000; Goul Andersen 2002; 2007a, 2007b; Casey 2004; Nedergaard 2006; Zeitlin et al. 2006).

From the outset, retrenchment is, however, a question of cuts in people’s welfare entitlements. Pierson has focused on explaining retrenchment by the variation across what he labels “the programmatic structure” of security schemes (1994: 166-176). Green-Pedersen defines retrenchment as changes in social security schemes making the scheme less attractive or generous to the recipients, such as cuts in benefit levels, stricter eligibility criteria, or shorter duration of benefits (Green-Pedersen 2002a, 2002b: 58, 2007). Changes in these parameters have been translated into potential budgetary savings, thus allowing measurements along a continuum of “more” or “less” retrenchment inflicted. A broad conceptualization, including restructuring efforts possibly leading to cuts in entitlements, is described as problematic, since the effects of the institutional changes will often be uncertain (Green-Pedersen 2002a: 11, 2007; Clasen and Siegel 2007; Siegel 2007). Another type of argument focuses on welfare state characteristics of social-security schemes arguing that universal schemes will fare better than selective ones (Rothstein 2000; Huber and Stephens 2001a, 2006; Armingeon 2006).

To investigate these variations between employability schemes, reforms of benefit entitlements and stricter conditionality measures in Denmark, Germany, and the United Kingdom are compared (Hatland 1998; Clasen et al. 2001; Voges et al. 2001; Barbier and Fargion 2004; Coats 2006, Eichorst et al. 2006; Klitgaard 2007; Clasen and Clegg 2007b; Seeleib-Kaiser and Fleckenstein 2007, Larsen 2008). This study shows, however, that the theoretical strand of retrenchment overlooks the policy implications of retrenchment and restructuring employed as different strategies. The approach put forward in this article suggests instead that a valuable tool of measuring labour market change is to illuminate

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9 For instance, Castles (2001) shows that the development of public expenditure from 1983-1995 depended on a number of economic factors such as unemployment and economic growth. Along the same lines, Huber and Stephens (2001a) argue that most welfare state retrenchment have been unemployment driven. And for Kitschelt (2001), the “push” factors for governments in relation to retrenchment are also economic.

10 Green-Pedersen employed “retrenchment” as the central concept, defined as “making a scheme less attractive to the (potential) claimants” (Green-Pedersen 2002b: 58).
how the various policy packages are designed to achieve stricter conditionality. Within the framing tradition, Vivien Schmidt (2000, 2002) highlights the importance of governments’ attempts to justify welfare state reforms through normative discourse. According to Schmidt discourse can be understood as whatever policy actors say to one another and to the public more generally in their efforts to construct and legitimate their policy programs (Schmidt 2002: 169). A strong affinity exists between these arguments about political discourse and arguments about the importance of framing for the opportunities of implementing stricter conditionality policies (Ross 2000). The framing strand is often based on the impact of partisan politics and the existence of differences between parliamentary systems (Hacker 1996; Kenski 1996; Druckman 1998; Ross 2000: 175; Green-Pedersen 2007).

The framing perspective thus differs from the restructuring/retrenchment approach put forward in this article, which more relates to the way in which the reforms are combined into various policy packages. This research embarks instead upon that the various national tactics of retrenchment or restructuring have both in common, the goal of promoting more market-conforming employability schemes. But by naming it politically less salient, as restructuring avoids to a certain extent the classic question in politics “who gets what, when, and how” (Lasswell 1950), which the notion of retrenchment, by contrast, opens up. Restructuring invokes the idea that welfare state reforms can be pursued in a more risk-free manner by advancing institutional changes leading towards more market conforming schemes. On this account, the institutional strand has usefully shown that significant policy change can occur in a context of institutional stability, and implicitly suggests that such change could be just as transformative as that brought on by institutional crisis or discontinuity (Campbell 2004; Streeck and Thelen 2005; Crouch 2005; Campbell et al. 2006). This perspective of various policy packages is not attainable by only measuring “more” or “less” retrenchment inflicted in certain policy domains. For example, by only measuring the budgetary implications of retrenchment, it will seem like the United Kingdom has retrenched the most, Denmark the least, while Germany is gaining a middle position. In other words, the same old scene of the three worlds of welfare capitalism prevails (cf. Esping-Andersen 1990). By contrast, the article anticipates what may seem at first glance as a minor incremental change may result in a huge impact by the way it is combined into a policy package. By comprehending restructuring efforts in this sense, this strategy may be straightforwardly announced as “the hidden politics agenda”.11 It thus requires a framework, which consists of broader parameters including the various forms of conditionality to be better equipped to understand the convergence patterns of the different employability schemes.

The combined retrenchment/restructuring framework thus, differs from the approaches carried out by Paul Pierson (1994, 2001) and Jochen Clasen (2005). As already

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11 By way of example, the Danish Institute of Technology (2007) treats “restructuring” efforts as a highly apolitical usage and as the talk of the day (see also the ERM Report 2007).
mentioned above, Pierson has focused on explaining retrenchment by the variation across social-security schemes (Pierson 1994). Clasen on his part has made an important step forward by suggesting that the assessment of welfare state change should be moved from macro-level analysis to policy domains. He furthermore compares changes, which take place simultaneously in different policy domains: unemployment support, pension systems, and family policy (Clasen 2005: 2-5). This article’s way of measuring welfare state change differs from Clasen’s by moving the argument a step further. This is done by suggesting that it is not necessarily the amount of changes in separate policy domains that is the most pronounced characteristic of welfare state change, as it can always be disputed by finding conflicting patterns in other domains. The approach put forward in this article suggests instead that a valuable tool of measuring welfare state change is to shed light on how the various policy packages are designed to advance change, or to put it differently, to show how the various instruments fit together.\(^\text{12}\) This article thus, makes a minor step forward in this direction by illuminating how the introduction of stricter obligations and requirements have commonly been pursued through the various reforms of the benefit entitlement systems in Denmark, Germany and the United Kingdom (Clasen et al. 2001; Bleses and Seeleib-Kaiser 2004; Abrahamson 2006; Funk 2007; Kvist and Pedersen 2007; de Koning et al. 2007).

A combined retrenchment/restructuring framework is thus introduced in order to measure the convergence of national employability schemes. Common indicators are used to measure variation between policy packages of reforms of benefit entitlement systems and stricter conditionality schemes in Denmark, Germany, and the United Kingdom. These indicators are classified into different incentives for labour market attachment for the unemployed: (1) financial incentives, (2) mobility incentives, and (3) activation incentives. Indicators of retrenchment are financial incentives: cuts in benefit levels, cuts in benefit durations, and stricter eligibility requirements (Barbier and Fargion 2004; Ludwig-Mayerhofer 2005; Eichhorst et al. 2006; Clasen and Clegg 2007a; Kvist 2007; Funk 2007). Indicators of restructuring enable us to assess how the various reforms of benefit entitlements fit with the development of stricter conditionality schemes: (1) mobility incentives: such as lower minimum wages, wage subsidies, and stricter job acceptance requirements with effective sanctions, for example, acceptance of part-time jobs and stronger demands of geographical and occupational mobility (Clasen 2005; Kemmerling and Bruttel 2006; Ebbinghaus and Eichhorst 2006; Palier and Martin 2007; Kvist and Pedersen 2007); and (2) activation incentives: for example, the replacement of relatively costly and time-consuming activation with shorter job training programs, the reduction of the passive bene-

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\(^{12}\) The approach is partly inspired by Clasen and Clegg (2007a, 2007b) when they investigate changes in various labour market instruments. This study, however, departs with their contribution by the introduction of a combined retrenchment/restructuring framework to deal with both a policy strategy and its derived policy package.
fit period, stronger control mechanisms with effective sanctions, such as stronger job-
seeking demands, and finally more severe sanctions, “workfare”: duty to work in return for
benefits (Bredgaard et al. 2005; Abrahamson 2006; Coats 2006; de Koning et al. 2007;
Riley 2007; Seeleib-Kaiser and Fleckenstein 2007; Larsen 2008).

In short, the study argues that by limiting the measurement of labour market con-
vergence only to cover the impact of retrenchment, we won’t be able to understand how
other forms of conditionality such as, stricter obligations and requirements, are also tar-
geted at market-conformity. The concluding part is briefly going to sketch out the policy
implications of the various national tactics adopted to boost employment. On this account,
we are going to discuss the feasibility of the cross-national labour market convergence
towards more “market-friendly” employability schemes.

**Benefit Entitlements – Level, Duration, and Eligibility**

*Denmark:* Since the second half of the 1990s, Danish governments have made consider-
able cuts in unemployment benefit rights. The bulk of these, however, have come neither
through selective reductions in benefit levels nor in tighter eligibility criteria. These
changes seem instead to have been caused by restructuring efforts: between 1993 and 1998
the period of time for which the unemployed could receive benefits was reduced to four
years, demands for participation in active labour market programs in return for benefits
were increased considerably, and the requirement to be eligible for benefits rose from 26 to
52 weeks of regular employment, within a three-year period (Kvist 2000: 243; Abraham-
son 2006; Klitgaard 2007). Conditionality has also been made stricter by reforming the
Ghent-system for insured recipients,\(^{13}\) such as: initially, the maximum benefit period was
set at seven years in 1994. The maximum benefit period was reduced to six years in 1996,
five years in 1998 and has been four years since 1999 (Goul Andersen 2002; Kvist and
Pedersen 2007:102).\(^{14}\) The maximum duration of benefits is thus currently four years, and
it has become a “right and a duty” that recipients take part in compulsory training pro-
grams. Danish unemployment benefits are, however, still very comprehensive by interna-
tional standards. Currently, it covers around 85 per cent of all benefit claimants, which
makes it to one of the most encompassing systems in Europe (Jørgensen 2007; Due and
Madsen 2007).

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\(^{13}\) Danish unemployment insurance follows the Ghent model, where insurance is voluntary and organized in
funds affiliated to trade unions (Klitgaard 2007: 180, see also Due and Madsen 2007).

\(^{14}\) The Danish system is based on private, but mainly state-funded, unemployment insurance funds with close-
ties to the trade unions. Benefits are calculated at 90% of the earned income during the previous 12 weeks
with a maximum of around 440 Euro per weeks. There is no waiting period. For unemployed not eligible for
unemployment benefits, means-tested cash benefits are available; approximately, it currently amounts to 20% of
the total number of unemployed (Madsen 2005; Andersen and Etherington 2005).
For young unskilled unemployed persons, the passive period, before entering mandatory activation, was reduced to six months in 1996. It was subsequently decided in 1999 to reduce the passive period to 1 year for both insured and non-insured adult recipients (Madsen 2006: 342). In 2006, it was further reduced to the currently 9 months (Kvist and Pedersen 2007:103). The current right-wing government has recently passed legislation (2002) in which full cash benefits require that the claimants have been living in Denmark for eight years. Modified benefits – a so-called “start allowance” set at roughly 45-65% of the standard benefit – will be available to people who do not meet this requirement. The start allowance provides claimants with somewhere between 45 and 64 per cent of social assistance and is equivalent to state student grants (Statens Uddannelsesstøtte). In effect, this is a program largely targeted at ethnic immigrants and refugees (Hansen 2005: 122, Abrahamson 2006, 370; Goul Andersen and Pedersen 2006). The 1992 rule that all young cash benefit claimants (aged 18 and 25 years old) without a qualifying exam have to seek immediate education is still a mandatory requirement for means-tested benefits. Non-compliance is thus met with withdrawal of benefits (Department of Employment 2005: 38). But what seems interesting, however, in the Danish case is that apart from retrenchment measures cautiously targeted mainly at minority groups and cash benefit recipients (The Danish Labour Market Board 2006; Jørgensen 2007), results of retrenchment shaped by cost-containment have generally been pursued through successive stages of adjusting stricter conditions of eligibility and duration than by straightforward cuts in the level of benefits.

Germany: Until the enactment of the Hartz IV reform, the German system was by international standards exceptional. Together with Belgians and Austrians, the German workforce was the only one in the OECD who received unemployment assistance that was both linked to their former wage and unlimited in duration (Kemmerling and Bruttel 2006: 102). A modification of this practice occurred, however, from June 2000 to July 2002, when unemployment benefits were frozen in real terms, which meant that they did not rise with average wages as in the past (Streeck and Trampush 2005: 184). The former system of unemployment protection consisted of a two-tiered unemployment benefits structure, with a third tier (general social assistance) available for those without, or insufficient, support of either form of unemployment transfer. The first layer (Arbeitslosengeld, ALG) is closely guided by insurance principles. The former practice was that unemployed people received 60 per cent of their last-earned net salary (67 per cent if they have depended children) for up to 32 months (Kemmerling and Bruttel 2006: 95). Historically, these rates had not been reduced much until the introduction of Hartz IV. There were, however, some

15 In 1990, a “youth allowance” was introduced for the 18- to 19-year-olds demanding early activation as a condition for receiving social assistance. By 1992, this had been extended to the entire age group below 25 years. And in the 1998 “Law on active social policies” which replaced the law on social assistance, this was further extended to the 25- to 29-year-old age group (Goul Andersen 2002: 70).
marginal cuts in the year of 1994 (Ebbinghaus and Eichhorst 2006: 9). For the claimants who had exhausted their ALG entitlement, or who did not qualify for ALG but had been in insured employment for a minimum of seventy days, the secondary system of unemployment benefit (Arbeitslosenhilfe, ALH) applied. Similar to ALG, the level of ALH was earnings-related, but at a lower rate of 58 per cent of gross earnings. However, ALH was financed by general taxation rather than by contributions. Eligibility was also made dependent on a means-test, which meant that the income of spouses was taken into account. The Arbeitslosenhilfe had a ceiling in that only a maximum of 4,250 € gross earnings could be taken as basis for the calculation of the benefit. The benefit was, however, payable for an unlimited period, provided unemployment and lack of resources persisted. Finally, social assistance (Sozialhilfe, SA) was the third form of support for unemployed people. As with Income Support in the UK, SA in Germany provides a guaranteed minimum income to all persons in need (not only unemployed) subject to a means-test (Clasen 2005: 54-56; Eichhorst et al. 2006). There has never been a ceiling on SA, since it was always paid in a lump sum. Additional expenses were granted according to need with no limit to the top, except for costs for rent (Ebbinghaus and Eichhorst 2006).

The most important shift in Germany has occurred in the benefit regime, which changed on 1 January 2005. The status-oriented benefit regime, in which benefits depended on former wages, is now substituted by a flat-rate benefit for long-term jobseekers aimed at securing a subsistence level income. In effect, the Hartz IV reform shortened the duration of unemployment benefit (Arbeitslosengeld) to 12 months (18 months for persons aged 55 or older, only in 2006), instead of 32 months in the past. After its expiry, jobseekers are covered by the so-called Unemployment Benefit II. The amount of benefit is fixed at the level of the former social assistance and hence, it is independent of the former income. The Hartz reforms thus, combined unemployment assistance and social assistance into a single, flat-rate and means-tested benefit calculated according to principles of social assistance (Arbeitslosengeld II) (Streeck and Trampush 2005: 185; Eichhorst et al. 2006; Clegg 2007). This departure from the former income is what actually breaks with the previous practice, because workers who were used to earn good salaries before becoming unemployed will now have to face a drastic decline in their benefit in comparison with the former unemployment assistance, which was both linked to former income and paid for an unlimited period (Kemmerling and Bruttel 2006). As a result, the long-term unemployed (approximately 80 per cent of the total claimants) is currently subject to the principle of “subsidiarity” (meaning the public support will be subsidiary to self-help), which implies that they have to exhaust nearly all of their own means before they can turn to the state for assistance (Ludwig-Mayerhofer 2005:95; Parlier and Martin 2007; Seeleib-Kaiser and

16 The unemployment benefit system in Germany builds on an insurance principle according to which both employees and employers currently pay 3.25% each of the gross salary into the unemployment insurance funds.
Fleckenstein 2007). The new system ensures, however, higher income replacement rates for a large proportion of people who would have received social assistance or unemployment assistance in the old system, due to the integration of certain supplementary “top-ups” that were not paid automatically under the previous system (Funk 2007: 128). Clegg argues that the new orientation in unemployment benefit policies is the recalibration of benefit rights. It is increasingly perceived to be necessary to gear unemployment protection systems to the risks borne by the growing number of workers with non-standard employment biographies, mainly by relaxing contributory conditions for benefit eligibility that are often premised on long periods of full-time labour market participation (Clegg 2007: 600).

**United Kingdom:** In 1996, the previously separated contributory insurance and means-tested support amalgamated into a single system, Jobseekers Allowance (JSA), which was universally applied. The JSA grants contributory support for a maximum of six months followed by means-tested support (Coats 2006; Clasen and Clegg 2007a: 177; Turner and Green 2007). As a result, the contributory-based funding of total transfers to unemployed people declined from 45 per cent in 1979 to 25 per cent in the mid-1980s, and from 16 per cent in the late 1980s to 9 per cent in 2000. On the same occasion, the earnings-related supplement of income support was also abolished. Income support, which is actually considered to be the most important assistance benefit, was paid at a rate equivalent to 29.5 percent of median earnings in 1983 and had fallen to 22 per cent by 1997. It continued to fall to 19.5 per cent by 2001 (Taylor-Gooby and Larsen 2004: 69; Taylor-Gooby 2005a, 2005b). This illustrates by its return to office in 1997, the incoming New Labour government did not reverse the retrenchment policies, which was enacted by the last of four successive Conservative governments.

An important aspect of Labour’s New Deal system is thus, that social benefits have been retained at low levels, resulting in the average out of work income maintenance at 27 per cent of GDP per capita is the lowest in the EU apart from Ireland. In effect, means tested benefits have become the clearly dominant form of support available to unemployed people in contemporary Britain. Whereas in the late 1970s more than half of all unemployed received contribution based support, 20 years later the rate had declined to about 16 percent, this figure was in 2002 ranked as the second lowest in the EU (Taylor-Gooby 2005b: 22; Andersen and Atherington 2005; Clasen 2005; Clasen and Clegg 2007b). In short, the character of social protection for unemployed people in the UK has significantly shifted from a mixed social insurance and needs-based support, towards one which is predominantly based on needs principles. And according to retrieves from Eurostat’s expenditure on passive labour market measures as percentage of GDP in 2005, Denmark spent 2.514 %, Germany spent 2.346%, whereas the United Kingdom only spent 0.187%.

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17 Passive measures: include out-of-work benefits, notably unemployment insurance, and early retirement (Eurostat 2007b).
Activation, Obligations, and Work Requirements

**Denmark:** Since 1993, both Social Democratic and Conservative governments have pursued a series of labour market reforms. It is worth noting that in 1993, Denmark introduced new labour market and social schemes to reduce unemployment and increase employability by adopting a training system for those groups at risk of becoming marginalized (Kris tensen 2006; Andersen and Etherington 2005; Pedersen 2006). However, the year of 1993 was also characterized by the launching of a vast expansion of activation measures, which are both a “right and a duty” for the unemployed. In the beginning, however, the “right” dimension was more prevalent, whereas in the 1994 checkup duty was more underlined (Goul Andersen 2002; Abrahamson 2006; Kvist and Pedersen 2007:102). Obligations and work requirements have seen the most dramatic degree of change. During the 1990s, various demands of tighter obligations became common currency, such as the acceptance of lower wages, and stronger geographical and occupational mobility on the part of the jobseekers. These obligations were accompanied by tougher negative sanctions for the rejection of jobs or training offers (Pedersen and Tranæs 2004; Martin 2006; Campbell and Hall 2006; Kvist 2007). The length of time that it is necessary to be unemployed before mandatory activation takes effect, has been reduced in successive reforms, and since 2006 it is nine months for the adult unemployed and six months for the young (Kvist and Pedersen 2007: 103).

In 2002, the Conservative-Liberal government launched a new major reform of labour market policy: “More people at work”. Madsen (2006) notes that the reform had broad political support, which seems to be an interesting observation, especially, by taking into account that the reform made considerable cuts in the number of initiatives designed to help upgrade the skills of the unemployed. As a result, regular up-skilling and training programs are mainly reserved to the unskilled and low-skilled workers. Education in the form of introductory courses, shorter labour market education, and shorter further education (18 months) now prevail (Larsen 2005; Kvist and Pedersen 2007: 105) In short, education and training entitlements have been reduced. Instead, more emphasis is now placed on guidance and contact meetings, as well as subsidized job training. By way of example, in the period from 1999 to 2006 has the amount of educational activation for both insured and non-insured recipients fallen with approximately 50 per cent (Danish Labour Market Board 2006: 24-26). The “work-first approach” thus appears by replacing longer-term activation measures with shorter job training, career guidance and CV-writing courses (Bredgaard et

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18 New arrangements for parental leave and education leave, introduced in 1992, were significantly improved. In particular, parental leave was extended from 36 to 52 weeks of which the first 13 weeks became a right for parents with children up to the age of eight. A third leave program, a sabbatical leave, was introduced under the same economic conditions as parental leave but conditional on job rotation (Goul Andersen 2002: 68).
al. 2005). And by following the stated ambition of the government to “close down the activation industry”, activation and individual job plans are currently used only to a very limited extent. In effect, the number of individual programs of the active labor market policy has been reduced from thirty-two different schemes to only covering three main types of instruments: guidance and qualifications, in-work traineeships and wage subsidies (Madsen 2006). For example, in the 1995 Service check of Labour market reform I (Budget 95) right and obligation to full-time activation in the whole active period was adopted, it occurred, however, after a passive period of four years. In the 2002 Labour market reform (more people at work) the opposite trend was that the demand of 75% activation in the active period was abolished (Kvist and Pedersen 2007:105). Higher priority is also given to job search control and in-person interviews, which is mandatory required every three months (Bredgaard et al. 2005; Madsen 2006). From 1992, it has also become a “right and a duty” for all young cash benefit claimants (aged 18 and 25 years old) without a qualifying exam to enter education. This practice is maintained and non-compliance results in the suspension of cash benefits (Department of Employment 2005: 38).

**Germany:** The shift towards “activation” started under the Kohl government. The starting point was 1993, when the government curtailed benefits, restricted the rights of the unemployed, and tightened requirements for benefit recipients to improve their employability and to carry out community related work (Aust and Bönker 2004). Several successive reforms, such as “The Social Assistance Act” in 1996, restricted the growth of benefit levels, introduced a new rule to widen the income gap between social assistance recipients and low wage earners, and tightened the sanctions for those refusing a reasonable job or activation (Aust and Arriba 2005:109; Ebbinghaus and Eichorst 2006). These schemes coincided with cuts in spending on active labour market policy (ALMP). And it is worth noting that upskilling and educational efforts have traditionally favored claimants of unemployment insurance, this practice has been upheld (Clasen and Clegg 2006; Clegg 2007). The important thing to stress is also that German ALMP efforts have always figured in the middle range of the OECD countries (Voges et al. 2001; Ludwig-Mayerhofer 2005:99). By comparing the amount of money spent on ALMP in 2005: Denmark spent 1.433 %, Germany spent 0.616 %, and the United Kingdom spent 0.116 %.

The 1998 Red/Green government initially opposed the more liberal measures of the right-wing government, but by 2002 it was implementing tougher entitlement criteria and stricter activation measures (Taylor-Gooby 2004: 218). This was clearly seen by the introduction of retrenchment crystallized by the new distinctive means-tested benefit for the long-term unemployed, as discussed above. The “Agenda 2010” reforms were launched by

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19 From January 1, 2008 stricter obligation will come into effect through the adoption of a digitalized system in which all benefit claimants are required (on penalty of benefit withdrawal) to enter once a week.

20 Active measures include training, job rotation/job sharing, employment incentives, integration of disabled, direct job creation, and start-up incentives (Eurostat 2007b).
chancellor Schröder and it implemented many of the recommendations given by the government appointed Hartz Commission. The reform goals included reducing non-wage labour costs, assisting the unemployed to find jobs quickly, making labour markets more flexible (e.g., easing employment protection rules), and fostering innovation (Agenda 2010). Radical changes were, however, already decided upon in the autumn of 2001 by the enactment of the so-called Job-Aqtiv act (Ich AG). The “Ich AG” was designed to facilitate the transition from unemployment to self-employment by easing the options for business start-up. It also eased the access to wage subsidies targeted at the expansion of mini- and midi-jobs (Clasen 2005; Eichorst et al. 2006). By tailoring Mini-Jobs (income ceiling of €400) the goal is to facilitate employment for low-wage earners. To this end, jobs up to €400 per month are exempted from tax and social contribution payments for employees; employers have to pay a flat 25 per cent of the wage in charges for tax and social insurance contributions. In addition, there are Midi-Jobs (income ceiling between €400.01 and €800), in which employees have to pay increasing social insurance contributions starting from 4 per cent up to the usual 21 per cent at the upper limit of €800 (Konle-Seidl 2005; Kemmerling and Bruttel 2006).

After the 2002 election, two “Acts of Promoting Modern Labour Market Services”; “Hartz I” and “Hartz II” were passed, introducing stricter rules for which jobs a benefit claimant was allowed to reject (Streeck and Trampush 2005; Eichorst et al. 2006). Once jobseekers are out of work for more than one year and thus receive Unemployment Benefit II, they are obliged to take any job regardless of the wage level, whereas earlier they were entitled to decline job offers that paid less than unemployment benefit II (ALH) (Ludwig-Mayerhofer 2005; Kemmerling and Bruttel 2006; Seeleib-Kaiser and Fleckenstein 2007). In effect, stricter obligations are seen by the imposed duty for recipients to accept jobs that are remunerated at up to 30% below standard wages. Regional and communal governments are exempted from this requirement and are free to remunerate their employees at even lower rates (Menz 2005: 205). These efforts coincide with a strengthening of work requirements. By way of example, apart from the acceptance of lower wages, recipients are also obliged to be geographically and occupationally mobile throughout the entire country (Ludwig-Mayerhofer 2005; de Koning et al. 2007). In effect, activation measures in Germany include: stricter job search/ acceptance requirements with effective sanctions, increased investment in training/job creation for the unemployed, development of reintegration plans/contracts for benefit recipients (Clegg 2007: 602). However, in Germany an automatic mandatory “activation” period equivalent to the British New Deal or the Danish legislation has been implemented only for under-25 year old benefit claimants (Clasen and Clegg 2007a). But rather than no activation at all, however, what we see in Germany is the selective development of activation, concentrated at the margins of the unemployment benefit system and/or directed to those without earnings-related support (Clasen 2005; Clegg 2007: 607). In sum, activation at the margins has allowed insurance arrangements to
renounce, *de facto*, their responsibility for “bad risks” without undermining the normative primacy of the employment basis of rights to guaranteed income replacement, on which the survival of Bismarckian social insurances depends (Palier and Martin 2007).

**United Kingdom:** Once unemployment started to rise in 1980, improving work incentives by widening the gap between income and earnings became a major reference point for subsequent social security policy. And in the 1980s, the Thatcher government pursued a market-oriented labour market policy. Benefits were cut back, union rights restricted, and a wide range of measures to promote flexibility established (Jessop 1994, 1997; Finn 2005b; Clasen 2005). Mobilization into paid work was seen as the primary antipoverty strategy for those who could be economically active. Legislation in 1989 introduced the “actively seeking work” requirement, directing all recipients of state assistance to demonstrate in person that they were seeking employment each week in exchange for their benefits, and refusing part-time work was no longer acceptable (Lødemel and Trickey 2001; Clasen et al. 2001; Freedland and King 2005; Finn 2005a). After a maximum period of thirteen weeks, the wage for a job ceased to be a criterion on which a job offer could be turned down. These policies continued through the early and mid-1990s and culminated in the enactment of “the stricter benefit regime”. This regime abolished insurance unemployment benefit and replaced it with the Jobseekers Allowance (JSA): the reservation wage was decreased by cutting social security benefits, and entitlement conditions were tightened in order to push unemployed in low paid jobs. As a result, a “work first” system was established marked by greater use of low-cost measures aimed at immediate job search and job entry (Peck, 2001; Finn 2005b; Clasen and Clegg 2006). Historically, this initiative is announced to be the most significant reform of income support since 1948: unemployment benefit and income support were replaced with a means-tested scheme (Freedland and King 2005:132).

The incoming New Labour Government of 1997 did not replace the JSA regime. The new activation line carried out by Labour was instead the introduction of the New Deal for young unemployed people. The New Deal is a workfare program in which all recipients after a 6 month passive period are obliged to accept job offers or education/training under the threat of benefit sanctions. It is worth noting that, apart from youth measures, the spending in the UK on active programs is almost negligible and remains one of the lowest in Europe (Madsen 2005; Andersen and Etherington 2005; Clasen and Clegg 2006). On this account, Jamie Peck argues that “the essence of workfarism involves the imposition of a range of compulsory programs and mandatory requirements for welfare recipients with a view to enforcing work while residualizing welfare” (Peck, 2001: 10). To this, he contends that the main paradox of employability is that it is more effective for those at the front of the job market but its practical effect is to minimize and residualize welfare provision (Peck 2001: 347). The “welfare-to-work” New Deal program provides four options for unemployed people, one of which they must select in exchange for receiv-
ing their benefit: (1) a job with the private sector, for which employers are subsidized; (2) entry into full-time or part-time education; (3) a job in the voluntary sector; and (4) participation in the environmental task force to enhance employability. Unlike previous programs, the take-up of one of these four options is mandatory, and non-compliance results in immediate suspension of benefit (Taylor-Gooby and Larsen 2004: 68). Originally framed as a temporary scheme to address the specific issue of youth unemployment, the New Deal has been institutionalized and increasingly extended to new groups in the labour market, including the 25-50 age group (in June 1998) and lone parents (in October 1998). Welfare-to-work programs such as the various New Deals for the unemployed and the more recently introduced Pathways to Work for people with a disability. With the introduction of mandatory work-focused interviews first for lone parents claiming Income Support and subsequently for individuals claiming Incapacity Benefit, the concept of mutual obligations has also been introduced for claimants of these and other social security benefits (Freedland and King 2005; Riley 2007: 65).

But the New Deal program is only one element of Labour’s welfare-to-work strategy. Apart from workfare activation, the jobseekers are also obliged to accept low wages, for example, part-time jobs, and to be geographically and occupationally mobile throughout the entire country. In addition, in-person job search control meetings are also conducted every fortnight (Andersen and Etherington 2005). According to Coats, the present government has introduced measures that constitute a significant re-regulation of the British labour market. This includes, for example, the extension of standard employment rights to part-time workers, more extensive information and consultation obligations for employers, a reduced period for unfair dismissal protection and increased compensation as well as a national minimum wage (Coats 2006). 21 Other measures, to boost employment in the low wage sector, include several types of tax credits (wage subsidies) targeted at different groups accepting low-paid jobs, such as lone parents, disabled people, families, and recently also single people. 22 To strengthen work incentives for the low-skilled unemployed and to reduce poverty in work resulting from high wage inequality in the strongly decentralized system of wage bargaining in Britain, the paradigm of strict activation with intensive monitoring of job search activities was complemented by very effective increases in tax-based in-work benefits (Funk 2007: 129).

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21 Before Labour re-installed the minimum wage in April 1999, some workers were earning as little as 2 pounds an hour or even less, often resulting in a poverty trap (Taylor-Gooby and Larsen 2004: 69).

22 The British government’s forecast for 2001-2, for example, was to spend more than 5 billion pounds on tax credits for low earners, and the number of low-wage families in receipt of tax credits doubled between 1997 and 2003 (Clasen 2005: 83).
Findings of a Combined Retrenchment/Restructuring Framework

This article has argued that the current debate of measuring welfare state change seems insufficient by separating reforms of restructuring from retrenchment. To account for both the efforts of restructuring and the effects of retrenchment, a combined framework was instead introduced to employ the notions of retrenchment and restructuring in two ways: (1) as two different strategies to achieve the common goal of a stricter employability paradigm; and (2) retrenchment versus restructuring strategies employ different instruments and thus create the variation between the three countries’ employability schemes. It was furthermore argued that the main political “room of manoeuvring” is created by combining issue-areas into various policy packages. To measure the variation between the various policy packages, common indicators were classified into different incentives for labour market attachment for the unemployed: (1) financial incentives, (2) mobility incentives, and (3) activation incentives.

In Denmark, though the duration of benefits were reduced from nine years to a four years maximum period, in successive reforms, it was, however, found that the overall unemployment benefit system seems intact and maintains its encompassing nature by international standards. This implies that straightforward retrenchment has not been a reliable option for Danish legislators. The most dramatic change has instead occurred in various conditionality schemes. But policy packaging seems also to have taken place, by minor incremental changes of cuts in duration of the unemployment benefit system, for example, the passive period before mandatory activation has been reduced to six and nine months, for young and adults, respectively. This, in turn, has opened a gateway to stricter obligations on behalf of the job seekers. An assumption, which gains credibility by taking into account that the current trend is also a replacement of relatively costly and time-consuming activation with stronger work requirements and obligations targeted at immediate and intensified job search activities. By way of example, activation incentives rely nowadays largely on the extended use of wage subsidies to companies and company trainee programs. In effect, in the period from 1999 to 2006, has the amount of educational activation for insured and non-insured recipients, respectively fallen with approximately 50 per cent (Danish Labour Market Board 2006: 24-26). In addition, stronger control mechanisms are also backed up by more effective economic sanctions in order to boost various mobility incentives, such as obligations of weekly job seeking statements, demands of geographical and occupational mobility and the requirement of accepting lower wages. This resonates well with the Danish tradition, due to its universal coverage tradition, the legislators have been cautious in carrying out straightforward retrenchment. Cost-containment is instead pursued through institutional changes of the various programs. This suggests that Danish legislators have embarked upon restructuring by adopting stricter mobility and activation
incentives, rather than relying on financial incentives (retrenchment) in their efforts to replace a human resource approach with a “work first” approach.

In contrast to the Danish case of adopting largely a restructuring strategy, more concordance seems to have occurred in the cost containment strategies adopted by both German and British legislators. These instruments of financial incentives have commonly been pursued through three main mechanisms: national minimum wages, tax credits to subsidize those on low wages, and policies to hold down benefit levels for those out of work to enhance work incentives. At first glance, it thus seems as Germany has opted for a retrenchment agenda by radically altering the duration and generosity of its benefit entitlements system for the long-term unemployed. But it is also important to note that the status and insurance based system still persists and still favors the core workers at the expense of people with more vulnerable labour market attachments (the young, women, and the unskilled workers). It is argued that the benefit system remains intact, but by restructuring efforts of cuts in duration and eligibility, it has become possible to continue to distinguish between a better-off, but shrinking, core clientele, for whom there has been relatively little retrenchment, and a growing periphery which has been affected much more, and with the gap between the two groups widening. The enactment of a stricter benefit regime for the long-term unemployed resonates also well with the mobility incentives carried out by German legislators, such as stricter job requirements, which cover both the acceptance of lower wages and demands of more occupational and geographical mobility. The introduction of a “work first” policy is also clearly pronounced by the absence of activation schemes and active labour market policies, which characterizes the German employment strategy of boosting employment in the low-wage sector. Activation measures heavily relying on tax credits to subsidize those in mini- and midi jobs won’t work without policies to hold down benefit levels for those out of work to enhance work incentives.

If we briefly turn to Britain, retrenchment was clearly on the agenda by the 1996 enactment of the Jobseeker Allowance. This regime abolished insurance unemployment benefit, the reservation wage was decreased by cutting social security benefits, and entitlement conditions were tightened in order to push unemployed in low paid jobs. It was also shown that the Labour government did not alter the Jobseekers Allowance by its return to office in 1997. Retrenchment to boost financial incentives has thus been pursued farthest by English legislators, by radically altering a mixed social insurance and needs-based support system to a system based purely on needs-principles. It is also worth to note, that retrenchment across the board seems to have occurred completely independent of partisan politics, which resonates well with Britain’s liberal tradition. By turning to the activation incentives of Britain, the New Deal is basically a workfare program in which all recipients after a 6 month passive period are obliged to accept job offers or education/training. Unlike previous programs, the take-up of one of the New Deal options is mandatory, and non-compliance results in immediate suspension of benefit. The suppression of the
reservation wage could even be argued to have been consolidated even further with the New Deal adopted by the Labour government. An activation policy based on workfare, national minimum wages, and tax credits to subsidize those on low wages won’t work unless the reservation wage is suppressed. The stricter benefit regime resonates also well with the various conditionality schemes to boost employment, for example, stricter job seeking control (every fortnight in-person interviews) and stricter mobility incentives such as, demands of more geographical and occupational mobility and the very harsh measure of accepting part-time work.

Briefly summarized, the country strategies of retrenchment and restructuring were shown to differ by the adoption of various policy packages. However, convergence of the various employability schemes was also to be found in quite similar outcomes and outputs: the enactment of stricter benefit regimes: cuts in duration and eligibility and the various instruments of “work first” policies: stricter job requirements of more geographical and occupational mobility and demands of accepting lower wages, as well as in the shift from relatively costly and time consuming activation to shorter job training programs heavily based on the various arrangements of wage subsidies.

Conclusions

In the current conceptual debate of measuring welfare state change, it has become common to distinguish between retrenchment and restructuring efforts. The argument put forward in this article is that presenting policy changes as restructuring efforts (institutional change of programs) rather than straightforward cuts in welfare entitlement (retrenchment) depend on different strategies of combining issue-areas into various policy packages. Changes in benefit entitlements and stricter conditionality schemes were examined in three different countries, representing three different welfare regimes: Denmark, Germany, and the United Kingdom. The article investigated the variation between the different employability schemes in order to measure cross-national convergence of employment policies. It was shown that conditionality criteria have become stricter in all three countries since the late 1990s. These patterns have moreover coincided with “work first” policies, particularly, in the shape of stricter obligations and work requirements. Common trends include: (1) reduction of level and/or duration of income support to those unemployed, (2) tighter eligibility conditions, and (3) resources shifted away from educational activation and training toward obligations and “work first” principles targeted at intensifying the job search activity. In sum, the empirical illustrations have illuminated how the debate of retrenchment versus restructuring overlooks the policy implications of retrenchment and restructuring employed as different strategies to create the various policy packages of stricter benefit and conditionality regimes.
An additional task, put forward in this concluding section, was to comment briefly on the policy implications of the cross-national convergence, which can be observed in the three countries’ employment policies. The term policy transfer was first catalogued by David Dolowitz and David Marsh, who defined it as “the process by which actors borrow policies developed in one setting to develop programs and policies within another” (Dolowitz and Marsh 1996: 357). On this account, it is also worth noting that cross-national policy convergence, by and large, touches upon the discussion of “best practices” and “policy diffusion” (Casey 2004; Zeitlin et al. 2005; Nedergaard 2006, de Koning et al. 2007). Quantitative-oriented benchmarking has become a key currency for evaluating the performance of national labour markets on an international level, whereas qualitative-oriented “best practices” is a more eclectic approach focusing on particularly successful policies that are worth importing into other countries. Statistical benchmarking favours policies that manipulate statistical indicators to achieve a better score. It puts countries into competition to discover, not necessarily the truly best practices, but strategies which improve their statistical profile. The risk thus, is that only short-termism prevails.

There exist also an actual danger of importing “one best practice”, if it does not pay any tribute to the country specific variation. This is clearly pronounced by the various labour market conditions, which prevail in the three countries. In Denmark, it is actually a quite remarkable trend to replace a human resource approach with a work-first approach, if we consider its good labour market performance of a record low unemployment rate (3.1 per cent) and its highest ranking score in the EU in terms of its employment rate (77 per cent). By contrast, Germany is troubled by a high and persistent unemployment (8.4 per cent) and a much lower employment rate (67.5 per cent). Britain, similarly to the Danish case, scores pretty well on its employment rate (71.5 per cent), but the demographic patterns of employment and unemployment (5.3 per cent) are more unequally composed (Eurostat 2007a), for example, only 32 per cent of women are in full-time work, well below the EU average of 41 per cent. Besides, lone mothers are twice as likely as women in general to be economically inactive (Taylor-Gooby and Larsen 2004). These country variations are becoming even clearer by taking different national traditions into account. Britain is characterized by a persistent liberal trend, which resonates well with its low growth strategy in international competition. By contrast, the political economies of Denmark and Germany have both chosen the pathway of a high growth strategy in international trade. It would be rather odd if these diverse paths are not to be reflected upon and prioritized in current labour market adjustments underway in the three countries.
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