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# Contingent Convergence: A Comparative Analysis of Activation Policies

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# ABSTRACT

# Contingent Convergence: A Comparative Analysis of Activation Policies*

The trend towards activation has been one of the major issues in recent welfare and labour market reforms in Europe and the US. Despite considerable initial variation across national models with respect to the scope and intensity of activation, redefining the link between social protection and labour market policies on the one hand and employment on the other has been a common issue in labour market reforms. The paper shows the development of activation policies in terms of basic principles, instruments, target groups and governance in Germany, France, the Netherlands, Switzerland, the United Kingdom, the US, Sweden and Denmark. It assesses the effectiveness and efficiency of activation policies in terms of bringing the jobless into work and ensuring sustainable independence from social benefits. Based on national activation trajectories, the paper argues that we can observe a contingent convergence of instruments, target groups, governance modes and outcomes so that established typologies of activation strategies have to be questioned.

JEL Classification: J65, J68

Keywords: activation, active labor market policies, unemployment insurance, social assistance

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# 1 Introduction

The trend towards activation has been one of the major issues in recent welfare and labour market reforms in Europe and the US. First movers in the field of activation were the Anglo-Saxon welfare systems of the United States and the UK, followed by Denmark, the Netherlands, Switzerland and Germany. More recently, France and Sweden have been catching up. It thus seems fair to say that activation has now become a common orientation in labour market and social policies that not only spreads across countries but also covers more and more benefit schemes.

While in many European countries the major objective is the movement to employment by means of curtailing generous benefits or tightening eligibility requirements, in an Anglo-Saxon setting policies are also designed to take up work by "making work pay," i.e. topping-up low-paid entry jobs and building bridges to self-sufficiency. Activation, however, does not necessarily imply formal benefit cuts or the introduction of new active labour market policy schemes. The fact that benefit receipt increasingly depends on job search activities, acceptance of available job offers or participation in active labour market policy schemes both in formal terms and actual implementation is more crucial. Hence, redefining the link between social protection and labour market policies on the one hand and employment on the other by stronger benefit conditionality has been a common issue in labour market reforms. As of today, most mature welfare states have some sort of activation provision embodied in core systems of social benefits paid in case of non-employment such as unemployment insurance or disability schemes as well as various forms of non-contributory benefits like social assistance. These provisions are designed to foster termination or reduction of benefit receipt by jobless individuals or households through, first, entering gainful employment and, second, encouraging upward mobility to better pay and more stable jobs.

The paper illustrates the development of activation policies in terms of basic principles, instruments, target groups and governance in Germany, France, the Netherlands, Switzerland, the United Kingdom, the US, Sweden and Denmark since the mid-1990s. It is based on systematic in-depth case studies (see Eichhorst, Kaufmann and Konle-Seidl 2008) and related studies. It tries to answer the question of what activation effectively does. Whereas from an economic point of view, the major issue is the effectiveness and efficiency of activation policies in terms of bringing the jobless into work and ensuring sustainable independence from social benefits, the social perspective addresses the question if activation policies help to avoid social exclusion. And finally, in a comparative perspective on welfare states and labour markets, the core question is whether the general trend to activation also leads to general patterns of activation strategies: Do activation strategies converge or do national patterns persist?

# 2 Defining Activation: Objectives and Instruments

A key challenge for all developed political economies is to devise a welfare system that not only addresses "new" and "old" social risks adequately, but also helps reconcile social security objectives with the demands of a dynamic and increasingly global economy. Established levels of out-of-work income from social benefits may compensate for income losses due to unemployment and alleviate poverty, but at the same time they weaken work incentives for persons whose earnings potential is limited as they suffer from a lack of formal skills or a depreciation of qualifications due to long-term unemployment or inactivity. Passive labour market policies associated with a certain level of benefits, long benefit durations and weak job search monitoring therefore can result in extended periods of benefit dependency which, in turn, make labour market entry even more difficult. Hence, in line with economic job search theory high reservation wages and low job search intensity are determined by the level and the duration of alternative income from social benefits leading to longer unemployment spells. The more generous the benefit system, the more pronounced these problems are likely to be.

To counter this, activating policies can be designed to combine two elements that are expected to reconcile individual expectations with options available on the labour market. Both demanding and enabling elements aim at lowering hurdles to employment – but in different ways (see table 1). On the one hand, policies to increase job search activity and the probability of accepting a job, even a low-paid one, can be implemented. On the other hand, policies to raise individual employability and productivity can be used to make job searchers more attractive to potential employers and to increase potential wages. The first aspect implies more demand on individual behaviour in terms of mandatory job search obligations and potential sanctioning. Along with stricter availability criteria, this is expected to shorten unemployment duration by making benefit receipt less attractive, lowering reservation wages and intensifying job search activities. By replacing out-of-work benefits with in-work-benefits that depend on being active in (low-paid) employment and by topping up low wages ("make work pay"), low incomes will become more acceptable. Subsidies paid to employers should compensate for low productivity, e.g. through lowering social security contributions or direct employer subsidies.

Emphasis on a fast (low-wage) entry into employment by way of demanding elements can be seen as a "work first" strategy. An alternative to "work first" strategies for people with a weak position on the labour market is stronger investment in human capital to improve their employability in the longer run.

However, following the principle of benefit conditionality in an activation framework, even participation in training and education programmes is made mandatory by being a prerequisite for further benefit receipt. Voluntary participation in active labour market support schemes is a thing of the past as claiming benefits is now conditional upon individual action and co-operation. But activation approaches can differ according to the relative importance of demanding or enabling policies. The balance between the two can vary in each individual case but also in the context of national policy-making. To establish a more formal link between demanding and enabling schemes as well as benefit entitlements, integration contracts between the individual and the public employment service have become more widespread. In the "mutual obligation" concept benefit recipients are obliged to accept employment options or training schemes in order to receive benefits while, and on the other hand, the state has the obligation to enhance the employability of benefit claimants.

**Table 1: The two sides of activation**

| **Demanding** | **Enabling** |
|---|---|
| 1. duration and level of benefits<br>• lowering insurance or assistance benefits<br>• reduction of maximum benefit duration<br>2. stricter availability criteria and sanctioning clauses<br>• more restrictive definition of suitable job offers<br>• punitive sanctions for non-compliance<br>3. individual activity requirements<br>• integration contracts<br>• monitoring of individual job search effort<br>• mandatory participation in active labour market policy schemes ("workfare") | 1. "classical" active labour market policies<br>• job search assistance and counselling<br>• job-related training schemes<br>• start-up grants<br>• subsidised employment<br>• mobility grants<br>2. fiscal incentives/make work pay<br>• earnings disregard clauses<br>• wage supplements granted in case of taking up low-pay jobs ("in-work-benefits")<br>3. social services<br>• case management, personalised support<br>• psychological and social assistance<br>• childcare support etc. |

The overall objective of activation is to improve economic self-reliance and societal integration via gainful employment instead of joblessness and benefit receipt, which is often associated with social exclusion. Ending unemployment or inactivity is an important goal not only in terms of income and earnings but also in terms of social

inclusion and well-being as unemployed people are in general more unhappy, less healthy and socially more isolated than employed people (Clark and Oswald 1994). Bringing more people back into work is also seen as the major instrument to combat poverty as for most families paid work remains by far the most important source of income, and the loss of a job generally results in a considerable decrease in income and, as a consequence, in a higher risk of being poor. Therefore, taking up a job, in particular a full-time job reduces the poverty risk significantly (Förster and Mira d'Ercole 2005, OECD 2008).

Increasing labour market entry and participation is the major concern of activation policies, and for this purpose options of unconditional benefit receipt for the working-age population are to be closed. By turning benefit recipients into gainfully employed members of the labour force, activation policies are supposed to reduce expenditure on benefits while at the same time increasing revenue from taxes and social security contributions. The larger the number of people participating full-time and part-time in the labour market, the greater the contribution they make towards maintaining the affordability of adequate levels of social protection. Through improving access to work or subsidised work opportunities, activation strategies can help strengthen societal cohesion and alleviate potential tensions between tax payers and benefit recipients. This implies a re-orientation of social citizenship, away from freedom from want towards freedom to act while continuing to guarantee a socio-economic minimum standard.

Hence, the core element of activation is the removal of options for labour market exit and unconditional benefit receipt by members of the working-age population. Strategies to reduce labour supply by supporting inactivity e.g. through early retirement provisions or easy access to incapacity benefits have been applied in many countries to successfully reduce open unemployment. However, they are now found to generate major problems regarding social exclusion, the fiscal sustainability of the welfare state and labour shortages in a situation of increased global competition and demographic ageing. Thus, activation policies mark a shift from a passive strategy of reducing labour supply to a policy approach aiming at higher employment through the mobilisation of labour supply. Regarding target groups, activation focuses on different categories of work-age benefit recipients in social security systems such as unemployment insurance, unemployment assistance, social assistance (welfare), but also disability, sickness or incapacity benefits and early-retirement schemes.

# 3 Different Worlds or "Contingent Convergence" of Activation Policies?

From the perspective of comparative welfare state research, the crucial question is whether there is a general and converging or a context-specific pattern of activation strategies. It is by now almost a commonplace among comparative analysts that activation, both as an idea and as a concrete set of policy provisions, escapes easy classification due to large national variation, different target groups and the various systems of social security provision and labour market policy into which it is introduced. Nevertheless, there are different attempts to classify activation models. Most of them are anchored in well-known welfare state typologies, the most prominent one proposed by Esping-Andersen. Post-war social policies in many European countries were characterised by more advanced entitlements and differing degrees of "de-commodification" (Esping-Andersen 1990) either by generous universal social benefits or status-oriented transfers. Hence, stressing "re-commodification" through emphasising the role of self-sufficiency and income through gainful employment instead of benefit receipt is a challenge to both the welfare state setup and its political economy.

Turning to activation can be seen as a paradigm shift (Hall 1993) involving both a modification of policy instruments and policy goals. This policy shift can build upon new or already existing but dormant provisions in unemployment and social assistance schemes and related objectives. Activation tips the balance in favour of a more active and inclusive rather than passive and exclusive approach. Hence, activation means stronger intervention in unemployment spells or periods of inactivity and less tolerance of long-term benefit dependency and associated public expenditure. Traditional social policies are seen as part of the problem, less as a solution. Welfare state change, however, is particularly difficult if it involves retrenchment of well-established policies and societal expectations and therefore depends on particular explanatory factors (Pierson 1994, 2001, Cox 2001).

## 3.1 Attempts to Cluster National Activation Models

One of the first attempts at clustering national models of activation was put forward by Lødemel and Trickey in their seminal volume on the development of the balance of rights and duties in social assistance dating back to 2000. They saw two types of policy at work when trying to bring recipients of income support schemes back to work: a) an approach emphasising labour market attachment to be achieved via Anglo-Saxon "work first" policies and b) a more Scandinavian "human resource

development" approach. These two types of policies basically reflect the emphasis put on work first or workfare policies relative to training and skill formation (see Peck and Theodore 2001).

A second attempt at developing a typology of activation regimes has been proposed by Barbier (2004). In many respects it mirrors the conceptual dualism of Lødemel and Trickey. Barbier distinguishes between a liberal regime of activation and a universalistic regime. The liberal model is associated with a residual welfare state basically providing minimum income protection and meagre insurance benefits at a rather low level where generally accepted values emphasise individualism and self-reliance of the individual. The universalistic activation regime, on the contrary, is associated with a universal welfare state and is perceived as a more balanced model for reconciling the demands of society and the demands of individuals. This implies more generous benefits and stronger emphasis on the provision of public services to foster employability, i.e. active labour market policies that are in an appropriate relation with sanctioning practices. In contrast to the more 'punitive' approach of the liberal regime, the universalistic approach is seen as a more reciprocal one as it relies on a mutual commitment of the individual and the state. Given the stronger role of public policies, taxation and benefits, this model is seen as capable of achieving high employment without encountering the risk of significant low pay. As labour market integration starts from a higher level of benefits, there is hardly any need and room for in-work benefits.

Van Berkel and Hornemann Moller (2002) distinguish between three core dimensions of activation. Activation policies share the goal of ending benefit receipt. This is to be achieved through different elements which are present in all national activation strategies but with differing importance. First, activation policies set work incentives through defining a level of income protection and therefore a specific income out of work. Welfare-to-work policies emphasising this element are mostly found in the Anglo-Saxon setting with limited basic income schemes so that there is less need for specific activation measures as work incentives built into this regime are strong. Second, activation policies are based on the principle of an appropriate balance of rights and duties, i.e. a work requirement is introduced as a precondition for benefit receipt. Paternalistic activation approaches stressing this dimension are typically found in the continental European activation mainstream where potential negative work incentives stemming from more generous benefits are countered by strict work and job search requirements. Third, active social policies are deemed necessary to provide citizens with the resources needed in order to achieve labour market and social integration. Active citizenship strategies of this kind are mostly found in Scandinavia.

More recently, Serrano Pascual (2007) proposed five ideal types of activation regimes that mirror the existing activation typologies, but emphasise the status of citizens' different social rights and modes of 'managing the individual' in particular

institutional activation regimes. She sees the arrangement in the United Kingdom as the best example of an 'economic springboard' regime based on work incentives and demanding elements whereas the Netherlands, due to the predominant role of contracts, have many traits of a 'civic contractualism regime' and Sweden resembles the model of an 'autonomous citizens regime' that developed a full-blown infrastructure to support the individual on the move into the labour market. With its stress on the position of the individual, this typology goes less into the dimension of the overall activation framework, the outcomes and the actual operation of activation policies.

These ideal types may be helpful tools to structure comparative analyses, but there is significant heterogeneity to be found in the empirical activation landscape. Furthermore, a static concept of 'frozen' European social models is at odds with the striking intensity, ongoing changes and comprehensive character of employment and social policy reforms in the majority of the member states of the European Union in recent decades (Hemerijck 2002, 2006). Welfare states are not 'static' institutional settings but 'evolutionary' systems whose policy objectives, functions and institutions change over time, albeit slowly, due to obvious political interests and institutional obstacles. Researchers have recently emphasized the sequential logic of institutional change with subsequent reforms building upon or reacting against earlier modifications of the welfare state (Bonoli 2007).

Perhaps the most striking case of an implicit change of the welfare state logic is Germany. In the German case (Eichhorst, Grienberger-Zingerle and Konle-Seidl 2008), the Hartz IV law, which entered into force in January 2005, marks a critical juncture resulting in the departure from a conservative welfare state securing acquired standard of living and a move towards a more universal, Anglo-Saxon welfare state relying on means-tested welfare and securing basic needs. Another example of an 'evolutionary' system is the Scandinavian "active society." The vision that a socially inclusive society in terms of (almost) everyone participating in the labour market, irrespective of gender, age, ethnicity, health, qualifications, family responsibilities etc. has already existed since the 1930s. The inclusive society entails that every resident is able to materialise his or her potential capacities. The idea of activation is thus deeply rooted in the normative foundation of the Scandinavian welfare state. Labour market participation is seen as salient to the individual's welfare and to the welfare of the collective by paying taxes. In order to achieve this, activation is perhaps the most important policy (Kvist, Pedersen and Koehler 2008).

## 3.2 Contingent Convergence of Instruments of Activation

When comparing the rules and instruments of activation we can observe, beyond national specific trajectories, significant convergence in terms of a stronger role of mandatory participation in activation programmes and stricter availability and entitlement rules. One of the most prominent examples certainly was the introduction of an "active period" in Denmark in 1994, which was gradually tightened over the last decade (Kvist, Pedersen and Koehler 2008). Hence, "work first" elements in terms of mandatory programme participation have become a core element of activation in systems with relatively generous benefit systems so that potential work disincentives could be countered. In many countries this also implied the "reawakening" of already existing provisions on benefit conditionality through formal restatement and actual application, e.g. in Denmark, Switzerland and Germany.

Mandatory activation is complemented by "make work pay" policies via significant in-work benefits in countries with lower regular unemployment benefits and rudimentary active labour market policy such as the UK and the US (Quade, O'Leary and Dupper 2008). However, in-work benefits have also been introduced in France (Barbier and Kaufmann 2008) and – more implicitly – in Germany's earnings disregard clauses in basic income support. In the US, in-work benefits are the major category of social spending and part of a work-based activation strategy, whereas countries with a general high wage level and higher unemployment and social benefits rely more on mandatory participation and job search monitoring to control for moral hazard, most prominently in Denmark, the Netherlands and Switzerland (Andersen and Svarer 2007, Lalive, van Ours and Zweimüller 2005)

Individual integration contracts or agreements have become a widespread tool to enforce the tightening of eligibility and availability criteria so that benefit conditionality has become stricter over time (see e.g. the sequence of an ever stricter benefit regime in the United Kingdom, Finn and Schulte 2008). This holds particularly for welfare claimants and the long-term unemployed, for whom most countries now regard any generally accepted work as suitable.

Contrary to widespread perception, cuts in benefit levels and duration are not a universal feature of activation strategies, but there are some crucial cases, such as the shortening of the overall benefit period in Denmark or the abolition of the earnings-related unemployment assistance in Germany. However, a recent study by the OECD (2007) highlighted the fact that a decade ago many countries started making benefit claims increasingly difficult, but until now only one in three OECD countries cut the level of benefits. Consequently, the OECD average of net replacement rates for single long-term recipients across member states fell slightly from 35 per cent in 2001 to 32 per cent in 2005 (see table 3).

**Table 3: Net replacement rates of long-term unemployed**

| | Single person | | One-earner married couple, two children | |
|---|---|---|---|---|
| | **2001** | **2005** | **2001** | **2005** |
| **Denmark** | 61 | 59 | 78 | 77 |
| **Germany** | 54 | 36 | 63 | 62 |
| **Netherlands** | 49 | 50 | 62 | 61 |
| **Sweden** | 49 | 48 | 72 | 70 |
| **United Kingdom** | 41 | 41 | 71 | 67 |
| **France** | 33 | 31 | 54 | 54 |
| **Spain** | 23 | 23 | 39 | 35 |
| **Switzerland** | 52 | 48 | 73 | 70 |
| **USA** | 7 | 7 | 40 | 40 |
| **OECD** | **35** | **32** | **57** | **53** |

Note: 100% of average worker level; after tax and including unemployment benefits, social assistance, family and housing benefits; Source: OECD Benefits and Wages 2007.

Stricter eligibility and availability criteria come along with more intense monitoring and sanctioning, which is facilitated by a more individualised approach to case management. Although there is still a difference between less strict availability criteria for unemployment insurance and stronger demands in case of welfare receipt. Provisions referring to previous earnings or acquired human capital have been eroded in unemployment insurance over time. A notable example is Germany's gradual farewell to qualification safeguard clauses in unemployment insurance.

Besides workfare elements of activation, case management also offers the opportunity to have more tailor-made individualised assistance to overcome barriers to labour market integration and gainful employment. The broad trend towards more individualised case management informed by profiling and personal interviews is somewhat at odds with traditional target-group oriented active labour market policies. What we can rather observe is a more individualised assignment to active measures and an integrated but more flexible repertoire for both unemployment insurance benefit recipients and welfare claimants.

However, given the often dual responsibilities and legislative bases for both groups, there may be considerable differences both regarding the instruments available and the programmes actually used (see e.g. the situation in Denmark or Germany). What we can see over time, is a gradual decline of participation and spending on expensive re-training programmes in those countries that used to have an elaborate system of publicly sponsored training (e.g. Germany, Denmark or Sweden) whereas

some training is now on the agenda in the British "New Deal" programmes. More recently, a new wave of subsidised work for the hard-to-place such as the "flex-jobs" in Denmark or new forms of what in principle amounts to permanent public job creation for the long-term unemployed in Germany can be observed.

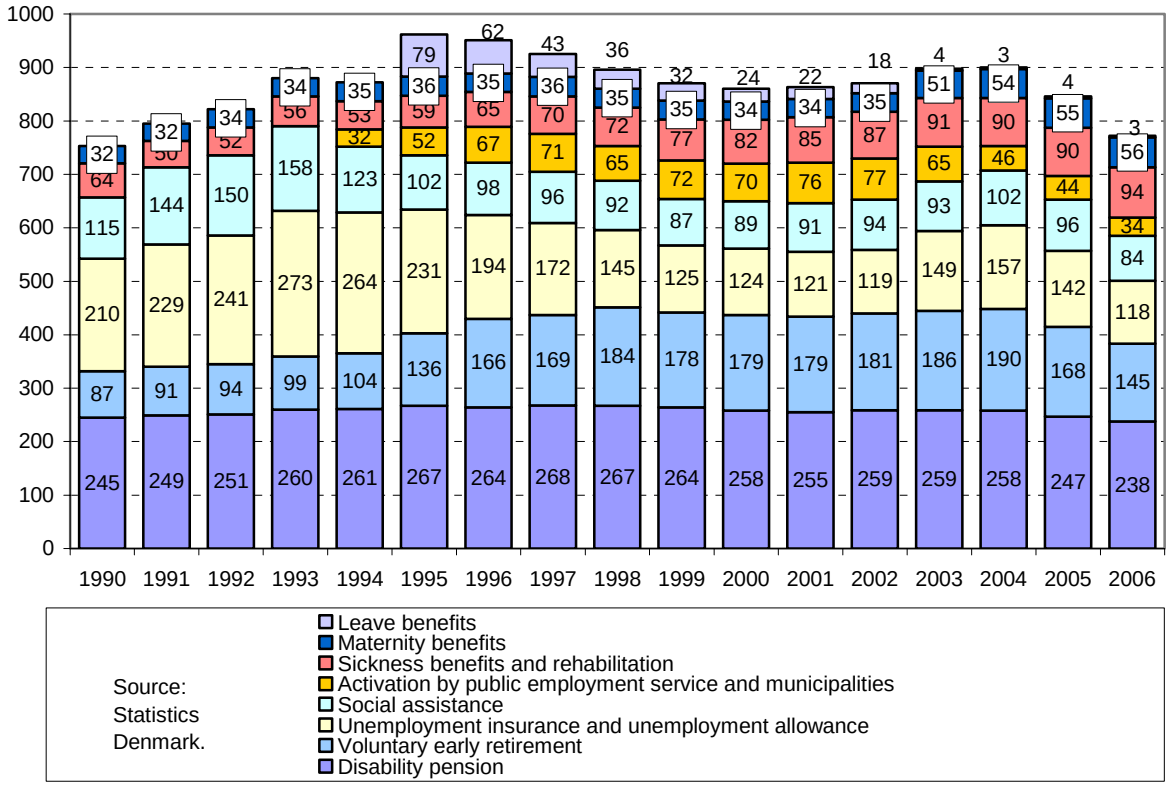
Overall, notwithstanding individual countries' different trajectories in the elaboration of the policy toolset, an "activation gateway" emerges that is based on a growing role of demanding elements. This comes along with less emphasis on training and stronger reliance on either employer wage subsidies or in-work benefits, which in the case of persistent problems of access to employment lead to publicly funded employment opportunities. In some labour markets that were supposedly most regulated, activation has been complemented with additional reform elements increasing flexibility. The most explicit case is the German reform package that involved the expansion of temporary agency work, "Minijobs" and self-employment as ways to generate jobs for the activated. In a similar fashion, France relies heavily on subsidising employers who offer low-wage jobs and fixed-term subsidised employment contracts.

## 3.3 Contingent Convergence across Target Groups of Activation

The general vision of activation is to encompass everyone. As a consequence, there is a broad tendency to expand the range of target groups subject to the principle of activation. At the same time, there are typical sequences of widening the scope of activation policies. In practice, young welfare claimants became the first to be targeted by activation in Denmark and Sweden in the late 1970s. This was emphasised again with one of the first "new" activation policies in Denmark in 1990 and later steps such as the Swedish "youth guarantee." This is mirrored by the path of the UK with its early emphasis on the young, which was later expanded to other groups.

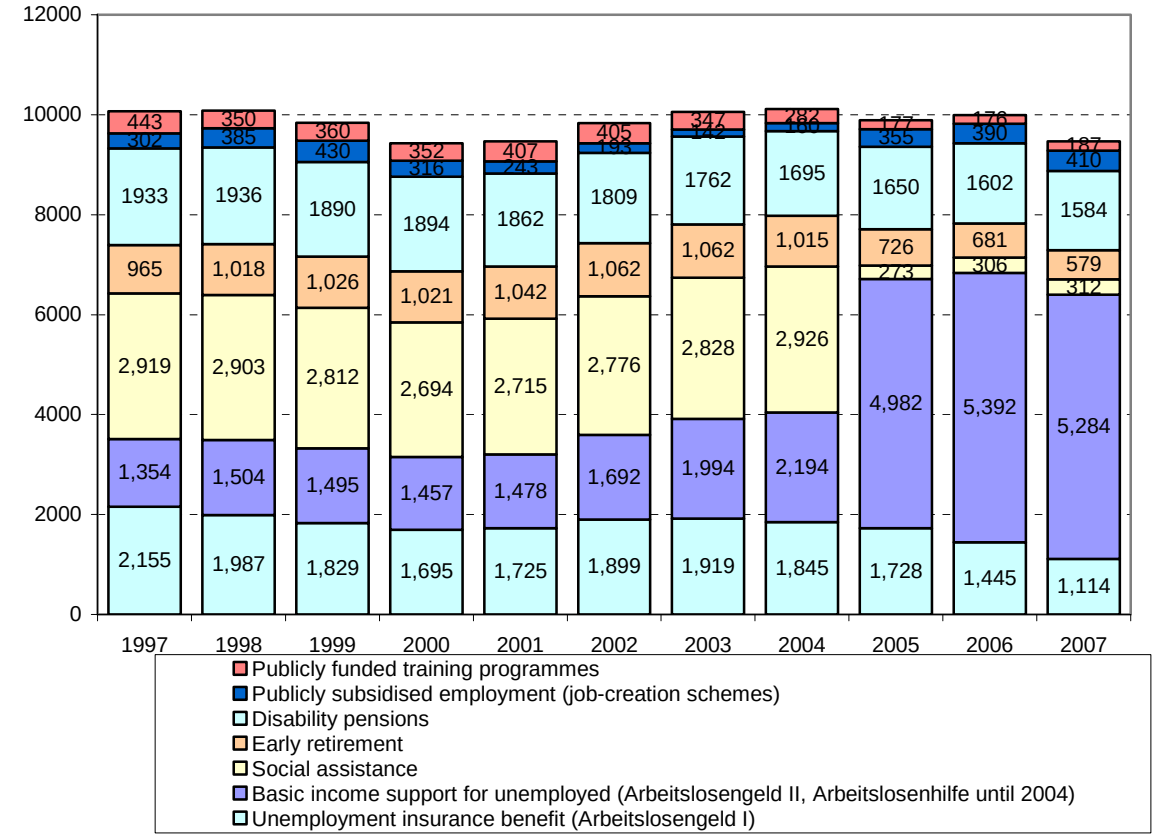
In the 1990s, the insured unemployed became targets of activation, which was later extended to the non-insured and adult social assistance beneficiaries in a number of countries, e.g. Denmark as well as Switzerland (Bertozzi, Bonoli and Ross 2008). The number of persons in different types of potential and actual activation schemes has changed significantly over the years since 1990. In the Northern countries as well as in the United Kingdom, the Netherlands or Switzerland, there are nowadays fewer people living on traditional unemployment benefits and more people on other non-employed benefits such as disability and sickness benefits, or early retirement. In Denmark for example the decline of unemployment benefit recipients after 1994/95 was associated with a larger inflow into early retirement and leave schemes which were restricted later as well as into sickness benefits. Disability pensions stayed more or less at the same level (see figure 1).

**Figure 1: Full-time recipients of different social benefits in Denmark, 1.000s**




On the other side we can observe a more and more prominent role of basic income support in countries with a traditional reliance on social insurance provisions, such as France and Germany where the shift from unemployment and social assistance for beneficiaries capable of working was associated with a large increase in registered unemployed (see figure 2).

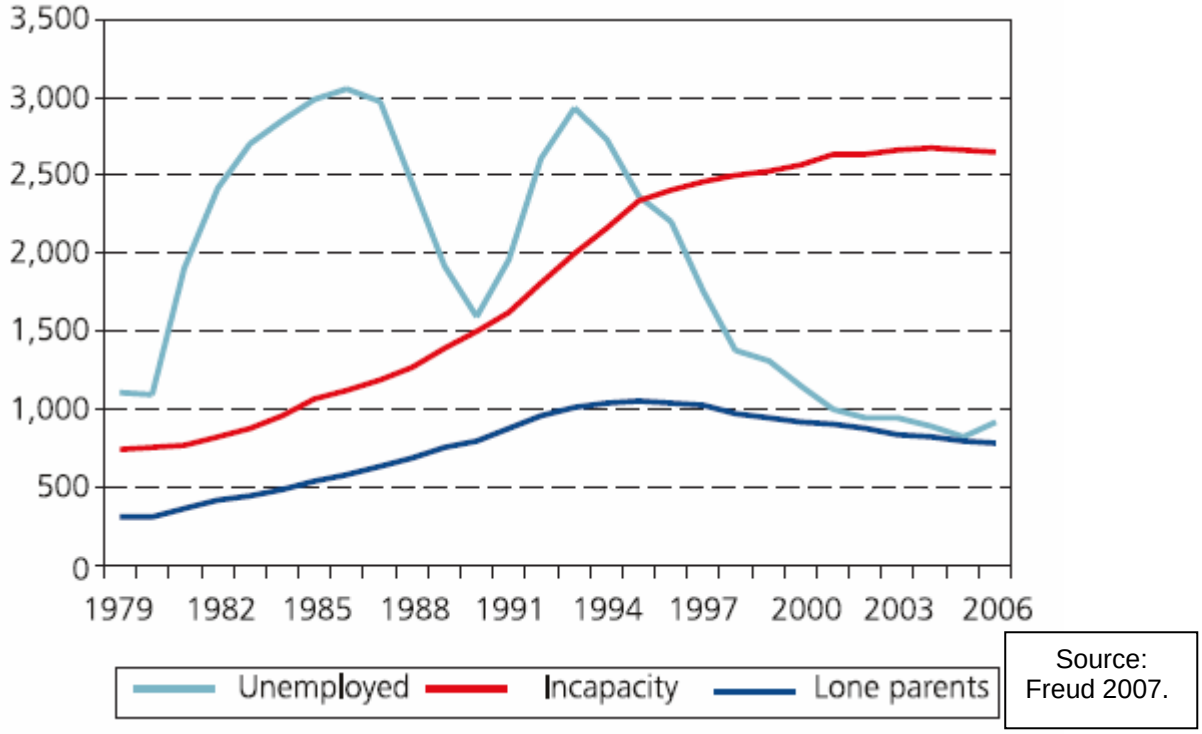
**Figure 2: Non-employment in Germany, 1.000s**




Sources: Deutsche Rentenversicherung, Sachverständigenrat, BA, GENESIS Online.

Germany is a country with little alternative "escape routes" like disability benefits. The number of persons with health problems collecting disability benefits remained unchanged since the 1990s. Hence, activating unemployment insurance and welfare recipients basically comprises a widely defined target group, including people with health problems which rely on disability benefits in other countries such as the Netherlands or the United Kingdom. In the UK, stronger activation in unemployment insurance led to heavy reliance on incapacity benefits (see figure 3).

**Figure 3: Benefit receipt in the United Kingdom**




As a consequence, these categories of benefit recipients have more recently moved into the focus of activation. In the past, disability or early retirement benefits have constituted socially accepted escape routes from the labour market, allowing for an allegedly smooth economic adjustment. Now they are more and more integrated in the overall activation regime. Currently, activation policies in the Netherlands, Denmark or the UK move from combating open unemployment towards overcoming broader inactivity, non-employment and persistently high benefit dependency. The Dutch case (Sol et al. 2008) is an illustrative story in this respect. National reform sequences clearly reveal a general trend from the short-term unemployed and persons with less severe labour market handicaps to more hard-to-place persons with longer records of benefit receipt, inactivity or more severe handicaps.

In hindsight, national activation policies aiming at integrating benefit recipients into the labour market have been expanding considerably both in scope, i.e. the range of target groups and benefit systems to be activated, and intensity in terms of demanding and enabling policy measures. Given that national activation policies are gradually developing to integrate an ever increasing share of working-age persons into the labour market, more and more exceptions for individual reasons or exemption clauses for specific target groups or benefit systems are being revoked. In that way, labour market and social integration will eventually cover more or less all working-age individuals. Creating a more inclusive labour market, however, implies a growing concern for marginalised groups with a greater distance from the labour market, who then require specific assistance to achieve sufficient employability.

Credibly implementing appropriate measures for the hard-to-place is a major challenge for today's activation policies.

## 3.4 Contingent Convergence of Governance

Despite country-specific and path-dependent variations in the administration and organisation of activation policies for different benefit claimant groups, we can observe considerable convergence of organisational and managerial forms. In most countries there have been steps towards co-ordinated decentralisation within the administration of activation in the insurance tier, but also in the relation between federal governments and the municipalities in countries with a longstanding communal responsibility for welfare claimants. These reforms have introduced new ways of steering and running public institutions and fundamentally reshaped relations between different actors.

At the heart of this general redefinition of relations between actors are the concepts of "management by objectives" and "steering by outcomes," which are the foundations for more contractual relationships not only between the individual and the state, but also between different levels of government and between public entities and private or privatised service providers. In the United Kingdom, the responsible ministry steers "JobCentrePlus" directly by means of Public Service Agreements. The local entities should achieve defined objectives. The success is measured and valued according to the achievement of these objectives. The JobCentrePlus in turn manages the activation measures with external partners by means of contracts. Similar contractual arrangements between a central actor (principal) and regional or local public entities can be found in most countries under scrutiny. The contractual relation between different levels of government is most advanced in Switzerland and represented by the block grant system in the US welfare system. Contractual relations also govern the relations between public and private actors. Involving private actors as service providers via contracting-out is most important and comprehensive in the US and the Netherlands, and to a lesser extent in the United Kingdom (Employment Zones), Germany (e.g. training and placement vouchers), Denmark and France. Despite the fact that this dimension of activation governance is still characterised by some divergence across countries, we can observe converging trends.

Associated with contractual governance is a stronger emphasis on effectiveness and efficiency, performance targets, monitoring and fiscal incentives. This is more easily implemented within public employment services, most prominently and transparently within unemployment insurance in Switzerland, the Netherlands, but also in Germany. Less stringent governance and greater heterogeneity in activation

approaches and implementation are still found in municipal activation of social assistance recipients in Sweden.

However, in countries with a strong tradition of municipal welfare governance like Denmark, Germany, Switzerland or the Netherlands, a kind of "centralised decentralisation" has been implemented. There is leeway at the local level to implement activation policies for welfare claimants, but local units have to comply with the general rules and goals set at the central level. The management of Dutch municipal welfare activation policies, for example, relies on strong fiscal incentives to implement efficient policies – in accordance with the US model of block grants. The shift from rule-driven to agency-type organisations governed by performance targets is complemented by a reduction of direct political influence of some actors. In particular, we can observe a marked weakening of the role of the social partners and tripartite governance in the Netherlands or Germany, but also more recently in Denmark.

Another typical development in current activation policies is an increased effort to overcome long-standing institutional and administrative fragmentations between administrations responsible for insurance and assistance benefits as well as between active and passive measures, which have to be delivered in a co-ordinated way in an activation environment. This has led to the creation of "one-stop shops" and single gateways with the British JobCentrePlus, the Dutch CWI or the German "Arbeitsgemeinschaften" as prime examples. By merging different agencies and creating single points of contact ("pôle emploi"), the French legislator also aims at improving the effectiveness of activation. Activation can only work if frictional loss is minimised. Thus, transparency indirectly contributes to an improvement of activation because it allows for reasonable implementation.

However, this integration is not complete in most countries. Dual responsibilities for insurance benefit and welfare recipients are still an issue in most countries, especially in those with a long-standing tradition of municipal social assistance or welfare policies. In Germany, the existing administrative structure is still problematic due to unclear responsibility and diverging steering mechanisms. In Switzerland, due to the concept of the social security system, there are extensive frictions between the respective branches of social security. These frictions result in moving funds from one system to another and interfere with the efficiency of activation measures. Hiding unemployment by transferring recipients into other branches of social security is a serious problem. This is particularly true for the federal unemployment insurance and the disability insurance. There is a lack of sufficient coordination between the respective institutions. In addition, the tightening of the federal insurance law has resulted in an increase of cases and costs in social assistance and an increase of the "working poor." From an organisational view, welfare or social assistance still is a distinct second tier of activation, which may lead to a certain underrating of employability and benefits from supportive

measures like training for this target groups (e.g. in Switzerland). This segmentation of beneficiaries works to the detriment of the most vulnerable groups. The major challenge here is to overcome this institutional barrier and to ensure that demanding and enabling measures follow the logic of necessity and not primarily an institutional logic.

## 3.5 Explaining Contingent Convergence in Activation

The international evidence points at a 'contingent convergence' of activation strategies and instruments over time and across countries by way of a merger of workfare ideas and more classical active labour market policies. Activation policies converge towards a general activation paradigm with respect to the working-age population, thus extending to an ever wider range of benefit schemes and addressing ever larger and more heterogeneous target groups. This implies a more tailored and flexible repertoire of instruments and new modes of target-oriented governance.

Active labour market policies and workfare were translated into something that differs from the practice in the US or in the European countries until the 1990s. This implies that activation is not only meant to keep an eye on moral hazard among claimants, but also an important step towards a more inclusive society by lifting qualifications and overcoming motivational problems. The intention of activation was to increase productivity and the mobility of the jobless while at the same time testing their availability, capability and willingness to work. We can observe major convergence in designing the set of rules and instruments. The New Deal programmes in the UK, the Dutch activation trajectories, current activation programmes in Denmark, but also "Fördern und Fordern" in Germany are all based on a fusion of mandatory, i.e. demanding, and enabling elements in the actual activation measures.

Hence, the widely received dichotomy of human capital formation vs. workfare is overridden in the concrete design of specific policies. Moreover, with respect to the concrete set of rules and instruments there is a contingent convergence across the countries. The human capital oriented strategies are less pronounced in Scandinavian countries these days, and the work-first strategies of Anglo-Saxon countries are complemented by skills policies. Reform steps in Denmark over more than a decade, as well as most recently in Sweden, are using more and more workfare elements such as mandatory programme participation. Within the German activation strategy after the Hartz reforms, or after the Dutch 2004 welfare reform, demanding elements have become stronger so that growing emphasis is put on taking up paid work and enforcing individual responsibilities. As a consequence,

there is less evidence on fundamentally different approaches to activation than in the past.

The observation of contingent convergence in activation policies implies the obsolescence of established typologies of activation styles. Moreover, one has to be aware of false or obsolete stereotypes. For example, the degree of de-commodification in the British welfare state is currently higher as the activation regime is applied to fewer benefit claimants than the current extent of activation in Germany after the Hartz reforms (Eichhorst, Grienberger-Zingerle and Konle-Seidl 2008). The widely shared assumption of low benefit generosity in the United Kingdom is only true for unemployment insurance benefits but not for welfare or incapacity schemes (see table 3 above and Finn and Schulte 2008). Whereas the US and the UK are usually taken as examples of the liberal activation model, Denmark is often seen as the most universalistic activation regime in practice, but it increasingly relies on demanding intervention. However, the Danish activation strategy is quite far away from the recent Swedish one, although both countries belong to the same welfare state cluster. Hence, there is heterogeneity not only between country clusters but also between countries in the same cluster. Most other countries fit neither into the liberal nor the universalistic regime but are located somewhere in between. On the one hand, there are some "hybrid" countries that combine generous social benefits and more or less flexible labour markets, but do not fit into the universalistic and service-driven Scandinavian model such as Switzerland or the Netherlands.

What we can see, in particular, is the emergence of a flexible and broadly similar repertoire of activation measures applied to an increasingly heterogeneous target group comprising a growing share of the working-age population in all countries. Reform sequences, however, have been more protracted in some countries (e.g. Denmark) than in others where "big bang" reforms have been implemented during a political window of opportunity within a very short period of time (e.g. Hartz IV in Germany). The Anglo-Saxon and some Scandinavian countries were prominent early adopters of activation policies, but more recently the Continental European countries have embarked on a similar path. Although national variation is still present as similar concepts are implemented in a specific national policy environment, the countries compared now rather have more things in common than there is policy divergence.

How can this be explained? A sequential logic of policy-making probably fits best with new political action building upon perceived problems and opportunities created by earlier policies (Bonoli 2007). Contingent convergence of activation policies can be seen as the outcome of policy learning processes triggered by perceived problems of the welfare state, the subsequent introduction of new approaches to labour market policies and empirical assessments of policy impact which in turn call for and facilitate further action. In that respect a 'functional' logic

led from passive welfare states to initial steps towards activation in order to bring down benefit dependency and ease fiscal pressure in the welfare state. Strengthening the demanding part of activation was seen as solution to lower the number of beneficiaries. In developed welfare states this was perceived as an option to avoid severe cuts in benefits. However, activating only selected benefit schemes and small target groups such as recipients of unemployment insurance or welfare resulted in stronger reliance on not yet activated areas of social policies, e.g. early retirement and disability benefits, which then become part of an ever more extended activation agenda.

Motivated by empirical evaluation results as well as by high spending for activation programmes and critical labour supply problems, a clear shift to work first activation can be observed. According to the general objective not to fund unemployment but employment, the role of subsidised employment either via wage subsidies paid to the employer or in-work benefits in favour of low-wage earners has become more prominent over time. Subsidising low-wage jobs is perceived as a functional and readily available alternative to training, which generates beneficial effects only in the medium or long run. This problem becomes even more pronounced as the labour market integration of hard-to-place benefit recipients is on the agenda. More recent evidence, however, shows that "work first" and subsidisation policies may not be sufficient to achieve sustainable labour market careers. This is why the United Kingdom now intensifies skill formation while maintaining the system of in-work benefits following the conclusions from the Leitch and the Freud reports from 2006 and 2007. More liberal welfare states, therefore, are increasingly aware of the need to improve the skill levels of the unemployed or inactive workforce, which is seen as a major precondition for sustainable labour market integration. Therefore, we currently observe convergence from work first and human capital approaches to a flexible repertoire. This, however, calls for new and integrated governance structures why we observe steps to overcome administrative fragmentation and establish management by objectives in order to reconcile target-oriented steering with flexibility in actual implementation.

In that respect, activation policies continue to be characterised by learning from past policies and a continuous development involving a redefinition of target groups and instruments. But activation is also marked by learning from policy failures or disappointments. The current discourse is more aware of the fact that the major challenge of activation is not necessarily finding the quickest way into the labour market, but identifying the best way to enter and remain in gainful employment and achieve some upward mobility.

In the area of activation, policy convergence is reinforced by a cross-border diffusion of objectives, instruments and empirical evidence on labour market policy schemes. The shift towards activation has also been emphasised by transnational policy advice provided by international organisations like the OECD and supranational

institutions like the EU. One triggering event in this respect has been the launch of the OECD Jobs Strategy dating back to 1993, which was recently revised (OECD 2006, 2007). The OECD Jobs Strategy was one of the first broad reform catalogues emphasizing the role of work incentives and potential negative side effects of social benefits. Hence, in order to raise employment and bring down unemployment, the OECD recommended that member states increase the effectiveness of active labour market policies, improve work incentives within the unemployment benefit and tax system, increase wage setting flexibility and ease employment protection. Increasing the level of labour participation is also one of the key objectives of the European Employment Strategy (EES) and the Lisbon agenda nowadays (Trubek and Mosher 2003).

Moving towards activation was also part of the "third way" policies implemented mainly by reform-oriented Social Democratic governments in Europe, in particular in the UK, Germany and the Scandinavian countries in the second half of the 1990s, which, in turn, also inspired the formulation of the EES and the Lisbon agenda (Green-Pedersen et al. 2001, Giddens 1998). It seems fair to argue that common challenges in terms of benefit dependency and fiscal pressure within the welfare state, but also supranational recommendations and commonly shared "third way" ideas, triggered and accelerated the shift towards activation as a way to reduce benefit dependency without having to lower benefits across the board.

Table 4 provides an overview of the basic stages of development regarding activation policies in Europe and the US.

**Table 4: The different stages of activation policies**

| | Target groups | Instruments | Outcomes |
|---|---|---|---|
| **1970s and 1980s** | ▪ some (local) activation of welfare recipients | ▪ Voluntary, benevolent active schemes (ALMP)<br>▪ permissive passive receipt | ▪ high benefit dependency |
| **Early activation (1990s)** | ▪ activation of some selected groups such as young people, unemployment insurance beneficiaries, welfare recipients<br>▪ no activation of early retirees, disabled | ▪ Benefit conditionality and mandatory participation for core groups (individual action plans) | ▪ Decline of open unemployment<br>▪ reshuffling of benefit receipt, move from activated to still passive systems |
| **Recent trend (mid-2000s)** | ▪ Expansion of target groups: disabled, early retirees<br>▪ Activation as major principle in all mature welfare states | ▪ More general work first approach, less emphasis on training, stressing of personal services<br>▪ Merger of administrative bodies, new modes of governance | ▪ problems with instable employment and low income,<br>▪ activation traps |
| **Probable future path** | ▪ Generalisation of activation: all working age people | ▪ General activation approach mirrored in flexible set of activation programmes<br>▪ stronger emphasis on sustainability, employability, skills formation, i.e. combination of work first and training | ▪ more sustainable labour market integration for all |

# 4 Does activation work?

Intensive econometric research has contributed to a growing body of literature addressing the micro-economic effectiveness of different activation programmes. There is a series of empirical studies that seek to separately identify the effects of compulsory and supportive elements of different kinds of activation programmes. However, it is difficult to isolate compulsory and supportive elements of activation measures in empirical evaluation studies, e.g. the relative effect of counselling (supportive) on the one hand and monitoring (compulsory) on the other side. Most of the studies examine the joint impact of both counselling and job search assistance as well as monitoring and sanctioning on the duration of unemployment or benefit receipt (e.g. Black et al. 2003, Graversen and van Ours 2006, Rosholm and Svarer 2008, Lalive et al 2005, van den Berg and van der Klaauw 2006).

Summarizing the available evidence, there are quite robust findings across countries with regard to the short-term effectiveness of demanding elements such as mandatory participation in activation programmes, job-search monitoring or reducing maximum benefit duration in bringing the jobless back to work. Threat and screening effects seem to have an important impact on job-finding and benefit caseloads. National experiences with activation policies show that activation programmes effectively help screen the benefit recipients and differentiate between beneficiaries available for work and those not available, but obviously they are insufficient tools for the labour market integration of weaker groups. Furthermore, it seems that the compulsory element of activation might be responsible for the short-run effects whereas the treatment component of counselling and other supportive measures may account for the long-run impact of programmes. Evidence is less robust with regard to variations across particular target groups. Long-term labour market integration is not achieved by demanding interventions alone in case of more vulnerable groups, but depends upon employability-enhancing policies. There is evidence that hints at positive long-term effects of training schemes (Lechner et al. 2004, Stephan and Pahnke 2008).

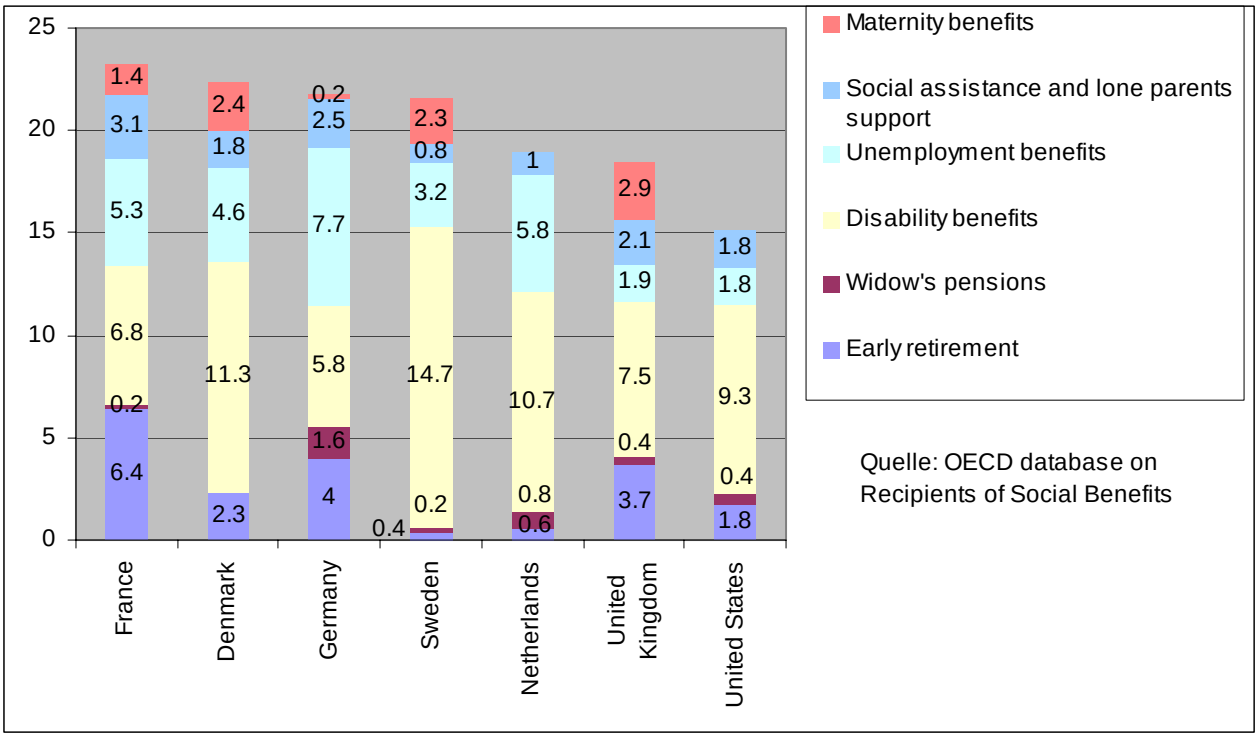
Given displacement, substitution, deadweight, wage and fiscal effects, the macro-economic effectiveness and efficiency of activation programmes as well as the sustainability of effects is less clear. Evidence on net re-employment effects of voluntary or mandatory programme participation is less robust. In particular, some studies point at the fact that activating interventions based on the threat potential and demanding principle may help move benefit recipients to low-skill, low-pay and instable jobs so that they run the risk of continued partial reliance or repeated return to benefits (Carpenter 2006).

The overall effectiveness of national activation policies and variations in performance are mainly due to the heterogeneity of the target groups and related objectives of activation. For example, the US welfare reform of 1996 mainly targeted

the so-called welfare mothers. It set incentives to encourage the establishment of dual parent families and reduce the number of lone parents and teenage pregnancies. In contrast, German activation addresses foremost the unemployed and aims at lowering unemployment. In countries facing labour shortages like the Netherlands or the UK, but also Denmark and Sweden activation policies is aiming to increase effective labour supply.

There is no clear evidence that activation as such necessarily leads to lower overall benefit dependency and public expenditure. Despite more than a decade of activation policies on average one in four or five working-age people receive income support in all countries except for the US with its less generous benefit system and about 15 percent beneficiaries (see figure 4 and the national time series in figures 1 to 3). Activation, therefore, is neither cheap nor easy – and it may not be the silver bullet to ease fiscal pressures on the welfare state by increasing overall employment and reducing benefit expenditure.

**Figure 4: Recipients of benefits in % of working-age population, 2004**



However, we do not know what would have happened without activation. There may be indirect positive effects of activation on overall employment which are hard to identify. First, activation may have slowed down increases in benefit dependency. Second, activation as a credible threat tends to lower reservation wages not only of the activated but also of wider groups of the labour force, which in turn can stimulate labour demand and facilitate faster matching on the labour market (see e.g. Kettner and Rebien 2007 for Germany).

Activation policies are embedded in more encompassing labour market and social policy reforms. The interaction between activation instruments and other reform elements makes the identification and isolation of specific effects a difficult task. However, we can argue that some of the more general or universal findings from micro studies are mediated by the overall institutional framework of the labour market – thus leading to some sort of "contingent convergence" of activation effects across countries.

Firstly, activation benefits from a sufficiently flexible and dynamic labour market. An ample capacity of the labour market to generate labour demand, and in particular entry jobs, facilitates the labour market integration for activated people. However, there are different forms of flexibility. While integration into the labour market is the only long-term option in a system with low benefit levels (such as the US) and as it is stimulated by in-work benefits that also have social policy objectives, other countries induce some additional labour demand via targeted subsidies or segments of more flexible employment relationships. This goes beyond activation in terms of a narrow definition of demanding and enabling, but it helps achieve better labour market integration. On the other hand, activation itself may increase wage flexibility by inducing lower reservation wages. At the same time, it may result in wage moderation as the unemployed, but also the employed, face less attractive out-of-work options (see e.g. the current debate on low-wage jobs in Germany). This, however, may run the risk of persistent low-wage or sequences of instable employment associated with partial or repeated reliance on benefits in case of target groups with low employability due to lacks of qualification or long phases of inactivity. Without additional policies to raise employability this may lead to a growing low wage sector with an increasing number of working poor with limited upward mobility (Clasen and Clegg 2006).

Secondly, the relative success of activation policies in social security schemes depends on the simultaneous or sequential closing of alternative escape routes so that reshuffling of the non-employed from one benefit system to another is ruled out. It is counterproductive to maintain some benefit alternatives such as disability or early retirement schemes with low activation, while implementing stricter activation in other schemes.

Thirdly, as more hard-to-place individuals, i.e. the long-term unemployed or inactive low-skilled persons, are to be reintegrated into the labour market, the

pressure towards wider wage dispersion will increase – and more low-pay or fragile jobs will result (see, in particular the experiences in the US and the UK) if the basic level of employability and skills is not sufficient to achieve higher wages and more stable jobs (Leitch 2006). Policy makers tend to stimulate labour demand and aim at stabilising jobs and earnings via wage subsidies or in-work benefits in this case. While training could be a better alternative in the long run, its effects on employability are not easily attainable in the short run.

Finally, the overall effectiveness of national activation policies and variations in performance are also due to the heterogeneity of the target groups and related objectives of activation. For example, the US welfare reform of 1996 mainly targeted the so-called welfare mothers. It set incentives to encourage the establishment of dual parent families and reduce the number of lone parents and teenage pregnancies. In contrast, German activation addresses foremost the unemployed and aims at lowering unemployment. In countries facing labour shortages like the Netherlands or the UK, but also Denmark and Sweden, activation policies aim to increase effective labour supply. Therefore, the right and duty principle is now going to be extended to the inactive and the disabled.

# 5 Outlook: The Future of Activation

Since the early 1990s, activation has become a mainstream element of welfare state and labour market reforms. After more than a decade of policy formulation, implementation and recalibration, an interim assessment shows substantial "contingent convergence" of policy objectives, target groups, activation measures, governance models, but also findings from empirical research into the outcomes of activation. In the long run, and with reasonable simplification, one can argue that activation policies increasingly go beyond reducing unemployment towards mobilising additional labour supply of inactive members of the labour force. Activation increasingly targets not only the unemployed and the recipients of welfare or social assistance, but also tackles benefit systems that used to be important escape routes from the labour market such as early retirement, disability and sickness schemes so that fewer and fewer groups of the working-age population are exempted from being available for work.

Currently, there is considerable convergence towards stronger emphasis of work first policies in countries with a long standing tradition of human capital oriented labour market policies while traditional workfare approaches are increasingly supplemented with training initiatives – and this is not only true with respect to the relative role of these measures but also regarding the design of activation trajectories which are characterised by intimately linking demanding and enabling elements.

With regard to the outcomes of activation, there is growing evidence that work first policies help move people off benefits but are insufficient to achieve sustainable employment, in particular when it comes to activation and integration of inactive, long-term benefit recipients and the low-skilled with severe skill or employability deficits. Workfare and work first policies help counter moral hazard by benefit recipient relatively close to the labour market but they are inappropriate for the labour market integration of more vulnerable groups. It is increasingly clear that a significant share of low-paid and temporary workers find it difficult to climb the job ladder and/or experience frequent spells out of work, even as others successfully move into stable and better paying jobs. Hence, work first is a necessary, yet insufficient element of activation policies targeting the hard-to-place. Activation is neither a panacea or a quick fix to inactivity and unemployment nor a measure to cut welfare state expenditure.

Creating a more inclusive labour market, therefore, implies a growing concern for marginalised groups with a greater distance from the labour market, who then require specific assistance to achieve sufficient employability. Designing and implementing appropriate measures for the hard-to-place is a major challenge for today's activation policies. Policies to further employability, however, have to be embedded in a consistent framework of rights and duties. Hence, training and assistance are necessary complements to work first measures as demanding policies do not suffice to stabilise labour market integration of the most vulnerable groups.

Activation policies have proven to be learning systems in the past. Hence, when moving towards an even more inclusive definition of activation, policy tools have to be adjusted and redefined in a flexible and appropriate way. Since activation policies in principle already rely on a combination of demanding elements and tailored assistance, they should build closer bridges with the education and vocational training system. In the medium and long run, activation policies will probably perform best if they adopt a wider perspective and take the need for basic skills acquisition and continuous training as a prerequisite for employability without encountering the risk of long-term benefit dependency or unstable low skill/low pay jobs into account. To the extent that human capital investments are strengthened, the need for subsidised employment and in-work benefit will be reduced. "Work first" is not sufficient to achieve sustainable labour market careers for all. This is why the United Kingdom now intensifies skills formation while maintaining the system of in-work benefits following the conclusions from the Leitch and the Freud reports from 2006 and 2007. More liberal welfare states, therefore, are increasingly aware of the need to improve the skills levels of the unemployed or inactive workforce which is seen as a major precondition for sustainable labour market integration. Therefore we currently observe convergence from work first and human capital approaches to a flexible repertoire. This, however, calls for new and integrated governance structures why we observe steps to overcome administrative fragmentation and establish management by objectives in order to reconcile target-oriented steering with

flexibility in actual implementation. In that respect, activation policies continue to be characterised by learning from past policies and a continuous development involving a redefinition of target groups and instruments. But activation is also marked by learning from policy failures or disappointments. The current discourse is more aware of the fact that the major challenge of activation is not necessarily the quickest way into the labour market but identifying the best way to enter and remain in gainful employment and achieve some upward mobility.

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