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Capitalism**

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# Unemployment Insurance and Varieties of Capitalism

Jochen Clasen<sup>1</sup>

As in other social policy areas, changes in unemployment insurance usually figure as the dependent variable in comparative welfare research. Variations in programme expenditure, administrative structures, benefit arrangements, entitlement criteria, financing methods etc. are regarded as determined by factors which are prominent within comparative welfare state research generally, such as structural explanations of welfare development, political variables, early policy choices and institutional frameworks (Pierson, 1991; van Kersbergen, 1995, ch. 2). Even before the label was invented some early studies on unemployment benefit systems in particular can be loosely subsumed under the heading of “new institutionalism” (Hall and Taylor, 1996). For example, in his seminal work on the historical origins and development of income maintenance policies in Sweden and the UK, Hecló (1974) rejected both functionalist and labour movement theories and stressed the role of “political learning” on the part of bureaucratic elites as crucial determinants for policy direction. Alber (1981) emphasised the importance of early policy choice and institutional design in influencing the development of unemployment insurance systems with regard to control mechanisms, generosity and redistributive impact in advanced capitalist countries. Schmid and Reissert (1988; see also Schmid, Reissert and Bruche, 1992) illustrated that the mode of financing is a crucial variable in the determination of policy direction of labour market policy generally.

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The relevance of forms of governance, types of benefits and of institutional contexts impacting on unemployment benefit policy over time in Germany and the UK have been discussed elsewhere (Clasen 1992, 1994). Formulated within a “historical institutionalist” frame of reference (Steinmo et al., 1992) the argument employed there was that policy *direction* (contraction or expansion) can be linked to a combination of factors such as the current and expected state of the economy and the labour market, the prevailing macro-economic doctrine at the time, the capacity to implement change and the political ideology of the government. However, the type of policy or policy *manifestation* (general or selective changes affecting benefit access, level, duration and condition of eligibility) is “path dependent” and thus influenced by early policy choice and institutional factors which not only constrain or facilitate policy implementation but also impact on collective actors’ preferences, strategies and coalitions (see Appendix I).

In the light of recent labour market policy reforms in Denmark which seem to seriously challenge the notion of “path dependence”, it would have been intriguing to extend this type of investigation. However, this paper does not focus on causes of policy change. More modestly, it aims to explore economic roles of unemployment insurance systems and to search for country-specific “linkages” (Ebbinghaus and Manow, 1998) between this particular type of welfare programme and national political economies in three European countries (Denmark, Germany and the UK). Part I of the paper provides a brief illustration of major programme characteristics which demonstrate that this is, indeed, an area which displays a high level of “variety of welfare capitalism”. It proceeds with a brief sketch of the historical evolution until the late 1960s, illustrating growing divergence between national schemes. The subsequent sections of Part II address the central theme against the background of major benefit contractions and expansions in relation to four criteria: benefit entitlement, benefit levels, benefit durations and conditions for benefit receipt (such as availability for work, the right to turn down 'unsuitable' job offers or the requirement to take part in training or work experience). The first section discusses the instrumentalisation of unemployment insurance in the second half of the 1960s. This is followed by three country-specific sections in relation to benefit changes in the 1970s and 1980s. In the concluding section some considerations are provided about what appears to have become an important new role of unemployment insurance in the 1990s, particularly in two of the three countries under consideration here.

## **Part I**

### *Characterisation*

The feasibility, and indeed usefulness, of creating categories of welfare states has recently been questioned (Kvist and Torfing, 1996; Baldwin, 1996), and similar reservations can be expressed about the attempt to “typecast” particular policy programmes such as unemployment support systems. Broad typologies are in danger of downplaying the fact that each national social policy programme is made of different “mixes” between insurance and assistance principles and that there can be enormous differences even between national systems of the same “type” in regard to institutional structures, financing mechanisms and the ways in which they interact with other types of public policies (Pennings, 1990; Ministerie van Sociale Zaken en Werkgelegenheid, 1995). On the other hand, carefully derived categories have the potential to provide researchers with a frame of reference and thus a platform on which to build empirical research. Reissert (1994, 1997; see also Schmid and Reissert 1996) categorises programmes as either “insurance oriented” or “welfare oriented”, that is as programmes which emphasise the link between earnings and benefits by providing wage replacement transfers which maintain accustomed living standards (for a time at least) on the one hand and on the other those which primarily aim to prevent poverty by providing moderate, and often means-tested, benefits only. Drawing on Esping-Andersen’s (1990) distinction between types of welfare capitalism, Ploug and Kvist (1996) develop a three-fold categorisation in relation to degrees of benefit generosity and universality, and distinguish between countries with selective, residual and comprehensive forms of unemployment insurance systems.

One of the main criteria for such a characterisation has been the level by which benefits replace lost earnings which differ between groups of unemployed and lengths of unemployment spells (see Appendix II). A composite replacement rate (OECD, 1994 and 1997) shows a steep appreciation of the Danish replacement rate in the late 1960s which has since remained very high in comparative context. By contrast, the British replacement rate has steadily declined since the late 1970s, reaching the lowest level in Europe (except for Greece and Italy) by the early 1990s. The German situation is remarkable in that its middle position hardly changed between the early 1960s and the early 1990s (OECD, 1994: 174). Of course, a thorough evaluation of the

generosity of unemployment compensation would need to go beyond “benefit replacement rates” and look at the structure and level of the package of unemployment support as a whole, taking account of transfers which might supplement unemployment benefits (Fawcett and Papadopoulos, 1997) and other types of public interventions, such as free or subsidised public transport or services. What is more, Grimshaw and Rubery (1997) have shown that a combination of replacement rate and level of benefit coverage produces a picture of the relative degree of social protection for male and female unemployed across the EU, which is significantly different from evaluations based on “replacement rates” alone. With this in mind, the following classification should be read as partial, focussing on unemployment insurance (generally the most important aspect of support for the majority of unemployed, although not the only one - and not everywhere).

Having followed the Ghent model, the Danish unemployment insurance system today remains voluntary and highly tax subsidised. In cross-national context the scheme is very generous, with relatively easy access requirements, high wage replacement rates and a long duration of benefit entitlement (see Appendix II). Despite a decline in generosity after 1982, the level of compensation has not been altered significantly and remains particularly favourable towards low income groups because of the low ceiling which makes benefits effectively flat-rate. Referring to the mid 1990s, the system had arguably “by far the highest replacement ratio in the OECD-area” for manual workers (PLS Consult and Jensen, 1996: 51). What is more, control measures were leniently applied so that “the duty to take a job is maintained but during recession periods (such as 1987-1993), the unemployed were not too frequently offered a job if they didn’t want it” (Goul-Andersen, 1997: 162). Finally, pro-active policies introduced in the 1970s and 1980s prevented long-term unemployed people from falling outside of the insurance system (Larsen, 1991). Although the maximum benefit duration was considerably curtailed in the mid 1990s and new obligations on the part of the unemployed have been introduced, in comparative perspective one might characterise Danish unemployment insurance as solidaristic or “comprehensive” (Ploug and Kvist, 1995: 73). One of the outcomes of this system is its contribution to the extremely low level of poverty amongst households with the head of the household out of work, compared with other EU countries (Goul Andersen, 1997: 169).

By comparison, the German system is far more differentiated or “selective” (Ploug and Kvist, *ibid.*). Designed as 'workers insurance' it provides relatively generous support for 'better contributors' and higher income earners because benefits are earnings-related and there is no upper ceiling. Its compartmentalised character is underlined by the existence of an unemployment assistance scheme and by the ways in which both transfer systems relate. While unemployment benefit (UI) is financed by equal contributions from employees and employers, the secondary unemployment assistance (UA) scheme is entirely tax financed and provides (lower) earnings-related benefits which are subject to a means-test. UA is, in principle, unlimited for those who have exhausted entitlement to UI but restricted to one year for other claimants (see Appendix II). The role of means-tested and locally provided and financed social assistance, as the third and last resort of public support for unemployed people, has become much more important for an increasing segment of the unemployed in Germany than in Denmark. It is also generally significantly less generous and based on a harsher family oriented means-test. Empirical evidence shows that the type of benefit received has a strong impact on the social status as perceived by long-term unemployed people themselves (Clasen et al., 1998).

The diversity of the systems is also underlined in the 'beneficiary ratio', i.e. the proportion of registered unemployed in receipt of insurance transfers. In Denmark improvements in the benefit system during the 1970s resulted in an increase in the beneficiary rate to over 80% in the 1980s. In Germany the proportion of unemployed in receipt of insurance benefits declined after the mid 1970s from about 80% to between 60% and 70% in the late 1980s. Since then the beneficiary rate has been around 75%. More significant is the shift from UI to UA. Before the mid 1970s about two-thirds of all unemployed received UI compared with 40% by the end of the 1980s. Since then the rate has improved to 50-55% in the mid 1990s (see Appendix III, Table 4).

By contrast, in Britain there has been a continual decline of those in receipt of either only unemployment insurance benefit from over 50% in the mid 1960s to around 20% in the mid 1990s. Differences to both the egalitarian comprehensive Danish system and the status and wage-replacement orientation in Germany are also evident in other respects. During the 1980s and 1990s, the level of unemployment support in relation to average earnings has continually decreased, reaching less than 25% of previous net earnings for a typical blue collar worker by the

mid 1990s (Ploug and Kvist, 1996: 65). Because of a lack of wage indexation this decline is likely to continue, making access to other means-tested benefits (housing allowances, council tax rebates, discretionary social fund payments) even more necessary. Recently, the residual needs-oriented character of British unemployment insurance became even more obvious when the maximum entitlement period for insurance based benefits was halved to six months in 1996, after the introduction “Job Seekers Allowance”. The comparatively much more common recourse to means-tested benefits which are not much lower (if at all) than insurance benefits explains the notion of “being on the dole” in the UK as an expression of being unemployed and in receipt of state benefits, blurring the distinction between benefit types and principles.

### *Three brief histories*

Unlike other main branches of social insurance which originated in the latter part of the 19th century, unemployment insurance schemes were introduced only during the first decades of this century when, as a consequence of the formation of national labour markets, employment became an institutionalised category and unemployment an administratively recognised social status and thus more visible as a social problem and pressing as a political issue. There are other reasons for the belated introduction of unemployment insurance (see Leibfried, 1977; Alber, 1984; Digby, 1989) but it would go beyond the scope of this paper to discuss these, or the detailed historical processes which led to their creation (for details see Fÿhrer, 1990; Digby, 1989; Whiteside, 1991; Clasen, 1994; Social Tidsskrift, 1946). However, a brief sketch regarding the different roles social partners played, and trade unions in particular, sheds some light on the somewhat different functions unemployment insurance systems have today in the three countries under investigation.

In Britain, the limitations of existing local authority and charitable enterprises together with union-run self help schemes became obvious during the first decade of this century. Mass demonstrations by jobless workers and the newly elected “New Liberal” government in 1906 paved the way for a more interventionist approach in the labour market. Earnings-related contributions were rejected since better paid workers should be able to support themselves and continue to obtain help from union-run funds. In fact, public support was seen as secondary to



savings and trade union benefits (Deacon, 1976). While trade union practice and experience was highly influential for the administrative framework of public support (Hennock, 1987: 190) the principal aim of unemployment insurance was to introduce a modest public system which included non-unionised workers and those not covered by existing unions funds which were largely confined to skilled workers. Thus, workers' contributions had to be kept low and supplemented by state subsidies and contributions by employers. This funding arrangement was a compromise since employers had refused to contribute to union-run schemes, while unions had favoured a system excluding non-unionised workers (Ritter, 1983: 93).

This agreement between the state, unions and employers came under threat after World War I when the coverage almost trebled. Trade unions rejected the expansion of the contributory system and argued that the government should provide subsidies to union run schemes in order to allow protection of those workers not part of union funds. As a compromise, some industries were permitted to "opt out" of the state scheme and to receive a subsidy in order to cover all workers. However, this was later severely restricted and finally abolished in 1927. Since then trade unions have had no influence on the development of unemployment insurance in Britain (Toft, 1995). Except for funding arrangements, the Beveridge reforms left basic principles left untouched. In order to leave room for private savings or voluntary contributions, modest flat-rate benefits continued to be paid for relatively low flat rate contributions, which were now to be paid by both employers and employees into an integrated National Insurance Fund, subsidised by the state. However, benefit rates were set at a lower level than had been suggested by Beveridge. Thus-, the recourse to additional means-tested benefits in order to meet the costs of family needs or accommodation became inevitable for any unemployed person out of work for longer than only a brief period of time.

In contrast to the British system with its emphasis on superceding the Poor Law and concentration on non-organised workers, the eventual introduction of unemployment insurance in Germany in 1927 was, as the much earlier enacted old age and invalidity pensions, intended to appeal to industrial and better paid workers, that is "primarily to the strong, not the weak" (Hennock, 1987: 185). Before World War I trade unions generally favoured the idea of publicly subsidised unemployment support funds administered by trade unions themselves and rejected

proposals of a compulsory state run system. Yet high unemployment levels during the 1920s, organisational changes in trade union structures and the increased propensity for state intervention in the economy and labour markets in favour of corporatist organisations were important ingredients which lowered the reluctance of trade unions against a statutory system and facilitated the implementation of unemployment insurance (Faust, 1987; F hrer, 1990). What is more, by the mid 1920s most trade unions had realised that social insurance systems, had actually strengthened rather than weakened the labour movement. Thus, after compulsory contributions to the means-tested workless assistance scheme (*Erwerbslosenf rsorge* - introduced after World War I) were imposed on employers and employees (Faust, 1987), the majority of unions started to favour the introduction of a scheme in line with other social insurance systems. Such a system would transfer state control to contributors and guarantee a contractual right to benefits based on contributions. This demand was supported by municipalities since it would reduce the recourse to welfare assistance for jobless people.

By the 1920s the “principle of parity” formally introduced in the administration of social insurance funds was becoming a “routinized pattern of settling conflicts in German industrial relations” generally (Manow, 1997). Thus social policy principles reflected those enacted in earlier schemes. A new semi-autonomous association outside of the state apparatus took over responsibility for the administration of the new scheme, to be controlled collectively by employers, trade unions and public authorities. Employers and employees paid equal shares as a proportion of employees’ wages, with the state covering any deficits. For those who exhausted their right to unemployment insurance, the means-tested and tax funded “crisis assistance” remained in place. This system was formally re-introduced in West Germany with the establishment of the Federal Labour Office (FLO) in Nuremberg and the introduction of a uniform benefit structure in 1956. Insurance transfers (*Arbeitslosengeld*) became officially termed a “wage replacement” benefit paid as of actuarial right based on a number of sufficient contributions. Unemployment assistance (*Arbeitslosenhilfe*) took over the role of the former “crisis assistance”.

Compared with Germany, the influence of Danish trade unions was and remained much stronger (Toft, 1995). To some extent this can be explained by the trade union reorganisation in West

Germany (*Einheitsgewerkschaften* - unitary unions) in contrast with Danish trade unions which continue to be organised on the basis of crafts and trades. Unemployment (and sickness) insurance funds developed according to the same demarcations with self-government by insured members as a central feature. These principles were not violated when a public unemployment insurance system was introduced in 1907 which promised subsidies to those unions which split traditional trade union activities from unemployment insurance funds (Greve, 1995: 5). The legislation not only provided support for existing schemes but allowed new ones to be set up. In the wake of the legislation the “unskilled workers union”, for example, introduced a system for its members and the overall number of trade union funds went up from 34 to over 50 by 1911. From 1921 onwards employers contributed financially to the schemes to a limited extent. Since then benefit levels have been increased substantially, especially during the 1960s, and the state subsidy has become the major funding source. What is more, the state has acquired the right to determine the level of contributions (fees) and benefits and, formally, the responsibility for unemployment insurance has been removed from trade unions to the state. Thus, in principle, it is possible to be a member of an unemployment insurance fund without being a member of the respective trade union. However, in practice this rarely happens. Indeed, as Toft (1996: 256) claims “the majority of the population is not aware of the formal separation between trade union and unemployment insurance. In practice, trade unions regard the insurance scheme as their own”.

In sum, from similar starting points the period before the early 1930s transformed unemployment support based on self-governed, trade union run schemes covering limited sections of the largely better paid and organised workforce to national systems which demonstrate a high degree of variety in terms of structure of governance, function, funding and delivery of unemployment insurance. As the next section will show, the institutional choices which were made at the beginning of this century continue to have a strong influence on the direction and scope of policy changes towards its end.

## **Part II**

### *1. Unemployment insurance as a mechanism for redeploying labour Ð the 1960s*

Benefit changes during the second half of the 1960s and the early 1970s (see Appendix IV) exemplify one economic function of unemployment insurance across countries. Based on favourable economic conditions and low unemployment, all three countries implemented changes in their programmes as one mechanism for facilitating labour market restructuring. Reforms were largely consensual, yet either initiated or strongly influenced by centre-left parties and implemented within corporatist economic policy frameworks. There were differences as to the degree and type of corporatism and in the ways in which benefits became more favourable: tentatively moving towards greater differentiation in the UK, widening access and thus becoming somewhat more egalitarian in Germany and becoming even more comprehensive and inclusive in Denmark (see Appendix IV).

Comparatively strict conditions attached (waiting days, limited duration) reflected the experimental nature of the introduction of the earnings-related supplement to insurance benefits in the UK. Higher benefit rates had already been contemplated by all major parties in the first half of the 1960s when unemployment was low, and expected to remain so for some time. Economic growth lagged behind rates achieved by other European countries. This situation was widely perceived as becoming even worse without interventions aimed at achieving greater labour market flexibility - especially of skilled workers. Benefit improvements were thus selective. They excluded more than a third of all unemployed who were without entitlement to insurance transfers and targeted those with stronger labour market attachment and thus entitlement to insurance benefits (Gilbert, 1966). Complementary to other policies aimed at promoting higher labour mobility at the time (redundancy payment, industrial training), earnings-related unemployment transfers were provided to better paid workers as an incentive to acquiesce to job changes expected to be brought about by declining economic sectors.

Thus the changes introduced in 1966 can be seen primarily as driven by economic rather than social policy concerns and steered by governments rather than demanded by trade unions. Indeed, what might appear from a social policy perspective as a move towards greater benefit

politicians - was set up in 1964 in order to deliberate unemployment insurance policy. Its report served as a draft Bill which was unanimously passed in Parliament because compromise had already been reached within the commission. The employers aim - to remove both unemployment insurance and employment services from union control - was strongly opposed as both services were seen as an important means to maintaining and increasing membership. A compromise was reached with unions accepting the nationalisation of employment services at the price of retaining unemployment insurance funds and substantial increases in benefit levels (Olofsson et al., 1987: 16). The financial consequences of that compromise were externalised to tax payers, with the state becoming responsible for the major part of the funding. However, at the time this was not regarded as a problem because of favourable employment conditions.

There is a second aspect which illustrates the economic function of unemployment insurance in Denmark. Benefit improvements in the late 1960s and early 1970s can be regarded as a substitute for a more proactive labour market policy and as avoiding pressure for the implementation of more rigid job security rules on individual firms (Olofsson et al., 1987; PLS Consult and Jensen, 1996). The lack of employment protection is an explicit acknowledgement of managerial rights, which goes back to the historic compromise between capital and labour at end of the last century (Lind, 1991). What is more, Denmark has never placed as much emphasis on “active labour market policy” as Sweden. This can be related to its much less Fordist industrial structure. Even in the late 1950s more than 60% of its exports emanated from agriculture (Nielsen, 1991: 5) and today a large share of Denmark’s internationally competitive commodities are still either agricultural or “part of the agro-industrial complex” (Nielsen, *ibid.*). During the 1960s the public sector became a major employer (especially for women) and a number of new manufacturing industries emerged. Yet Denmark’s industrial structure continues to comprise many small and medium sized companies and no large firms by international standards, despite some recent mergers (Scheuer, 1998). This industrial structure goes hand in hand with the high functional and, according to Boje and Madsen (1994), particularly numerical flexibility of the Danish labour force. Between 1980 and 1987, more than half of all employees changed firms within the same occupational group (Boje and Madsen, *ibid.*: 109) and it was estimated that about one quarter of the labour force experienced a spell of unemployment in any given year (Boje, 1991). What is more, temporary layoffs make up about 40% of all unemployment spells (Boje and Madsen,

generosity and a shift towards continental “status maintenance” principles aroused very little interest within the trade unions, or the wider public for that matter.

In Germany, reserves within the unemployment insurance fund facilitated benefit improvements in 1967. Originally been planned as part of the new Labour Promotion Act (AFG), these were implemented early as a panic response to the unexpected and sudden tripling of unemployment in late 1966. The speedy return to full employment, and the continued expectation of the need to facilitate labour market restructuring allowed further improvements in 1969 as part of the consensually passed AFG which, influenced by Swedish active manpower policy, put emphasis on “prevention” of unemployment via better access to and higher allowances for education, training and other policies of labour market integration. Benefit improvements (see Appendix IV) were seen as complementary to these policies, improving the allocation of labour and protecting workers who were expected to be affected by structural change. Improvements also made access to entitlement easier for groups with a weaker labour market attachment and thus lessened somewhat the traditional “status maintenance” character of social insurance in Germany.

In Denmark considerable benefit improvements introduced during the second half of the 1960s can also be related to the perceived need for greater labour market intervention and the attempt to improve labour mobility in particular. One aspect of this was the intention to transfer responsibility for the employment service from the unions to the state. Employers argued that this should also apply to unemployment insurance. Such a move would have been typical for the 1960s, a period of “reformative zeal” (Nørby Johansen, 1986: 301) with the state acquiring an increasing role in the provision and finance of social policy (old age pension, invalidity pension). Yet unemployment insurance remained, de facto, a programme run by trade unions, illustrating its particular role and status. Rather than social policy, trade unions have always stressed that unemployment insurance is should be seen as a part of labour market policy which, since the 1960s, has been strongly influenced by corporatist and consensual policy making and largely left to negotiations between social partners with little direct state influence.

The background to a major reform in 1967 reflects this (see Nørby Johansen, 1986). A commission, involving peak employer and employee representations and civil servants - but no

ibid.: 111). These labour market features are, according to Nielsen (1991), effects of the high female labour force participation, Denmark's industrial structure and the "system of unemployment benefits and the almost complete absence of legal or negotiated obstacles to firing workers" (ibid.: 9). Having accepted employer's discretion in "hire-and-fire" policies and acknowledged the need for high labour mobility, trade unions efforts have been concentrated on wage formation and the extension and improvement of social wages via public services and social security transfers, most notably unemployment insurance benefits.

## *2. The role of unemployment insurance in the 1970s and 1980s*

In terms of macro-economic policy making, the response to the effect of the oil price shock in the early 1970s was broadly comparable across the three countries. The occurrence of rising unemployment, low (or negative) growth and high inflation caused all three centre-left governments to abandon Keynesian demand-management by 1976 and to focus on controlling inflation rather than unemployment as the main policy target. Mass unemployment was also a characteristic for all countries during the 1980s, with Germany having the lowest overall and youth unemployment rates (see Appendix III). However, the role and fate of unemployment insurance systems was markedly different in the three countries.

### *2.1. Protecting core groups and the externalisation of old labour in Germany*

In Germany, the centre-left SPD-FDP coalition's initial response to the tripling of unemployment in 1974 was to improve benefits, easing access to unemployment assistance in particular (see Appendix IV). However, subsequent deficits in the labour market budget were not met by adequate contribution increases since those were unpopular with both the unions (reduction in net wages) and employers who resisted additional costs on production. This situation led to a compromise of moderate contribution increases combined with cut-backs in "active" programmes and selective benefit restrictions. This became a general policy pattern, with the structurally weaker position of "active" programmes at times of rising unemployment and cut-backs having been resorted to at several occasions since then (Schmid et al., 1992).

Another characteristic for the succession of benefit changes after the second oil price shock and even higher unemployment levels in the early 1980s were restrictions which were largely confined to groups less attached to the labour market, such as job starters (see Appendix V). Both centre-left and, after 1982, centre-right governments agreed that deficits in the FLO budget had to be covered by cut-backs and both (largely) refrained from restricting benefit rights for claimants with better contribution and employment histories. In this way, both SPD and the CDU led governments indicated their anxiety not to jeopardise their relation with the trade unions since this would have caused further frictions at a time of economic reconstruction.

Yet even policies restricting entitlements for other groups had limitations. In 1982 the social democratic-led coalition government planned to abolish completely the payment of unemployment assistance to those without prior receipt of unemployment insurance (Clasen, 1994: 157). This was successfully blocked by the conservative majority in the *Bundesrat* at the time, representing the *Länder* governments. Highlighting the influence of institutional structures on policy change, the same plan resurfaced on two occasions in the mid 1990s and remained unsuccessful with the parties proposing and opposing the move having swapped their respective positions as government and opposition.

Against the background of a return to modest and later strong economic growth and increase in employment, selective benefit improvements were implemented after the mid 1980s (see appendix). Once again illustrating the relevance of institutional structures, these improvements were actually cost saving for the government since they allowed claimants to remain in receipt of the contributory based unemployment insurance for longer periods and thus relieved the financial burden on the tax-funded unemployment assistance. More importantly, benefit improvements were reserved for contributors above a certain age with longer contribution histories and thus illustrate not only the status maintenance character of German unemployment insurance but also the system's role in the "labour externalisation regime" (Oppen, 1997).

Efforts to reduce labour supply via easier access to invalidity pensions and early retirement programmes were also common responses to mass unemployment also in many other countries, and in particular in continental European welfare states (Esping-Andersen, 1996). Yet their scope



was perhaps most extensive in Germany. As Oppen (1997) points out, German labour law and labour markets largely preclude combinations of part-time retirement and employment. Thus governments responded to growing long-term unemployment amongst older workers by successively extending the maximum unemployment benefit period which became a “concealed form of early retirement” (ibid., 265). Since workers over the age of 55 are well protected against dismissal by virtue of collective agreements, mutual consent was needed to terminate employment at the earliest possible date. This was achieved by companies topping up unemployment insurance, and subsequently early retirement, transfers to often full wage levels and providing compensation for the somewhat reduced level of pension entitlement. In other words, the unemployment insurance system became a crucial vehicle for maintaining collaborative relations between unions and employers since it allowed a compromise between trade unions’ strategies to secure employment and full wages for their members and managements’ labour adjustment strategies, in other words, a “micro and macro-level adjustment of the supply of labour at the cost of older workers and the social insurance institutions” (Oppen, 1997: 278).

## *2. 2. Unemployment insurance and trade union strength in Denmark*

Because of its stronger dependence on energy from abroad, Denmark was hit harder by the economic recession in the mid 1970s than the other Scandinavian countries. Inflation was increasing and the country was becoming rapidly “one of the world leaders in terms of trade deficit” (Marklund, 1988: 68). This situation had by 1976 contributed to the end of anticyclical Keynesianism (Fur ker et al., 1990). The unemployment rate increased from below 1% in 1973 to over 10% in the early 1980s. The financial consequences of a system in which there is no incentive on the part of unemployment funds to contain costs became visible when unemployment benefit expenditure rocketed after 1973 (N rby Johansen, 1986: 332).

Policy reforms however until the end of the 1970s, were still aimed at easing access to the unemployment insurance system and retaining those affected by unemployment within it, rather than excluding marginal groups (see Appendix V). Most important in this respect was the introduction of the so-called job offer scheme which provided a right to temporary employment

after a period of 2.5 years in unemployment. After completion, benefit entitlement was re-established for another maximum period of 2.5 years leading to another “job offer”, and so on. In addition to keeping unemployed within the system, an early retirement option (*efterløn*) was introduced for older members of unemployment insurance funds in 1978.

In the absence of a more active labour market policy, unemployment insurance became an important element within the government’s liberal crisis management, and membership in a voluntary trade union run unemployment insurance scheme more important than in the 1960s. As a consequence, and in contrast to a decline in trade union membership in many other OECD countries in the 1970s and 1980s (see Neumann et al., 1991), there was substantial increase both in the number of trade union members and union density which rose from about 60% during the 1960s to 78% in 1980 and over 80% by the mid 1990s. In addition, many white-collar unions began to establish their own unemployment insurance funds in the 1970s, resulting in the disappearance of traditional differences in the degree of union organisation (Scheuer, 1998: 158). The growth of female employment, often regarded as potentially weakening trade union strength because of the high propensity for part-time work, has not adversely affected Danish trade unions. On the contrary, the rapid growth in female labour force participation during the 1970s (to a level of over 80% and thus almost as high as men’s participation rate by the late 1980s), was accompanied by an even more impressive increase in the unionisation rate amongst female employees (Scheuer, 1998). Arguably, this can at least partly be attributed to the unemployment insurance system. While women have been disproportionately hit by unemployment, they have also particularly benefitted from unemployment insurance because of its openness for part-timers and other features which made it even more accessible and generous during the 1970s. An additional aspect is that unemployed people retain trade union membership. Perhaps not surprisingly therefore, surveys show that membership of an unemployment insurance fund is the most important reason for joining a trade union (Lind, 1996). In turn, because funds are seen as an integral part of union organisation, Scheuer argues that especially in manual unions “norms of solidarity with the unemployed are dominant” (1998: 159). Writers such as Neumann et al (1991) consider the Danish unemployment insurance scheme a “state financed system of union recruitment”.

In short, an important aspect of unemployment insurance in Denmark is its impact on the position, and legitimacy, of trade unions. Arguably, the system helped to fend off attacks by conservative-led minority governments after 1982 which were aimed at weakening trade union influence (Andersen et al., 1996). This then, in addition to the aim of reducing public spending, is the background to two major changes introduced within unemployment insurance in the early 1980s (see Appendix V). However, the freeze on benefit levels (later restored) and increased membership costs did not deter but actually increased membership in unemployment insurance funds and trade unions.

A more forceful attempt to lower the generosity of the system was perhaps improbable given the weak parliamentary position of conservative-led minority governments during the 1980s. Such a move would have contradicted a broad consensus over social policy, and even more so labour market policy, which was reached in the 1960s. As part of it, the basic features, and role, of unemployment insurance were consensually acknowledged between the four major political parties and a programmatic change towards significantly lowering either benefit or beneficiary rates would have faced considerable opposition both within parliament and beyond. It would also have questioned existing solidaristic values in Danish society, expressed in, for example, a relatively compressed wage structure with high minimum wages, and would have challenged the system's dual role in maintaining unemployed people within mainstream society while underpinning high labour mobility, as mentioned earlier. All of these aspects can be related to the generally consensual policy implementation in Denmark based on a system which has been characterised as "negotiated economy" (Nielsen, 1991; Pedersen, 1993). Less formal and indirect than corporatism, this system achieves coordination through a range of different institutions, including "campaign institutions" (representing interests of collective actors), "discursive institutions" (such as scientific bodies) and "policy institutions" (such as public committees and commissions). These institutions, according to Nielsen (1991), are needed in a country where state authority has been considerably dispersed and delegated (e.g. to social partners in labour market policy) and which relies less on legal administrative means and more on concertation and planning and preserving collective solidarities (Amin and Thomas, 1996). This "discursive coordinaton" can involve lengthy processes, tensions and conflict before eventually achieving a broad consensus over long-term policy aims.

Regarding policy orientation during the 1980s, Nielsen (*ibid.*) refers to the building of “elite” consensus over the need to improve the international competitiveness of Danish industry. The successful control of wage increases and limitation of public expenditure were two areas which contributed to this aim in the early 1980s. Another significant shift was the gradual acceptance of abandoning previous largely non-interventionist supply-side policies towards adopting structural policies aimed at increasing the level of technology, education and research. Until the early 1980s, features of Danish industry such as a predominance of small and medium sized companies, specific specialisation patterns and employers’ discretion over redundancy in exchange for generous social security transfers were previously regarded as a strength of the Danish political economy. This perception changed following the persistence of a number of macro-economic problems (most notably the balance of payments), the elimination of the exchange rate policy as an economic instrument and, according to Nielsen, the realisation that the international competitiveness of the Danish industry was influenced “by other features than relative unit costs of labour” (*ibid.*, : 21).

The gradual recognition of the importance of supply-side measures contributed also towards a shift in the thinking about the role of unemployment insurance. During the 1980s, unemployment and long-term unemployment became even more concentrated on the young, female and unskilled workers, while the average spell of unemployment increased. In addition, with the upswing in the economy in the mid 1980s, only a third of the growth of employment was attributable to the decline of registered unemployment (Boje and Madsen, 1994: 102). Thus, unemployment became increasingly identified as a problem of structural unemployment (Lind, 1997b; Madsen, 1996) and existing “job offer” schemes as inadequate mechanisms in promoting the integration of the long-term jobless. In the late 1980s this led to “intense discussions and negotiations in both parliamentary and corporate forums about proposals for reform of the unemployment benefit system, the hire and fire rules and efforts to improve the education and training of the labour force” (Nielsen, 1991: 29). In the 1990s, a number of committee published reports highlighting the limited mobility between a core and a periphery of labour markets and identifying existing unemployment policies as problematic due to their “passive profile” (Lind, 1997a). Policy generally should become more “active” and focusing extensively on labour supply (Andersen et al., 1996: 172). In the 1990s, this led to replacing the cash-oriented and

“liberal” with a “paternalistic approach particularly towards the long-term and the young unemployed” (Plovsing, 1994: 31).

### *2.3. Passivity under Labour and insurance erosion under the Conservatives*

Since the early 1970s, the role of unemployment insurance in Britain has significantly declined. This was due to the range of policy measures enacted under both the conservative Thatcher and Major governments but actually began under the Labour governments in the period 1974 to 1979. Overall the policy path can be regarded as “decremental” with only two decisions standing out: the early 1980s (abolition of the earnings-related supplement; temporary benefit reduction) and the introduction of the Job Seekers Allowance in 1996 (see Appendix)

When Labour regained power in 1974, unemployment had actually declined somewhat and was apparently no longer regarded as a political risk or major cause of poverty. This might explain the priority given to improving retirement pensions and perpetuating a differential benefit up-rating which had been introduced under the previous government. Unemployment insurance benefits were explicitly excluded from the more advantageous up-rating method applied to pensions and other long-term benefits which became uprated in line with prices or wages, whichever rose more rapidly. Thus, after 1975 the gap between unemployment insurance benefits and wages (and other benefits) widened. Time and again, this was justified with reference to the earnings-related supplement, notwithstanding the fact that the failure to reform the system led to a shrinking minority of claimants actually receiving the supplement (Clasen, 1994: 41). Indeed, far from becoming an established feature in the British unemployment insurance system, the main function of earnings-related benefits were to justify not improving unemployment benefits. By the mid-1970s, it had become evident that this comparatively “alien” element of British social security had failed to gain wider support, also by trade unions or the poverty lobby, while traditional needs-orientation (social assistance) became more pronounced again.

This situation made it relatively easy for the Thatcher government to abolish the earnings-related supplement in the early 1980s and to implement numerous smaller changes which “turned the screw” (Atkinson and Micklewright, 1989) on benefit entitlements for the unemployed, resulting

in a much reduced level of benefits in relation to wages, much more difficult access conditions and tighter benefit control measures (see Appendix V). As a consequence, the 1980s and early 1990s witnessed a massive increase in means-testing and parallel erosion of social protection based on insurance principles. For almost everybody under pensionable age, but particularly for the unemployed, insurance benefits became almost irrelevant (Erskine, 1997).

Relatively unconstrained by institutional structures (see Appendix I) and driven by a strong neo-liberal market ideology, these changes can be associated with other aims such as creating free markets, promoting choice and encouraging individual enterprise. These implied a reduction of taxation, privatisation, higher wage flexibility and market deregulation. In the field of welfare, emphasis was put on individual provision- and distribution of scarce resources only to “those in real need”. Whether successful or not as a whole (Graham, 1997), certain policy aims were achieved, such as a substantial weakening of the role of trade unions (Edwards et al., 1998) and the abolition of wage regulating elements, such as Wages Councils which fixed minimum wages in some sectors and for younger employees in particular. As a result, in comparison with other countries, the widening of pay and income inequalities during the 1980s were particularly pronounced in the UK (Goodman et al., 1997) and the relative position of the lowest paid declined. Such a situation, a strong adherence towards the principle of “less eligibility” and periodic attacks on, allegedly, widespread benefit fraud, put pressure on benefit levels and ruled out measures to integrate long-term unemployed via wage subsidies to employers. Instead, British unemployment and labour market policy during 18 years of conservative rule was basically low-cost supply-side driven, concentrating exclusively on benefit control and job search activities, with limited training opportunities. In the mid 1990s this led to experiments with “workfare” programmes (Finn, 1997).

### *3. The 1990s: “activation” in Denmark, “new deals” in Britain - and what in Germany?*

In the future, the 1990s might be seen as the decade in which national unemployment insurance systems in many EU countries acquired a role significantly different from those in previous decades, making benefit entitlement more conditional on behavioural aspect and stressing the

need to “activate” the unemployed via an array of measures including training, education, job placements etc. and/or compulsory work programmes (see European Commission, 1997a, 1997b).

Amongst the three countries under investigation here, the traditionally Danish cash-oriented unemployment insurance has undergone the most drastic policy shift in recent years. In (see Appendix VI). In 1990, a joint report by the Ministry of Finance and Ministry of Social Affairs proposed the “activation” of “passive” benefits for all long-term publicly supported persons. In principle, this was supported by the Social-Democrats in opposition at the time and paved the way for later labour market reforms and a “re-orientation of social policy” (Plovsing, 1994: 31), involving a combination of improved training opportunities, better conditions for labour market exit both permanently (efterløn) and temporarily (leave schemes), as well as reduced allowances for job offers and job training for younger claimants. Another steep rise in unemployment and the introduction of the social-democrat led government in 1993 promoted labour market reforms which criticised existing arrangements as facilitating the loss of working capacity and fostering the exclusion from the labour market of the long-term, and particularly young, unemployed. Without reducing the level of income transfers, this was to be changed by assembling existing “activating” measures into a “coherent scheme” (Lind, 1997a). As one of the central features, a maximum benefit period was fixed at seven years with a period of supported employment ceasing to be a condition for benefit requalification (see Appendix VI). Activation measures (education, training) and other programmes (counselling) were to set in earlier on the basis of individual action plans “drafted and signed by both the labour exchange and the unemployed” (Torfing, 1998: 18). Options for access to leave of absence schemes were improved, making temporary labour market exit for child-care or educational purposes more attractive for a substantial number of both employed and unemployed people who made use of this method of reducing labour supply (Madsen, 1996).

Motivated by an upswing in the economy and decline in unemployment after 1993, including some signs of shortages in skilled labour, these policies were revised in 1994 and 1995, resulting in a further reduction in the maximum benefit period to 5 years and more emphasis on “activation” particularly for young unemployed under the age of 25 (see Appendix VI). In

addition, the leave-of-absence schemes for reasons of education, child minding or sabbatical were made financially less attractive after having been improved only a few years before. The broad acceptance of these new policies even by trade unions might be explained with the need to being able to demonstrate that unemployment insurance caters exclusively for claimants who are keen to get back into employment. Only this will legitimise both a generous unemployment insurance system and its characterisation as a labour market rather than a social policy instrument. In other words, if there were doubts that unemployed benefit claimants might not be available for a vacant job, “they are a threat to the existence of the present unemployment system” (Lind, 1991: 42). Thus, trade unions are “actively supporting a differentiation among the unemployed” (Lind, 1997a: 9), i.e. between members and the non-members of the unemployment insurance fund, with “activation” programmes focusing particularly on the latter group of mainly younger people and those in receipt of social assistance. What is more, the “activation” policy can be considered as a compromise. Generous benefit levels were maintained at the cost of more obligation on the part of the long-term unemployed to become activated.

In Britain, one of the central ideological aims of New Labour government has been to redefine rights and responsibilities within the welfare state (Cm 3805, 1998). For too long, Blair has argued, left thinking has neglected the issue of obligations at the expense of rights (Blair, 1995). Instead the ideological focus should be the moral conditions for the creation of a stable market economy with a much more flexible labour market which is open to all. Underpinned by a minimum wage, participation in paid employment is to be the norm for all in an “active society (Walters, 1997) and the principal means by which to achieve full citizenship (Lister, 1998). Distributional conflicts between capital and labour are a thing of the past. Within a modern society, it is the government’s obligation to offer people the opportunity to access the labour market (education, training etc.) and the peoples’ obligations to accept those offers.

Regarding unemployment insurance, it is not difficult to link this thinking to tougher job seeking requirements previously introduced under John Major. Instead of repealing the reduction of insurance rights and increased benefit restrictions, New Labour announced the introduction of a “new Deal” which applies particularly (but not exclusively) to young unemployed. Coming into force this year, this includes the requirement that, after six month of joblessness, claimants under



the age of 25 will have to accept one of four options: a subsidised job with a private sector, within the voluntary sector, with a newly created “environmental task force”, or full time education (for those without qualifications). The first three options will provide benefits plus a small addition, last for six months and include elements of training or education. Ministers have explicitly stressed that there will be no fifth option of refusing any of the four offers and remaining on benefit. Other policies combining increased opportunities with new sanctions, have also been devised for older unemployed. These, and other measures, are heralded as the manifestation of a “new contract” between citizens and the state with the government’s obligation to provide opportunities for claimants to become “pro-active, preventing poverty by ensuring that people have the right education, training and support” while claimants have to obligation to accept those (Cm 3805, 1998).

Common to the “activation” policies, particularly in Denmark and Britain, is the individualisation of the problem of unemployment (stress on action plans, individual search behaviour, responsibility to train) and the focus on labour market as principal source of income and citizenship. Perhaps facilitated by a change in government after long periods of centre-right administrations, new policies in both countries have been relatively easy to implement. Differential benefit rights (levels, eligibility conditions) were easily justified with reference to the persistence of high (structural) unemployment and hysteresis effects regarding the problem of long-term unemployment in particular, the reduced capacity of national governments to tackle unemployment under pressures of world wide competition and within the context of financial globalisation. In both countries, governments portrayed new policies as quasi inevitable adaptations towards new economic contexts (globalisation, technological change) and the need to modernise welfare states as part-and-parcel of making national economies more competitive on rapidly changing world markets. More specifically, the problem of youth unemployment were discussed in terms of a “lost generation”, i.e. an age cohort not being socialised into paid employment. The reduction of unemployment after 1993 seems to have given these policies even more justification.

The situation in Germany is characterised by a much later and more hesitant trend towards adopting the “work principle” and new behavioural conditions for benefit receipt. This might be

related to a range of factors. Firstly, the collapse of the East German labour market was to a large extent cushioned by easing access to active labour market policies and benefit transfers. Secondly, institutional constraints not only “categorise” benefit transfers and differentiates between claimant groups according to benefit receipt but continues to restrict policy making. This was shown in the mid 1990s when two more attempts to abolish, or reduce more substantially, the duration of unemployment assistance failed due to the opposition in the *Bundesrat* (see Appendix VI). In addition, unemployment in the 1990s has not declined as in the other two countries but increased even further which makes it harder to justify increasing pressure and benefit conditionality. Also, youth unemployment has been relatively low compared with other countries (see Appendix III), a fact which makes it more difficult to make use of the “lost generation” argument as a justification for selective benefit restrictions. What is more, indicative of the strength of the contractual notion of insurance benefits, restrictions simply based on age as a criterion seem much more difficult to implement in Germany as was demonstrated in the late 1980s when the free market oriented FDP initiated a plan to reduce benefit entitlements for those under the age of 25. This failed against fierce criticism from opposition parties but also from the social policy wing within the conservative CDU as the senior partner in government who argued that such a move would go against the deeply engrained “equivalence principle” of German social insurance which envisages benefits as a *qui-pro-quo* for contributions.

All this does not mean that there were no benefits restriction introduced in the 1990s. On the contrary, some were fairly severe for those not in receipt of unemployment insurance (see Appendix VI) while successive rounds of cost savings worsened but did not severely deteriorate the benefit position for core workers with good contribution records. What is more, recent changes have indeed reduced the level of “status protection” for all unemployed in terms of the right to refuse unsuitable job offers. More generally, recent changes in active labour market policy programmes and benefit conditions (restricted suitability criteria, gradual reduction of unemployment assistance, more options to offer work placements) have been interpreted by Heinelt and Weck (1998) as a shift away from the traditional German orientation of a “status equivalent” job placement and re-integration into non-subsidised employment towards a “paternalistic policy orientation” (*fYrsorgerisch*) which continues to guarantees social rights but under deteriorating conditions regarding acquired qualification and income levels. This,

according to the authors, is attributable to factors such as much increased fiscal pressures (as a consequence of economic recessions, the costs of unification and meeting EU single currency criteria) and the growing dominance of a “neo-liberal” interpretation of the implications of globalisation (Heinelt and Weck, 1998: 126).

The anxiety over the maintenance of the “high wage, high productivity, high welfare” model of the “Standort Germany” (Germany as a location for investment) has been interpreted as the main driving force behind unemployment benefit reforms also by other authors. Seeleib-Kaiser (1997), for example, regards recent benefit restrictions and new conditions as signs a “re-commodification” of labour and as a manifestation of a growing strength of capital at the expense of labour due to the threat of, and the discourse on, globalisation. The reason why transfer programmes for the unemployed have been more affected than other social policy programmes, such as health care or retirement pensions for example, is the much weaker political-institutional back-up compared with larger and potentially universal programmes.

However, one of the problems with these types of arguments is that they downplay cross-national differences and overlook policies which seem to point in the opposite direction. As discussed in this paper, Great Britain and Denmark are two good examples. In the former, options of remaining outside the labour force have been severely restricted in relation to both benefit levels and entitlement conditions. In Denmark, except for young unemployed, benefit levels have been preserved and new options for de-commodification have been introduced (leave of absence schemes for both unemployed and employed workforce). More generally, the answer as to whether and how exactly economic restructuring and discourses about globalisation are being translated into particular types of policy changes requires empirical investigations into the dynamic relationship between social policy programmes and rapidly changing political economies of nation states.

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## Appendix I

### Influences and constraints in unemployment insurance policies

	<b>Germany</b>	<b>United Kingdom</b>	<b>Denmark</b>
government orientation	centre-left until 1982; centre right since then	centre-right or centre-left, neo-conservative 1979-1997	centre-left; centre right 1982-1992; centre left
government	2 party coalition, majority	single party majority	shifting multi party (often) minority coalition
actuarial principle	strong; "equivalence principle"; legal codification of insurance rights	weak	relatively weak
constraints on formal policy making	rel strong upper chamber, constitutional court,	weak, ritualistic House of Lords	weak
financial implication of expansion/contraction	diverse Federal Labour Office ("active" programmes), state, other social insurance funds, local authorities,	concentrated	fairly concentrated
vested interests, corporatism	strong trade union interest, employers (contributions)	weak poverty lobby and few interest groups (eg Unemployment Unit)	strong, insurance funds, trade unions (local authorities); labour market policy largely left to social partners

## Appendix II

### Main features of unemployment insurance systems (July 1996)

	Denmark	Germany	United Kingdom
Finance	state (ca. 60%); plus flat rate UI membership fees plus labour market contribution (e, e, self-e)	UI: ear-r contributions UA: tax funded	contributions to general National Insurance Fund
membership	voluntary	compulsory	compulsory
administration	36 UI funds (trade unions), plus 2 for self-e	Federal Labour Office tripartite agency	state
qualifying employment period	since 1997: 12 months employment in previous 3 years; before: 6 months	UI: as DK UA: 150 days employment in previous year or expiry of UI	basically 2 years contributions
benefit duration	max 5 years after 2 years obligation to participate in "activation" scheme (from age 50: max duration can be extended)  earlier "activation" for those under 25	UI: proportional to period of contribution and age; max one year for those under 45; up to 2.5 years for those over 57  UA: unlimited for those in previous receipt of UI others: 1 year	6 months insurance JSA, then means-tested JSA
earnings reference period	last 3 months	last 6 months	-
benefit rate	90%, but ceiling at about 70% of APW (354 ECU)  under 25 after prof training or military service: up to 291 ECU	UI: 60% (67% with children) UA: 53% (57%)	flat-rate 59 ECU (over 25) 47 ECU (under 25)
net replacement rate, single person, APW*	58	44	21
net replacement rate, single 75% APW*	77	44	30
average wage, OECD**	61	45	15
beneficiary rate - UI only	above 80%	UI: ca. 50% UA: ca 25%	below 20%

\*: figures for 1994; from: Ministerie van Soziale Zaken en Werkgelegenheid (1995); \*\*: figures for 1991, single 40 year old person, beginning of unemployment spell (OECD Jobs Study, 1994); source: MISSOC (1997) Social Protection in the Member States of the European Union, European Commission

## Appendix III

**Table 1: Unemployment rate as % of total labour force;  
peaks and troughs between 1980 and October 1997**

	1980	peak	trough	peak	Oct 1997*
Denmark	7	9.7 (1983)	6.0 (1986)	10.7 (1993)	5.8
United Kingdom	5.3	11.8 (1984)	6.8 (1990)	10.3 (1993)	7.0
Germany	3.2	7.9 (1985)	5.6 (1991)	--	10

OECD (1997) Labour Force Statistics 1976-1996;

\* based on Eurostatistics (2/1998); seasonally adjusted figures

**Table 2: Youth unemployment rate (under 25);  
peaks and troughs between 1980 and October 1997**

	peak	trough	peak	Oct 1997*
Denmark	18.9 (1983)	8.1 (1986)	14.6 (1993)	7.5
United Kingdom	19.7 (1984)	10 (1989)	17.4 (1993)	6.2
Germany	10.2 (1984)	5.5 (1991)	--	10.7

OECD (1997) Labour Force Statistics 1976-1996;

\* based on Eurostatistics (2/1998); seasonally adjusted figures

**Table 3: Unemployment rate of those between 55 and 65;  
peaks and troughs 1983-1996\***

	peak	trough	peak	1996
Denmark	6.2 (1983)	5.0 (1986)	8.8 (1993)	6.1
United Kingdom	9.4 (1984)	7.2 (1990)	10 (1993)	7.1
Germany	10.8 (1985)	7.3 (1991)**	--	17.9

OECD (1997) Labour Force Statistics 1976-1996;

\* note that unemployment for those over the age of 65 has been declining in the UK from 7.6% (1984) to 3.3% (1996) but increased in Denmark from 0.7% to 4.6% in the same period; the equivalent rates for Germany were 0% and 1.6%.

\*\* break in series

**Table 4: Germany, unemployment (million), receipt of unemployment insurance (UI) and unemployment assistance (UA)**

	1. total u	2. UI	3. UA	2/1	3/1
1993	3.42	1.887	0.759	55%	22%
1994	3.7	1.913	0.950	52%	26%
1995	3.61	1.780	0.982	49%	27%
1996	3.97	1.990	1.104	50%	28%

UI/UA 1995, 1996: West: 55, 58%; East: 57, 52%

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## **Appendix IV:**

### **Major changes in unemployment insurance in the 1960s and early 1970s**

#### **United Kingdom**

##### **1966 (Labour government)**

- increase in level of unemployment benefit
- standardisation of duration to 1 year
- introduction of earnings-related supplement (ERS) to unemployment insurance; representing a third of previous earnings (up to a ceiling); 6 months duration; 12 waiting days

##### **1970 (Conservatives)**

- introduction of 3 waiting days

##### **1973**

- higher long-term rate introduced for all claimants in receipt of benefit for longer than 2 years - excluding the unemployed
- erosion of value of ERS due to technical changes (extended timelag for uprating)

#### **Germany**

##### **1967**

- benefit rates increased from previously 51-55% to 62.% (UI) and 52.5% (UA); increased family supplements

##### **1969**

- ratio between contribution to entitlement period for UI changed to 2 to 1 (formerly 3 to 1)
- "relevant" contribution period (during which contributions count towards eligibility) extended from 2 to 3 years prior to unemployment
- abolition of 3 waiting days
- suspension (rather than disqualification) from benefit receipt during specified period because of voluntary leaving employment or refusal to accept suitable job offer
- more favourable definition of "suitable job offer"
- abolition of compulsory regular visits to employment office

##### **1974**

- access to UA eased (10 working weeks possible to substitute with "equivalent" activities such as military service, self employment, receipt of sickness benefit, higher education)
- standard UA rate increased to 68%, UI 58% (after tax reform and introduction of child benefit)

## Denmark

### 1967

- abolition of waiting days and other restrictions
- benefit increased to 80% of prior earnings

### 1967 - 1974

- benefits raised to 90% of prior earnings
  - introduction of wage indexation,
  - maximum duration of insurance benefit increased to 2.5 years
  - possibility of part time insurance (20 to 30 hours work per week)
  - school leavers entitled to 180 days UI one month after leaving education
- financing: state became liable to cover all costs in excess of the fixed contribution from employers and the insured

## Appendix V

### Major changes in unemployment insurance in the 1970s and 1980s

#### Germany

##### 1976 (centre-left SPD-FDP coalition)

- UA only granted to those graduates who had been in paid employment for at least 6 months prior to higher education
- suitability of job offer tightened

##### 1977

- benefit suspension period became disqualification period (as it was before 1969)
- reduced UI for claimants after apprenticeship (basis: 75% of expected wage)

##### 1979

- stricter suitability regulations
- no benefit eligibility for students
- abolition of some "equivalent" activities (to insured employment) as access to UA (e.g. military service)

##### 1982

- minimum contribution period for UI increased from 6 to 12 months
- increase of required insurance period for access to UA to 150 days
- abolition of any "equivalent" activities (to insured employment) as access to UA (no benefit for school leavers or graduates)
- redefinition of "net wage" as basis for benefit calculation (exclusion of regular bonuses, overtime pay etc)

##### 1983 (centre-right CDU/CSU-FDP coalition)

- ratio contribution to benefit period increased from 2:1 to 3:1
- cut in benefit rates by 5% (UI) and 2% (UA) for claimants without children

##### 1985

- longer UI entitlement (18 months) for claimants older than 50 with longer periods of insured employment



### **1986**

- further increase in maximum entitlement (for those older than 44 years of age); maximum 2 years

### **1987**

UI:

- change in ratio between benefit and contribution period from 1983 repealed (once again 1:2)
- increase in maximum duration of benefit receipt for those older than 42 with longer contribution records (max 2.5 years for those 54 and older)

### **1988**

- relevant period for calculation of UI extended from 3 to 12 months prior to unemployment
- unemployed without UI or UA to "sign on" every three months

### **1989**

- sickness during unemployment does not increase maximum entitlement period any longer

## **Denmark**

### **1975-9** (Social-Democratic led coalition governments)

- qualifying period reduced from 12 to six month UI membership
- inclusion of self-employed (1976)
- lowering of age limits for membership to 17 (1975) and to 16 (1977)
- lower school leaver rate (80% of normal Ui)

#### *Job offer scheme*

nearing the end of 30 months UI entitlement claimants given the right to receive of a temporary job in private (9 months) or public sector (7 months), with county governments obliged to act as employer of last resort. Benefit right re-established after completion.

#### *(Efterløn)*

post employment wage scheme (early retirement)

allows unemployed and employed persons (members of unemployment insurance fund) to retire at the age of 60 on a benefit related to unemployment benefit (90-70% in steps of 2.5 years)

### **1980**

- increase of required UI membership from 6 to 12 month
- students, trainees: from immediate eligibility to 1 month membership
- access to UI after 26 weeks employment as UI fund member

- 26 weeks within period of three rather than four years
- indexation changed from wage to price index (benefit reduction)
- stricter job suitability criteria

**1982** (Conservative led minority governments)

- non-indexation of benefit ceiling
- tripling of employees' contributions; quadrupling of employers' share; state's financial share reduced from 88% in 1982 to 65% in 1989 (Scheuer, 1998: 160)

**1983**

unemployed given the right to a second job offer, supplemented with education allowance schemes in 1984

**1984**

easier to access to pre-retirement option

**1985**

- only one job offer in future (unless claimants are under 25 or over 55 years of age); after second unemployment period of 2.5 years either education offer or another unemployment benefit period on lower level (70%) for 2.5 years and then 55%

**1987**

- indexation of benefit ceiling reinstated

**1988** (in agreement with Social Democrats)

- general entitlement for long-term unemployed to an education offer after first subsidised job offer; can be offered after one year of unemployment

- second job offer reinstated

- tighter availability rules (acceptable travel distance to work extended)

## **Great Britain**

**1974** (Labour governments)

- increases in value of pensions (ahead of introduction of earnings-related supplementary pension)

- increase of pensions and other "long-term" benefits (incapacity etc) to be linked to prices or wages, whichever rises faster

- "short-term" benefits (mainly unemployment) price indexed only

**1975**

- early uprating of all benefits in response to high inflation

**1976**

- slightly higher proportional uprating of short-term benefits compared with long-term benefits

**1977**

- return to higher increase of long-term benefits

**1979 (Conservatives governments)**

- increased expenditure on benefit control

**1980**

- short-term benefits increased by 5% less than other benefits as "interim measure" ahead of benefits becoming taxable in 1982
- abolition of earnings-related supplement

**1982**

- short-term benefits become taxable
- restoration of 5% cut from 1980

**1986**

- disqualification period for UI (voluntarily leaving; refusing suitable job offer) increased from 6 to max 13 weeks
- introduction of Restart (compulsory interviews at least every six months, questions regarding job seeking activities, usually offered place on a scheme)

**1987**

- tighter UI qualifying conditions (basically 2 years insured employment)

**1988**

- maximum benefit disqualification period increased to 26 weeks
- 17 and 18 year olds lose right to social security benefits in return for Youth Training guarantee
- lower social assistance (Income Support) rates for claimants under the age of 25

**1989**

- stricter availability for work test; claimants need to prove that they were "actively seeking work" otherwise 2 week benefit penalty after warning period
- after 13 weeks benefit the rate of pay excluded from definition of "suitable" job offer (other grounds such as health and caring responsibilities still accepted)

## Appendix VI

### Major changes in unemployment insurance during the 1990s

#### Denmark

##### **1992** (conservative-led minority coalition government)

compromise in Parliament over temporary unemployment measures

- improved jobtraining
- introduction of leave-of-absence schemes
- lower allowances for younger people in job training
- ceiling on wages for job offers
- transitional allowance - for long-term unemployed to enter early-retirement at the age of 55 with unemployment benefit
- employer to pay benefit for first two days of unemployment

##### **1993** (Social Democratic coalition government)

- (as part of tax reform) introduction of earmarked contribution to finance unemployment benefits and other labour market measures

##### **1994**

- duration of unemployment benefit limited to 7 years, possible to prolong for those over 50 and for educational, parental and maternity leave
- rights (and obligation) to 12 months "activation" during first 4 years (benefit period); thereafter (activation period) on average 20 hours per week "activated" - later changed to permanent activation during activation period (Torfing, 1998: 18)
- access requirement to UI increased to 6 months of non-subsidised employment
- improved leave-of-absence schemes for both employed and unemployed (up to 2 years educational leave, 1 year parental leave, UI members up to 1 year sabbatical leave) receiving 100% unemployment benefit (education) and 80% (parental and sabbatical)
- training offer also for those over 25
- transitional allowance age lowered to 50

##### **1996-1998**

- doubling of required employment period to 12 months before entitlement to unemployment insurance is granted
- maximum benefit period (including activation) reduced to 5 years.
- after 2 years beneficiaries are obliged to participate in activation programme

- refusal of "fair" offer during benefit period leads to benefit disqualification (4 weeks); loss of right to unemployment benefit during activation period
- for claimants under 25 without qualifications the activation (education) starts not later than 6 months of unemployment (on 50% of unemployment benefit)
- abolition of transition benefit.
- temporary leave schemes made less attractive for child care and sabbatical - 70% (1995) and 60% (1997)

(- social assistance)

since 1990 immediate activation (subsidised job training, employment projects, educational programmes) within 13 weeks of receipt of social assistance for those under the age of 25 (increased to 30 in 1997)

## **Great Britain**

### **1990 (under Conservative governments)**

- mandatory attendance at short "remotivation" course for long-term unemployed who decline joining "voluntary" training schemes (Employment Training, Youth Training)

### **1992**

- immediate suspension of benefit from anybody deemed not to be "actively" seeking work

### **1995**

- young long-term unemployed under 25 who have declined an offer to join scheme to attend remotivating "Workwise" course
- over 25 old to attend one week "Jobplan" Workshop (those out of work over two years to attend 2 week Restart course)

### **1996**

- introduction of Jobseekers Allowance (JSA):
- unified benefit scheme for unemployed with six (rather than 12) month insurance benefit followed by means-tested JSA thereafter
- Jobseekers Agreement (fortnightly interviews to monitor job seeking, new discretionary power to enable officials to require individuals to look for jobs in a particular way)
- lower insurance benefit rates for those under the age of 25

- experiments with employment subsidies and with two pilot workfare schemes for those out of work for over 2 years (13 weeks job search assistance followed by 13 weeks compulsory work experience)

### **1998 ("New" Labour)**

- "New Deal" for the unemployed

- for all 18 to 24 year olds out of work for at least six months to take one of four options (six months job, involving training, in voluntary or public sector, environmental task force or full-time education) for benefit plus small addition - "no fifth option"
- for those out of work for over two years opportunities to work with private employers receiving wage subsidies

## **Germany**

### **1994**

- UI reduced by 1% to 67%; for those without children by 3% to 60%
- UA reduced by 1% to 57%: for those without children by 3% to 53%
- original UA limited to one year (intended was to abolish original UA and to limit other UA to 2 years; attempted by coalition government in 1994 and 1996, twice turned down by majority in Bundesrat)
- benefit suspension period standardised at 12 weeks
- higher UI for those who become unemployed after move into part-time work (benefit based on previous full-time job)
- possibility to combine (self-financed) training for up to 12 weeks with receipt of UI

### **1996**

- amount of UA reduced by up to 3% per year in unemployment (intended was 5%)

### **1997/8**

- increase in age limit for eligibility to extended benefit duration by three years to at least 45 years of age
- all unemployed have to register every three months at risk of losing benefit rights
- changes in definition of "suitable job offers" (qualification becoming irrelevant; phased reduction of "acceptable" wage levels)
- increase of disregarded level of earnings while unemployed to 20% of UI level; 100% (rather than 50%) marginal tax on any earnings above that level
- "integration contracts" for long-term unemployed
- calculation period for benefit rate extended from previous 6 to 12 months
- new definition of "availability" criteria

## CCWS Working papers 1998

<b>Nr.</b>	<b>Author</b>	<b>Title</b>
1	Peter Taylor-Gooby	Risk and Welfare
2	Peter Taylor-Gooby	Markets and Motives: Implications for Welfare
3	Wim van Oorschot	The Reconstruction of the Dutch Social Security system 1980-2000: Retrenchment and Modernization
4	Jørgen Goul Andersen	Beyond Retrenchment: Welfare Policies in Denmark In the 1990s
5	Jochen Clasen	Unemployment Insurance and Varieties of Capitalism