Abstract

This study compares activation policies for long-term unemployed people from 1990 to 2007 in Australia, United Kingdom, Netherlands and Denmark.

Comparative welfare researchers debate whether activation policies converged or retained distinctive welfare regime features. Some argue activation marked convergence towards the Liberal welfare regime by enforcing labour market participation and bringing market-based governance to employment services. Others argue major differences persisted as activation policies were shaped by different institutional settings such as labour markets and benefit systems.

This thesis examines convergence in employment assistance. Using interviews with expert stakeholders, analysis of policy documents and statistical comparisons, it traces key influences on the character of employment assistance for long-term unemployed: whether capacity-building, incentive-strengthening, or income protection. While there was convergence towards a common activation paradigm, employment assistance followed parallel but separate paths.

The United Kingdom and Australia, with Liberal welfare regimes, increased investment in capacity-building programs under labour governments then settled on incentive-strengthening approaches. The Netherlands, a hybrid Conservative-Social Democratic regime, pursued modest capacity-building for long-term unemployment insurance recipients and income protection for long-term social assistance clients, but took an incentive-strengthening approach with new social assistance clients. Denmark, a Social Democratic regime, privileged capacity-building for long-term unemployment insurance recipients and income protection for long-term social assistance clients.

The following institutional settings underpinned these differences: the benefit structure (unemployment insurance and social assistance), the governance of benefits and employment services (whether corporatist, municipal, or market-based), and labour market structure and dynamics (the speed of labour turnover, share of low-skilled jobs, and different national models of family workforce participation). While the major political parties held consistent preferences for different forms of employment assistance, the political colour of the government was not always decisive. Since the institutions that most influenced activation policy were key building blocks of welfare regimes, these findings help explain both stability, and potential for change, within different regimes.

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Active, willing and able

Activation policies in Australia, the United Kingdom, Netherlands and Denmark (1990-2007)

A thesis in fulfilment of the requirements for the degree of Doctor of Philosophy

Social Policy Research Centre, Faculty of Arts and Social Sciences,

UNIVERSITY OF NEW SOUTH WALES, AUSTRALIA

November 2018
ORIGINALITY STATEMENT

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<tr>
<td>Abw</td>
<td>Social Assistance Act (Netherlands)</td>
</tr>
<tr>
<td>ACTU</td>
<td>Australian Council of Trade Unions (Australia)</td>
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<tr>
<td>ACOSS</td>
<td>Australian Council of Social Service (Australia)</td>
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<td>AF</td>
<td>Employment Service (Denmark)</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>FND</td>
<td>Flexible New Deal (United Kingdom)</td>
</tr>
<tr>
<td>FNV</td>
<td>Trade Union Congress (Netherlands)</td>
</tr>
<tr>
<td>GBP</td>
<td>Great British Pound (United Kingdom)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>IRO</td>
<td>Individual Reintegration Agreement (Netherlands)</td>
</tr>
<tr>
<td>IS</td>
<td>Job Network Intensive Support (Australia)</td>
</tr>
<tr>
<td>ISCA</td>
<td>Job Network Customised Assistance (Australia)</td>
</tr>
<tr>
<td>JSA</td>
<td>Job Network Job Seekers Account (Australia)</td>
</tr>
<tr>
<td>JSA</td>
<td>Job Seekers Allowance (United Kingdom)</td>
</tr>
<tr>
<td>JWG</td>
<td>Youth Work Guarantee Scheme (Netherlands)</td>
</tr>
<tr>
<td>JET</td>
<td>Jobs Education and Training (Australia)</td>
</tr>
<tr>
<td>KF</td>
<td>Conservative People’s Party (Denmark)</td>
</tr>
<tr>
<td>LCR</td>
<td>National Client Council (Netherlands)</td>
</tr>
<tr>
<td>LO</td>
<td>National Organisation of Workers (Denmark)</td>
</tr>
<tr>
<td>MSC</td>
<td>Manpower Services Commission (United Kingdom)</td>
</tr>
<tr>
<td>NDYP</td>
<td>New Deal for Young People (United Kingdom)</td>
</tr>
<tr>
<td>NDLP</td>
<td>New Deal for Lone Parents (United Kingdom)</td>
</tr>
<tr>
<td>ND25+</td>
<td>New Deal for 25 years plus (United Kingdom)</td>
</tr>
<tr>
<td>NDLTU</td>
<td>New Deal for Long Term Unemployed (United Kingdom)</td>
</tr>
<tr>
<td>NDDP</td>
<td>New Deal for Disabled People (United Kingdom)</td>
</tr>
<tr>
<td>NSA</td>
<td>Newstart Allowance (Australia)</td>
</tr>
<tr>
<td>NPM</td>
<td>New Public Management</td>
</tr>
<tr>
<td>NWO</td>
<td>New Work Opportunities (Australia)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PES</td>
<td>Public Employment Service</td>
</tr>
<tr>
<td>PFL</td>
<td>Pim Fortuyn’s List (Netherlands)</td>
</tr>
<tr>
<td>PSP</td>
<td>Personal Support Program (Australia)</td>
</tr>
<tr>
<td>PvdA</td>
<td>Party of Labour (Netherlands)</td>
</tr>
<tr>
<td>RWI</td>
<td>Council for Work and Income (Netherlands)</td>
</tr>
<tr>
<td>SCP</td>
<td>Social and Cultural Planning Bureau (Netherlands)</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>SD</td>
<td>Social Democratic Party (Denmark)</td>
</tr>
<tr>
<td>SER</td>
<td>Social and Economic Advisory Council (Netherlands)</td>
</tr>
<tr>
<td>SPAK</td>
<td>Specific Tax Rebate (Netherlands)</td>
</tr>
<tr>
<td>SUWI</td>
<td>Work and Income Reorganisation Act (Netherlands)</td>
</tr>
<tr>
<td>SW</td>
<td>Sheltered Work agency (Netherlands)</td>
</tr>
<tr>
<td>SZW</td>
<td>Ministry of Social Affairs and Employment (Netherlands)</td>
</tr>
<tr>
<td>UWV</td>
<td>Unemployment Insurance Institute (Netherlands)</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training (Australia)</td>
</tr>
<tr>
<td>VNW</td>
<td>Scheme for Reduction of Long-term Unemployment (Netherlands)</td>
</tr>
<tr>
<td>VVD</td>
<td>Liberal Party (Netherlands)</td>
</tr>
<tr>
<td>VNO-NCW</td>
<td>Employers Federation (Netherlands)</td>
</tr>
<tr>
<td>WRR</td>
<td>Scientific Council for Government Policy (Netherlands)</td>
</tr>
<tr>
<td>WWB</td>
<td>Work and Assistance Act (Netherlands)</td>
</tr>
<tr>
<td>WFTC</td>
<td>Working Families Tax Credit (United Kingdom)</td>
</tr>
<tr>
<td>WAO</td>
<td>Disability Insurance Act (Netherlands)</td>
</tr>
<tr>
<td>WW</td>
<td>Jobseeker’s Employment Act (Netherlands)</td>
</tr>
<tr>
<td>WW</td>
<td>Unemployment Insurance Act (Netherlands)</td>
</tr>
<tr>
<td>YA</td>
<td>Youth Allowance (Australia)</td>
</tr>
</tbody>
</table>
Active, willing and able

Activation policies in Australia, the United Kingdom, Netherlands and Denmark (1990-2007)

Introduction

The adoption of activation policies in many Organisation for Economic Cooperation and Development (OECD) countries over the two decades commencing in 1990 has been described as a major paradigm shift in social security and employment policy (Bonoli, 2013; Hall 1993; Weishaupt, 2011). Following Hall (1993b), activation emerged as a new overarching framework for policies to reduce mass unemployment and reliance on unemployment payments after repeated attempts to solve these problems within the previous framework had seemingly failed.

We define ‘activation’ as a set of interconnected policies designed to systematically strengthen workforce participation, and consequently employment, among people receiving social security payments. The relevant policies include activity requirements linked to unemployment payments, social security and tax reforms to improve work incentives, and employment assistance (labour market programs), training and child care services to improve both work incentives and employment capacity.

Each of these policies pre-dated the activation paradigm: the innovation was the weaving together of these elements into formal agreements with each unemployed person based on principles of mutual or shared obligation between them and government (Eichhorst, Kaufmann, & Konle-Seidl, 2008). Since its starting point was the relationship between each unemployed person and the labour market, the activation paradigm privileged ‘supply-side’ solutions to unemployment, and employment as the best solution to poverty.

Since the advent of activation policies, researchers have compared their development and form in different countries in order to understand their origins and grasp their implications for unemployed people and the future of welfare states. This study, focussing on employment assistance for long-term unemployed people in four countries, is a contribution to that body of research.

By the early 1990s, social security systems in wealthy countries had come under sustained economic and political pressure from mass unemployment, especially long-term unemployment (Layard, Nickell, & Jackman, 1991; Pierson, 2001a). Over the previous two
decades, the failure to restore full employment while curbing inflation led to a challenge to the
dominant Keynesian economic paradigm from neoclassical economics (Blanchard, 1985).
This challenge centred on the idea that most unemployment was not cyclical but structural
and could not be reduced through ‘demand management’ alone (Friedman, 1968; Hall, 1993).
To reduce what became known as ‘structural unemployment’ the labour market would need
to be reconfigured, especially on the supply side: for example, by easing regulations such as
minimum wages and employment protection, upgrading the skills of low-skilled workers, and
adjusting social security systems to strengthen work incentives (OECD, 1996a).

At the same time, the growing cost of high levels of reliance on social security among people
of working age cast doubt on the sustainability of anti-poverty policies based on continuous
improvements in social security payments. The axis of political debate on social security
shifted from continuous improvement to ‘permanent austerity’ (Pierson, 1998). In the 1990s,
these debates moved ‘beyond retrenchment’ towards the redesign of benefits and related
employment services to reduce the number of recipients (Palier, 2001). Activation policies,
also called ‘employment participation policies’ and ‘welfare to work’, sat at the centre of these
efforts (Aurich, 2009; Eichhorst, Kaufmann, et al., 2008).

The 1990s were also a time of reflection on the origins, character, and future of different
welfare systems. Esping Andersen’s ‘Three Worlds of Welfare Capitalism’ was published in
1990 and his welfare regime theory became a reference point for international comparative
studies of how different countries responded to mass unemployment, de-industrialisation, and
resulting pressures on social security systems (Emmenegger, Kvist, Marx, & Petersen, 2015;
Esping Andersen, 1990). His ‘welfare regime’ theory benchmarked welfare systems against
three types drawn from the main strands of political ideology in wealthy nations: Liberal, Social
Democratic, and Conservative.

Within this burgeoning international comparative welfare state literature, views varied about
the place of activation policies within different welfare regimes and its implications for welfare
states (Eichhorst & Konle Seidl, 2008; Lødemel & Trickey, 2001; Starke, Obinger, & Castles,
2008).

One school of thought was that activation signalled convergence of different welfare systems
towards the Liberal regime. This was based on observations that activation privileged
participation in the labour market over citizens’ entitlements to income protection (in Esping
Andersen’s words, overturning ‘decommodification’), sought solutions to unemployment in
individual behaviour rather than institutional change, and relied on market-based solutions to
mass unemployment (Esping Andersen, 1990; Gilbert & Van Voorhis, 2001; Lødemel & Moreira, 2014; Tanzi, 2002).

This school viewed activation policy through the wider lens of a welfare state convergence thesis (Holzinger & Knill, 2005; Starke et al., 2008) which focussed on liberalising reforms to remove centralised public regulation of labour markets and reduce the generosity and accessibility of income support. The main causes of convergence identified in this literature included external economic pressures (economic globalisation, increasing unemployment, declining demand for low skilled labour, ageing populations and chronic deficits in public budgets) and policy transfer through multinational institutions, especially the OECD and European Union (EU) (Greve, 1996; Pierson, 1998; Tanzi, 2002). These factors were said to limit room for social policy manoeuvre by national governments and to force convergence towards the Liberal regime model.

Another school of thought argued that fundamental differences persisted among national activation policies as welfare regimes adapted them to their own institutional settings. For example, some argued that in pursuing activation, Nordic countries were reviving their own distinctive tradition of active labour market policy (Halvorsen & Jensen, 2004). These researchers viewed activation policy through the lens of welfare regime theories such as Esping Andersen’s which emphasised persistent international differences among welfare state institutions (Barbier & Ludwig-Mayerhofer, 2004; Bonoli & Palier, 2000; Clasen & Clegg, 2006; Iversen & Stephens, 2008).

A comparison of activation policies can shed light on the broader question of whether welfare states are ‘converging’. Further, if we better understand the forces and institutional settings that gave rise to different activation policies, we can better understand the likely future trajectory of social security and employment services for people who are unemployed.

The first research question for this study is designed to test for convergence or persistent diversity in activation policies across the four countries, by focussing on a specific dependent variable that can readily be compared across the four countries: employment assistance programs for long-term recipients of unemployment payments over the study period (1990-2007). Long-term unemployed people are chosen as the target population of this study because of the early connections between long-term unemployment, activation policies, and labour market policies to reduce structural unemployment (Layard, 1995). Further, recipients of unemployment payments are more likely than new claimants to need a diversity of more
intensive forms of employment assistance (Eichhorst, Kaufmann, et al., 2008; Hasluck & Green, 2007).\(^1\)

The study period extends from the commencement of activation policies (shortly before or after 1990 in the four countries) to the last year before the global financial crisis (2007). This lengthy study period allows comparisons of the trajectory of activation policies in the four countries under governments of different political persuasions. By restricting the study to a period of (broadly) declining unemployment in the four countries, we reduce the confounding impact of business cycle fluctuations (especially recessions) on the purpose and character of activation policies.

The second research question deals with potential influences on the character of employment assistance for long-term unemployed people, to shed light on the main reasons for international convergence or persistent diversity in activation policies. Following the comparative literature on activation policies, we expect that the character of employment assistance for this group will be influenced directly by the structure, governance, funding and control of benefit systems and employment services in which employment programs are embedded (which we call ‘proximate institutions’), and indirectly by developments in a set of ‘surrounding institutions’ such as changes of government, family workforce participation and care arrangements, the skills structure and governance arrangements in the labour market (Esping Andersen, 1999; Kvist, 2000; Nelson, 2013; Palier, 2001). We also expect that the character of employment assistance for long-term unemployed people will be influenced by the development of a set of ideas underpinning activation policies including prevailing policy paradigms, knowledge of the effectiveness of employment programs from evaluations, and international policy transfer (Casey, 2009; Cox, 2001).

The research questions (RQ) for this study are as follows:

\[
\text{RQ1. What are the key similarities and differences in the purpose and character of the four countries’ employment assistance for long-term recipients of unemployment payments over the study period (1990-2007), especially the balance struck between income
}
\]

\(^1\) This avoids a bias towards a finding of international convergence in employment policies, since evaluations have found that people who were recently unemployed and had limited barriers to employment were likely to benefit from one particular form of employment assistance – job search assistance – whereas the needs of long-term unemployed people are more diverse (Martin & Grubb, 2001). Official program evaluations are examined in each country to assess the perceived cost-effectiveness of prevailing forms of employment assistance for long-term unemployed people. This helps us to determine the degree to which programs were chosen on cost effectiveness grounds, or other influences such as political party policy preferences or institutional path dependency were at work.
protection and active engagement with the labour market, and between strengthening work incentives and work capacity?

RQ2. What were the main reasons for convergence or persistent diversity in the purpose and character of the main employment assistance programs for long-term unemployed people in the four countries during the study period, including the influence of:

(a) changes of government;

(b) prevailing policy paradigms (activation, structural unemployment, new public management);

(c) policy transfer through the OECD and European Commission and among individual countries;

(d) the findings of official program evaluations;

(e) labour market structure and conditions (especially the workforce skills profile and job turnover);

(f) family workforce participation and care patterns (as they impacted activation of sole parents);

(g) the structure of unemployment payments;

(h) systems of governance, funding and control of benefits and employment services for unemployed people?

We conclude with observations about the implications of the findings of this study for international comparisons of welfare states and future activation policies.

The derivation of these research questions from the literature on comparative activation policies is explained in more depth in Chapter 4.

In recent years, comparative research on activation and employment assistance has centred on large-N statistical analysis of the relationships between different employment assistance policies and institutional variables (such as forms of labour market regulation or the political ‘colour’ of the party in power).\(^2\) Clasen, Clegg and Goerne (2016) questioned the validity of

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\(^2\) ‘Large N’ studies refer to mostly quantitative research comparing a large number of cases (in this case, countries), for the purpose of drawing reliable conclusions on the relationships between variables such as minimum wages and unemployment (Mahoney, 2003).
these studies as a stand-alone research method, arguing that many lack a solid theoretical underpinning and that more in-depth qualitative research of the evolution of different activation systems is needed to establish the causes of relationships among these variables:

‘it is likely that consideration of rather different (or additional) political and institutional variables will be needed for an adequate explanation of trends in the development of ALMP [active labour market programs] across countries and over time. The process of uncovering the causal dynamics specific to this policy field is still in its infancy and, in our view, there remains a major role for further qualitative comparisons of carefully selected national cases. (Clasen, Clegg, & Goerne, 2016, p33)’

This study helps bridge that research gap by charting and comparing the historical development of activation policies (especially employment assistance) in a small-N sample of countries with diverse welfare regimes: Australia and the United Kingdom as exemplars of the Liberal regime, Denmark as a Social Democratic regime, and the Netherlands as hybrid Conservative-Social Democratic regime (Esping Andersen, 1999). It follows recently published pioneering work in this field by Weishaupt (2011) and (Bonoli, 2013). As Van Berkel (2015) observed in his review of Bonoli’s study of the emergence of activation policies:

‘studies investigating and explaining the rise of active welfare states systematically, comparatively and empirically, as is the objective of Bonoli’s book, are scarce’ (van Berkel, 2015, p401)

One weakness of in-depth historical analyses of a small number of countries is that it is not possible to generalise the results. However, such research is increasingly viewed as a necessary complement to large-N statistical comparisons of welfare states (Mabbett & Bolderson, 1999; Starke, 2006).

The main method used in this study is ‘process tracing’ which is grounded on historical institutionalist theories of social change (Hall, 2008; Steinmo, 2008). This charts the processes leading to policy change, with a focus on the direct and indirect influence of institutions and ideas on decisions by policy makers in different countries and different points in time.

The key tools used for this purpose in this study are ‘elite interviews’ with policy-makers (public officials), employment service providers, and academic experts in this field, as well as analysis of the framing of problems and solutions in key policy documents (Bowen, 2009; Mininchiello, 2008). This historical analysis is grounded in statistical comparisons of key aspects of activation policies and wider labour market and social security institutions in the four countries (for example, spending on employment assistance programs, unemployment benefit replacement rates and trends in maternal employment).
A key challenge for comparative welfare state research is the so-called ‘dependent variable problem’: a lack of conceptual clarity regarding the outcomes we are comparing. Esping Andersen and others critiqued early studies of ‘welfare retrenchment’ that relied in one-dimensional fashion on ‘expenditure effort’ to compare the adaptation of welfare states to ‘permanent austerity’ (Esping Andersen, 1990; Starke, 2006). A similar problem has emerged in the comparative literature on activation, which contains many competing dichotomies to classify activation policies such as ‘coercive vs autonomy’, ‘passive vs active’, ‘workfare vs enabling’ and ‘human capital development vs work first’ (Serrano Pascual & Magnusson, 2007). These terms are at times poorly defined and importantly, not well grounded in theories of the welfare state.

In order to compare activation policies in the four countries within the framework of welfare regime theory, this study uses a two-dimensional ‘activation diamond’ to categorise policies according to the extent that they move from the traditional ‘income protection’ (de-commodifying) emphasis of social security towards the goal of maximising employment, and whether they do so mainly by strengthening the work capacity or work incentives of unemployed people. This is an adaptation of the ‘human capital vs work first’ dichotomy and is similar to the classification system for employment programs developed by Bonoli (2010).³ In addition, it can take account of another key element of activation policies: tax and transfer policies to ‘make work pay’ (Immervoll & Pearson, 2009).

This thesis is structured as follows.

The next three chapters set the theoretical framework and pose the problems that are the subject matter of this study.

Chapter one outlines the literature on comparative welfare states, focussing on Esping Andersen’s ‘three worlds’ of welfare capitalism and historical institutionalism as lenses through which the development of national welfare systems are viewed and compared.

Chapter two introduces the activation paradigm, its origins and key characteristics, and the analytical framework for comparing national activation and employment assistance policies used in this study.

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³ The ‘income protection’ point of the diamond corresponds to his ‘occupation’ category, since these programs offer an alternative to participation in the regular labour market (such as volunteering or a subsidised job where these do not improve future employment prospects).
Chapter three introduces long-term unemployment, and the structural unemployment paradigm that elevated it as a major challenge for public policy and outlines the main employment assistance programs used to reduce it and compares their effectiveness.

Chapter four sets out the research questions and explains how they are derived from the literature. The methods used, especially historical process tracing and statistical comparison of relevant features of welfare regimes and employment assistance policies in the four countries are outlined, in addition to the main sources including elite interviews, official policy statements, and secondary data sets.

Chapters five to eight (the ‘country chapters’) apply these methods and sources to trace the development of activation and employment assistance policies over the study period in each of the four countries. Each follows the same framework, dividing the study period into two sub-periods: from the adoption of activation policies to change of government, and from change of government to the last year of the study period in 2007. This allows us to test for the impact of a change of government on activation policies.

Within each sub-period, the development of factors identified in the literature as likely to influence employment assistance policies is traced: including the emergence and development of the key ideas that framed activation policies (including the activation paradigm), the system of government, labour market structure, dynamics and governance, and the structure and systems of governance, funding and control of unemployment payments and employment services. This is followed by an assessment of the character of employment assistance for long-term unemployed people in each country using the abovementioned analytical framework, and a conclusion.4

Chapter nine compares developments in the four countries against the backdrop of a statistical comparison of key variables introduced in the country chapters. Chapter ten concludes and discusses the implications of the findings for welfare regime theory and the future of activation policies.

A series of attachments document aspects of the methodology (including the interview schedule and ethics approval) and provide background information and data on benefit systems and labour market conditions in the four countries over the study period, employment programs and their evaluation, and sources and explanations of the derivation of data in key tables in the thesis.

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4 ‘Character’ refers to the extent to which their dominant purpose is work capacity-building, work incentive-strengthening, or income protection.
Chapter 1 : Theoretical underpinnings: comparing welfare states

Activation policies - including employment assistance for long-term unemployed people - are embedded within, and reveal aspects of the character of, national welfare states. Welfare states are in turn located within different configurations of national labour markets and political systems. We aim to establish what is common and what is distinctive about activation policies in the four welfare states in this study, and which features of those welfare states, labour markets and political systems shaped activation policies in these ways.

The first theoretical foundation of this study is Esping Andersen’s welfare regime theory, which is used to classify and comprehend different national welfare systems and how they influence activation policies (Esping Andersen, 1990; Myles & Quadagno, 2002; Sainsbury, 1999).

The second theoretical foundation is historical institutionalism. This is used to explain the process of stasis and change in institutions that underpin activation policies, including labour markets and benefit systems. Ideas borrowed from historical institutionalism include Pierson’s concept of institutional ‘path dependency’, Hall’s concept of ‘paradigm change’, and Streek and Thelen’s identification of diverse pathways to institutional change (Hall, 1993; Pierson, 2000; Steinmo, 2008; Streek & Thelen, 2005).

1.1 Welfare states and welfare regimes

Comparative welfare state research in the post-war period was grounded in new classification systems for national welfare systems, broadly understood as state-sponsored minimum standards of income, health, housing, education, and care (Wilensky, 1975). Titmuss (1958) developed one of the first, classifying welfare states as institutional (with generous benefits and broad population coverage), residual (with benefits targeted towards people at risk of poverty), and achievement-oriented (with benefits tied more strictly to previous contributions) (Titmuss, 1958). Wilensky and Lebeaux (1958) hypothesised that nations would converge towards universal and relatively generous benefit systems as their economies reached a certain stage of development (Wilensky & Lebeaux, 1958).

5 The scope of ‘welfare’ within his welfare regime typology included social security payments, health and community services, and extended at the margins to education and training and systems of labour market regulation.
From the late 1970s, this optimistic view of steady improvement and convergence was replaced by what Pierson (1998) called an ‘age of austerity’ in which welfare states came under pressure from slower economic growth, mass unemployment and resulting fiscal pressures, and further pressures arising from the maturation of social insurance systems and ageing populations (OECD, 1985; Pierson, 1998).

These pressures to scale back welfare expenditure began in the Anglophile countries during the 1980s. The Thatcher Government in the United Kingdom and Reagan Government in the United States argued the welfare state had become ‘a significant source of social and economic problems instead of a solution’ (Starke, 2006, p.105). Gilbert (2002) argued that the previous convergence towards more generous, universal entitlements was now reversed and that welfare states were converging towards the Anglophile ‘liberal’ model (Gilbert, 2002). Pierson (2001) cautioned that welfare states appeared to be surprisingly resilient and identified barriers to retrenchment within the welfare and political systems (Pierson, 2001b).

Esping Andersen’s landmark 1990 publication ‘Three Worlds of Welfare Capitalism’ challenged the convergence thesis from a different perspective, by re-working Titmuss’ classification structure. His central concept was a simplified analytical construct, the ‘welfare regime’ (Esping Andersen, 1990). He identified three welfare regimes, grounded in the:

‘ideational importance and power of the three dominant political movements of the long twentieth century in Western Europe and North America, that is social democracy, christian democracy, and liberalism.’ (Ferragina & Seeleib-Kaiser, 2011, p.583)

This welfare regime theory remains a key reference point for subsequent comparative welfare state research (Emmenegger et al., 2015).

These three welfare regimes were not merely sustained by the presence in government of political parties of a certain ideological persuasion. The contest between these ideas and political organisations took place within three key institutions - state, market (especially the labour market) and family:

‘Neoliberals advocate the primacy of markets (and usually ignore the family) while conservatives favour more family and local community social responsibility. Social democracy’s long-standing preference for collective solutions is anchored in its fear that both the family and market alternatives offer insufficient security while fostering in-egalitarian results. The choice of how to divide the responsibilities between the three cornerstones of the welfare triangle is what scholars term a choice between alternative welfare regimes.’ (Esping Andersen, 2003, p.9)
The following is a brief description of Esping Andersen’s three welfare regime types and the institutions that underpin them, which are used to classify welfare states in the four counties in this study (Esping Andersen, 1990, 1999).

The key features of the Social Democratic regime included a social security system with generous, widely available minimum entitlements regardless of previous occupational status and an extensive system of state-provided community services which displaced family care.6 Social security payments were usually jointly administered by government, trade unions and employers. The labour market, characterised by relatively equal wages, was also jointly regulated by governments, unions and employer organisations.

The Liberal regime privileged private markets as the main source of household income, and structured social security mainly as residual support for those who could no longer rely on market incomes.7 In ‘Beveridgean’ social security systems, payments were widely available regardless of previous employment status but set at low levels to encourage reliance on market incomes (Esping Andersen, 1990, p23). Means-testing played a major role in the Liberal regime. The labour market was characterised by greater wage inequality and limited regulation of pay and conditions and job security, to avoid interfering with markets.8 The privileging of the market meant that user charges were more often applied to community services than in the Social Democratic regime.

The Conservative regime was built upon and reinforced occupational status distinctions and the role of the family as the main source of income support for women and young people. ‘Bismarkian’ social security systems were more strictly based on the insurance principle, with payments more tightly linked to previous earnings (Esping Andersen, 1990; Hemerijck & Marx, 2010). In the Conservative regime, women and young people were either denied income support or received it as dependants of a male breadwinner. The labour market had a dual character: strict industrial relations regulation gave male breadwinners secure, well paid work while women and young people were diverted into less secure lower-paid jobs or excluded from paid work. Governments, unions and employers played a major role in the governance

6 Benefits for people out of paid work in the Social Democratic welfare regime were much broader in scope and accessibility than in the other regimes. While maximum rates of social insurance payments varied with previous earnings, the distribution of payment levels based on occupational status was much more compressed when compared with the Conservative regime.

7 Social insurance benefits were available in some countries with the Liberal regime (such as the United Kingdom) for those on whose behalf contributions were made, but these were modest relative to such payments in the other regimes (and non-existent in Australia), leaving more people reliant on means tested social assistance benefits than in the other regimes.

8 Australia’s relatively high minimum wages and centralised system of quasi-judicial wage regulation was exceptional, as discussed later (Castles, 1994).
of labour markets and welfare systems, but those systems were typically more decentralised than in the Social Democratic regime. Thus, community services such as child care were often delegated to lower levels of government or the family and were relatively under-developed.

The key dimensions of the three worlds typology are summarised in Table 1 (below).

**Table 1: The 'three worlds' typology**

<table>
<thead>
<tr>
<th>Welfare regime:</th>
<th>Liberal</th>
<th>Conservative</th>
<th>Social Democratic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security structure:</td>
<td>Residual: payments are widely available but relatively low and often means-tested</td>
<td>Stratified: higher but relatively unequal payments reinforcing occupation status, with women and young people often excluded</td>
<td>More uniform: widely available, high and relatively uniform payments</td>
</tr>
<tr>
<td>Governance, funding and control of social security</td>
<td>Centralised: direct government control</td>
<td>Corporatist: partnership of State, unions and employers (decentralised)</td>
<td>Corporatist: partnership of State, unions and employers (centralised)</td>
</tr>
<tr>
<td>Labour market regulation:</td>
<td>Minimal: high wage inequality, low job protection, low corporatism, only minimum conditions regulated</td>
<td>Stratified: strict job protection and low wage inequality among male breadwinners, low paid/insecure work or exclusion for others, corporatist regulation</td>
<td>Equalising: low wage inequality, encouragement of female workforce participation, moderate job protection, corporatist regulation</td>
</tr>
<tr>
<td>Role of the family in providing income and services:</td>
<td>Neutral: but care and financial support outside the family is mainly market, not government-based</td>
<td>Male-breadwinner model: role of family reinforced as site of care, and financial support for women</td>
<td>De-familialising: government benefits and services displace care and financial support within the family</td>
</tr>
</tbody>
</table>

Sources: Esping Andersen (1990); Esping Andersen (1999)
The three main yardsticks by which he measured differences in welfare structures in the three regimes were ‘de-commodification’ – the degree to which the welfare system released people from reliance on the private market by providing benefits as a matter of right; ‘stratification’ – the degree to which benefits reinforced an individual’s occupational status, and ‘de-familialisation’ – the degree to which the welfare system displaced reliance on the family for financial support and care.9

Writing in the late 1990s, Esping Andersen classified the English-speaking OECD countries (including Australia and the United Kingdom) as belonging to the Liberal regime, the Nordic countries (including Denmark but not Finland) as belonging to the Social Democratic regime, and the rest of continental Europe and Japan as belonging to the Conservative regime. He described the Netherlands as:

‘A janus-headed welfare regime, combining both social democratic and conservative attributes.’

(Esping Andersen, 1999, p88)

The Dutch example highlights the stereotypical character of the three welfare regimes. Few, if any countries had welfare systems that closely fitted the description of a single regime in all respects. Rather, in many countries the features of a single welfare regime were dominant, while others were hybrids (Ferragina & Seeleib-Kaiser, 2011). The Dutch experience, discussed in depth in Chapter 7, also illustrates how welfare regimes evolve in response to social and economic change, such as the abandonment of the ‘male breadwinner model’ of paid workforce participation (Palier, 2010).

(1) Welfare regimes, politics and the labour market

The starting point for Esping Andersen’s classification of welfare regimes was the ‘power resource theory’ attributed to Korpi (Emmenegger et al., 2015). From this perspective, government policies and social institutions were shaped by a contest between social classes. According to Pierson (2001):

‘The power resources perspective, which attributes cross national variations in social provision largely to differences in the distribution of political resources among classes, has been the leading approach in comparative politics to explaining patterns of welfare state expansion.’ (Pierson, 2001b, p150)

This contest was mediated by distinct configurations of political institutions, which welfare state researchers have associated with different types of welfare states. Huber, Ragin, and Stephens (1993) argued that the welfare state evolved differently in countries with political

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9 This last measure was developed later in response to academic critiques, as discussed below.
systems which concentrated power (such as the United Kingdom) and those in which power was diffused such as the United States. They attributed the relative weakness of the United States’ welfare system to the blockage of reform in political systems with multiple ‘veto points’:

‘aspects of the constitutional structure that disperse political power and offer multiple points of influence on the making and implementation of policy are inimical to welfare state expansion...These include federalism, presidential government, strong bicameralism, single member district electoral systems, and provisions for referenda.’ (Huber et al., 1993, p722)

Conversely, Huber et al argued that political systems which dispersed power made retrenchment of welfare states more difficult (Huber et al., 1993, p745).

Lijphart (2012) identified two poles of democratic governance, ‘majoritarian’ and ‘consensual’, which are used to classify different political systems in this study (Lijphart, 2012). ‘Majoritarian’ political systems, such as the British ‘Westminster’ system (and to a lesser degree the Australian system), are characterised by strong central governments dominated by a single legislative chamber, concentration of executive power in cabinets dominated by a single party, and pluralism in interest group representation. ‘Consensual’ political systems such as the Danish and Dutch systems, are characterised by proportional systems of electoral representation, a more equal balance of power between central government and other levels, between chambers of parliament, and the executive and legislative arms, executive power sharing in multi-party coalitions, and corporatist interest group representation.

Another source of institutional ‘stickiness’ in political systems was corporatist systems of governance, especially in the labour market and social security. There are many definitions of corporatism from the multi-faceted political and ideological systems associated with fascism or syndicalism to a narrower version of ‘concertation’ among key interests in the development and implementation of public policy (Molina & Rhodes, 2002). The narrower version is more relevant to this thesis, as it informs analysis of the origins of change in welfare systems. The definition offered by Cawson (1986) is adopted for this study:

‘a specific socio-political process in which organisations representing monopolistic functional interests engage in political exchange with state agencies over public policy outputs which involves those organisations in a role which combines interest representation and policy implementation through delegated self-reinforcement’. (Cawson, 1986, cited in Molina & Rhodes, 2002, p38)

Molina and Rhodes argued in the early 2000s that while the political influence of formalised ‘social partnerships’ between peak union and employer bodies had diminished since its nadir
in the 1970s and 1980s, corporatism was transformed rather than eclipsed in the central and northern European countries where it was originally strongest (Molina & Rhodes, 2002).

In his meta-analysis of academic studies of corporatism in the 1980s and 1990s, Siaroff (1999) found Denmark and the Netherlands to be ‘moderately to strongly corporatist’, while Australia and the United Kingdom were ‘weakly or only somewhat corporatist’ (Siaroff, 1999, pp177, 184).

One feature that distinguished Esping Andersen’s Conservative and Social Democratic regimes was the relatively decentralised system of government in the former, in accordance with the principle of ‘subsidiarity’ (Esping Andersen, 1990). This idea, derived from Catholic social teaching, privileged the provision of services at the lowest feasible level, for example local government or the family (Evans, 2013). This strengthened the role of local government as a potential ‘veto point’ for welfare reform in the Conservative regime.

The regulation of the labour market was a key conduit between markets and welfare systems in Esping Andersen’s welfare regime theory:

‘Comprehensive, universalistic welfare states almost invariably go hand in hand with centralised, nation-wide and coordinated wage bargaining; residual welfare states with decentralised and weak unionism. Welfare state construction has profound, mainly indirect, effects on labour market outcomes.’ (Esping Andersen, 1999, p17)

Esping Andersen associated the Liberal regime with less State regulation of the labour market, weak unionism, and greater wage inequality. These features of the labour market were in turn associated with residual social security systems, since the Liberal regime was wary of the impact of generous benefits on work incentives (Esping Andersen, 1990).

Among countries with corporatist systems of labour market and welfare governance, a distinction was drawn by welfare state researchers (including Esping Andersen) between the ‘dual’ or ‘stratified’ labour markets associated with many continental European countries including Germany, France and Italy (belonging to the Conservative regime type) and the suppression of labour market inequalities associated with Nordic countries belonging to the

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10 The changes identified included decentralisation of coordination among interest groups and involvement of new players such as welfare consumer organisations (Molina & Rhodes, 2002).
Social Democratic regime type (Esping Andersen, 1999; Palier, 2012; Palier & Thelen, 2008).¹¹

(2) Welfare regimes and the family, paid work and care

The most substantive critique of Esping Andersen’s ‘three worlds’ typology came from feminist scholars (Sainsbury, 1999). These critics argued that gender, care within family and community, and unpaid work were missing from the typology:

‘Esping Andersen set out to consider the relationship between work and welfare, where work is defined as paid work and welfare as policies that permit, encourage, or discourage the commodification of labour. This construct missed the importance of unpaid work and the fact that primarily women in families have played a huge part in performing this unpaid work.’ (Lewis, 1997, p162)

Esping Andersen later acknowledged this weakness:

"in my ‘three worlds’, welfare state regimes were generally too narrowly specified through income maintenance programs, the duality of State and market, and through the lens of the standard male production workers.” (Esping Andersen, 1999, p46)

He responded by pointing to the role of the family as provider of income and care, introducing the concept of ‘de-familialisation’ as a metric to compare welfare regimes alongside decommodification and stratification:

“A de-familialising regime is one which seeks to unburden the household and diminish individual’s welfare dependence on kinship. The concept of ‘de-familialisation’ parallels that of de-commodification; in fact for women de-familialisation is generally a precondition for their capacity to ‘commodify’ themselves.” (Esping Andersen, 1999, p51)

With its strong collective provision of social services the Social Democratic welfare regime scored highest on the de-familialisation scale, while the Conservative regime scored lowest (Esping Andersen, 1999). Esping Andersen concluded that a commitment to a ‘male breadwinner model’ within the labour market and family, limited state provision of services and reliance on the family (that is, women) to provide care was a defining feature of the Conservative regime. These features of the Dutch welfare state were a major reason for his classification of the Netherlands as a ‘hybrid’ welfare regime despite that country’s relatively ‘universalistic’ transfer payments (Esping Andersen, 1999).

¹¹ Dual labour markets were characterised by a ‘primary’ sector of secure, well-paid employment and a ‘secondary’ sector of insecure low paid employment or unemployment, with high barriers to entry to the ‘primary’ sector (Schmid, 2010).
The Liberal regime occupied a middle position on the de-familialisation scale. Its distinguishing feature in this regard, was its greater reliance on private markets for the provision of care outside the family (Esping Andersen, 1999).

Feminist scholars have since developed alternative classification structures for welfare states to capture differences in their treatment of women as paid workers, carers, and providers and recipients of welfare.

The ‘breadwinner models’, developed by Sainsbury (1999) and Lewis (2001) among others, compared welfare states according to the dominant mode of paid workforce participation within married couple families. In her early work, Lewis argued that welfare policies sat between two poles: a ‘male breadwinner’ model (which implied non-participation in paid work by married women) and an ‘adult worker’ or ‘citizen worker’ model (which encouraged participation by both partners and was, in theory gender-neutral).

“The old male breadwinner model was based explicitly on the male worker; the recasting of the work/welfare relationship purports to treat men and women ‘the same’ – as citizen workers – but in doing so ignores the complexities of the issues inherent in the gendered division of care work.” (Lewis, 2002, p339)

Since empirical analysis revealed that the dominant model in many countries fitted neither description, Lewis identified a third variant, the ‘one-and-a-half-earner’ family, in which men were employed fulltime and women employed part-time in conjunction with unpaid caring work (Lewis, 2001).

The ambivalent treatment of mothers as unpaid carers or breadwinners by welfare states is highly relevant to a study of activation. The logic of activation policies was to shift the balance towards paid work, redefining mothers in families receiving social security as unemployed people rather than carers or dependents of male breadwinners (Cass, 1994; Wilson, 1977). Sainsbury and Lewis’s ‘breadwinner models’ are used in this study as benchmarks to compare and contrast this development in the four countries.

Since sole parents are both carers and breadwinners, their treatment captures clearly the tension between the status of these two roles within different welfare systems. For this reason, sole parents were an early target group for activation policies. As Knijn et al (2007) pointed out, the shift from fulltime caregiver to breadwinner status was uneven both within and between welfare states; revealing tensions between activation policies and the labour market, provision of child care services, and wider social expectations regarding the care of children (Knijn, Martin, & Millar, 2007). Family breadwinner models of paid workforce participation
provide the backdrop for a comparison of the treatment of sole parents in activation policies in the four countries.

(3) Welfare regimes and the structure of social security

Of special relevance to this study is the place of different social security benefit systems within the ‘three worlds’ framework.

Esping Andersen compared the structure of social security payments and services in order to identify welfare regimes. He adapted Titmuss' pioneering efforts to:

‘move from the black box of expenditures to the content of welfare states: targeted versus universalistic programs, the conditions of eligibility, the quality of benefits and services, and perhaps most importantly, the extent to which employment and working life are encompassed in the State’s extension of citizen rights.’ (Esping Andersen, 1990, p20)

Consistent with the equalising tendency of industrial regulation in his Social Democratic welfare regime, he described the corresponding social security payment structure as ‘universal’ (Esping Andersen, 1990). Unemployed workers had relatively open access to relatively high benefits, which were not strongly differentiated according to previous wage levels or occupational status. Benefits in the Conservative regime were more stratified according to former employment and occupational status, and more difficult to obtain (or non-existent) for those lacking a strong or enduring connection to the labour market. Benefits in the Liberal welfare regime were lower, and entitlements were ‘targeted’ according to the financial resources available to the recipient’s family. This benefit system was described as ‘residual’ because it privileged income from market sources and aimed to keep reliance on the State to a minimum.

A key complication for international comparisons of social security payments was the distinction between insurance-based benefits and social assistance payments (Immervol, 2009). Most wealthy nations provide both social insurance payments (eligibility for which is based on previous employment history or contributions and triggered by specific risks such as unemployment) and social assistance or ‘safety net’ payments for those lacking social insurance entitlements (eligibility for which is usually based on a family’s means as much as specific risks, and which are funded from general revenue and often managed by sub-national governments). One weakness of comparative welfare state research is that it has largely

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12 In this thesis, we describe social security payments in the Social Democratic regime as ‘uniform’ rather than universal (Table 1), since neither social insurance nor social assistance benefits in countries characterised as ‘Social Democratic’ are strictly speaking ‘universal’ (paid at the same rate regardless of previous or current income).
concentrated on social insurance payments while the role of social assistance payments was, relatively speaking, neglected (Gough, 2001).

Once a social security system is in place, its basic structure is difficult to alter because welfare systems attract their own political constituencies. Esping Andersen identified a tendency for universal benefits to remain so, and for residual benefits to remain low and become more tightly targeted:

‘Middle class welfare states, be they social democratic or corporatist, forge middle class loyalties. In contrast, liberal residualist welfare states depend on the loyalties of a numerically weak and often politically residual social stratum. In this sense, the class coalitions on which the three welfare state regime types were founded explain not only their past evolution but also their future prospects.’ (Esping Andersen, 1990, p33)

(4) Alternatives to the ‘three worlds’ welfare regime theory

Esping Andersen’s ‘three worlds’ typology has had an enduring impact on the academic literature on comparative welfare systems because it provides a useful theoretical foundation for comparative research that systematically draws upon the disciplines of political science, economics and sociology (Emmenegger et al., 2015). By identifying ‘the roots as well as the character’ of different welfare systems, it helps us understand long-standing differences in the structure of welfare systems in wealthy nations (Esping Andersen, 1999, p12).

In addition to the feminist critiques discussed above, a number of alternative typologies have been advanced. One that is relevant to this study is Castles’ (1985) characterisation of Australia and New Zealand into a separate ‘Radical’ welfare regime distinguished by a unique system of wage regulation through industry or occupation-wide ‘awards’ that delivered relatively high minimum wages (Castles, 1985). Castles argued that Australia substituted a ‘wage-earner’s welfare state’ for the more generous social security payments in other wealthy countries. As a result, it had no social insurance payments and social assistance was means-tested and relatively low.

Esping Anderson (1999) responded that the liberalisation of labour markets in those two countries in the 1990s strengthened the case for classifying them as Liberal welfare regimes (Esping Andersen, 1999). Enterprise-based wage bargaining was privileged over awards, with the latter relegated to the role of a safety net of basic pay and conditions. The share of employees whose wages were regulated by awards fell from 80% in 1990 to 23% in 2007 while the unionisation rate fell from 45% to 19% (Amsterdam Institute for Advanced Labour
Studies; Borland, 2011; Campbell & Brosnan, 1999).\footnote{Awards were to a large degree displaced by enterprise agreements negotiated with unions, but the role of centralised or industry-wide negotiation and regulation was greatly diminished.} Since quasi-legal regulation of wages was the key feature distinguishing the ‘Radical’ welfare regime from the Liberal regime, this casts doubt on the utility of a separate Antipodean regime (Castles, 2001).

The main purpose of this study is not to test the validity or robustness of Esping Andersen’s ‘three worlds’ typology.\footnote{The validity and robustness of this model of three welfare regimes developed in 1990 was still debated over 20 years later. When Danforth (2014) used cluster analysis to allocate OECD countries to welfare regimes from 1950 to 2000 using a similar methodology to Esping Andersen’s (accounting for differences in decommodification and stratification), he was unable to replicate Esping Andersen’s findings. Three regime types resembling Esping Andersen’s typology did emerge from this analysis when additional factors were added (defamilialisation, social services and activation), but only for the period from 1980 to 1995 (Danforth, 2014).} It is used here as both a framework for historical analysis and a frame of reference to inform comparison of activation policies.

Since this typology was developed in 1990 and modified in 1999, it is possible that it is less valid (without modification) as a basis for comparing welfare states and activation policies in the second half of the study period (the early to mid 2000s). Attention will be paid to the ‘fit’ between welfare systems and activation policies in the four countries as they develop through the study period and the three worlds typology, and any major departures from the typology are noted (for example, Australia’s high minimum wages which are, prima facie, inconsistent with the Liberal regime).

1.2 Historical institutionalism

The second over-arching theoretical framework used in this study is ‘historical institutionalism’, a school of sociology and political science which provides insights into the ways in which contests over public policies such as activation are shaped by the political, social and governmental institutions in which those policies are embedded (Steinmo, 2008).

Streek and Thelen (2005) defined institutions as:

‘the building blocks of social order: they represent socially sanctioned, that is collectively enforced expectations with respect to the behaviour of specific categories of actors or to the

\footnote{In contrast, Ferragina and Seeleib-Kaiser (2011) undertook a meta-analysis of quantitative studies of the robustness of the ‘three worlds’ typology (Ferragina & Seeleib-Kaiser, 2011). They found that all countries were classified by at least 50% of studies as consistently falling within one of Esping Andersen’s three regime types. They classified Denmark as a pure ‘Social Democratic’ regime, the United Kingdom and Australia as ‘medium-high internal consistency Liberal’ regimes, and the Netherlands as a ‘hybrid’ regime (48% of studies identified it as Conservative, 13% as Social Democratic, 9% as Liberal, 26% as ‘hybrid’, and 4% as ‘Mediterranean’).}
performance of certain activities. Typically they involve mutually related rights and obligations.' (Streek & Thelen, 2005, p9)

Steinmo (2008) traced the development of historical institutionalism as a school of political science and sociology in the 1980s as scholars became dissatisfied with the separation of these two fields of study and between 'high theory' and empirical analysis:

‘Increasingly, social scientists came to believe that institutions were mostly the vessels in which politics took place; what mattered was what filled the vessels. Given this understanding, both political science and sociology departments moved in two distinct directions. On the one hand, many believed that to be scientific, social science needed to be more theoretical. At the same time, others held that the study of politics and society should be broken down into constituent variables that could be measured, examined and analysed independently. In the process, institutions mostly fell out of the analysis.’ (Steinmo, 2008, p153)

According to Fioretos et al (2015), the defining feature of historical institutionalism is its ‘attention to the temporal character of institutions’ as a means to explain public policy outcomes (Fioretos, Falleti, & Sheingate, 2015, p2). It examines how ‘institutions influence political outcomes though structures of power and authority created in the past’, and in turn how political contests and new ideas shape institutions (Fioretos et al., 2015, p20).

(1) Institutional stasis and change

There are strong parallels between Esping Andersen’s theory of welfare regimes and historical institutionalism:

‘To talk of a regime is to denote the fact that in the relation between State and economy a complex of legal and organisational features are systematically interwoven.’ (Esping Andersen, 1990, p2)

Welfare regime theory helps us map the structure of the institutions comprising the welfare state. Historical institutionalism adds an improved understanding of the processes that give rise to stability and change within institutions.15 As discussed above, early comparative welfare state research attributed change to exogenous forces such as economic development. In this neo-functionalism strand of the literature:

“Policy changes have to be seen primarily in light of socio-economic change and both external and internal ‘problem pressure’... Probably the most important variant of this school argues that economic globalisation leaves only little room for a comprehensive welfare state... Among the alleged domestic challenges are low economic growth rates , ...changing patterns of paid work,

15 Historical institutionalism informs the use in this study of the method of historical ‘process tracing’ discussed in Chapter 4 (Hall, 2008).
shifting family structures, ...mass unemployment and ...the combination of population ageing and sub-replacement birth rates.” (Starke, 2006, p107)

Yet these exogenous factors alone do not explain why some welfare states were more resilient than others, or how welfare states change (Pierson, 2003; Starke, 2006).

For example, Kuipers (2006) examined the use of ‘crisis rhetoric’ by the Dutch Government in the early 1990s to justify major structural changes to social security (Kuipers, 2006). He found that this strategy was effective due to a lengthy build-up of official and public concern over flaws in the disability pension system and the growth in reliance on that payment, and a loss of trust in the administrators of the system (Kuipers, 2006). Exogenous factors such as a rise in unemployment contributed to the ‘problem pressure’ that led to a major restructure of the Dutch social security system but these changes are best understood as a response to the internal dysfunction and vulnerability of the institutions that administered the system:

‘Political actors can only successfully exploit crises to trigger reform under conditions of institutional vulnerability. This is the product of a long history of path dependent policy adjustments that caused the policy sector to exhibit systemic contradictions that can substantiate a crisis narrative.’ (Kuipers, 2006, p27)

We now turn to a set of analytical tools developed by historical institutionalist scholars to classify those features of institutions that promote stasis (resilience) and change, and to distinguish between incremental and transformative change.

(2) Path dependence

Pierson (2001) had a major influence on comparative welfare state literature through his explanation of how efforts to cut welfare expenditure in the 1980s were successfully resisted:

‘Maturing social programs produce new organised interests, the consumers and providers and social services.’ (Pierson, 2001b, p175)

‘The sources of the welfare state’s political strength are diverse, but are of two basic types: the electoral incentives associated with programs which retain broad and deep political support, and institutional “stickiness.”’ (Pierson, 1998, p551)

Pierson (2000) developed a theory of ‘path dependence’ to explain this ‘institutional stickiness’ and this concept has since been widely used in comparative welfare state literature (Goul Andersen & Jensen, 2007; Pierson, 2000):

‘This conception of path dependence, in which preceding steps in a particular direction induce further movement in the same direction, is well captured by the idea of increasing returns. In
an increasing returns process, the probability of further steps along the same path increases with each move down that path. This is because the relative benefits of the current activity compared with other possible options increase over time. To put it a different way, the costs of exit rise.’ (Pierson, 2000, p252)

As discussed, one source of path dependence in welfare states was ‘veto points’ in the political system (Pierson, 2001b). Pierson argued that even in majoritarian political systems with fewer veto points, the party in power might avoid welfare retrenchment because in such systems it was harder for governments to ‘avoid blame’ for the adverse effects:

‘the contemporary politics of the welfare state is the politics of blame avoidance’ (Pierson, 2001b, p179).

This meant that welfare retrenchment was more likely to be incremental and covert rather than bold and immediate, and governments would seek to build alliances across traditional political boundaries to support change rather than act unilaterally (Pierson, 2001b).

Bonoli (2013) later used the concept of ‘credit claiming’ as the polar opposite of blame avoidance. He argued that in a period of fiscal austerity, governments searched for policies for which they could claim political credit at a low cost:

‘Interventions like active labour market policies can be popular. …These policies also tend to be considerably less costly than more traditional components of the welfare state…In this context it is easy to see that active social policy is attractive because it provides opportunities for affordable credit claiming.’ (Bonoli, 2013, p7)

Other researchers identified the structure of welfare systems themselves as a source of path dependency:

‘In order to explain the kind of continuity revealed by recent research, the impact of institutions is regularly referred to. The emphasis has mainly been put on the variables of general political systems…However, the role of welfare state institutions themselves is rarely analysed in any systematic fashion. It might be argued that the welfare institutions play a major role in shaping the problems that welfare states face, but they also partly determine the kind of resources which different actors can mobilise, and shape the kind of solutions adopted to face the problems.’ (Palier, 2001, p8)

Bonoli and Palier (2000) found that the fragmented character of the French social insurance system and the multiple veto points within its corporatist system of governance made it more

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16 In the United Kingdom ‘country chapter’ we argue that there was nevertheless substantial unilateral retrenchment of benefits and services for unemployed people by conservative governments in the 1980s and 90s.
difficult for governments to reduce benefits. On the other hand, British governments, which did not face the same constraints, were more successful. Similarly, Clasen and Clegg (2006) found that Denmark and the United Kingdom were pace-setters in the development of activation policies for unemployed people but France and Germany were slower to move due in part to the autonomy and fragmentation of industry-based social insurance administrations in the latter two countries.

(3) Transformative change and how it occurs

A potential weakness of historical institutionalist approaches to social policy is that they are more effective in explaining stasis than change, since institutions appear to be self-perpetuating (Hall & Thelen, 2009). In response, historical institutionalist researchers turned their attention to the dynamics of major institutional change.

A threshold problem was how to distinguish between change that leaves welfare institutions and the prevailing set of policy ideas largely intact, and that which transforms them. A dynamic analysis of institutional change cannot rely purely on quantitative indicators scaled along a continuum, for example the generosity of unemployment benefits. Qualitative distinctions, such as Esping Andersen’s distinction between benefits that are stratified according to previous employment and those in which employment history has little or no impact on the payment received, were needed. One approach, used in this study, is to draw these distinctions exogenously from theories such as welfare regime theory (Immergut, 1998).

Another way to identify transformative change was to trace the process by which change occurs (Hall, 2008). The challenge here, as Pierson (2003) and Streeck and Thelen (2005) argued, was that transformative change does not always occur suddenly as in the Dutch disability benefit crisis (Pierson, 2003; Streek & Thelen, 2005, p1). They argued that it can also arise from:

‘incremental processes of change [which] cause gradual institutional transformations that add up to major historical discontinuities.’ (Streek & Thelen, 2005, p8)

Two frameworks for conceptualising transformative change are used in this study: the first explains the transformation of ideas, the second the transformation of institutions.

Hall’s (1993) concept of ‘paradigm change’ comprehends policy-making as a structured process of social learning:

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17 The method of ‘process tracing’ is discussed further in Chapter 4.
‘the policy making process can be structured by a particular set of ideas, just as it can be structured by a set of institutions.’ (Hall, 1993, p290)

He broke the policy-making process down into three steps: overarching goals, the techniques or policy instruments used to attain them, and the precise settings of these instruments. Following Kuhn, he then developed the concept of a 'policy paradigm' to describe the frameworks used by policy makers to structure their ideas (Kuhn, 1962):

‘policy makers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kinds of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing. …I call this interpretive framework a policy paradigm.’ (Hall, 1993, p279)

The next step was to use these conceptual building blocks to articulate a theory of policy change. ‘First order’ change related to the settings of policy instruments, ‘second order’ change to the instruments themselves, and ‘third order’ change involved paradigm change:

“First and second order change can be seen as cases of ‘normal policy making’, namely of a process that adjusts policy without challenging the overall terms of a given policy paradigm. Third order change, by contrast is likely to reflect a very different process, marked by radical changes in the overarching terms of policy discourse associated with a ‘paradigm shift.” (Hall, 1993, p279)

According to Hall (1993), a paradigm shift was likely to follow years of policy experimentation and failure, and a period of intense debate spilling beyond the realm of discussion among policy experts into the broader political arena. The outcome was as likely to be determined by political forces and considerations such as expert advice. A shift in a policy paradigm may thus be associated with major change in the structure of political institutions.

The concept of a ‘policy paradigm shift’ is a powerful tool for understanding major change in public policies, including activation policies.18

In his study of welfare state retrenchment, Pierson (1994) applied a similar approach to Hall’s analysis of the process of paradigm change to the transformation of institutions. He identified three layers of retrenchment. The topmost layer was changes in the level of payments or expenditures. While changes of this kind can have major impacts and may be strongly contested, they are of a different order to the second layer beneath them, ‘structural change’

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18 Torfing (2001) developed the concept of ‘path shaping’ – the framing of issues in policy discourse to generate support for major reforms – to explain the introduction of activation policies in Denmark. Cox used the concept of paradigm change to explain why activation policies were pursued earlier in Denmark and the Netherlands than in Germany. (Cox, 2001; Torfing, 2001)
in program design. Examples included policy changes which move the welfare system from a universal towards a residual one by privatising social risks.

A third layer underneath structural change was ‘systemic change’ which ‘alters the political economy of the welfare state’. Examples of this type of change included successive tax cuts which deprive the welfare state of a source of funds, the political isolation of interest groups advocating for the welfare state, and changes to the political institutions underpinning it that are designed to change ‘the rules of the game’. Pierson (1994) cited as examples of systemic change both the centralisation of political governance of welfare (to remove veto points) and its decentralisation as a means of avoiding political blame.

Streek and Thelen (2005) later identified five mechanisms by which transformative institutional change may occur: ‘displacement’ (where a new institution progressively takes over the space occupied by an existing one); ‘layering’ (where a new institution at first supplements an existing one, but gradually becomes dominant); ‘drift’ (where an institution becomes redundant through deliberate policy inaction); ‘conversion’ (where an existing institution is adjusted to meet a qualitatively different objective) and ‘exhaustion’ (where an institution gradually loses its relevance of its own accord, without active political intervention) (Streek & Thelen, 2005).

**Conclusion**

This chapter introduced two theoretical frameworks used in this study: Esping Andersen’s welfare regime theory, and historical institutionalism. The first assists us to locate activation policies within the broader structure of the welfare state and to understand the relationship between the welfare state and three key institutions – the political system, the labour market and the family. Historical institutionalism, which overlaps with and informs welfare regime theory, assists us to identify, map and explain the historical processes that produce stasis and transformative change in welfare states. In the next chapter, we narrow our focus from welfare states to activation policies.
Chapter 2 : Activation policies, and a framework to compare them

2.1 Defining activation policies

Activation policies are defined for the purposes of this study as ‘a systematic set of policies to lift workforce participation and employment among people receiving social security payments’, especially by:19

‘the institutional articulation – and possibly integration – of labour market programmes and job-search support for those out of the labour market with the provision of benefit support’ (Clasen & Clegg, 2011b, p9).

The relevant policies include the design of income support for jobless people of working age, activity requirements linked to those payments, social security and tax reforms to improve work incentives, employment assistance (including job search assistance, wage subsidies and training), and child care and social support programs that increase their work readiness.

The key motives for activation policies are to reduce poverty and social exclusion, strengthen labour supply to sustain economic growth, and to reduce reliance on income support to sustain public budgets (Weishaupt, 2011).

The main elements of activation policies are:

1. privileging employment as a pathway out of poverty and an economically and socially desirable activity in its own right, and a core objective for the social security system;

2. extending and intensifying employment related activity requirements to social security recipients who have a capacity to work;

3. improving financial work incentives in the social security and tax systems;

4. investing in employment assistance to improve skills and employability, especially of those most disadvantaged in the labour market;

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19 This is similar to the definition proposed by Clasen and Clegg (2011), but broader in scope as activation policies include elements (such as policies to ‘make work pay’) that are not captured by the link between income support and employment assistance (Carcillo & Grubb, 2006; Clasen & Clegg, 2011b). ‘Activation’ is the term most commonly used in European literature on this topic while ‘employment participation’ is more commonly used in Australia (Heidenreich & Graziano, 2014; Reference Group on Welfare Reform, 2000).
5. individual agreements between employment services and unemployed people that draw these elements together and map out a pathway to employment, within a framework of reciprocal obligations between the recipient and the State, (Carcillo & Grubb, 2006; Dingeldey, 2007; Serrano Pascual & Magnusson, 2007; Weishaupt, 2011).

While at least some of these elements already existed in countries that adopted activation policies, their distinguishing feature is that these were drawn together in a systematic strategy to strengthen labour market attachment among recipients of working-age benefits.

(1) Locating activation policies within welfare regimes

Activation policies fit within a wider institutional framework of social security, political systems, labour markets, and family structures which together comprise welfare regimes (Barbier & Ludwig-Mayerhofer, 2004).

They are directly embedded within the systems of social security and employment assistance, especially unemployment payments and the public employment service (PES) which are the main implementing structures. In this study, we distinguish between these ‘proximate institutions’ and the ‘surrounding’ institutions of the welfare state listed in the previous paragraph. In the country chapters, the influence of each layer of institutions on activation policies is examined separately, as well as the relationship between them (Figure 1 below). It is likely that major shifts in the surrounding institutions (such as the labour market) would affect activation policies through changes in the proximate institutions (such as the PES). Since the proximate institutions are either agencies of government or funded by it, they are likely to be more amenable to changes in government policy than surrounding institutions such as the labour market or parliament.
This distinction between activation policies and two layers of institutions in which they are located, avoids three a-priori assumptions that are made about those relationships in the literature on activation policies.

First, some researchers have conflated activation with Esping-Andersen’s Liberal regime. Dean regarded activation as a ‘neo-liberal’ construct since it shifted responsibility for unemployment from the State to individuals (Dean, 1995). Gilbert regarded activation as part of a steady convergence of welfare systems towards the liberal model represented by the United States and United Kingdom (Gilbert, 2002, p16). As Barbier and Ludwig-Mayerhofer argue, this ‘takes for granted the assumption of an Anglo-Saxon influence’ (Barbier & Ludwig-Mayerhofer, 2004, p426).

Second, activation policies have been conflated with specific employment programs, especially ‘workfare’ programs in which unemployed people are required to undertake work for their benefits. Lødemel and Trickey (2001) used the term to describe both those programs and also activation policies more broadly. This also linked activation policies with the Liberal welfare regime, since (as discussed later) workfare programs were first introduced on a
significant scale in the United States, which is associated in the literature with that regime (Diller, 1998; Torfing, 2001).

The use of workfare as a descriptor for both activation policies and a specific set of employment programs is confusing. As Lødemel and Moreira (2014) argued in a follow-up survey of activation policies thirteen years after Lødemel and Trickey (2001):

‘Unlike workfare, in which individuals are required to become self-sufficient through (unsubsidised) paid employment or participate in work-for-benefit schemes, activation considers a broader variety of options for returning income benefit recipients back to work, including training, education, and the provision of job search assistance services.’ (Lødemel & Moreira, 2014, p9)

Third, systems of governance, funding and control of social security and employment programs, especially the application of market principles, have been conflated with the treatment of unemployed people in activation policies. Shutes and Taylor (2001) argued that:

‘Underlying this [privatised] system of allocating public resources to the provision of employment services are market principles which position unemployed people as individual units of (paid) labour which need to be financially incentivized to sell their labour, and service providers as market agents which need to be financially incentivized to place people in paid work.’ (Shutes & Taylor, 2014, p217)

In the abstract, the elevation of market principles is common to the privatisation of employment services and the introduction of employment participation requirements for unemployed people. However, the relationship between the governance of employment services and the form that activation policies take in a national context should be examined empirically rather than assumed a priori.

2.2. The origins and international transmission of activation policies

(1) Origins

Activation policies emerged during the 1990s in a number of countries with Social Democratic or Liberal welfare regimes but were slower to emerge in those with Conservative regimes (Gallie, 2004). Since then, a growing body of academic literature has compared these policies across wealthy nations (Barbier & Ludwig-Mayerhofer, 2004; Finn, 2007; Lødemel & Trickey, 2001).
Activation policies represented a paradigm shift in social security and employment policy. Following Hall's definition, this means that they redefined the goals of these policies and restructured the implementing institutions (Bonoli, 2013; Hall, 1993; Serrano Pascual & Magnusson, 2007). In this case, the key change was the prioritisation of ‘active’ employment over ‘passive’ public income support, represented by the metaphor of converting a ‘safety net into a trampoline’ (Cox, 1998; OECD, 1989).

Activation policies were promoted from the late 1980s by the OECD, which at first referred to policies for an ‘active society’ or ‘active labour market policies’:

‘There is clearly a type of ‘full employment’ which OECD countries have rejected... This pretended to offer guaranteed employment to all, maintaining jobs even when they had ceased to respond to technological requirements and consumer preferences. ...The alternative is not to confine economic activity to a narrowing number of increasingly productive employees, and making the resulting unemployment tolerable through income transfers from the active to the inactive. Rather it is to base policy on the recognition that it is workers and their talents, ...which constitute the driving force of societies.’ (OECD, 1989, p12)

This idea of an ‘active society’ was closely related to another new paradigm in economic policy referred to as ‘structural unemployment’, which aimed to reduce unemployment and grow the economy by expanding labour supply (de Koning, Layard, Nickell, & Westergaard-Nielsen, 2002).

Esping Andersen advanced his welfare regime typology in 1990, just as activation policies were set to transform at least two of his welfare regimes - the Liberal and Social Democratic regimes (Esping Andersen, 1990). As he and others later pointed out, the Social Democratic regime of the early 1990s was no stranger to activation policies (Esping Andersen, 2003; Halvorsen & Jensen, 2004). Nevertheless, the activation of jobless people turned on its head one of the main indicators he used to distinguish between welfare regimes: ‘de-commodification’ (Huo & Nelson, 2008). The purpose of activation policies was to ‘re-commodify’ income support by making consistent engagement with the labour market a condition of receipt of benefits. (Carcillo & Grubb, 2006; Dingeldey, 2007). This altered the logic of social security for people of working age.

As with the structural unemployment paradigm, the activation paradigm emerged after a period of policy trial and error (Hall, 1993). After each of the major post-war recessions of the 1970s and 1980s, policy-makers experimented with new solutions to unemployment, including stimulation of the economy to increase demand for labour, the encouragement of mature age

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20 This is elaborated in Chapter 3.
workers to withdraw from the labour market, and large scale ‘job creation’ schemes that provided alternatives to open employment for long-term unemployed people (Boeri, Layard, & Nickell, 2000). Activation policies were implemented after the apparent failure of these policies.

The activation paradigm also emerged in response to political failure: the failure of governments of liberal or conservative persuasion to sharply reduce social security expenditures by tightening eligibility and cutting payments (Green-Pedersen, 2002; Pierson, 1998; Starke, 2006). By the end of the 1980s, there was political stalemate between social democratic parties which aimed to raise the level and scope of social security payments to reduce poverty, and liberal and conservative parties which tried to reduce them. By this stage, it was the growing number of recipients rather than improvements in the generosity of benefits that caused social security expenditures to rise, and attention turned to policies to stem that growth.

Activation policies were part of a political compromise to overcome this stalemate. Social democratic parties supported activation as a new way to reduce unemployment and poverty while restoring their economic policy credentials after the policy failures of the 1970s and 1980s (Clasen, 2000). For liberal and conservative parties, it was consistent with their long-standing preference for policies that reduced reliance on social security. As Weishaupt (2011) argued:

“For many social democrats who relied on the rhetoric of mutual obligation to justify deep reforms to their welfare states, the newly emerging idea of ‘activation’ was seen as a necessary instrument to reduce (long term) unemployment and address the legitimacy of the welfare state; appropriate because work alleviates poverty and social exclusion; and politically viable as it was seen as a compromise between centre-left actors prioritising citizen’s rights to public assistance and centre-right actors demanding that jobseekers act responsibly, which should be enforced through supervision and sanctions.” (Weishaupt, 2011, p197)

Countries with Conservative welfare regimes, especially the Mediterranean countries, were slower to adopt activation policies (Bonoli, 2013). Reasons for this identified in the literature included the continued dominance of a male-breadwinner model of employment (which discouraged paid workforce participation among women and young people) and the difficulty in scaling-up activation reforms in social security systems divided along economic status lines between multiple social insurance schemes managed by unions and employers and social assistance programs run by municipalities (Barbier & Theret, 2001; Bonoli & Palier, 2000; Clasen & Clegg, 2006).
At the ideological level, activation policies were grounded in two discourses: a welfare dependency discourse and a social inclusion discourse (Lodemal & Trickey 2001; Barbier 2004). The welfare dependency discourse, which originated in the Anglophone countries, was based on the principle of ‘self-help’. From this standpoint, the social security system for people of working age was an unproductive burden on society and large-scale reliance on it risked fiscal sustainability and the well-being of recipients (Field, 2000; Mead, 1997; Murray, 1994; Newman, 1998).

The social inclusion discourse, which originated in France but influenced social policy across Europe, derived from the principle of ‘solidarity’, whose goal was to bring those excluded from society into the social and economic mainstream. From this standpoint, employment was the key gateway to the living standards and social status enjoyed by the rest of the community.

In many wealthy countries during the 1990s these two discourses were brought together in an uneasy embrace in the ‘rights and responsibilities’ or ‘mutual obligation’ agenda that underpinned new activity requirements for income support recipients (Cox, 1998; OECD, 1996a). The basic idea was that, in return for income support and employment assistance, unemployed individuals should undertake activities to improve their job prospects, embodied in an agreement or contract with the state (Carney, 2007; Goodin, 2002; Jayasuriya, 2000, 2001).

The origins of activation policies can be traced to two exemplars of the Social Democratic and Liberal welfare regimes: Sweden and the United States (Weishaupt, 2011; Wilenski, 1992). A brief summary and comparison of early activation policies in these two countries is provided in Attachment 8.

(2) International transmission

The literature on international policy learning explores the mechanisms by which policy ideas and programs are shared among different countries through direct dialogue among national policy makers and other stakeholders and the intermediation role of international institutions (Casey, 2009). Studies of the international expansion of activation policy in the 1990s and 2000s paid close attention to the role of two international institutions: the OECD and the EU and its bureaucracy, the European Commission (EC) (Armengeon, 2007; Casey, 2004, 2009).

The OECD is a research and policy development body supported by governments in its (mostly) wealthy member nations. It prepares reports on national economic and social policies and organises fora where policy-makers discuss emerging developments and challenges, and
is closely connected with central government ministries in member countries (Weishaupt, 2011).

During the 1970s and 1980s, it advocated ‘manpower planning’ policies based on the Swedish model, including a Public Employment Service (PES) to assist with job search and match unemployed people with employers, and investment in ‘labour market programs’ to improve their skills (Weishaupt, 2011). As discussed, the OECD was an early advocate an ‘active society’ in which all with the capacity to do so contribute to society through paid employment (OECD, 1989).

In 1994, a few years after a global recession, the OECD published its ‘Jobs Plan’ which advocated more liberal regulation of labour markets (especially easing of employment protection and lowering minimum wages), the intensification of activity requirements and their extension to a wider range of social security recipients, policies such as tax credits to ‘make work pay’, investment in labour market programs to assist long term unemployed people improve their job prospects, and training to strengthen the skills of low-skilled workers generally (Casey, 2004; OECD, 1996a).

The EU also played a major role in policy exchange and development among member nations over activation policies (Casey, 2004; European Commission, 1997; RWI Essen, 2005; Serrano Pascual & Magnusson, 2007). Following a jobs summit in Luxembourg in 1997, an ‘Employment Chapter’ was added to the European treaty. This was reviewed at the European Council meeting in Lisbon in 2000, leading to the formulation of a ‘European Employment Strategy’ (EES) whose key goals were to increase employment and reduce unemployment. Targets were set to reduce unemployment and raise employment, including for women and older workers. The European Commission (EC), the Union’s administrative arm, developed ‘Employment Guidelines’ and member States were required to participate in a process known as the ‘Open Method of Coordination’. Although this process did not compel countries to adopt recommended policies, they were required to submit annual ‘National Action Plans’ on employment outlining their key employment reforms and performance in reaching agreed policy goals. The Commission sponsored Peer Review meetings among public officials, made its own assessment of national policies, and published the results in its ‘Joint Employment Reports’ (European Commission, 2002).

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21 These policies were originally developed in Sweden in response to chronic skills shortages at a time of low unemployment in the 1950s and 1960s (Attachment 8). Their purpose was to improve the quality (skills) of labour supply and matching of supply and demand.
The EES placed much stress on policies to reduce long-term unemployment. A key policy recommendation was to guarantee substantial labour market assistance (for example work experience or training) within 6 months of unemployment for young people and 12 months for adults (Serrano Pascual & Magnusson, 2007).

In the mid 2000s, the EC endorsed the idea of ‘flexicurity’, which was associated with Danish employment policy (European Commission, 2007). The twin focus on flexibility and security was a rejoinder to criticisms from the United States that Europe’s higher overall unemployment level was caused by inflexible labour markets (Krugman, 1994).

Casey (2004) contrasted the early approaches of the two institutions towards policies to reduce unemployment in the 1990s:

“The OECD jobs strategy and the European employment strategy have different antecedents. The former is predicated on neoclassical perceptions, whereby market solutions predominate; the latter owes more to ‘social market’ theories, whereby the state intervenes to moderate the negative effects of market relationships and to enhance the efficiency of market performance.” (Casey, 2004, p348)

Casey and Weishaupt both noted a convergence of views between OECD and the EC during the following decade. Casey concluded that: ‘There is little that the OECD recommends that the EU has not recommended’ (Casey, 2004, p348). Weishaupt noted a shift in policy thinking within the OECD in the mid-2000s in favour of Nordic labour market and welfare models, which converged with the EC’s advocacy of ‘flexicurity’ (OECD, 2006; Weishaupt, 2011).

The impact of the OECD and the EES on national activation policies is contested in the literature. Weishaupt argued that they greatly assisted the spread of activation policies and contributed to a degree of convergence in the strategies adopted, through the sharing of high-level policy ideas that were adapted to national conditions (Weishaupt, 2011). Armingeon (2007) argued their impact was limited to the margins of policy development as countries pursued activation policies in keeping with national policy traditions.

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22 In its 2006 ‘Employment Outlook’ publication, the OECD identified a ‘northern European’ model of labour market policy (with corporatist governance of the labour market and high investment in labour market programs) which was as effective in keeping unemployment low as that in the ‘English-speaking’ countries (OECD, 2006). ‘Flexicurity’ was a labour market policy framework associated with Denmark and the Netherlands in the 1990s and 2000s, which combined liberal regulation of hiring and firing, high wages and social security payments, and employment and training programs to better match workforce skills with employer demand (Madsen, 2002).
The impact of these two institutions, as well as other international influences, on activation policies in the four countries are examined in this study.

2.3 Classifying and comparing activation policies

(1) Typologies from the literature

Serrano Pascual and Magnusson (2007) identified four views within the comparative welfare state literature on the diffusion of activation policies among OECD countries from the early 1990s. Some researchers argued that European policies were converging towards an American ‘work first’ model (Finn, 2000). Others argued that despite common elements activation policies were more path dependent and varied in line with inherited national institutions or welfare regimes (Barbier & Ludwig-Mayerhofer, 2004). Others distinguished between convergence at the level of overarching goals or policy instruments and divergence at other levels, such as institutions. A fourth group argued that countries developed ‘hybrid’ employment participation policies and institutions in response to common pressures or goals (van Berkel & Moller, 2002).

To compare activation policies, and test hypotheses on their development in different welfare regimes, a framework for classifying different ‘models’ of activation is needed. As discussed, this should separate activation policies from their institutional environment while at the same time permitting analysis of the relationships between activation policies, the institutions in which they are directly embedded (proximate institutions), and wider institutional settings (including labour market policies and the systems of political governance). In this way, a comparison of activation policies can be informed by analysis of wider institutional changes without losing specificity (Clasen & Clegg, 2006).

In the burgeoning literature on comparative activation policies, a number of classification frameworks or typologies have been advanced. Within these frameworks, national activation policies are usually classified on a scale between two poles. By grouping together studies that use similar dichotomies, we can identify three frameworks:

- ‘passive’ vs ‘active’ (OECD, 1996a) or ‘protection’ Vs ‘enabling’ (Serrano Pascual & Magnusson, 2007);
- ‘coercive’ vs ‘autonomy’ (Aurich, 2009) or ‘offensive’ vs ‘defensive’ (Torfing, 2001)
• variations on a distinction between ‘work first’ vs ‘human capital’ (Bruttel & Sol, 2006), including ‘workfare’ vs ‘enabling’ (Dingeldey, 2007), ‘willing’ Vs ‘able’ (Castonguay & Sol, 2007), incentives vs human capital (Bonoli, 2010) or ‘incentives’ vs ‘capabilities’ (Barbier & Ludwig-Mayerhofer, 2004).

**Active vs passive**

Early studies of activation policies contrasted ‘active’ and ‘passive’ social security systems. The implication was that OECD countries were moving from ‘traditional’ policies based on income protection towards a new paradigm based on active labour market participation, and that this development could be measured by ranking countries on a scale between passive and active poles. The metric that was first used for this purpose was a country’s relative expenditure on social security payments and labor market programs (Madsen, Munch-Madsen, & Langhoff-Roos, 2002; OECD, 1996a).

In recognition that expenditure levels can be a poor indicator of the ‘degree of activation’, more recent studies have paid greater attention to the scope and intensity of activity requirements (Carcillo & Grubb, 2006; Hasselpflug, 2005). By measuring the proportion of benefit recipients with activity requirements and the intensity of the requirements imposed, these studies help identify those countries that have progressed furthest down the activation road.

A similar dichotomy is ‘protection vs enabling’. ‘Protection’ recalls the ‘de-commodification’ measure used by Esping Andersen as a marker of different welfare regimes (Esping Andersen, 1990). ‘Enabling’ refers to programs that aim to improve the capacity of citizens to lift themselves out of poverty and unemployment – for example through investment in labour market and training programs.

Bonoli (2010) noted that ‘job creation’ schemes in which long-term unemployed people received temporary paid employment in the public sector were often designed to keep them ‘occupied’ during an economic downturn so that their skills did not dissipate before employment opportunities picked up later in the business cycle. He called these ‘occupation’ schemes.

This dichotomy also helps measure the degree of activation, but it does not help distinguish between different forms of activation.

The insight that some employment programs as well as social security payments may have an income protection function is a useful one, as is its connection with welfare regime theory. Since they usually pay a wage, a key function of the job creation and training schemes which
Bonoli (2010) classified as ‘occupation’ was to maintain the incomes of unemployed people while waiting for job opportunities to improve. The clearest example was the use of public wage subsidies in Sweden and Denmark during the 1990s to renew eligibility for unemployment insurance (Goul Andersen, 2011). The role of these programs was as much to cover an income ‘gap’ between jobs (an income protection function) as to strengthen skills and improve the likelihood of future employment.

A major weakness of both of these dichotomies is that, if activation policies follow more than one track, as the previous discussion of the US and Sweden suggests, we need to measure more than the ‘degree of activation’ to distinguish between them.

A dichotomy between income protection (understood as de-commodification) and employment, in which the role of activation policies is to move unemployed people from the former towards the latter, is a useful starting point but we also need to distinguish between different forms of activation or pathways to employment.

**Coercion vs autonomy**

Some studies focus on the degree of choice given to unemployed people. For example, some contrast the degree of investment in employment assistance (which is assumed to enlarge choice) with the degree of compulsion in the setting and enforcement of activity requirements (assumed to restrict choice) (Aurich, 2009; Torfing, 2001).

This dichotomy does not fit the experience of the Social Democratic regime, which typically combines high investment in employment assistance with strict activity requirements (Esping Andersen, 2003). This raises the possibility that, rather than polar opposites, enabling policies and compulsion may co-exist.

There is a deeper problem with the idea of ‘autonomy’. Its vernacular meaning refers to ‘negative freedom’ or the absence of compulsion. Recognising that negative freedom is insufficient for individuals to achieve their goals in life, philosophers have also posited a ‘positive freedom’, which takes account of the resources (such as adequate income) and capabilities (ability to use the resources available to achieve personal goals) required for people to exercise genuine choice. (Jayasuriya, 2000; Sen, 1985). The tension between positive and negative freedom sits at the heart of the ideological conflict between Liberalism and Social Democracy.
Once we move the frame from negative freedom to capabilities, a requirement to participate in employment and employment programs may be viewed in a different light. In a market economy, the ability to secure paid employment is a core capability that opens up a range of freedoms that come with adequate income, and the respect and social status that often flow from holding a job.

**Work first Vs human capital development**

As discussed, one of the major policy debates in the United States over activation policies was between advocates of a ‘work first’ approach and an alternative ‘human capital development’ approach. In the American context, human capital development usually referred to formal education and training. This dichotomy was used to draw a distinction between policies that pushed social security recipients into the first available (mostly low-skilled) job and those which sought to improve their capacity to sustain employment and choose from a wider range of jobs, by investing in training (Berlin, 2002).

Many researchers have compared activation policies on a spectrum between these two poles (Bruttel & Sol, 2006; Dingeldey, 2007; Lindsay, McQuaid, & Dutton, 2007; Lødemel & Trickey, 2001).

One advantage of this dichotomy is that it enables us to locate different models of activation and forms of employment assistance within the wider context of a key surrounding institution - the labour market - and test the influence of differently structured labour markets on those policies. As discussed in Chapter 3, this also draws connections between activation policies and welfare regime theory, in which labour market structure and governance occupy a central place (Esping Andersen, 1999; Iversen & Stephens, 2008).

Work first and human capital development have limitations when used outside their original context to compare specific activation programs in the United States.

Along with workfare, work first is easily confused with activation policies in general since both require a re-orientation of social security systems and labour market assistance towards active engagement with the labour market (Bruttel & Sol, 2006; Lødemel & Trickey, 2001).

Human capital development is arguably too narrow to inform comparative analysis of activation policies. On the face of it, it excludes key factors contributing to an individual’s ability

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23 Some researchers have attempted to use Sen’s capability theory to compare activation policies (Barbier & Ludwig-Mayerhofer, 2004). Their challenge is to convert his high-level concept of capabilities into an actionable framework for social research (Carney, 2007).
to participate in the labour market including aspects of care regimes (such as child care and flexible working hours) that circumscribe parents’ employment opportunities, and ‘disability’ as a product of institutional settings (such as workplace environments and work practices) that exclude people with impairments (Barnes, 2000; Daly & Lewis, 2000).

Human capital development should be broadened to encompass other capacity-building policies that facilitate employment (for example, work experience, rehabilitation, child care or affordable housing). In this study, a broader term ‘work capacity’ is used to describe factors that improve or impede an individual’s ability to take up employment opportunities.

Another missing element in this dichotomy is work incentives. As discussed, a defining feature of activation policies in the United States was their emphasis on improving financial work incentives. The 1996 ‘Welfare to Work’ policy used the pull of better financial incentives such as tax credits as well as the push of new activity requirements to transition unemployed sole parents into jobs (Blank, 2000). Expenditure on tax credits and other ‘in work’ support overshadowed spending on education and training and other capacity building programs (Loprest, 2005). On the other hand, high payment levels, together with a relatively compressed distribution of wages, left less policy space to improve financial work incentives in Sweden and other countries belonging to the Social Democratic welfare regime (Immervoll & Pearson, 2009).

The logic of work first policies is that with limited support, unemployed people are already capable of working in jobs that are readily available (usually low-skilled jobs) and simply need to be given an extra push to get there (Mead, 1997). This implies that, apart from improving the efficiency of job search, their main objective is to strengthen incentives to search for and accept such jobs. ‘Work incentive-strengthening’ more clearly expresses this underlying logic than ‘work first’ and has the added advantage that it encompasses a wider array of activation policies such as tax credits to ‘make work pay’ (Bonoli, 2010).

(2) Analytical framework used in this study

This study uses a dichotomy between work incentive-strengthening and work capacity building to classify activation policies. This dichotomy is simply expressed by Castonguay and Sol (2007) in the words used in the title of this thesis: ‘willing’ vs ‘able’. Within their framework, policies to improve work incentives focus on improving ‘willingness to work’ while capacity-building programs increase the ‘ability to work’ Similarly, Johansson and Hvinden (2007) used

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24 Bonoli (2010) classifies certain activation policies, such as tax credits and benefit sanctions as forms of ‘incentive reinforcement’ (Bonoli, 2010).
a dichotomy between incentive strengthening and capacity building to classify Nordic employment participation policies.

The analytical framework used in this study to classify activation policies adds a second dimension: the previously-discussed dichotomy between income protection and employment. Income protection and activation are not inherently opposed. Rather, the purpose of activation is to reconcile income protection with employment participation (Grubb, 2000a).

When we put these two dimensions together, the result is an ‘activation diamond’ (Figure 2 below).

**Figure 2: The activation diamond**

Policies occupy different positions within the diamond, according to their predominant character: that is, whether their main purpose is income protection or transition to employment (those whose main purpose is income protection are not, strictly speaking, activation polices), and whether their main path to employment is through stronger work incentives or work capacity. ‘Predominant character’ is used in this study as a measure of ‘revealed policy preferences’; that is, what the observable characteristics of the program reveal about the
preferences of policy makers, whether or not those are explicitly stated in official policy statements (McFadden, 1975).^{25}

Not all activation policies privilege either capacity-building or incentive-strengthening. For example, we argue in the next chapter that employment assistance programs within an activation policy framework have ‘core’ elements that are common to incentive-strengthening and capacity-building approaches, such as compulsory job search and job search assistance.^{26}

2.4 Influences on activation policies: welfare regimes and proximate institutions

As discussed, activation policies were embedded in two sets of institutions: the proximate institutions (social security and employment services for unemployed people) and surrounding institutions including the labour market and political systems. We now turn to literature dealing with the influence on these institutions on activation policies.

(1) Impact of welfare regimes

Improving financial incentives and work capacity are not mutually exclusive. A country could devote equal attention to both strategies. However, the comparative literature on welfare states and activation suggests that the balance between them is different in different welfare regimes.

Welfare regime theory implies that the ideal-typical Social Democratic welfare regime is likely to privilege capacity-building pathways to employment for unemployed people due to its compressed wage and skills structure and higher skills barriers to labour market entry (Iversen & Stephens, 2008; Oesch, 2015). If we broaden the scope of work capacity-building beyond skills development, the Social Democratic regime is likely to invest more in public child care

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^{25} For example, the next chapter classifies ‘work-for-benefits’ schemes as predominantly work incentive-strengthening since their design reveals a policy goal to discourage continued reliance on benefits. ‘Predominantly’ refers to the main revealed purpose of a policy. For example, work-for-benefits schemes may also have characteristics consistent with other purposes (such as a training component to improve on-the-job skills), but a requirement to work for benefits when paid employment is available at higher remuneration indicates that the main purpose is to discourage continued reliance on benefits.

^{26} Bonoli (2010) refers to this as ‘employment assistance’ whereas in this study employment assistance is an all-encompassing term for labour market programs and job search assistance for unemployed people (Bonoli, 2010).
provision and other supports that facilitate paid employment for mothers (Esping Andersen, 1999).

By tightening job search and work availability requirements and compelling unemployed people to join labour market programs, activation policies can compensate for the relative weakness of financial work incentives in the Social Democratic regime due to their high unemployment benefits, a point acknowledged by the Danish Finance Ministry:

‘The Netherlands and Denmark seem to compensate for the disincentive effects on job search of generous unemployment benefits by using active labour market programs to test for availability for work. In countries with less generous benefit systems, activation may not be required to ensure sufficient job search.’ (Hasselpflug 2005, p16)

The Liberal welfare regime is less likely to invest in skills development for unemployed people because low-skilled work is more readily available (Oesch, 2015). Its strong ethic of self-help implies that they would be expected to take the first available job rather than train first to improve their prospects of skilled employment (Iversen & Soskice, 2015; Peck & Theodore, 2000b).

The Liberal regime can be expected to emphasise financial incentives for the take up of low-skilled jobs since wages for such jobs are relatively low. In contrast to the Social Democratic regime, it also has greater capacity to do so because unemployment benefits are lower (easing the ‘poverty trap’) and low pay can be supplemented by ‘in-work benefits’ or tax credits at a lower fiscal cost. (Immervoll & Pearson, 2009).

It is likely to face a tension between its goal of raising employment participation among social security recipients and its preference for private rather than public responsibility for child care, to the extent that this increases the cost of care (Annesley, 2003; Lewis, 2002).

The Conservative regime is likely to be slower to adopt activation policies since it privileges secure employment and income protection for the male breadwinner and requires other family

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27 Following Atkinson and Micklewright (1991), a distinction is drawn here between ‘financial incentives’ such as unemployment benefit replacement rates (the ratio of disposable income when unemployed to that when employed and off benefits) and ‘administrative’ incentives through the monitoring and enforcement of activity requirements for unemployment payments (Atkinson & Micklewright, 1991).

28 The ‘poverty trap’ refers to insufficient financial incentive to move from unemployment to a full-time job where benefit replacement rates are high. Countries with low minimum wages and less equal wage distributions (such as the United States) can supplement low pay (for example through income-tested tax credits) at a lower fiscal cost because the supplement can more readily be targeted to low-paid workers (Immervoll & Pearson, 2009). As discussed in the previous chapter, low minimum wages do not always prevail in countries characterised as having a Liberal welfare regime. Australia is an exception.
members to rely on him for income support (Esping Andersen, 1999). Skilled male workers with higher labour market status (labour market ‘insiders’) are likely to receive generous unemployment insurance with few requirements attached, while other unemployed people (‘outsiders’) are either excluded from public income support or receive less generous assistance, often through municipal social assistance (Hemerijck & Marx, 2010; Palier, 2010). To the extent that activation is pursued within this regime, we would expect it to invest in the human capital of ‘insiders’ but either pursue a ‘work first’ approach for ‘outsiders’ such as young people and sole parents, or exclude them from assistance (Clasen & Clegg, 2006; Esping Andersen, 1999).29

Since it prioritises care within the family, the Conservative regime is less likely to invest in child care and other supports to facilitate employment participation by mothers (Esping Andersen, 1999; Knijn & van Wel, 2001).

Attention will be paid in this study to the evolution of welfare systems in the four countries during the study period beyond (or between) the three stylised welfare regimes. For example, as Esping Andersen (writing in 1999) noted, the Conservative regime was coming under economic and social pressure to abandon the male breadwinner model and encourage and support paid workforce participation among women (Esping Andersen, 1999).

(2) Impact of the structure and governance of benefits and employment services

The comparative literature on activation has also identified the structure of what we have called ‘proximate institutions’ – unemployment payments and employment services – as key influences on activation policy.30

Clasen and Clegg (2006) argued that a good starting point for comparison of activation policies was the scope, structure and generosity of social security payments (Clasen & Clegg, 2006). According to the comparative literature on activation, social security systems shaped activation policies in a number of ways.

29 Exclusion from social security is consistent with experience in the Mediterranean countries other than France (Bonoli, 2013). Alternately, adoption of a ‘work first’ approach to activation is consistent with a feature of the Conservative regime noted in the literature: the ‘dualization’ of labour markets between a ‘core’ of secure, well-paid jobs for skilled workers and a ‘periphery’ of low paid, insecure jobs for low-skilled workers and labour market ‘outsiders’ such as women and young people (Palier, 2012).

30 Unemployment payments are defined, and their structure in the four countries is described, in Chapter 3.
First, activation policies emerged historically from the activity requirements linked to unemployment payments, especially active job search monitored by the Public Employment Service (PES) (Commonwealth of Australia, 1944; Price, 2000; Weishaupt, 2011).

Second, the impact of the structure and coverage of unemployment payments on activation policies has been examined.

There are two main types of income support for adults of working age in OECD countries (Clasen & Clegg, 2006; Stovicek & Turrini, 2012). The first is social insurance payments, which are typically financed by employer, employee and government contributions to cover risks such as unemployment or disability. Eligibility typically depends on an individual’s previous employment or contributions history though rates of payment are not always strictly linked to the previous wage. The second is social assistance payments, which provide a safety net of cash benefits for those lacking social insurance cover and other means of support (Immervol, 2009). They are normally funded from general government revenue and entitlement typically depends on family income and assets. Social assistance payments may be generic safety-net payments for individuals lacking other means of support, or categorical payments where eligibility is tied to specific risks (such as unemployment) or circumstances which limit labour force participation (such as a disability or fulltime caring role) (Immervol, Marianna, & D’Ercole, 2004).

In their comparison of activation policies in the United Kingdom, Denmark, France and Germany, Clasen and Clegg (2006) argued that the division of social security payments along status and occupational lines, and between unemployment insurance and social assistance, were barriers to the adoption of activation policies in the latter two countries. This was due to a combination of resistance to activation among the social partners that controlled unemployment insurance, and the administrative complexity of applying national activation policies to recipients of diverse social security schemes.

In contrast, the Danish and British social security systems were more unified and internally consistent, easing the path to activation. Esping Andersen (1999) and Iversen and Stephens (2008) argued that ‘universal’ unemployment insurance schemes in the Social Democratic

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31 Following Clasen & Clegg (2006), we focus on payments made pursuant to national legislation as distinct from private insurance arrangements (Clasen & Clegg, 2006). Unemployment payments are part of a broader system of income support including payments for retired people and people with disabilities (Barr, 1993).

32 The Australian system does not include social insurance (Davidson, 2004).
welfare regime were associated with capacity-building programs to adjust skills to changing labour market needs (Esping-Andersen, 1999; Iversen & Stephens, 2008).33

Conversely, activation policies were found to influence the structure of benefits. Clasen and Clegg (2011) described a process of ‘homogenisation’ or standardisation of income support payments whereby:

‘social rights, expressed in terms of benefit generosity and entitlement, tend to become less dependent on previous labour market achievements and positions than in the past.’ (Clasen & Clegg, 2011b, p7)

Clasen and Clegg (2006) argued that activation policies blurred the traditional divide between social insurance and social assistance payments where this proved to be a stumbling block for the extension of activity requirements. For example, when the ‘Jobseekers Allowance’ was introduced in 1996 in the United Kingdom, unemployment insurance was effectively absorbed into the social assistance system.

In recent years, the comparative literature on activation has paid more attention to differences in the treatment of unemployment insurance and social assistance recipients (Bredgaard, 2010; Clasen & Clegg, 2011b).

In countries where unemployed people were streamed into unemployment insurance and social assistance payments, those with a weaker connection to the labour market were more likely to be selected into social assistance.34

The weaker labour market connection of social assistance recipients had two implications for activation policies. First, before the activation turn, social assistance recipients were less likely to be required to register with the PES and seek employment (Eardley, Bradshaw, & Ditch, 1996; Peters, 2004). Second, they were more likely to face disadvantages in the labour market such as a lack of recent work experience, a disability or a parenting role, or to be recent immigrants (Groot et al., 2008; Ministry of Employment, 2003c). The assessment of these barriers to employment was key to the implementation of activation policies in social assistance.

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33 As discussed in Chapter 1, ‘universal’ refers to the broader scope and accessibility of benefits in the Social Democratic welfare regime, and the more compressed distribution of payment levels based on occupational status compared with the Conservative regime.

34 This was due to a combination of requirements for unemployment insurance recipients to have a recent employment and contributions history, and the role of social assistance as a last resort payment for those ineligible for insurance-based benefits.
Comparative welfare researchers have noted differences in the social status of insured and uninsured unemployed people in different countries. Van Oorschott (2006) found that unemployed people were generally perceived by European voters as less ‘deserving’ than other social security recipients such as age pensioners because they were more likely to be blamed for their lack of income. However, he found that unemployed recipients of social insurance benefits, especially widely-available payments, were more highly regarded than recipients of tightly-targeted social assistance payments (van Oorschot, 2006). Albrekt Larsen (2006) also found that recipients of ‘universal’ benefits such as unemployment insurance in the Social Democratic welfare regime, were regarded as more deserving than recipients of ‘residual’ (means-tested) social assistance in the Liberal regime because the former were more likely to be identified as ‘one of us’ (Albrekt Larsen, 2006). Crouch (1999) argued that unemployment insurance conferred on recipients the status of formerly employed workers and contributors to an insurance fund, which made retrenchment of such benefits more difficult (Crouch, 1999).

There is also a growing literature on changes in the governance of unemployment payments and employment services in the context of activation policies (de Beer & Schils, 2007; van Berkel & Borghi, 2008). This literature suggests that governance changes had profound effects on the services (including employment assistance) provided to recipients of unemployment payments (Sol & Hoogtanders, 2005; van Berkel & Borghi, 2008).

In this study, four different kinds of governance of activation are distinguished, based on the main actors undertaking payment of benefits or employment assistance: ‘corporatist’ (by the social partners with or without government), ‘municipal’ (local government), ‘central’ (central government) and ‘market’ (performance-based purchasing of services from private providers).35

As with welfare regimes, it is possible for multiple modes of activation governance to co-exist in a single country at the same time. For example, in the early 1990s the Dutch unemployment insurance system and employment services were governed in corporatist fashion while municipal governance applied to social assistance payments. By the early 2000s, central governance applied to unemployment insurance and elements of employment assistance for

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35 This typology is adapted from that of Considine and Lewis (2003) to reflect the emphasis in this study on the role of different institutional actors in activation policies. Their ‘procedural’ (bureaucratic) governance category is replaced by ‘central’ and ‘municipal’ to reflect direct control by these two levels of government; a new category ‘corporatist’ replaces their ‘network governance’ representing shared control between government and the social partners, while ‘market’ governance has a similar meaning to that used by Considine and Lewis, representing performance-based contracting of employment services from competing non-government providers.
insured workers, municipal governance applied to social assistance benefits and some employment assistance for their recipients, and market governance applied to other elements of employment assistance.\textsuperscript{36}

Market governance warrants closer attention here due to its association with the ‘New Public Management’ (NPM) paradigm in public administration which emerged in the 1980s, which some comparative welfare state researchers regard as a key driver of activation policies during the 2000s (Greunig, 2001; Lødemel & Moreira, 2014; Weishaupt, 2011). The guiding principle of NPM was to bring private sector managerial techniques and market disciplines to bear on public administration to improve its efficiency and responsiveness to ‘consumers’ and reduce costs. It underpinned public administration reforms such as separating policy development from service delivery, interposing ‘pseudo’ or ‘quasi markets’ of competing private providers between program administrators and service users, and more refined systems of performance measurement that emphasised outcomes rather than service inputs (Le Grand, 1991).

NPM originated in the United Kingdom and the United States at a time when governments in those countries were pursuing neo-liberal economic reforms (Greunig, 2001). This, together with its advocacy of the privatisation of public services, meant that NPM was associated with the Liberal welfare regime in the literature on market systems of governance of activation (van Berkel & de Graaf, 2007). Yet, as van Berkel and De Graaf (2007) and Wieshaupt (2011) described, NPM principles were promoted by international institutions including the OECD, and widely used in activation policies in countries with other welfare regime types, including the Netherlands and Denmark (OECD, 2001b; van Berkel & de Graaf, 2007; Weishaupt, 2011). An issue explored in this study is whether NPM principles were adapted to the requirements of other welfare regimes or were part of wider trend towards convergence with the Liberal regime.

In the literature on the governance of activation, corporatist governance was either viewed as a barrier to activation (in the Netherlands and United Kingdom) or facilitating it (in Denmark) (Kuipers, 2006; Kvist, Pedersen, & Kohler, 2008; Wells, 2001). Corporatist governance was found to increase the influence of unions over employment services, which tended to favour either income protection or capacity-building approaches (King, 1993; Mailand, 2008a; Tepe & Vanhuysse, 2013; Vlandas, 2011). As discussed in more depth in Chapter 3, market governance of employment services was generally associated with an emphasis on short-term

\textsuperscript{36} Table 21 in Attachment 5 provides more detail of the changing governance arrangements for activation in the four countries.
employment outcomes rather than investment in overcoming barriers to work (Bredgaard & Larsen, 2008a).

The interaction between these governance changes, and wider changes in the proximate institutions (including of payment restructures) and surrounding institutions (including changes in labour market structure and dynamics and changes of government), will be examined closely in this study to identify the impact of each on activation policies in the four countries.

Formal governance arrangements do not necessarily correspond with effective control over a benefit or service. For this reason, we compare governance arrangements in conjunction with systems of funding and control of benefits and employment services. Governments may, for example, exercise considerable control over benefits by virtue of enabling legislation and funding arrangements, even where (as in Denmark) they are nominally controlled by one of the social partners (Kaspersen & Schmidt-Hansen, 2006). Similarly, the Australian Job Network provides an example of detailed government control over employment services through contractual arrangements with private providers within a system characterised as market governance (Considine & O'Sullivan, 2008).

Conclusion

Activation – a systematic set of policies to lift workforce participation and employment among people receiving social security payments – emerged as a new paradigm for employment and social security policy in the late 1980s and 1990s in response to fiscal and political pressures arising from high and prolonged unemployment in wealthy countries. Its purpose was to reconcile income protection for unemployed people with an emerging emphasis on increasing labour supply and curtailing growth in social expenditures, and as such was supported by governments of different political persuasions.

Beyond their common ‘core’ of employment-related activity requirements, job search assistance, and individual activity agreements; the content of activation policies varied among countries and within them at different times. Based on the comparative activation literature, a framework for comparing activation policies (including employment assistance for long-term unemployed people) across two dimensions - income protection vs employment, and work incentive-strengthening vs work capacity building – will be used in this study.

The influences on activation policy identified in the comparative literature are diverse; including welfare regimes, the political ideology of governing parties, the structure of unemployment payments, and systems of governance, funding and control of benefits and employment services.
Chapter 3 : The labour market, unemployment payments, and employment assistance

This chapter sharpens our focus on the main object of this study, which is a specific aspect of activation policies in the four countries: employment assistance for long-term recipients of unemployment payments.

Otherwise referred to as ‘active labour market programs’, employment assistance includes job matching, job search assistance, various forms of subsidised employment, training programs, and work-for-benefit schemes designed to assist unemployed people to secure paid work (Eurostat, 2007; Martin & Grubb, 2001).

We define ‘unemployment payments’ as social security benefits for people of working age with a default requirement to seek, and be available for, paid employment (Stovicek & Turrini, 2012).37 As explained later in this chapter, this definition extends beyond payments traditionally called ‘unemployment benefits’. ‘Long-term unemployment payment recipients’ are individuals receiving those payments continuously for at least one year (Immervol et al., 2004).

They were chosen as the focus of this study for two reasons. First, they generally need more intensive employment assistance than people unemployed for shorter periods, allowing us to observe more clearly variations in the forms of employment assistance provided in the four countries (Eichhorst W et al, 2015). Second, reducing long-term unemployment was a major goal of activation policies since this was viewed as critical to reduce ‘structural unemployment’ (Layard, 1995; Machin & Manning, 1999; OECD, 1992).

‘Structural unemployment’ gained prominence as a new paradigm in labour economics during the 1980s and was closely associated with the activation paradigm (Blanchard, 2005; Layard et al., 1991; OECD, 1996a). It attributed high and persistent unemployment to the structure and dynamics of the labour market: for example, a miss-match between the skills of unemployed people and those sought by employers, excessive growth in wages, or job protection rules that slow labour market turnover. The structural unemployment paradigm paved the way for activation policies because it changed the focus of employment policy from

37 This requirement is consistent with the standard definition of unemployment in labour market statistics discussed previously. However, as discussed later not all unemployment payment recipients were actively seeking employment. ‘Working age’ generally refers to individuals aged 16-64 years, though this varied between countries (Eurostat, 2007). The principal unemployment payments in the four countries, rates and conditions of eligibility, and trends in reliance and long-term reliance upon them, are detailed in Attachment 5.
‘demand management’ or ‘job creation’ to policies to strengthen labour supply, especially that of people unemployed long-term.

Since the purpose of activation policies was to reintegrate jobless people into the labour market, variations in labour market structure and dynamics were likely to influence the design of these policies, especially employment assistance.

Yet Clasen and Clegg (2011) found that:

‘In the large comparative literature on welfare state development in recent decades, there are few comprehensive studies of unemployment protection systems as a whole, and fewer still that focus explicitly on the relationship between the regulation of the risk of unemployment and labour market change.’ (Clasen & Clegg, 2011b, p1)

The chapter begins with an outline of trends in unemployment in the four countries. It traces the emergence of the structural unemployment paradigm and the elevation of long-term unemployment to a prominent place in international employment policies in the 1980s and 1990s. It reviews the labour economics literature on the main causes and effects of long-term unemployment as they bear on activation policies. It defines ‘unemployment payments’ and outlines the main unemployment payments in the four countries. We then develop a typology of employment assistance for comparative purposes based on the ‘activation diamond’ in Chapter 2. The findings of evaluations of these programs are summarised.

3.1 Trends in unemployment

For most of our statistical comparisons of labour market indicators, we use 1990 as the start year and 2007 as the final year, since those years correspond with the end of two successive business cycles (the years in which unemployment fell to its lowest level), as shown in Figure 3 (Junankar, 2011). This allows us to compare variables at similar points in the business cycle. The study period was characterised by a sharp rise in unemployment in the early 1990s,

38 The study period covers two business cycles. Unemployment reached its lowest rate in the first business cycle across the OECD (and in Australia and the United Kingdom) in 1990, two years before this in Denmark and two years afterwards in the Netherlands. All four countries experienced recessions at this time. The end of the study period is 2007: the year unemployment reached its lowest level across the OECD in the second cycle, a year before an international recession. Of the four countries, only Australia did not experience a recession (defined as two consecutive quarters of zero or negative growth in GDP) in 2008 (Junankar, 2011; Martin, 2015).
followed by a lengthy decline. This facilitates comparisons between activation policies at times of rising and falling unemployment.

**Figure 3: Trends in unemployment**

![Trends in unemployment graph](image)

Source: (OECD, various years-c)

### 3.2 The structural unemployment paradigm

Labour economists have separated unemployment into a ‘frictional’ component (short periods of joblessness while people change jobs or enter the labour force), a ‘cyclical’ component (the increase in unemployment caused by a downturn in the business cycle), and a ‘structural’ component (Blanchard & Katz, 1996; Krugman, 1994; Lindbeck, 1999). The latter was defined as the level of unemployment below which consumer price inflation would not accelerate.

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39 The exception was a modest economic downturn across the OECD in the early 2000s, which as Figure 3 shows was followed by increases in unemployment in the Netherlands and Denmark before unemployment resumed its downwards path (OECD, 2009a).

40 Unemployment is defined here according to the relevant ILO convention as ‘all persons above a specified age who during the reference period were:
- without work, that is, were not in paid employment or self-employment during the reference period;
- currently available for work, that is, were available for paid employment or self-employment during the reference period; and
- seeking work, that is, had taken specific steps in a specified recent period to seek paid employment or self-employment.’ (International Labour Organisation, 2004).
Blanchard (2005) regarded the adoption of structural unemployment by labour economists in the 1980s as a watershed in economic thinking about unemployment (Blanchard, 2005). Previously, economists exclusively pursued ‘demand side’ solutions to unemployment such as stimulation of the economy to restore growth in Gross Domestic Product (GDP), and wage and consumer price curbs to keep inflation under control (Nickell, 2003a). By directing attention to reforms on the supply side of the labour market such as skills training and policies to improve work incentives, the structural unemployment paradigm also underpinned the emerging activation paradigm (Layard et al., 1991).

Despite these efforts, and the recovery of national economies from the recessions of the 1970s and 1980s, high unemployment (especially long-term unemployment) persisted. This led to growing acceptance among labour economists of a new paradigm of structural unemployment advanced by Friedman in the 1960s (Blanchard, 2005; Bruno & Sachs, 1985; Friedman, 1968; Layard et al., 1991).41

“At any moment of time, there is some level of unemployment which ...is consistent with equilibrium in the structure of real wage rates. At that level of unemployment, real wage rates are tending on the average to rise at a 'normal' secular rate, i.e., at a rate that can be indefinitely maintained so long as capital formation, technological improvements, etc, remain on their long-run trends. A lower level of unemployment is an indication that there is an excess demand for labor that will produce upward pressure on real wage rates.” (Friedman, 1968, p8)

He called this structural component the ‘natural rate’ of unemployment, adding that:

‘by using the term ‘natural’ rate of unemployment, I do not mean to suggest that it is immutable and unchangeable. On the contrary, many of the market characteristics that determine its level are man-made and policy-made. In the United States, for example, legal minimum wage rates and the strength of labor unions all make the natural rate of unemployment higher than it would otherwise be. Improvements in employment exchanges, in availability of information about job vacancies and labor supply, and so on, would tend to lower the natural rate of unemployment.’ (Friedman, 1968, p9)

By the 1990s, many labour economists and governments embraced policies informed by the structural unemployment paradigm - now referred to as the ‘Non Accelerating Inflation Rate of Unemployment’ (NAIRU), as supplements to demand-management policies (Lindbeck, 1999; Nickell, 2003a). A clear divide emerged between advocates of reforms to reduce structural unemployment in countries with different welfare regimes. Freeman (1998) described a ‘war of the models’ between those (mainly in the United States) arguing for liberalisation of labour

41 This was part of the wider paradigm shift in economics towards ‘supply-side’ remedies identified by Hall and discussed in Chapter 1 (Hall, 1993).
markets, greater pay inequality and reductions in income protection for unemployed people and those (mainly in continental Europe) arguing for corporatist solutions (national agreements between unions and employers to restrain wage growth) and more public investment in education and training to deal with skills mismatch.

By the mid-2000s, after much comparative research on the effect of different labour market institutional arrangements on unemployment, there was a degree of convergence between the two sides of this argument (Eichhorst, Feil, & Braun, 2008). The OECD concluded that two clusters of labour market institutions – those in ‘Northern Europe’ (mostly the Nordic countries) and the ‘English-speaking’ countries (including North America, the United Kingdom and Australia) had more efficient labour markets and lower unemployment than the countries of ‘Central and Southern Europe’ (mostly countries with Conservative welfare regime features):

“Two striking facts emerge … when looking at the two groups of countries with good labour market performance. First, on average extremely different degrees of ‘interventionism’ in almost every selected policy area (except product market regulation) may lead to very similar employment and unemployment rates…. Second, the approach of the Northern European countries has a clear budgetary cost…. On the other hand, income inequalities as well as relative poverty rates appear to be lower than in the [English speaking] countries.” (OECD, 2006, p192)

Estimates of structural unemployment in the four countries are provided in Attachment 5. In all four countries, structural unemployment was above the OECD average at the start of the study period in 1990 but below it by 2007 (Gianella, 2009; OECD, 1999c).

We now turn to two structural features of the labour market which were likely to impact on both structural unemployment and activation strategies: the wages and skills structure and job turnover (Blanchard & Katz, 1996; Frijters & Gregory, 2005; Nickell, 2003a).

(1) Wages and skills

The main explanation for increased wage inequality and structural unemployment in the 1970s and 1980s in the labour economics literature was the ‘Skill Biased Technological Change’ thesis (SBTC) (Autor, Katz, & Kearney, 2006; Layard et al., 1991).

42 We noted in Chapter 2 the parallel convergence of views across the ideological spectrum on the desirability of activation of unemployed people to overcome the tensions between adequate income protection and the promotion of transitions to employment.
This held that demand for labour in wealthy nations had shifted towards high-skilled workers, leading to greater wage inequality in Anglophone countries (where wages adjusted to this change in demand) and a rise in unemployment among low-skilled workers in many continental European countries (where pay relativities remained fixed) (Blanchard & Katz, 1996; Nickell, 2003a; Salverda & Checchi, 2014). Another view held that technological change was polarizing the labour market, with jobs growth concentrated at the high and low-skilled ends of the spectrum while the middle was ‘hollowing out’ (Autor et al., 2006; Gregory, 1998).

Frijters and Gregory (2005) developed a useful analytical framework to map the contributions of wages, skills and employment incentives to structural unemployment in Australia (Frijters & Gregory, 2005). Underpinning this was the assumption that, in the long run, individuals will secure jobs paying the marginal value of their skills in the absence of a wage ‘floor’ (minimum wages). Frijters and Gregory accepted the SBTC thesis of a shift in demand against low-skilled workers so that many could no longer be employed at wages above the minimum. They also took account of the impact of work incentives on labour supply, and hence structural unemployment.

In their framework, represented by Figure 4 below, the population of working age was distributed according to marginal productivity (shown by the thick line in the graph), and labour force participation (the thin line underneath it). The marginal productivity of workers was proxied by wage levels (the X axis of the graph).

**Figure 4: A simplified model of wages, skills and employment**

Source: (Frijters & Gregory, 2005)
Frijters and Gregory argued that the distribution of marginal productivity widened in Australia and other OECD countries from the 1970s, with many potential workers now having a marginal productivity below the minimum wage (areas ‘A’ and ‘C’ of the graph).

The framework also represented workforce participation among workers with different productivity (skill) levels, which they argued was influenced by the level of social security payments, income tests and activity requirements. The gaps between the two lines (areas ‘A’ and ‘B’) represent those workers who were not participating in the labour force. The areas below the thin line represent labour force participants who were unemployed (‘C’) and employed (‘D’) respectively.43

This framework allows us to map the effects of skills, wages, and the tax and social security systems on employment and joblessness in the long run. Frijters & Gregory used it to illustrate the effects of different policies such as minimum wage reductions, earned income tax credits, lower social security payments and up-skilling of low skilled workers on the distribution of potential workers between each of the four areas in the graph.

Within this framework, policies to reduce structural unemployment were classified according to whether they targeted skills or work incentives.44 This is very similar to the ‘activation diamond’ in Chapter 2.45

Nickell (2003) analysed the relationship between skills, employment and wages, and labour market institutions in 2000 in 15 OECD countries, including the four in this study (Nickell, 2003a). He found that the dispersion of earnings corresponded to the distribution of basic literacy skills in each country, mediated by institutional arrangements which impact on skills

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43 The graph therefore divides the potential workforce into four groups: employed people (area ‘D’), those who were ‘employable’ at current minimum wages or above but not participating (not in the labour force but with good prospects – area ‘B’), unemployed due to low skills (area ‘C’), and not employed due to low skills and also not participating (not in the labour force and with poor prospects – area ‘A’).

44 If the skills of low skilled workers were upgraded, there would be fewer workers to the left of the minimum wage line (areas ‘A’ and ‘C’). If work incentives for higher-skilled workers were improved (for example mothers with post-secondary qualifications who have left paid work to care for their children) then in the long run area ‘B’ would be smaller and area ‘D’ would expand.

45 This ‘skills and incentives’ framework could be broadened to encompass a wider set of capabilities than education and vocational skills (including disabilities, interpersonal skills, and the ability to combine employment and caring), and a wider set of incentives than the relativities between benefits and wages and effective tax rates (including activity requirements attached to social security payments, the cost of working, and the ‘pull’ of alternative roles such as caring and retirement) (Atkinson & Micklewright, 1991; Lewis, 2002; Raveaud, 2002).
Such as education), wages (wage bargaining systems) and employment incentives (such as unemployment benefits).\textsuperscript{46}

These findings have implications for activation and employment assistance policies. A country with a high skills threshold for entry-level jobs and high minimum wages is, all things being equal, more likely to invest in capacity-building programs to raise the skills of its unemployed people. This labour market ‘model’ is broadly consistent with the Social Democratic and Conservative welfare regimes with which Denmark and the Netherlands were identified (Esping Andersen, 1999). On the other hand, a country with a low skills threshold for entry-level jobs and low minimum wages (consistent with the Liberal welfare regime with which the United Kingdom and Australia were identified) could be expected to emphasise work incentives.\textsuperscript{47}

Wages and skill distributions are not the only factors that explain structural unemployment in the labour economics literature. For example, where the skills profile of workers matches the requirements of employers, unemployment might remain high where unemployed people live in the ‘wrong’ locations or are inefficient in searching for jobs. Similarly, employers may be discouraged from employing suitable workers due to information deficits or discrimination (de Koning, 2007a; Martin & Grubb, 2001). This is the rationale for public investment in job matching and job search support services such as the Public Employment Service (PES).

Economic models of structural unemployment that are based on the distribution of wages and skills tend to focus on stocks rather than flows, and on long-term outcomes rather than the processes that bring them about. They do not fully capture the dynamic aspects of the labour market.\textsuperscript{48} To complement this ‘wages and skills’ framework, we now turn to ‘search’ or ‘matching’ models of the labour market.

\textsuperscript{46} He found that for the 15 countries, the correlation (coefficient of determination) between the distribution of basic literacy skills (at the 90:10 and 95:5 levels) and the earnings distribution for employees (at the 90:10 level) was above 0.8.

\textsuperscript{47} Nickell (2003) found that the distribution of both literacy skills and wages was more compressed in Denmark and the Netherlands (with 90:10 ratios in the distribution of literacy scores for prose of 1.48 and 1.39 respectively, and for numerical literacy of 1.79 and 1.67; and 90:10 ratios for earnings of 2.59 and 2.17) than in the United Kingdom and Australia (with scores for prose of 1.69 and 1.75, and for numerical literacy of 2.9 and 3.35, respectively, and 90:10 ratios for earnings of 2.9 and 3.35). These findings are reinforced when we compare workforce education levels in the four countries in Chapter 9. Departures from these ‘pure’ labour market models included Australia’s relatively high minimum wages (discussed in Chapter 5), and the dual labour market model in the Netherlands (discussed below and in Chapter 7).

\textsuperscript{48} For example, strict job protection rules reduce flows both into and out of employment, so depending on national circumstances they may increase or reduce unemployment. (Mortensen & Pissarides, 1999).
(2) Job-matching efficiency and turnover

Search or matching models were developed to explain variations in the efficiency of labour markets in connecting employers with potential workers. (Aberg, 2001; Layard et al., 1991; Mortensen & Pissarides, 1999).

A key measure of matching efficiency is the ‘Beveridge curve’ which charts the relationship between unemployment rates and job vacancies over time (Layard et al., 1991). If unemployment remains high despite a high vacancy rate, then this indicates a high level of structural unemployment.49

Nickell et al (2001) compared Beveridge curves for 20 OECD countries from the 1960s to the late 1990s (Nickell, Nunziata, Ochel, & Quintini, 2002). They found that in all countries, except Norway and Sweden, structural unemployment rose between the 1960s and 1980s. After the 1980s, they found that these countries divided into two groups (and that matching efficiency had probably improved in all four countries in the present study):

‘Those for which the Beveridge Curve carries on moving to the right with no serious hint of a turnaround and those for which it starts moving back to the left: The former group definitely includes Belgium, Finland, France, Germany, Japan, Norway, Spain, Sweden, and Switzerland. The latter group definitely includes Canada, Denmark, Netherlands, the UK and the US. Australia, Austria, New Zealand and Portugal are harder to place although all are probably showing some recent improvement (leftward move).’ (Nickell, Nunziata, et al., 2002)

The ‘dynamic flexibility’ of a labour market – its ability to absorb new workforce entrants and unemployed people and to adapt to skills mismatches and economic shocks - is regarded in the labour economics literature as a mitigating factor against structural unemployment, but ‘flexibility’ is a controversial concept that is difficult to define and measure (Solow, 1997). This sat at the centre of the policy debates discussed above between labour market ‘liberalisers’ and advocates of corporatist labour market regulation (Bettio & Rosenberg, 1999; Freeman, 1998; Nickell, Nunzia, & Ochel, 2002).

By combining less restrictive employment protection with high minimum wages, generous unemployment benefits and high investment in training for unemployed workers, the Danish model of ‘flexicurity’ (discussed previously) sat between more liberal models of labour market regulation and the tighter regulation of job security, pay and conditions found in continental

49 If the curve moves ‘to the right’, unemployment is higher at a given level of vacancies and structural unemployment is higher. A move ‘to the left’ signals a fall in structural unemployment.
European countries consistent with the Conservative welfare regime such as Germany and France (Esping Andersen, 1999; European Commission, 2007; Jørgensen & Madsen, 2007).

Another hybrid or compromise model emerged in response to high unemployment in tightly regulated labour markets characteristic of the Conservative welfare regime: the ‘dual labour market’ (Bonoli & Natali, 2013; Layard et al., 1991; OECD, 2014b; Palier, 2012). This combined a ‘primary labour market’ for ‘core’ workers (generally high-skilled males) with a ‘secondary labour market’ in which women, young people and low-skilled workers were over-represented. Primary labour markets were characterised by high job security and pay and low job turnover, whereas secondary labour markets had low job security and pay and high turnover. One implication of dual labour markets for activation policies was that low-skilled unemployed people needed to overcome two hurdles to obtain a secure job: from unemployment to the secondary market, and from there to the primary market (Booth, Francesconi, & Frank, 2000).

The principal measure of labour market flexibility used in this study is the speed of job turnover. Job turnover shapes activation policies since, all things equal, higher turnover increases the speed with which unemployed people obtain a job (Cappellari & Jenkins, 2008; OECD, 2005b, 2010). On the other hand, it also increases the risk that they will return to unemployment, especially if they find jobs in the secondary labour market (Peck & Theodore, 2000b; Stewart, 2007). Countries with slow job turnover are likely to find it more difficult to assist unemployed people into jobs and may avoid or delay activation policies and instead pursue policies closer to the ‘income protection’ end of the activation diamond in Chapter 2. Conversely, those with high turnover are more likely to pursue activation policies more vigorously using capacity-building or incentive-strengthening approaches.

Elsby, Hobijn & Sahin (2013) compared flows into and out of employment in 14 OECD countries, including the four countries in the present study. Their research supports the view that different welfare regimes were associated with different patterns of job turnover, finding that there was:

‘a natural partitioning of economies into Anglo-Saxon, Nordic, and continental European. Anglo-Saxon and Nordic economies display high exit rates from unemployment, with monthly hazards that exceed 20%. In stark contrast, outflow rates among continental European economies are much lower—typically less than 10% at a monthly frequency. Symmetrically, unemployment inflow rates also vary considerably across countries. Anglo-Saxon and Nordic countries exhibit inflow hazards that exceed 1.5% at a monthly frequency. However, as with the observed levels
of outflow rates, monthly inflow rates among continental European economies are again much lower, at around 0.5% to 1%.' (Elsby, Hobijn, & Sahin, 2013, p530)

The implications of the foregoing discussion of different labour market settings on activation policies are represented in Figure 5. All things equal, countries with low job turnover are expected to adopt an income protection approach to employment assistance while those with high job turnover are expected to opt for an incentive-strengthening approach where the skills threshold for employment is low and a capacity building approach where the skills threshold is high.

Figure 5: Activation policies in different labour markets

3.3 Long term unemployment and unemployment payments

(1) Long term unemployment as a policy problem

During the 1980s, as the structural unemployment paradigm gained influence among policy makers, long-term unemployment (defined as 12 months of continuous unemployment) was identified as a key indicator of, and contributor to, structural unemployment (Blanchard &

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50 ‘Hazards’ refers to the probability of change from a steady state, for example, a move from unemployment to employment, within a given period.
Summers, 1986; Gregory, 1981; OECD, 2002). The link between long-term and structural unemployment had two aspects.

First, long-term unemployed people had weaker job prospects, either due to the ‘scarring effects’ of prolonged unemployment on skills and motivation (referred to as ‘duration dependence’) or because those most likely to become long-term unemployed had weaker employment capacity in the first place (referred to as ‘heterogeneity’) (Heckman, 1981; Knights, Harris, & Loundes, 2002).

The second aspect flows from the first: if long-term unemployed people were less likely to secure a job, they had less impact on wage bargaining. Rather than competing effectively for jobs and thereby dampening wage inflation, they were relegated to the margins of the labour market (Chapman, 1994).

Attachment 5 compares trends in unemployment, structural unemployment, and long-term unemployment, showing that both structural and long-term unemployment declined to below OECD average levels in the four countries over the study period.

(2) Long term reliance on unemployment payments as a policy problem

Early activation policies targeted a particular group of unemployed people: those in receipt of unemployment payments. For the purpose of this study, ‘unemployment payments’ are defined as social security payments for people of working age with a default requirement to seek, and be available for, paid employment (Stovicek & Turrini, 2012). Recalling the distinction discussed in Chapter 2 between social insurance and social assistance, unemployment payments include unemployment insurance payments, and both categorical and generic social assistance payments to the extent that activity requirements applied to them.

Consistent with the structural unemployment paradigm, policy makers paid special attention to long-term recipients of these payments (European Commission, 2002; OECD, 2007a).

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51 Unemployment payments sit at the centre of activation policies because it is receipt of these payments that triggers requirements to search for jobs and join employment programs.

52 This does not mean that all recipients faced these requirements at all times. Temporary exemptions often applied, on grounds such as illness, disabilities or participation in employment programs.

53 In 1997, a key element of the newly developed EES was a set of guidelines for employment assistance which specified that an offer of substantial assistance should be made to all young people reaching 6 months’ unemployment and all adults reaching 12 months’ unemployment (European Commission, 1997).
‘Long-term reliance’ is defined in this study as a minimum of 12 months’ continuous receipt of an unemployment payment. The population of long-term unemployment payment recipients is distinct from that of long-term unemployed people based on the labour market statistics definition of unemployment described above. These two statistics vary according to benefit rules. While there is likely to be considerable overlap, they are not identical and nor is one a subset of the other.

Programs to reduce long-term reliance on unemployment payments were regarded as public investments to reduce future social security costs (Committee on employment opportunities, 1993; Layard, 1995). Targeting long-term recipients was considered cost-effective because assistance for these relatively disadvantaged unemployed workers was likely to have low deadweight costs (Card, Kluve, & Weber, 2009; Layard et al., 1991). In addition, prolonged unemployment was associated with social harms such as financial hardship and poor health (Committee on employment opportunities, 1993; Saunders & Taylor, 2002).

(3) Long-term unemployment payment reliance in the four countries

Comparing the incidence of unemployment payments internationally during the study period is not straightforward, for three main reasons. First, social security for unemployed people cannot validly be compared across countries unless both social insurance and social assistance benefits are included, but the latter were not always categorised as unemployment benefits. Second, activation policies extended job search requirements to a growing share of social assistance recipients. The third problem is the unreliability and non-comparability of much of the administrative data.

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54 This definition of ‘long-term’ reliance varies slightly in the Danish case, where long-term reliance is defined in official statistics as continuous receipt for more than 80% of the previous year (Grubb, 2005).

55 For example, in Australia an individual may receive Newstart Allowance continuously despite being employed fulltime for up to 13 weeks or temporarily unavailable for employment due to illness or participation in a training program. Conversely, an individual designated as unemployed by the Australian Bureau of Statistics may be ineligible for income support due to their partner’s income or failure to meet eligibility requirements other than unemployment (ABS, 2010; Department of Education Employment and Workplace Relations, 2010b).

56 That is, investment in employment assistance was less likely to be ‘wasted’ on help for people likely to secure employment without it (Brown & Koettl, 2015).

57 These data deficiencies are a key aspect of the so-called ‘dependent variable problem’ in welfare state research (Andersen, 2007; de Deken & Clasen, 2010). The definition of unemployment payments used in this study mitigates the first two problems by capturing all social security benefits contingent on job search and availability requirements. It follows that as job availability requirements extended to more payments, those payments are included in the scope of the definition.
Attachment 5 identifies the main unemployment payments in the four countries and compares trends in long-term receipt of those payments. Noting the frequent movement between different social payments, it also compares trends in receipt of other social security payments for people of working age, especially benefits for people with disabilities and sole parents.

3.4 Employment assistance

(1) A typology of employment assistance

We define ‘employment assistance’ in the same terms as Eurostat’s definition of ‘labour market interventions’:

‘government actions to help and support the unemployed and other disadvantaged groups in the transition from unemployment or inactivity to work.’ (Eurostat, 2007, p6)

The foundation stone for unemployment assistance was the Public Employment Service (PES), a statutory body established in many OECD countries to provide labour exchange services for unemployed people and employers (Weishaupt, 2011).

In this study, employment assistance is classified into the following categories: ‘job search assistance’ (the core function of the PES), ‘training’, ‘private wage subsidies’, ‘public wage subsidies’, ‘work-for-benefits’ programs and ‘social activation and support’.

58 These programs are a sub-set of ‘active labour market programs’ (ALMPs), defined by Martin and Grubb (2001) as ‘a wide range of policies aimed at improving the access of the unemployed to the labour market and jobs, job-related skills and the functioning of the labour market’ (Martin & Grubb, 2001, p1). This includes programs beyond the scope of this study such as apprenticeships (that are not targeted to unemployed people) and programs specifically for people with disabilities.

59 The OECD uses the following categories for its data base on labour market program expenditure: ‘public employment services and administration’ (which includes job search assistance), ‘training’, ‘job rotation and job sharing’, ‘employment incentives’ (equivalent to private wage subsidies), ‘supported employment and rehabilitation’ (programs for people with disabilities), ‘direct job creation’ (equivalent to public sector wage subsidies), and ‘start-up incentives’ (assistance for unemployed people to start a small business) (OECD, 2006).

Eurostat publishes similar data. From 2002, the OECD adopted elements of the Eurostat classification system (Eurostat, 2009; Grubb & Puymoyen, 2008). We exclude ‘job rotation and job sharing’ and ‘start up incentives’ as they are relatively minor categories, and disability-specific programs because they are beyond the scope of this study. ‘Work for benefits’ programs and ‘social activation and support’ are separately identified because they had unique features and played significant roles in activation policies in the four countries. These programs are subsumed within other categories (‘direct job creation’ and ‘training’ respectively) in the OECD classification system.
To compare employment assistance for long term unemployed people in the four countries and the institutional arrangements that shaped it, we use the ‘activation diamond’ from Chapter 2.

In Figure 6, each program type used in this study is located within the diamond according to its ‘predominant character’ or main purpose: income protection, and increasing employment participation through work capacity-building or work incentive-strengthening. The main characteristics of each program type, and the reasons for their classification within the activation diamond, are discussed in turn below.

This classification system reflects differences of emphasis rather than mutually exclusive alternatives. The location of each program type within the diamond reflects the predominant character of a typical program of each type.60

Figure 6: Classification of employment assistance programs using the activation diamond

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60 This is consistent with the ‘revealed preferences’ approach discussed in Chapter 2 (McFadden, 1975). The titles and purposes of individual programs within each country vary, and it is possible for a program to be converted to a different purpose, so Figure 6 is a general guide. We compare the actual policy objectives and characteristics of each program in the country chapters, rather than relying on their statistical classification in data sets such as those published by the OECD and Eurostat (Clasen et al., 2016).
This classification framework for employment assistance is similar to that developed by Bonoli (2010) with some adjustments.61

**Job search assistance**

Job search assistance includes job matching, employability assessment and counselling and training in job search methods. As a traditional function of the PES, it was the long-standing core component of employment assistance in OECD countries, and a key hub or entry point to other programs (Card, Kluve, & Weber, 2015; Martin & Grubb, 2001).

Job search assistance was common to activation policies in different welfare regimes and institutional settings (Martin & Grubb, 2001). Its classification is challenging since job assistance programs may have different purposes ranging from use of the ‘threat effect’ of referral to the program to strengthen work incentives to practical training in job search techniques (as distinct from vocational skills). The categorisation of job search assistance programs thus depends on the context, including their relationship with compliance systems and other programs.62 Typically, job search assistance was neutral in its orientation towards work incentives and capacity building, but it had an incentive-strengthening character where threat effects were emphasised.

**Training**

‘Training’ refers to programs that aim to strengthen basic education (such as literacy) or vocational skills. Training was offered either in a classroom or employment setting. In the latter case, it was often combined with a wage subsidy, as in the Danish Jobtraining scheme (Goul Andersen & Pedersen, 2007).

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61 ‘Income protection’ is used in place of his category of ‘occupation’ which referred to programs such as public wage subsidies designed to keep unemployed people ‘occupied’ and prevent a loss of work habits and skills when jobs were not immediately available. These programs are ‘de-commodifying’ (in Esping Andersen’s terminology) to the extent that they provide an alternative source of income and activity to regular employment, as distinct from assisting people to transition towards it (Esping Andersen, 1990). One measure to assess which of these two purposes predominates is the impact of the program on the probability of employment. ‘Work capacity-building’ and ‘work incentive-strengthening’ are equivalent to Bonoli’s ‘human capital investment’ and ‘incentive reinforcement’ respectively (Bonoli, 2010). ‘Job search assistance’ is equivalent to his ‘employment assistance’ category.

62 For example, the Job Search Training component of the ‘Active Participation Model’ of employment assistance in Australia in the mid 2000s was conducted on a full-time basis for 100 hours over a number of weeks, in part to encourage unemployment payment recipients in undeclared jobs to leave benefits (Department of Education Employment and Workplace Relations, 2007).
The predominant purpose of training programs was capacity-building: to prepare people for employment and make them more competitive in the labour market through skills acquisition (de Koning, 2007a; OECD, 2005a, 2006).

**Public wage subsidies**

‘Public’ and ‘private’ wage subsidies are used here as simplifications of ‘direct job creation’ and ‘employment incentives’ respectively, that more clearly describe the content of these programs. Direct job creation was predominantly undertaken through fully subsidised temporary jobs in the public or community (not-for-profit social services) sectors (Martin & Grubb, 2001). Examples included the British ‘Community Program’, the Australian ‘New Work Opportunities’ program and the Dutch ‘Melkert jobs’ (Finn & Schulte, 2007; Keating, 1994).

Public wage subsidy schemes generally had a predominant income protection purpose. Before activation policies, they provided an alternative source of income for unemployed people to regular jobs at times of high unemployment, including by renewing eligibility for unemployment insurance (Grubb, 2005; Kvist et al., 2008; Martin & Grubb, 2001). This function often overshadowed their other purposes. They were not well suited to capacity-building because these temporary public jobs typically had ‘additionality’ requirements to ensure that they did not displace existing jobs, which meant that participants in large-scale public wage programs were often engaged in low-productivity work well removed from the regular labour market (Kluve, 2010). Payment of regular wages (rather than unemployment benefits) meant that they were also ill-suited to work incentive-strengthening.

**Private wage subsidies**

On the other hand, wage subsidies for temporary private-sector jobs (generally set at less than 100% of the wage) were mainly used to encourage employers to offer work experience and training to unemployed people in the hope that they would be retained once the subsidy ended (di Pietrantonio, Pancaldi, & Kalocinska, 2014). Examples included the Australian JOBSTART

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63 Bloom (2010) identified ‘work-based income support’ as one of their key functions (Bloom, 2010, p2).

64 After the activation turn, they were phased out in many countries and converted to a different function in others (Grubb, 2005). In some countries, such as the United Kingdom, they were converted (on a smaller scale) into ‘transitional jobs’ schemes for more disadvantaged long-term unemployed people (Finn & Simmonds, 2003). These programs had a capacity-building purpose: to strengthen vocational skills and ease barriers to employment such as mental illness in a workplace setting to assist participants to transition to an unsubsidised job.

Their main purpose was capacity-building: to give unemployed people direct experience of regular paid employment to strengthen their skills and work habits (J. de Koning, 2005; Department of Employment Education and Training, 1994-95; Martin & Grubb, 2001). Another goal was to give employers an opportunity to test whether an unemployed person was suitable without having to commit to a permanent employment contract.  

**Work-for-benefits schemes**

‘Work-for-benefits’ schemes, otherwise known as ‘workfare’ or ‘unpaid work experience’ required unemployed people to undertake unpaid work in return for their benefits as distinct from a subsidised wage (Brock, Butler, & Long, 1993). They included Australia’s ‘Work for the Dole’ and many municipal ‘work first’ schemes in the Netherlands (Borland & Tseng, 2004; Sol, 2007).

Their main purpose was to strengthen work incentives by discouraging continued reliance on unemployment payments (Department of Education Employment and Workplace Relations, 2007; Johri, 2004; Spermann, 2015). Some also had subsidiary goals such as strengthening self-esteem but, as discussed later, participation in these programs had little impact on future employment prospects for similar reasons to public wage subsidies. (Department of Employment Workplace Relations and Small Business, 2000b).

**Social activation and support**

‘Social activation and support’ programs offered counselling and social support rather than direct assistance with job search or vocational preparation or work experience in a regular job. Their stated purpose was not to transition people directly into a paid job, rather to prepare them for future employment by overcoming social barriers such as mental illness, addictions, or homelessness (Nicaise, 2004). They included counselling, group activities, and work-like activities but not in a regular employment setting. Examples included the Dutch ‘social activation’ programs, the Danish ‘special municipal projects’ and Australia’s ‘Personal Support Program’ (Perkins, 2007; Rosdahl & Petersen, 2006; Van der Aa & van Berkel, 1998).

65 This feature of private wage subsidies does not place them on the ‘work incentives’ side of the activation diamond, which refers to incentives for unemployed people. Private wage subsidies worked on the supply and demand sides of the labour market simultaneously, usually targeting unemployed people who were not deeply disadvantaged, but would not be considered by employers without the subsidy (Gravesteijn-Lighthelm et al., 1999).
While their stated purpose was to improve future employability, in practice there was generally a weak connection between these programs and regular employment, indicating that their predominant character was income protection, or to use Bonoli’s term, ‘keeping people occupied’ (Department of Employment and Workplace Relations, 2006a; Nicaise, 2004; Perkins, 2007; Van der Aa & van Berkel, 1998). Some were superficially similar to work-for-benefit schemes but they lacked the benefit-deterrence focus of those schemes.66

Performance-based employment service contracting

Since the early 2000s, some countries, influenced by NPM ideas, replaced national employment assistance programs such as wage subsidies and training with ‘outsourced’ employment assistance purchased by government from non-government providers who were paid according to a combination of service inputs and employment outcomes (Considine, 2005). In Australia and the Netherlands, many or all of the functions of the PES were taken over by private providers funded in this way (Considine & O’Sullivan, 2008; Sol & Westerveld, 2007). Governments either specified the services to be offered or purchased generic employment assistance and left decisions on service inputs largely to providers (Vanstone, 1996).67 In the latter case, these programs are more difficult to classify since, apart from requirements to assess and interview unemployed people and provide job search assistance, the services offered were often only visible to individual providers and participants (Finn, 2009b).

As discussed in the country chapters, the form of employment assistance provided by outsourced employment services depended on the financial incentives embedded in funding contracts. Outcome payments were usually awarded for jobs sustained over the short-term, for example three to six months (Bredgaard & Larsen, 2008a; Council for Work and Income, 2008; Finn, 2009a; Lindsay & McQuaid, 2009). This purchasing model encouraged providers to restrict their services to job search assistance and monitoring of activity requirements since this form of assistance was likely to improve short-term employment outcomes at a low cost (at least for less disadvantaged job-seekers). Providers generally avoided risking their funds on more costly interventions that might yield improvements in employment in the medium to

66 For example, participation was often voluntary.
67 In its purest form, where service inputs were not specified and providers were instead rewarded for employment outcomes, this purchasing model has been referred to as the ‘black box’ approach (Finn, 2005).
long term, such as wage subsidies or training (J. de Koning, et al, 2005; Department of Education Employment and Workplace Relations, 2007; Griffiths & Durkin, 2007).68

For these reasons, we treat generic outsourced employment assistance programs such as the Australian ‘Job Network’ and the British ‘Employment Zones’ as equivalent to job search assistance; except where other services such as training were separately funded, for example using the Australian ‘Job Seeker Account’ (Department of Employment and Workplace Relations, 2003).

(2) Evaluations of employment assistance

Evaluation of public programs is not a value free process. It is embedded in the paradigmatic and political context in which it is conducted (Cox, 2001; Head, 2008; Schmid, 1997). Consistent with the literature on ‘revealed preferences’ discussed in Chapter 2, evaluation studies and their policy consequences can shed light on the purpose of different programs and the determinants of public investment in them, as well as their outcomes (McFadden, 1975). If outcomes are internationally consistent for a given program type and national policies do not converge towards the strongest programs, then choices of governments to expand or abolish a program can reveal whether factors other than effectiveness (such as institutional path dependency) were at work. Similar conclusions might be drawn if programs were not evaluated at all.

At the commencement of activation policies in the early 1990s, employment assistance programs were well established in OECD countries but evidence of their effectiveness was limited outside the United States (Layard et al., 1991; Wilenski, 1992). By the end of the 1990s, official evaluations, together with studies undertaken in other countries and cited by the OECD or EC, yielded a detailed body of evidence on the relative effectiveness of programs, in terms of their impact on the probability of employment among participants (Martin & Grubb, 2001; OECD, 1999c).69

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68 To minimise costs within an outcomes-based purchasing model, providers adopted strategies described as ‘parking’ (offering limited or no assistance) and ‘creaming’ (prioritising less disadvantaged unemployed people) (Bredgaard & Larsen, 2008a; Finn, 2009a; Koning & Heinrich, 2010). Governments sought to prevent parking and creaming by offering higher payments for those assessed as more disadvantaged, developing statistical models to compare the value added by providers, or exercising more direct control over service inputs (Considine, Lewis, & Sullivan, 2009; Finn, 2009b).

69 A key methodological advance during the 1990s was the widespread use of quantitative microeconomic ‘net impact studies’ (Kluve, 2006; Meager, 1997, 2009). Rather than simply measure the probability of transitions to employment or off benefits after joining a program, these studies
Card, Kluve and Webber (2015) found in their meta-analysis of program evaluations that the relative effectiveness of major program types was consistent across national studies (Card et al., 2015). Their findings are summarised in Attachment 6. The programs with the highest average net employment impacts were private wage subsidies. ‘Sanctions and referral effects’ and vocational training had moderately positive impacts on average (green shading) while job search assistance and public wage subsidies (red shading) had small and negative average impacts respectively.\(^70\) When employment impacts were assessed over a longer time frame (two years or more), the impact of training increased while that of sanctions and referral effects diminished.

An important conclusion of the evaluation literature was that employment assistance for relatively disadvantaged unemployed people, including those unemployed long-term, was more effective if tailored to individual circumstances (Hasluck & Green, 2007; Martin & Grubb, 2001). The key to this was effective ‘case management’ by employment counsellors or consultants with good relationships with both unemployed people and employers.

(3) Determinants of the character of employment assistance

There is a growing comparative research literature on the determinants of investment in employment assistance, especially quantitative studies that compare expenditures on employment assistance programs across the OECD (Bonoli, 2010). This strand of comparative welfare state research parallels the comparative research on welfare regimes and activation policies discussed in previous chapters.

Political scientists examined the impact of the political colour of the governing party on employment assistance expenditure ‘effort’ (Huber et al., 1993; Rueda, 2007). When these studies yielded conflicting results, researchers took a more fine-grained approach, combining a number of independent variables (such as political parties and welfare regimes) and also dependent variables (for example the program mix as well as expenditure levels) (Nelson, 2013; Tepe & Vanhuysse, 2013; Vlandas, 2013).

Labour market researchers examined the impact of labour market institutions (especially the regulation of wages and skills formation) on employment assistance as well as activation attempted to measure the ‘value added’. They did so by comparing outcomes for program participants with a control group with similar characteristics (Blundell & Costa-Dias, 2008).

\(^70\) Sanctions and referral effects were work incentive effects, arising from a benefit sanction or compulsory referral to a program.
policies generally as discussed in Chapter 2 (Iversen & Stephens, 2008; Peck & Theodore, 2000b). 71

Turning to the proximate institutions, despite a large and growing literature on the impact of NPM ideas (discussed in Chapter 2) on employment assistance, fewer studies have explored the effects of different benefit structures and other aspects of the governance of benefits (corporatist, central government or municipal government control) on the form of employment assistance provided (de Beer & Schils, 2007; Grubb, 2005).

Comparative research on influences on investment in employment assistance has yielded inconsistent results, due to the complex web of potential independent variables (Clasen et al., 2016). As Clasen and Clegg (2016) point out, this field of research would benefit from a clearer theoretical basis from which to derive hypotheses, more precise specification of variables, and qualitative research that places the international statistics in their national historical context. This study aims to partly fill these research gaps.

**Conclusion**

Unemployment declined in the four countries and across the OECD over the study period. In the late 1980s and early 1990s, policy makers shifted their attention from the cyclical causes of unemployment towards its structural component, which was associated with inflexible labour markets, skills mismatches and/or benefit systems that discouraged active job search (Lindbeck, 1999).

A key contributor to structural unemployment was long-term unemployment, which often remained high despite prolonged economic growth and the emergence of skill shortages and was therefore targeted by the new activation policies (Layard, 1995). Those policies required and enabled long-term unemployed people to compete effectively for jobs in the hope that this would alleviate social harms, reduce fiscal costs, and improve the functioning of the labour market.

As with the activation paradigm, the structural unemployment paradigm yielded different policy solutions associated with different wages, benefits, and skills structures, and systems of labour

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71 A related influence on employment assistance was the business cycle. Researchers found that countries were more likely to favour programs of longer duration such as public wage subsidies or training when unemployment was high, and programs that aimed to move unemployed people more quickly in jobs when unemployment was low (Forslund, Fredriksson, & Vikstrom, 2011). On the other hand, as unemployment fell, the profile of unemployed people became more disadvantaged as more job-ready unemployed workers found employment more quickly (Lechner & Wunsch, 2009). This change in the profile of unemployed people required investment in more intensive forms of employment assistance (Hasluck & Green, 2007).
market regulation (OECD, 2006). A Liberal approach favoured the easing of labour market regulation including employment protection laws, and lower benefits and minimum wages to make room for the creation of low-skilled jobs (Krugman, 1994). A Social Democratic variant favoured higher benefits and minimum wages and argued that these were consistent with low unemployment provided unemployed people were active in the labour market and workforce skills were upgraded to adapt to structural change (Madsen, 2006). Both approaches favoured ‘flexible’ labour markets with a relatively high turnover of jobs to reduce the risk of labour market exclusion of unemployed people. A Conservative approach privileged job security for skilled adult males and sought to reduce labour market exclusion of unemployed people, young people and women by promoting secondary labour markets comprising low-skilled, less secure jobs (Palier, 2012).

Early activation policies specifically targeted long-term unemployment payment recipients (Grubb, 2005). We identified six types of employment assistance program to encourage and assist long-term unemployed people to secure employment: job search assistance, training, private wage subsidies, public wage subsidies, work-for-benefits programs, and social activation and support. These were classified using the ‘activation diamond’ according to the extent to which they privileged income protection or transitions to employment through work capacity-building or incentive-strengthening strategies.

International evaluations of the net employment impacts of these programs, which grew in number and became more sophisticated during the 1990s and 2000s, ranked them in broadly consistent terms (Card et al., 2015; Martin & Grubb, 2001). To the extent that these evaluations did not lead to convergence towards the most effective schemes, this suggests that factors other than effectiveness, such as institutional path dependency, influenced policy decisions.

The comparative literature on activation policies points to a range of possible influences on the size and shape of investment in employment assistance, including the political colour of the governing party, welfare regime type, the structure of the labour market, and the business cycle (Bonoli, 2010). These are examined in depth in the country chapters.
Chapter 4 : Research questions and methodology

This chapter sets out the research questions for this study and how they were informed by the comparative literature on welfare states and activation discussed previously, the methodology used, and the steps taken to obtain and analyse data.

4.1 Research questions

The first research question (RQ) is as follows:

RQ1. What were the key similarities and differences in the purpose and character of the four countries’ employment assistance for long-term recipients of unemployment payments over the study period (1990-2007), especially the balance struck between income protection and active engagement with the labour market, and between strengthening work incentives and work capacity?

The literature indicates that the four countries were early adopters of activation policies, and that we should expect that as those policies matured, employment requirements and assistance would share certain core features (Eichhorst & Konle Seidl, 2008, p48; Grubb, 2005; Immervoll & Scarpetta, 2012). We expect that they would systematically impose labour force participation requirements on recipients of unemployment payments (backed by benefit sanctions), require and support active job search, and personalise activity requirements and employment assistance through a formal system of reciprocal obligations (‘rights and duties’) between unemployed people and employment services. The scope and intensity of activation of unemployed people in the four countries will be assessed, and the reasons for any departures from these activation ‘norms’ examined.

Beyond this common core, views among researchers differ as to whether we should expect the character of employment assistance for long-term unemployed people to converge as activation policies matured (towards a work incentive-strengthening approach) or follow separate and distinct paths (consistent with welfare regime types) (Barbier & Ludwig-Mayerhofer, 2004; Gilbert & Van Voorhis, 2001). This will be assessed across the four countries, using the activation diamond introduced in Chapter 2.72

72 That is, the predominant character of employment assistance will be assessed as income protection, incentive strengthening or capacity-building.
The second research question deals with potential influences on the character of employment assistance for long-term unemployed people, to shed light on the main reasons for international convergence or persistent diversity in employment assistance. We expect that its character will be influenced directly by the structure and governance of the proximate institutions (benefits and employment services), and indirectly by developments in the surrounding institutions such as changes of government, family workforce participation and care arrangements, the skills structure and governance arrangements in the labour market (Esping Andersen, 1999; Kvist, 2000; Nelson, 2013; Palier, 2001):

RQ2. What were the main reasons for convergence or persistent diversity in the purpose and character of the main employment assistance programs for long term unemployed people in the four countries during the study period, including the influence of:

(a) changes of government;

(b) prevailing policy paradigms (activation, structural unemployment, new public management);

(c) policy transfer through the OECD and European Commission and among individual countries;

(d) the findings of official program evaluations;

(e) labour market structure and conditions (especially the workforce skills profile and job turnover);

(f) family workforce participation and care patterns (as they impacted activation of sole parents);

(g) the structure of unemployment payments;

(h) systems of governance, funding and control of benefits and employment services for unemployed people?

Since the literature finds that different political parties have different preferences for employment programs, we expect that changes in government would alter the composition of programs (Nelson, 2013). To assess this, and the extent to which other factors limit the choices available to governments, the study period extends beyond the first government in each country to adopt activation policies. The period is divided into two phases: the first
beginning with the adoption of activation policies and ending with the next change of government, and the second extending to the end of the study period in 2007.\textsuperscript{73}

The activation, structural unemployment and NPM paradigms were the key ideas shaping activation policies internationally. While these had many common elements across countries, it is possible that the earlier or later adoption of these paradigms, or variations in their content, influenced the design of employment programs (Cox, 2001).

We also expect that to the extent that international organisations such as the OECD and European Commission influence national activation policies, employment assistance would converge towards the norms advocated by those organisations (for example, the ‘comprehensive approach’ to activation of long-term unemployed people advocated in the EES) (Casey, 2009). If such convergence is not observed, the literature suggests that their influence was overshadowed by institutional differences at the national level, or a concentration of policy transfer within ‘families of nations’, such as the major English-speaking OECD countries or the Nordic countries (Castles, 1993).

We observed in Chapter 3 that employment program evaluations became more sophisticated during the study period, shedding light on the ‘net impacts’ of different programs, and that some programs were consistently more effective than others (Card et al., 2015). To the extent that this did not result in convergence towards the more effective schemes, this indicates that convergence was ‘blocked’ by other factors such as party-political preferences or institutional path dependency.

From the labour economics literature, we would expect to find enduring differences in the character of employment assistance, based on the skills structure and dynamics of national labour markets (Frijters & Gregory, 2005; Iversen & Stephens, 2008; Peck & Theodore, 2000b). All things equal, countries with higher shares of low-skilled jobs and higher job turnover are expected to be more likely to pursue incentives-based approaches to activation and employment assistance while those with a lower incidence of low-skilled jobs and higher job turnover were more likely to pursue capacity-building approaches. Those with lower job turnover were more likely to pursue income-protection approaches.

The literature on models of family workforce participation suggests that activity requirements and employment programs for sole parents with children of school age or less would vary according to prevailing patterns of employment participation and care (and related governments supports such as child care services) among mothers generally: specifically

\textsuperscript{73} In Denmark and the Netherlands, where coalition governments are the norm, changes of government are signified by changes in the leading party in government.
whether a country had a dual income-earner, one-and-a-half income earner or male-breadwinner model of family workforce participation (Knijn et al., 2007; Lewis, 2001).

The literature on activation has less to say about the likely impacts of different benefit structures on employment assistance, beyond findings that social insurance recipients had a higher social status than recipients of social assistance payments in countries where both systems operated, and that complex benefit structures made it more difficult to implement activation policies, so that activation policies were associated with a trend towards ‘homogenisation’ of benefits (Clasen & Clegg, 2006; van Oorschot, 2000).74

We expect that benefit structures would affect the timing and intensity of activation policies and also the character of the employment assistance, to the extent that unemployment insurance recipients were offered greater choice of programs, or social assistance recipients were subjected to more coercive approaches (Clasen & Clegg, 2003). Further, in systems with both unemployment insurance and social assistance, the selection of people with a weaker connection to the labour market into social assistance (as the default stream of income support for those lacking a recent employment history) suggests that this group was on the whole more disadvantaged in the labour market, and that the assessment of disadvantage would play a critical role in activation policies (Carcillo & Grubb, 2006).

The growing literature on the governance of activation indicates that this is likely to have a significant direct impact on the choice of employment programs for long-term unemployment payment recipients (van Berkel & Borghi, 2008).

Corporatist governance of benefits and employment services, usually associated with unemployment insurance, is expected to strengthen the influence of unions over employment services (King, 1993). There are differing views in the literature regarding their impact on employment assistance. Depending on the welfare regime and labour market context, they may represent what they perceive to be the interests of unemployed people (labour market ‘outsiders’) by favouring skills development or income protection, or to protect what they perceive to be the interests of current employees (labour market ‘insiders’) by opposing public investment in employment assistance that increases the supply of labour (Nelson, 2013; Rueda, 2007; Vlandas, 2011).

Before the activation turn, municipal social service departments often had a weak connection with the labour market and employment assistance, due to the separation of their ‘welfare’ role from the employment assistance function of the national PES (Damgaard, 2005). In the

74 Benefit structures are tied to different governance arrangements (discussed next) which are expected to have their own influence on the character of employment assistance.
absence of strong fiscal pressures from central government, their default approach to employment assistance is expected to be to prioritise income protection over labour market participation (Blommesteijn, Kreus, & van Guens, 2012). On the other hand, where activation policies placed sub-national governments under fiscal pressure (for example by shifting benefit costs to the local level), a work incentive-oriented approach was more likely to prevail (Blank, 2000).

Market governance (performance-based contracting) is associated in the literature with a tight focus on job search assistance and enforcement of activity-tests, since this is generally the least expensive path to achieve the short-term outcomes that are rewarded under these arrangements (Bredgaard & Larsen, 2008a).

As it traces the development of activation policies, this study closely examines and compares across the four countries the impact of these eight potential influences on employment assistance for long-term unemployed people.

4.2 Approaches to comparative welfare analysis in the literature

In their literature review of research methods to international comparison of welfare states, Mabbett and Bolderson (1999) identified two broad approaches. For brevity, these are referred to here as ‘empirical standardisation’ and ‘historical institutionalism’.

‘Empirical standardisation’ was drawn from quantitative social research methods which explored associations between sets of pre-determined independent and dependent variables. This imposed a:

‘standardising’ framework where only preselected items of data are accepted for incorporation into the analysis.’ (Mabbett & Bolderson, 1999, p23)

These pre-determined variables may be drawn from theory, such as welfare regime theory. The researcher ran them like a ‘common ruler’ over the data to classify and compare national cases. An example is the use of ‘de-commodification’ measures by Esping Andersen to classify countries into welfare regime types (Esping Andersen, 1990).

In this first approach, regression analysis is commonly used to examine the relationships between independent and dependent variables and test hypotheses drawn from comparative welfare state theory. An example is the impact of social democrat-led governments on
expenditure on different labour market programs discussed in Chapter 3 (Iversen & Stephens, 2008; Rueda, 2007).

The main advantages of empirical standardisation are that it enables researchers to classify and compare national cases according to a common analytical framework, and to empirically test propositions drawn from theory.

Disadvantages included weaknesses in the underlying theories and the use of data that may be invalid or not fit for purpose (Mabbett & Bolderson, 1999).75

Clasen et al. (2016) argued that, despite the greater availability of comparative data on potential influences on investment in employment assistance, researchers were still testing complex propositions derived from welfare regime theory using a small number of variables that lacked explanatory power, or data that was not sufficiently fine-grained to draw valid conclusions. Eichhorst, Feil, et al. (2008), in their survey of quantitative research of the impact of labour market institutions on unemployment, concluded that despite considerable advances in comparative welfare state research:

‘What we have learned is that the empirical evidence is uncertain and that real processes within the labour market are more complex than originally assumed.’ (Eichhorst, Feil, et al., 2008, p27)

A more fundamental epistemological challenge for comparative researchers using quantitative methods was that while empirical standardisation helped us compare the characteristics of different welfare states, it did not explain the causes of international variation, nor the way in which the different elements of welfare systems interacted in national contexts. Quantitative research alone can demonstrate a relationship between variables but not the cause of that relationship (Hall, 2003; Mabbett & Bolderson, 1999).

These limitations of empirical standardisation led historical institutionalists to take a different tack. Sceptical of what Steinmo (2008) called ‘grand theories’ and ‘empirical behaviouralism’ in the social sciences, they searched for the causes of international variation in a middle or

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75 An example of theoretical deficiency was Wilensky’s overly simplistic ‘convergence theory’ which argued that social security systems would converge towards common levels of generosity and coverage according to a country’s stage of industrial development and competitive pressures arising from international economic integration (Wilensky, 1985). An example of invalid use of data from early comparative welfare state research was excessive reliance on aggregate public expenditures on social security as the dependent variable without acknowledging important differences between types of spending (Kvist, Straubinger, & Freundt, 2013; Mabbett & Bolderson, 1999).
meso-level of research whose unit of analysis was the ‘institution’: the basic rules that govern social behaviour.

Research methods informed by historical institutionalism can help fill a gap between overarching theories of historical development such as Esping Andersen’s welfare regime theory and empirical analysis of the relationships between variables such as minimum wages and benefit levels. Much of the quantitative research derived from welfare regime theory, described by Abrahamson as the ‘welfare modelling business’, is limited to a narrow range of variables that lack the ‘thick description’ required to explain complex social processes (Abrahamson, 1999).

Theories informing comparative welfare state research have greater explanatory power, and their validity can be tested, when the evolution of institutions such as benefit systems and employment services is compared in depth over an extended period. Given the resource-intensity of this approach, it is best undertaken through comparisons of a small number of ‘representative’ countries, a method which Esping Andersen and others used to good effect to deepen comparative welfare state research (Bonoli, 2013; Esping Andersen, 1990; Weishaupt, 2011). This ‘small N’ approach to international comparison permits close examination of the processes that yield different national policy outcomes, a method which Hall (2008) argued could be used to validate theories: 76

‘Observations bearing on a theory’s predictions about the process whereby an outcome is caused provide as relevant a test of that theory as predictions about the correspondence between a few key causal variables and the outcomes they are supposed to produce.’ (Hall, 2008, p310)

One set of methods used by historical institutionalists to study the evolution of institutions in their national context is called ‘historical process tracing’, where the process by which a public policy or other outcome is reached is examined so that the influences on that outcome can be assessed within their particular historical context (Falleti, 2006):

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76 Mahoney (2003) argued that ‘small N’ comparisons of the process of change in different countries can be used to validate theories by identifying (or eliminating) causal factors (Mahoney, 2003). In its simplest form, he suggested that comparative historical analysis could use ‘methods of agreement’ and ‘methods of difference’ to eliminate potential causes of a specified outcome. Where the outcome of interest was present in all cases (for example the introduction of activation policies), it was logically impossible for a hypothesised cause (such as a social democrat-led government) to be a necessary condition for that outcome unless it was present in all cases. Further, where the outcome was present in some cases but not others, any hypothesised cause that was present in all cases could not by itself be sufficient to reach that outcome.
‘process-tracers share the desire to test causal inferences not just on the cross-case based correlation between independent and dependent variables, but also on within-case observation of the actual causal processes.’ (Trampusch & Palier, 2016, p6)

‘Historical institutionalist scholars are interested in the ways in which history itself shapes outcomes. Thus, they specifically and self-consciously examine patterns over time....historical process tracing allows the scholar to test for the arrow of causality in a way in which simple correlation analysis cannot.’ (Steinmo, 2008, p177)

An example of historical process tracing relevant to this study is Struyven’s (2014) comparison of the evolution of market governance of employment services in Australia, the Netherlands and Belgium. By detailing the steps leading up to competitive tendering for employment services, including the role of key institutions such as the benefit and political systems, he explained how different institutional arrangements yielded different models of market governance, or (in the case of Flanders) blocked its emergence.

Historical process tracing has its own limitations. In the absence of an overarching theory of the international development of welfare states, labour markets, and activation policies, and empirical standardisation to compare relevant variables across countries, the study of the emergence and development of national institutions could descend into a form of solipsism in which welfare systems cannot be understood beyond their unique national and historical context and cannot be properly compared (Hall, 2008).

Further, while institutional path dependency (stasis) can be readily understood using historical institutionalist methods, they have greater difficulty explaining institutional change (Streek & Thelen, 2005).

### 4.3 Methods used in this study

We compare the development of activation policies from the late 1980s to 2007 in four countries with different welfare regimes – the United Kingdom and Australia (with Liberal regimes), Netherlands (a hybrid Conservative-Social Democratic regime and Denmark (a Social Democratic regime) (Esping Andersen, 1999). In addition to their diversity of welfare regimes, these countries were selected because they were early adopters of activation policies and regarded as activation ‘pioneers’ (Bonoli, 2013; Grubb, 2005; Lewis 2002). This allows

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77 When the EES was reviewed in 2002, the Nordic countries, the Netherlands and United Kingdom were cited as pace-setters in employment participation policy, especially in their treatment of long-term
us to trace the evolution of those policies, and compare the forces that shaped and altered them, from their emergence over a period of one and a half decades.

The key dependent variable is the predominant purpose of employment assistance for long-term unemployment payment recipients in the four countries, as revealed by the character of the assistance provided (McFadden, 1975). This is referred to throughout as the ‘predominant character’ of employment assistance. The independent variables are the eight potential influences on these policies listed in RQ2 (from (a) to (h)). The analytical framework used to compare employment assistance and activation policies is the ‘activation diamond’, which draws upon insights from the activation and labour economics literature discussed in Chapters 2 and 3.

In this study, three methods – a quantitative component, historical process tracing using official documents, and elite interviews - are combined in an explanatory mixed methods research design (Creswell & Plano Clark, 2007). The qualitative methods are used to interpret and explain the results of the quantitative component of the research. Creswell and Plano Clark refer to this as a ‘triangulation design’. Both methods are underpinned by theory – welfare regime theory together with labour economics – so the approach taken is deductive (testing hypotheses grounded in theory) rather than inductive (building theory from empirical observation) (Hall, 2008; Trampusch & Palier, 2016).

The methods used are as follows:

1. Statistical mapping of trends in key dependent and independent variables in each of the four countries (compared with OECD-average values where available), including the character of employment assistance for long-term unemployed people.

2. Comparative historical analysis of the development of activation policies in the four countries using historical process tracing:

This draws on the research literature on activation and thematic analysis of relevant government policy statements and reviews regarding the activation of long-term unemployed people. It traces the historical development and maturation of activation policies in each country from two standpoints: (1) development of policy ideas (emerging paradigms such as structural unemployment and activation and the impact of program evaluations and international policy learning); (2) influence of relevant

unemployed people (RWI Essen, 2005). The OECD regarded Australia as an innovator in activation policy, especially through the privatisation of employment services (OECD, 2001b).
institutions (both the ‘proximate’ institutions – employment assistance and unemployment payments – and ‘surrounding’ institutions – the labour market and the political system).

3. Historical process tracing is supported by in-depth ‘elite’ interviews with a stratified sample of central government policy makers, employment service providers and independent researchers in the activation field in each of the four countries. These focus more narrowly on the origins and development of employment assistance for long-term unemployment payment recipients in each of the four countries during the study period and key factors contributing to policy change in this area.

All three methods are incorporated into the four ‘country chapters’ (Chapters 5-8) which trace the development of activation policies and employment assistance in each country over the study period, along with the eight factors listed above as potential influences (in RQ2). Conclusions are drawn regarding the impact of those factors on activation and employment assistance policies. This is followed by a comparison chapter (Chapter 9) which compares trends in activation, employment assistance, and the key influences upon them, across the four countries.

This sequence of quantitative comparisons and in-depth historical analysis of each country is similar to the approach adopted by a few recent international comparative studies of activation policy, including those by Weishaupt and Bonoli (Bonoli, 2013; Weishaupt, 2011). Despite a large body of comparative research of activation policies, as Van Berkel points out in his review of Bonoli’s study:

‘studies investigating and explaining the rise of active welfare states systematically, comparatively and empirically, as is the objective of Bonoli’s book, are scarce’. (van Berkel, 2015, p401)

This study centres on institutions at the middle (meso) layer of analysis - employment assistance and benefit systems – within the wider context of different national labour markets, political systems and welfare regimes. In this regard, it resembles the ‘funnel approach’ adopted by Kvist in his comparison of activation policies in Scandinavian countries in the 1990s:

‘The analysis of the paper can be seen as going through a funnel. At the top we present some overall characteristics of and data on welfare state regimes in relation to the labour market. At the middle of the funnel we make use of data on social and employment policies. And at the bottom we present detailed information on such policies and their effects for Denmark only. It is hoped that this strategy will provide a way of showing some general features often missed
by single case studies and some insight into the fine mechanisms of social protection and labour markets often obscured by aggregate cross-national data.' (Kvist, 2000, p5)

(1) Quantitative component

In the quantitative component, statistics used to measure the dependent variable include public expenditure on employment assistance and the number of long-term unemployment payment recipients assisted by each major program, supplemented by measures of the strictness of unemployment benefit requirements and expenditure on in-work benefits.

These statistics are used to answer RQ1: whether employment assistance for long term unemployed people had a different character in each country.

The ‘predominant character’ of employment assistance in a country is determined by the number of places filled in programs for long-term unemployment payment recipients whose character is assessed as income protection, capacity-building or incentive-strengthening respectively. Where a majority of places are found in programs with a certain character (for example, ‘capacity-building’), then that is the predominant character of employment assistance. Where no such majority exists, the predominant character is that of the programs with the largest (combined) number of places, but this is described as ‘modest’ (for example, ‘modest capacity-building’). This requires detailed analysis of the origins, content and number of participants in major employment programs.78

For the independent variables, data are collected on employment, unemployment and long-term unemployment rates, unemployment benefit replacement rates, labour turnover, minimum wages, the distribution of workforce skills, measures of family workforce participation and use of child care services, and systems of political representation and decision-making. These data are used to assess whether the relationships between the independent and dependent variables are in the hypothesised directions, in response to RQ2 (especially 2(e)

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78 The classification of job search assistance programs is challenging since they may have different purposes (for example, the use of the ‘threat effect’ of referral to strengthen work incentives and assistance with job search techniques) according to their context (for example their relationship with compliance systems and other programs). For the most part, these programs are given a neutral classification (since none of the three purposes above predominates) but in some cases their main purpose is found to be incentive-strengthening.
and 2(f)). However, the country sample size (four countries) is too small to use statistical methods such as regression analysis to test these relationships (Eichhorst, Feil, et al., 2008).

Secondary data sets are used from two sources: (1) standardised data sets commonly used in international comparative research of activation policies and welfare states, such as OECD data bases; and (2) national statistics from official sources such as national statistical agencies and Employment Ministries (Atkinson & Brandolini, 2001; Grubb & Puymoyen, 2008; Nickell, Nunzia, et al., 2002).

In the comparison chapter (Chapter 9), national statistics are summarised and compared across a number of dimensions: for example, labour market regulation and benefit generosity. Where feasible, ordinal analysis is used for this purpose (Kvist, 2007; Mahoney, 2003). National data are classified into ‘high’, ‘moderate’ and ‘low’ values by assigning scores to each country across each dimension.

Where feasible, statistical comparisons use a common time period, commencing in 1990 and ending in 2007. The start year (1990) is a simplification of the timing of the introduction of activation policies in the four countries, which (as discussed below) varied across the four countries.

These are suitable start and end years for statistical comparisons of economic and social welfare policy parameters (such as unemployment rates) since they are close to low points or ‘troughs’ in unemployment rates across the four countries (generally close to the peak years of economic booms).

This choice of time period limits the degree to which international comparisons are confounded by different business cycle fluctuations in different countries (for example, where one country is booming while another enters a recession). This is important, given the sensitivity of employment assistance policies to changes in the unemployment rate (as discussed in the country chapters).

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79 These factors – labour market structure and conditions and family workforce participation and care patterns are more amenable than the others listed in RQ2 to quantitative specification.

80 Quantitative research using these methods generally used samples comprising at least 18 OECD countries (Eichhorst, Feil, et al., 2008).

81 In most cases, values more than 10% (not percentage point) above or below the OECD or country-average level are classified as ‘high’ and ‘low’ respectively while scores within that band are classified as ‘moderate’.
Broadly speaking, in the four countries unemployment rose sharply after 1990 (a year of international recession) and then began a long decline up to 2007 (Appendix 5, Figure 22). An interesting extension of this thesis (beyond the scope of the present study) would be to examine the impact of the ‘great recession’ of 2008 on activation policies in the four countries.

(2) Historical analysis

The qualitative component (methods 2 and 3) elaborates and explains the quantitative results by tracing the processes by which activation policies and related employment assistance programs emerge and mature in each country. This includes the emergence and influence of new policy paradigms (such as activation and NPM), the effect of program evaluations and international policy transfer, changes in institutional settings (such as the governance of unemployment payments and employment services), and changes of government.

Consistent with historical institutionalist analysis, the qualitative component carries more weight than the quantitative one in answering the research questions and testing hypotheses (Steinmo, Thelen, & Longstreth, 1998). This applies especially to the questions that seek to identify the causes of policy change (RQ2). Nevertheless, the qualitative findings are bounded by the quantitative results and any major conflicts between the two are identified and explained where possible.

The historical analysis is bounded by a different time period to the statistical comparisons referred to above. The start year for each country is the year in which major activation policies were first introduced: that is, 1986 in the UK, 1991 in Australia, 1994 in Denmark and 1995 in the Netherlands. The end year, as for the statistical comparison, is 2007. This choice of start years is consistent with the ‘process tracing’ methodology. The historical analysis is enhanced by brief examination of the events and conditions leading up to the introduction of activation policies in each country (for example, the work of the Zeuthen Commission in Denmark in 1990) (Goul Andersen & Pedersen, 2007).

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82 As discussed in Appendix 5, unemployment in the Netherlands took a somewhat different trajectory at the start and towards the end of this period.

83 Note that Australia did not experience a recession at that time, if this is defined as two successive years of zero or negative growth in Gross Domestic Product.
The study period is divided into two phases demarked by changes of government in each country in the late 1990s and early 2000s. This facilitates assessment of the impact of the political ‘colour’ of the government on activation policies. The two phases also demark two other changes likely to impact on activation policies. First, as shown in Chapter 3, the unemployment rate fell during the study period. In addition, the second phase in each country broadly corresponds with what Lødemel and Moreira (2014) described as a ‘second wave’ of activation reforms in which attention shifted from the basic goals and design of activation policies towards more effective implementation, including experiments with new systems of governance, funding and control of benefits and employment services (Lødemel & Moreira, 2014).

In the historical analysis, the predominant character of employment assistance in the first and second phases in each country is compared, to inform our assessment of the impact of hypothesised independent variables. For this purpose, comparative statistical analysis (mainly of public expenditures and participation in employment programs for long-term unemployed people) is used along with qualitative methods. In this regard, one year’s data from each phase is used, with these years chosen based on major activation policy announcements (for example, to assess the character of the ‘New Deals’ in the United Kingdom) and data availability (Finn & Schulte, 2007).

A key part of the qualitative component is a series of short thematic analyses of government documents relating to activation policies in each country. (Bowen, 2009; Freeman & Maybin, 2011). The documents included policy statements, official policy reviews, reports from expert advisory bodies, and official evaluations of employment programs. These were selected for their role in the development, announcement or evaluation of major policy changes, as indicated by the academic literature on activation policy in each country or by interviewees.

Thematic analysis was used to examine and compare the framing of policy problems within government and the emergence of new policy paradigms. In addition, their substantive content was examined to identify major shifts in activation policy, the problems identified by public officials and advisers as requiring policy attention, and official perceptions of the effects of employment programs.

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84 The two phases cover different periods in each country, broadly speaking the 1990s and 2000s respectively.
A significant challenge in this part of the study was the need to translate policy documents into English as the main government reports in Denmark and Holland were rarely published in that language. For that purpose, Google Translate was used.85

(3) In-depth interviews

The key element of the qualitative component of this study was a set of 24 ‘elite interviews’ with stakeholders in employment assistance policy across the four countries. Elite interviews are in-depth interviews with individuals who have acknowledged expertise in the subject matter (Marshall & Rossman, 1995). Their purpose here was to gather information on the development and implementation of activation and employment assistance policies from respondents with in-depth knowledge of this process. This was intended to shed light on factors contributing to policy development which were less likely to be observed using quantitative methods, official documents, and academic literature alone (except where the authors had access to well-informed stakeholders).

The six interviewees from each country were selected using stratified purposeful sampling, described by Minichiello & Aroni as:

‘This sampling strategy requires identification of a particular criterion that applies to the sample group and then the researcher samples for specific instances of that criterion’ (Mininchiello & Aroni, 2008 pp171-173).

The main selection criterion was in-depth involvement in, or analysis of, employment assistance programs for long-term unemployed people during the study period from one of three stakeholder perspectives: public officials, service providers or program administrators, and academic researchers. Two individuals from each of these three stakeholder groups were interviewed in each country. Priority in selection was given to individuals who:

- Were directly involved in the development, administration or study of employment assistance for long-term unemployed people in each country;
- Were likely to have detailed knowledge of the above throughout a substantial part of the study period; and
- In the case of the public officials, occupied senior roles in the Employment Ministry during the study period. This latter requirement was important as the study relied on

85 At http://translate.google.com. This proved effective for the purpose, except for the literal interpretation of terms used in Dutch vernacular such as ‘we threw it over the fence’ (to abandon something without knowing whether it will be needed later), which required explanation from interviewees or the academic literature.
those interviewees to shed light on the factors that were taken into consideration when activation policies were developed.

The purpose of interviewing these three stakeholder classes was to enhance validity by ‘triangulating’ or comparing the views of the stakeholders from different perspectives within each country. The policy-makers understood the reasons employment assistance policies took a certain form, the service providers understood how they were implemented on the ground, and the academics could reflect on both these developments with more detachment than those directly involved in the process. A total of 24 interviews was considered sufficient to yield valid results from this research method.

Recruitment was by ‘snowball sampling’ beginning with informal contacts among academics and policy makers in each country (Mininchiello, 2008). In other cases, potential interviewees were sourced directly from the academic and policy literature on employment programs in each country. Policy makers and service providers were asked in general terms about their role in the development or administration of activation and employment assistance policies, including in the case of public officials their positions within the bureaucracy at the time.

Ethics approval was sought and obtained from the University of New South Wales (Australia) (Attachment 3). Since the interviewees were experts rather than welfare clients, and none were identified as belonging to vulnerable populations, it was considered that they would make an informed judgement about their participation in the research, and any risks associated with participation would be minimal. Interviewees were advised that identifying personal details would not be released publicly without their express agreement, and they are not identified in this thesis.

Once selected, potential interviewees were sent a letter by email seeking their involvement in the study in the format required for university ethics approval (Attachment 1). This was followed up by phone calls and/or email contact to confirm participation and organise interviews. A description of each interviewee, labelled so that the descriptions can be linked to any quotes used (for example, Academic 1, Netherlands), is at Attachment 2.

The recruitment strategy yielded at least six interviews in the required categories in each country, 27 interviews in all. This was three more than originally planned, due to suggestions from interviewees that a former colleague also be interviewed (Service provider, Netherlands and Official, Ministry of Prime Minister and Cabinet Australia). However, one interview (with a Danish service provider) did not proceed as it was cancelled by the interviewee and two (a British Employment Ministry official and one of Dutch service providers) did not yield a good-quality recording. The remaining 24 interviews, listed in Attachment 2, yielded good-quality
recordings. Two of these interviews were ‘joint’ interviews with two individuals from the same sampling category (Danish academics and Danish service providers).

The interviews were semi-structured using an interview guide (Attachment 4). This balanced the need to ask each interviewee a similar set of questions for triangulation purposes, and the need for flexibility to deal with unanticipated issues that may emerge during the interviews (Mininchiello & Aroni, 2008). Experts in this field, especially those who occupied senior levels in their organisations, were considered more likely to agree to participate in the interviews where they could interact informally with the researcher and have time to elaborate their views. The Guide was emailed to each interviewee within a fortnight before the interview, to allow them to prepare.

The researcher has experience in this field of policy, and an ability to engage in policy discussion with stakeholders at a high level, for example Departmental Secretaries and Chief Executive Officers of employment service providers. This facilitated recruitment and engagement with the interviews. For example, interviewees outside Australia were offered a briefing on developments in activation policy in that country after the interview, if interested. Each interview took approximately one hour.

Using notes prepared immediately following each interview, and transcriptions of voice recordings of interviews prepared on return to Australia, the next step was to identify common and contrasting views among the stakeholders and prepare a list of the key themes emerging from the interviews in each country. Special attention was paid to themes that recurred through the interviews, major areas of agreement and disagreement between interviewees, and information that supported or conflicted with official policy positions (for example in government documents).

The NVIVO program was used to code interview responses according to these themes. Outputs included a series of quotes grouped according to themes, and a graphical model summarising the main themes that emerged from the interviews, grouped around the ‘activation diamond’ to connect the data with analytical framework used in this study (Figure 7).
The responses were used to inform the historical analysis of the development of activation policies in the country chapters (Chapters 5-8). Representative quotes from interviews were used to validate or expand on that analysis.

(4) Comparing trends in the four countries

A challenging part of the study was the last step: to integrate the information and analysis from the historical analysis and statistical comparisons into the comparative analysis in Chapter 9, to draw out the key trends in activation policies and employment assistance for long-term unemployed people and compare the main influences upon them across the four countries.

This chapter followed a similar format to the historical analysis in the country chapters; pooling and comparing this information along with statistical comparisons while drawing out the key similarities and differences between countries and likely reasons for them.
Chapter 5: Development of employment participation policies in Australia

Introduction

The Australian social security system was distinctive in that it had no social insurance, only income-tested social assistance payments funded from general government revenue. Benefits and employment services for unemployed people were the direct responsibility of central government.

Australia was categorised as a Liberal welfare regime within Esping Andersen’s comparative framework (Esping Andersen, 1990). It had relatively low, income-tested unemployment payments and spending on employment assistance (OECD, 2001b). Unusually for the Liberal regime, it had a tradition of quasi-legal regulation of wages and employment conditions, and high minimum wages (Castles, 1985; Wright, Brown, & Lansbury, 2013).

The activation turn in Australia came in the early 1990s, towards the end of a corporatist experiment in labour market policy, signified by an ‘Accord’ between a labor government and the unions (Quiggin, 1998). In the first phase (Part A), activation for long-term unemployed people centred on an employment guarantee.

There was much turbulence in labour market and activation policies, and their governance, over the study period. Two governments conducted radical experiments, from the employment guarantee in 1994 to full privatisation of the PES four years later (Finn, 1997; OECD, 2001b).

During the second phase, activity requirements and their supervision by employment service providers were progressively tightened as the liberal-led government introduced a work-for-benefits scheme and extended activity requirements to many sole parents and people with disabilities (Australian Government, 2005; Considine & O’Sullivan, 2008; Department of Employment and Workplace Relations, 2002a).

After summarising the key unemployment payments and employment programs, this chapter traces the development of activation policies and employment programs for long-term recipients in each of two phases of activation policy in Australia.

(1) The backdrop to activation in Australia: the main social security payments and services for unemployed people

Consistent with residual social security systems in the Liberal welfare regime, the Australian social security system comprised means-tested social assistance payments financed from
general government revenue and paid at rates intended to provide basic subsistence rather than replace previous earnings.

In 2001, The OECD’s summary measure of net unemployment benefit replacement rates in Australia was 53% of an average production worker’s wage, below the OECD-average figure of 59% (OECD, various years-a).

At the start of the study period in the 1990, the main unemployment payment was ‘Unemployment Benefit’, later re-named ‘Newstart Allowance’ (NSA) (Davidson & Whiteford, 2012; Whiteford & Angenent, 2001).86

Unemployment payments were indefinite in duration but had job search and other activity requirements, including a requirement to register with the ‘Commonwealth Employment Service’ (CES) (Davidson & Whiteford, 2012). They were paid by the Department of Social Security (or DSS, later replaced by a public agency called Centrelink). Both the CES and DSS were agencies of central government.

Higher payments called ‘pensions’ were available to people assessed with limited employment capacity, including many people with disabilities, their carers, and sole parents. These payments did not have activity requirements.

Supplementary payments were made to families with children with low or modest incomes (Family Allowance, later Family Tax Benefit) and private tenants with low incomes (Rent Assistance). An unusual feature of the Australian social security system during the study period was the payment of relatively generous, means-tested family allowances to low-income families regardless of the parents’ paid workforce status (Whiteford, Stanton & Gray 2001). This was achieved in a number of steps from the late 1980s to the early 1990s, by replacing additional benefits for adult income support recipients with dependent children with a means-tested ‘Additional Family Payment’ attached to the smaller non-means-tested ‘Basic Family Payment’ (similar to universal family allowances in other countries). The purposes of these reforms included to reduce child poverty, as a pro-natal measure, to improve equity in the treatment of employed and non-employed women, and to strengthen paid work incentives (since a family could progress from full reliance on adult income support to a full-time job at the minimum wage without any loss of child payments).

86 Rates, eligibility conditions, and numbers of recipients are detailed in Attachment 5. During the early 1990s, short-term unemployed adults received Jobsearch Allowance (later Newstart Allowance) and unemployed young people received Youth Training Allowance (later Youth Allowance). These name changes had little impact on payment rates and eligibility conditions (Bond & Wang, 2001).
As Figure 8 indicates, the study period was a time of declining unemployment and reliance on unemployment payments. Both fell sharply as the economy recovered from a recession in 1991 (Dawkins, 2000). Long-term reliance also fell, rose again in the mid-1990s and declined relatively slowly afterwards.

**Figure 8: Unemployment and reliance on unemployment payments (Australia 1990-2007)**

Sources: Australian Bureau of Statistics (2010); Department of Families Housing Community Services and Indigenous Affairs (various years).

Note: ‘Unemployment assistance’ refers to Job Search Allowance, Newstart Allowance, and Youth Allowance (Other).

These statistics are expressed as a proportion of the population of working age, not the labour force, so the unemployment rates are lower than the standard ILO measure. There is a break in the benefits data in 2000.

In 1998, investment in employment assistance for unemployed people was low by OECD standards, at 3.5% of GDP per capita per unemployed person compared with an OECD average value of 9.0% (OECD, various years-c).

Long-term unemployed people in receipt of social security payments received job search assistance from the CES and could be referred to training and work experience programs, but these were not universally available (Kalisch, 1991). The main programs were ‘JOBSTART’ which offered a wage subsidy to a private employer for six months, ‘JOBTRAIN’ which offered up to six months of (mainly classroom based) vocational training, ‘SkillShare’ which offered a combination of job search assistance and training in non-government organisations, and ‘Jobskills’, which combined six months of paid work experience and vocational training (Department of Employment Education and Training, 1995).
A. The first phase of activation policy: 1991-2001

A1. Surrounding institutions

(1) Political institutions

Australia had a majoritarian system of government (Lijphart, 2012). National politics since the Second World War was mainly a contest between the liberal party on the Right (backed by its junior coalition partner, the country or national party) and the labor party on the Left (Mayer & Nelson, 1980). There were few constraints on the ability of the majority party in the House of Representatives (which forms government) to pass legislation, except where that party lacked a majority in the Senate, the house of review.87

Social security and labour market policy were almost exclusively the preserve of national government, though state governments played a prominent role in education and training, including stewardship of the vocational education and training (VET) system (OECD, 2001b).88

Beyond the sphere of industrial relations, the role of corporatist decision making in public policy was limited until the ‘Accord’ was adopted of 1983 (discussed below).

On the whole, few strong institutional veto points stood in the way of a government seeking to reform benefits and employment assistance. Given the differing ideological positions of the major parties on these issues, changes of government could trigger major policy shifts in these areas.

Although it governed before such policies were framed as a ‘third way’ between traditional liberalism and social democracy, the labor government of 1983-96 aimed to reconcile economically-liberal policies (including removal of foreign exchange controls, reduced import tariffs, privatisation of public enterprises, and removal of barriers to competition in goods and services markets) with income and social policies to cushion their distributional impacts (Pierson & Castles, 2001; Quiggin, 1998).

A change of government was expected in the 1993 election, which followed a deep recession for which the labor government was widely blamed (Edwards, 2001).

The early 1990s was a time of heightened political polarisation. From opposition, the liberal-national coalition’s ‘Fightback’ election platform advocated a more radical market liberalisation

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87 An equal number of Senators was elected by voters in each State.

88 The role of local government in benefits and employment assistance was not significant.
agenda than the government’s (Cass, 1992). This included the abandonment of centralised wage fixation, retrenchment of social programs such as universal health care, and a switch from income to consumption taxes. It advocated that unemployed people work for their benefits after 9 months, and that unemployment payments cease after 12 months.

When this platform was rejected by the electorate, the labor government was given another three years to seek a solution to the high level of long-term unemployment that followed the recession, before losing power to a liberal-national government in 1996.

(2) Labour market institutions

The Australian industrial settlement

Early in the 20th century, Australia nurtured a reputation as a social laboratory where new institutions were built to shield the workforce from economic insecurity (Castles, 1994).

The most important were a quasi-judicial body (the Conciliation and Arbitration Commission) to settle industrial disputes and regulate wages, and a national system of flat-rate means-tested pensions for retired people and people with disabilities. Castles (1988) argued that these institutions, together with a system of tariffs that protected industry from international competition, were the foundations of a distinct ‘wage-earners welfare state’. Both were needs-based: minimum wages were designed to prevent poverty among working families while the social security system operated as a residual safety net for those out of paid employment.

The industrial relations system was corporatist, fostering bargaining between unions and employer associations that were the parties to ‘awards’ regulating wages and working conditions in each industry or occupation (Hancock, 1979).

Despite the broad reach of awards, at the beginning of the study period labour market regulation was light by OECD standards, at least regarding employment protection. The OECD index of strictness of employment protection legislation returned a score of 1.0 for Australia, well below the OECD-average figure of 2.2 (OECD, 2004c). Similarly, Australia returned a low score of 1.7 on Nickel’s index of coordination of wage bargaining, compared to the OECD average of 2.0 (Nickell, Nunziata, et al., 2002).

Outside the Commission’s quasi-legal processes, there was limited formal interaction between peak union and employer organisations and government on broader economic and social policies (Wright et al., 2013).
The Accord: a corporatist experiment

In the 1980s, the labor government sought to entrench corporatist governance beyond industrial relations though an ‘Accord’ with the Australian Council of Trade Unions (ACTU), the peak union organisation (Australian Council of Trade Unions & Australian Labor Party, 1983). At first, its main purpose was to enlist union support to restrain wage growth and reduce unemployment. This had risen from 6% to 10% of the labour force - its highest level in over 40 years - after a recession in 1982 (OECD, various years-c; Wright et al., 2013).

In exchange for union acceptance of a decline in real wages, the Accord held out the prospect of lower unemployment, a ‘social wage’ of improved government benefits and services and tax reductions, and a say in economic decision-making through new bodies such as an Economic Planning Advisory Council (EPAC) on which employers, unions and community organisations were represented together with the government, as well as close informal connections between the government and ACTU leadership (Quiggin, 1998; Wright & Lansbury, 2014).

By the late 1980s, as unemployment fell and the focus of economic policy shifted from economic stabilisation to micro-economic reform to raise productivity, the Accord also changed emphasis from wage restraint to productivity-bargaining at the enterprise level (Larsen & Wright, 2014). This was accompanied by collaboration between the government and ACTU on a ‘skills agenda’ to lift workforce skills through reform of classifications and pay in the award system and related investment in vocational education and training (VET) for employees and school-leavers (Freeland, 1998).

The weak institutional foundations for the Accord were underscored by the reluctance of the peak employer organisations to formally endorse corporatist governance (Gerritsen, 1986; Quiggin, 1998). In the early 1990s the corporatist model was eroded from within by the decentralisation of wage fixation which weakened the role of unions and especially peak organisations in wage bargaining. It was also eroded from without by the impact of a recession in 1991 on the bargaining power of unions and public support for the government.

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89 The Prime Minister, Bob Hawke, was a former ACTU Secretary (Gerritsen, 1986).

90 Over the decade of the 1990s, as the share of employees covered by awards fell from over two thirds to one quarter (OECD, 2001b, p46)), employers increasingly attempted to sideline unions and bargain directly with employees (Wright & Lansbury, 2014). The unionisation rate fell from over 50% in the early 1982 to 18% in 2011 (Larsen & Wright, 2014). By the early 2000s, Castles concluded that key features of the industrial relations and social security systems that underpinned his characterisation of Australia as a distinct ‘radical’ or ‘wage-earner’s’ welfare state had been undermined (Castles, 2001).
(3) Labour market structure

In 1990, 68% of the working-age population was employed, slightly above the OECD average of 66% (OECD). The unemployment rate of 7.0% was above the OECD average of 6.3%. Following a severe recession in 1991 it peaked at 11% of the labour force in 1993. Long-term unemployment peaked in that year at 4% of the labour force, or more than one third of all unemployment (Australian Bureau of Statistics, 2001). Both fell gradually over the latter half of the 1990s, (Dawkins, 2000).

During the study period, the Australian labour market was characterised by high job turnover by OECD standards. On average, from 1992 to 2004, the monthly job separation rate was 1.75%, the 5th highest of 23 OECD countries surveyed (Hobijn & Sahin, 2007). The job-finding rate for unemployed people within the next month was also high at 8.5%, well above the average value of 5.7%.91

A notable feature of the Australian labour market was the high proportion of people of working-age with low qualifications, which the above-mentioned skills agenda aimed to reduce. In 1999, 43% of Australian workers had less than Year 12 qualifications, significantly above the OECD average of 38% (OECD, 2007).92 Of these low-skilled workers, 41% (compared with an OECD average of 40%) were not employed.

Despite the relatively low-skilled workforce, minimum wages prescribed by awards were relatively high at 64% of the median fulltime wage in 1990 compared with an OECD average of 44% (Dawkins, 2000; OECD, various years-a). High minimum wages were a significant departure from the Liberal welfare regime (Castles, 1994; Esping Andersen, 1999). Historically, this was a product of the award system, which enabled unions to ‘flow on’ pay increases from those sectors where they were strong to those where they were weaker. Yet relatively high minimum wages survived the shift to decentralised wage bargaining (Dawkins, 2000; Richardson, 1999).

The limited room for employers to reduce hourly wages for low-skilled workers combined with liberal regulation of hours of work are likely explanations for the high rates of casual or ‘daily hire’ (19%) and part-time employment (24%) in Australia (Australian Bureau of Statistics, 2001; Campbell & Brosnan, 2005).93

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91 Excluding the US as an outlier at 28.2%.

92 ‘Year 12 qualifications’ refers to 12 years of formal schooling, or the completion of secondary education.

93 In 1990 the rate of casual employment was the second highest in the OECD (OECD, 1996c). Casual and part time employment enabled employers to maximise productivity and offset the effects...
In 1990, the female employment rate (57%) was just above the OECD average (54%). With 51% of mothers in paid work of whom 58% were employed part-time, Australia had a one-and-a-half-earner model of family workforce participation (Australian Council of Social Service, 2003; Lewis, 2001; OECD, 2004a; Pocock, 2005). Mothers were expected to make room for their caring role, and avoid expensive fulltime child care, by keeping paid working hours low.

Access to formal child care services was limited in the 1990s. In 1998 only 15% of Australian children under 3 years received formal day care, well below the OECD average of 25% (OECD, 2001a). Child care was relatively expensive. In 2004, a family on a single average fulltime wage spent an average of 22% of the wage for child care services for a two year old, compared with an average of 16% across the OECD (OECD, 2007b).

**A2. The role of ideas:**

Until the late 1980s, high unemployment was widely regarded by Australian policy makers as a macroeconomic problem that would dissipate once non-inflationary economic growth was restored (Hughes, 1980; Kenyon, 1993).

During that decade the idea of structural unemployment gradually gained currency as an explanation for the failure to restore full employment after the economy recovered from the recession of early 1980s (Dawkins, 2000). Labour economists particularly emphasised the relationship between long-term unemployment, skills, and structural unemployment (Chapman, 1993; Gregory, 1981):

‘The critical thing was that sense that unless we did something we were going to scar a whole generation for a long time. It wasn’t just the recession - there was a lot of structural adjustment happening at that time. A lot of prime age males were dropping out of the workforce. They’d been dropping out since the late 1960s. Previous programs were not targeted towards long-term unemployed. The incentives in the CES were to place the easiest, not the hardest.’ (Official 1, Department of Prime Minister and Cabinet, Australia)

Supply-side policies to reduce structural unemployment were, in theory at least, readily incorporated into the government’s skills agenda (Pierson & Castles, 2001). In 1987, a report from a study of northern European labour market policies undertaken by a government agency and the ACTU advocated adoption of the manpower planning paradigm (Australian Council of Trade Unions & Trade Development Commission, 1987; Finn, 2001). The report promoted of high hourly wages for low-skilled workers. This, in turn, lowered weekly pay for many low-skilled workers (Wheatley, 2008).
Swedish active labour market policies, comparing them favourably with an ‘Anglophone’ model of labour market deregulation and welfare retrenchment.

(1) The Social Security Review and the ‘active society’

The activation paradigm entered public policy discourse though a review of the social security system commissioned by the Social Security Minister, rather than the skills agenda championed by the Employment Ministry (Cass, 1988). This ‘Social Security Review’ was conducted independently of the corporatist advisory arrangements established under the Accord.

The Review was influenced by the idea of an ‘active society’, championed by the OECD (OECD, 1990). It argued for a paradigm shift in social security policy from income protection towards labour market participation (Cass, 1988; Netherlands Scientific Council for Government Policy, 1990):

‘For a considerable period a dichotomy has developed in Australian social policy between what is termed work and what is termed welfare, denoting on the one hand active labour market participation and on the other hand apparently passive forms of income support for the unemployed, who with longer durations on benefit are excluded from the mainstream of economic and social participation.’ (Cass, 1988, p1)

The Review favoured increased labour force participation for mothers but was reluctant to make this compulsory for recipients of income support, especially sole parents (Cass, 1988). The Review’s chair later argued that informal care should be given equal status in the social security system to paid work (Cass, 1989).

On the other hand, the Review recommend that unemployed people be required to join employment and training programs as well as searching for employment. The language used was ‘reciprocal obligation’, implying a commitment to public investment in employment programs:

‘The work test involves reciprocal obligation. An unemployed person is required to actively look for work and in return society accepts an obligation to pay income support. …Should there be an additional obligation which expects that participation in suitable training be included within the boundaries of an expanded work test? The work test would in effect be replaced by a work/training test or activity test. This carries with it the reciprocal obligation on society to provide training programs.’ (Cass, 1988, p2)

It argued that comprehensive employment assistance was a vital missing element in support for long-term unemployed people, but this was beyond its remit since it reported to the Social Security Minister (Cass, 1988).
Its main short-term impact on employment assistance for long-term unemployed people was the 'Newstart' strategy introduced in 1991 as the first iteration of Australian activation policies. This required them to enter into activity agreements with the CES and join employment programs. The Newstart reform coincided with a recession, which triggered a major rethink of activation policy.

(2) The Committee on Employment Opportunities and ‘Working Nation’

The rise in unemployment (especially long-term unemployment) after the 1991 recession was a major political as well as economic shock for the government (Edwards, 2001):

‘You must remember the Hawke Government was originally elected on employment. The Accord was about employment. The success or otherwise of the Accord depended on employment growth’. (Official 1, Department of Prime Minister and Cabinet, Australia)

Its macroeconomic policies, which aimed to curb the high consumer price inflation of the 1980s, were widely blamed for the severity of the downturn especially after the Treasurer (Paul Keating) stated it was ‘the recession we had to have’ (Edwards, 2001). When he subsequently became Prime Minister in 1993, one interviewee argued that this shaped his policy response:

“I think Paul Keating also felt a very real sense of obligation. The recession ‘that we had to have’ was in an important sense his doing. It was really important to him that he did whatever you can do to look after the victims.” (Official 1, Department of Prime Minister and Cabinet, Australia)

The government was also under public pressure to do more to assist unemployed people than tightening activity requirements under the Newstart strategy. A contemporary media article reported that:

‘From 1 July, in the depths of a horrific recession with thousands of Australians losing their jobs or unable to find their first, the Government will make it harder for many of them to get dole money to live on. .. despite the fact that there are virtually no jobs any more, they must pretend there are and do all sorts of things to prove it.’ (Kingston, M cited in Weatherley, 1994, p196)

After Labor unexpectedly won the 1993 election, policy-makers and advocates took the opportunity to argue for fresh investment in programs for long-term unemployed people (Edwards, 2001):

‘[adviser to the Prime Minister] said at a seminar this recession is all fixed because unemployment is starting to fall. I said the worst is yet to come because the lags in the system

94 This is discussed in more depth later in this chapter.
mean that if the modelling is correct long-term unemployment will at least double no matter what happens to the unemployment rate....It was too big a deal for the Labor Party to ignore because long-term unemployed were the most disadvantaged group and the numbers were getting so big. I think they peaked at 400,000 to 450,000.’ (Academic 1, Australia)

The government established a ‘Committee on Employment Opportunities’ in 1993 to prepare a Green Paper (consultation paper) on policies to reduce unemployment, especially long-term unemployment (Committee on employment opportunities, 1993). This led to the second iteration of Australian activation policies: the ‘Working Nation’ strategy (Edwards, 2001). The Committee comprised public officials, independent academics, and an executive with a prominent welfare organisation.

Significantly, the Committee sat outside the formal advisory structures of the Accord. While the unions had a strong interest in the level of a proposed ‘training wage’ for unemployed people, neither they nor employers were represented on the Committee or closely involved in the design of other aspects of the Job Compact (Goul Andersen & Pedersen, 2007):

Interviewee: ‘When the [Working Nation] White Paper was published in May 1994, its actual printing was held up as we waited to find out what the training wage was going to be, because [Employment Minister] Crean was in secret negotiations with the trade union movement – a very close relationship!’

Interviewer: ‘Did the unions have much to do with the other elements [apart from the training wage]?’

Interviewee: ‘How to fund the initiative – I think they might have had something to say about that. I don’t think whether they thought the CES should be in competition or not, I don’t remember them being dominant on that.’

Interviewer: ‘The job compact itself?’

Interviewee: ‘Not that I remember. Particularly the training wage because they were worried about it being high enough, they didn’t want them competing with existing employees.’ (Official 2, Department of Prime Minister and Cabinet Australia)

The Committee played a major role in bringing the structural unemployment paradigm into Australian public policy discourse (Chapman, 1994). It justified investment in employment programs for long-term unemployed people, not to ‘create jobs’ as in the past, but to reduce structural unemployment by improving the match between the supply and demand of workers with different skills and stemming wage inflation:

‘There was a [government] budget case: if you can change 400,000 people into effective labour supply instead of a deadweight cost to the economy, this is an economy that works better. You can achieve a lower level of unemployment without higher inflation. So we had this funny
conversation with Beazley [Employment Minister] ..and I’m showing Beazley the ‘Beveridge curve’ on a drink coaster.’ (Academic 1, Australia)

The Employment Minister stated early in the Committee’s deliberations that its main task would be to improve the work capacity of long-term unemployed people:

‘Immediately after the ’93 election we realised that we didn’t just have an unemployment problem because unemployment was starting to come down, but we had a problem that long-term unemployment was rising and we risked getting stuck with a large number of people permanently out of work...We judged that the best way out ...was to make sure [they] were strongly encouraged to get the skills they needed.’ (Employment Minister Beazley, cited in Edwards, 2001, p146)

The challenge facing the Committee was to design programs that would achieve this on a large scale at a time when employment assistance programs for this group were underdeveloped and there was little international guidance on the programs that worked best.

The Committee settled on the idea of a universal 'Job Compact' for long-term unemployed people. From the outset, as two participants in the process recounted, there was ambiguity over whether this would take the form of a job guarantee (a temporary public sector job) or capacity-building programs such as vocational training:

‘We started off wanting to guarantee the long-term unemployed a job. We thought that’s what this agenda was all about. You often start with a great idea like that and later it gets modified. There were a lot of focus groups that showed the public were really down on the unemployed and sole parents. That got reflected back in the ‘reciprocal obligation’ language, which was not how we originally had it.’ (Official 2, Department of Prime Minister and Cabinet, Australia)

‘It wasn’t a job guarantee, it was an intervention guarantee at 18 months.’ (Academic 1, Australia)

‘Reciprocal obligation’ suggested an emphasis on work incentives (pressure to leave unemployment payments), but this was not foremost in the minds of those developing the Working Nation policies:

Interviewer: ‘Was an incentive to leave benefits a consideration in the design of the Job Compact?’

Interviewee: ‘You mean they’re not really unemployed, or they’ll try harder to find work? No, it wasn’t an issue. At that time, unemployment was almost 12% and long-term unemployment was about 40% of the total. We weren’t thinking about that. We were thinking more about not having enough jobs for these people, that’s why the growth was important and then making sure long-term unemployed people were as equal as we could get them to other jobseekers.’ (Official 2, Department of Prime Minister and Cabinet, Australia)
(3) International influences

The strongest links between Australian labour market policy makers and counterparts in other countries were with other Anglophone countries, especially the United Kingdom and United States. Employment Ministry officials from these countries met each year in an information exchange forum called the ‘Belmont process’. These meetings continued until the mid-1990s:

‘I got more value personally from an annual get together of the heads of the English-speaking departments. – the British, Irish, Canadian and US; we’d get together once a year or so.’

(Official 1, Department of Prime Minister and Cabinet Australia)

In addition there was much contact during the 1990s between political leaders in Australia and the United Kingdom, especially on the social-democratic side of politics (Pierson & Castles, 2001). A striking example of policy transfer from the United Kingdom to Australia (discussed later in this chapter) was the introduction of compulsory ‘Newstart interviews’ in 1991, the Australian equivalent of the ‘Restart interviews’ introduced in the United Kingdom three years previously (Kalisch, 1991; Wells, 2001).

Interviewees involved in development of the Job Compact argued it was mainly home-grown, with some influence from Professor Layard and others in the United Kingdom:95

‘I don’t see the OECD as significant because it wasn’t doing the work we needed at the time [although] we used their references from two Employment Outlooks and one paper on economic policy. Layard, Nickel and Jackman [referenced below] was important. But more important in our case was Australian researchers. We had live experience here. In this particular case, although we were looking for it overseas, it wasn’t there.’ (Official 2, Department of Prime Minister and Cabinet, Australia)

Although a job guarantee for long-term unemployed people was in place at that time in Sweden (and in development in the Netherlands), that idea came to Australia indirectly through contacts in the United Kingdom (Forslund & Kreuger, 2008; Layard, 1995; Sol & Westerveld, 2008):

Interviewee: ‘We [officials and consultants working with the Committee] went to the UK, mainly to talk to Layard, but also with Richard Blundell, and a few of the bureaucrats. So we went to Europe and then came back.’

Interviewer: ‘Where else apart from the UK?’

95 Professor Layard was influential in the development of activation policies in the United Kingdom in the late 1990s. He argued for a job guarantee to restore the skills of long-term unemployed people (Layard, 1995). With two colleagues, he wrote a seminal labour economics textbook developing the structural unemployment paradigm (Layard et al., 1991).
Interviewee: ‘We went to the OECD. We didn’t go the US, they weren’t doing anything about long-term unemployment ... So we weren’t interested in the US, we weren’t interested in Europe. So we came back with nothing new really, but at least reinforcement.’

Interviewer: ‘The Job Compact is sometimes compared with Scandinavian labour market programs.’

Interviewee: ‘We didn’t go to Sweden. Maybe we did talk to people about that, but it was never going to be as radical as that.’ (Academic 1, Australia)

While Australian activation policies were influenced in a general way by absorption of the new activation, structural unemployment and NPM paradigms, specific programs and policies such as the Newstart strategy and the Working Nation were mainly influenced by policy transfer within the ‘Anglosphere’.

A3. Proximate institutions:

(1) Structure and governance of unemployment payments

Unemployment benefits were introduced in 1945 on the recommendation of a ‘White Paper on Full Employment’ (Commonwealth of Australia, 1944). The new payment was complemented by a public employment service (CES) to improve the efficiency of job matching and ensure compliance of recipients with a ‘work test’ (Jones & Lowe, 2002).

As discussed, social security in Australia was limited to income-tested social assistance, without social insurance. This reduced the role of employers and unions in benefit policy and administration. Since unemployment payments were restricted to low-income families at risk of poverty, as a political constituency the recipients needed the support of more powerful interests to lobby for improvements in benefits or employment services.

This was reflected in their lower rates of payment compared with the Age Pension which (due to more liberal means tests introduced in the 1970s) was paid to the majority of retirees (Kewley, 1977).96

Payment eligibility was based on risk categories: unemployment benefit for those actively seeking employment, disability pensions, and sole parent pensions for adults caring for dependent children alone (Eardley et al., 1996). A key assumption was that recipients of

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96 In the early 1970s, a labor government raised the unemployment benefits to pension levels but this was reversed by the next government and it remained below pension levels subsequently (Australian Council of Social Service, 2011). The main arguments for keeping unemployment payments below pensions were that unemployment payments were short-term benefits and raising them would reduce work incentives. These arguments were weakened by the introduction of activation policies, and the growing share of long-term recipients in the 1990s (discussed later in this chapter).
disability and sole parent payments were ‘unable to work’ and accordingly, they were exempted from work tests and received higher ‘pension’ payments.\(^{97}\) This meant that, compared with countries with generic social assistance payments paid by sub-national governments, legislative change (to shift people from ‘pension’ to ‘allowance’ payments) played a greater part in efforts to extend activation to new groups than local discretion.

Social security payments were administered by the Department of Social Security (DSS), which was separate from the Employment Ministry that controlled the CES.

(2) Employment assistance

Until the 1970s, employment assistance was mostly limited to supervised job search assistance provided by the CES (Freeland, 1998). Immediately following the recessions in 1974 and 1982, successive governments introduced (and then scaled back) large-scale public wage subsidy schemes to help reduce unemployment. These had an income protection character, with low outflows to unsubsidised employment (Stretton & Chapman, 1990).

The character of employment assistance began to change in the late 1980s as the government pursued its skills agenda. An official review of labour market programs published in 1985 recommended that ‘the balance of current expenditures should be changed in favour of an increased share of resources for education and training’ (Kirby, 1985, p6). However, overall investment in employment programs remained low and capacity-building programs such as JOBSTART and Jobskills had low coverage among long-term unemployed people (Stretton & Chapman, 1990).\(^{98}\)

The skills agenda brought elements of corporatist governance to the adult training system. The Employment and Education Departments were amalgamated in a new Department of Employment Education and Training (DEET) which had a tripartite advisory body called the National Board for Employment Education and Training (NBEET). Tripartite Industry Training Advisory Boards were established to advise on priorities for vocational education and training (VET) in various industries.

The CES and its employment programs were quarantined from these corporatist advisory arrangements, and there was persistent criticism within NBEET of the weak articulation

\(^{97}\) This was consistent with the low rate of fulltime employment (34%) among women at the start of the study period (OECD; Pocock, 2005).

\(^{98}\) The real value of employment assistance spending per unemployed person fell by 40% from 1984 to 1989, and the average duration of unemployment among participants in labour market programs was three months (Freeland, 1998).
between those programs (which typically did not offer formal qualifications) and ‘mainstream’ adult education and training systems (Freeland, 1998).99

Changes in the governance of employment services under labor in the early 1990s paved the way for the privatisation of the CES by the subsequent government (Struyven, 2014).

Policy makers were sceptical of the ability of PES to provide the individual case management for long-term unemployed people recommended by the Committee on Employment Opportunities (Considine, 2005):

‘We [Committee for Employment Opportunities] felt that the CES had proven itself not good at handling the most disadvantaged. It didn’t differentiate the treatment. We felt that allowing people to engage with private organisations would achieve a better result. We didn’t have much difficulty convincing the government.’ (Official 1, Department of Prime Minister and Cabinet, Australia)

“I remember interviewing one of the people from the Finance Department. He said: ‘what we really need to do something about is the labour market constraints and issues facing these people.’ I said something like: ‘yeah it’s pretty tough being long-term unemployed.’ He said: ‘I’m not talking about the unemployed I’m talking about the public service.’” (Academic 2, Australia)

The then Minister for Social Security, Peter Baldwin, advocated a solution from the NPM paradigm: to contract out employment services for long-term unemployed people to non-government providers (Baldwin, 1995):

‘And then a debate beginning to break around the contracting model, because there was no sense in which those two things had to go together. You could have done ‘Working Nation’ entirely through the public employment service but somehow the two got interconnected.’ (Academic 2, Australia)

99 In 1992, the Employment and Skills Formation Council of NBEET criticised the separation of employment assistance from mainstream training programs: ‘It should be a basic presumption that labour market programs articulate with the vocational certificate training system. Thus labour market programs should be subjected to closer scrutiny to ensure that they are not a dead end’ (Employment and Skills Formation Council, 1992, Executive summary, p3).
A4. Introduction of activation policies

(1) Newstart and JET

Following the Social Security Review, the first comprehensive activation strategy for long-term unemployed people - the Newstart strategy - was introduced in 1991 (Cass, 1988; Kalisch, 1991; Keating, 1990).

At its core were two elements: the replacement of unemployment benefits for long-term unemployed people with a ‘Newstart Allowance’ with similar eligibility requirements and rates of payment for which unemployed people had to apply separately (a gesture towards time-limited unemployment payments), and universal compulsory interviews with the CES for people unemployed for 12 months at which a ‘Newstart activity agreement’ was negotiated, similar to the Restart interviews in the United Kingdom (Whiteford & Angenent, 2001).

The strategy combined job search assistance through Newstart interviews, regular benefit reviews to test people’s efforts to find employment, and increased penalties for non-compliance. It also included a work-capacity element but this was modest: an additional 25,000 work experience and training places (Finn, 1997):

‘The essence of the change is from a negative passive system for unemployment to one which is entirely positive, actively encouraging employment. The program will encompass new training opportunities as well as a tougher assessment of the individual’s willingness to work.’


The strategy was soon overtaken by the 1991 recession and a rise in long-term reliance on unemployment payments to a peak of 350,000 two years later (Department of Families Housing Community Services and Indigenous Affairs, various years).

A ‘Jobs Education and Training’ (JET) program for sole parents was also introduced, modelled on a scheme called ‘Employment and Training’ in the United States (Cass, 1989). Consistent with prevailing views on workforce participation among mothers with school-age children, JET was voluntary, and was somewhat marginalised in the employment assistance system as policy responsibility sat with DSS rather than DEET. Like the New Deal for Lone Parents in the United Kingdom (which was modelled on JET), it provided career counselling and referral to other programs including VET courses and child care (McHugh & Millar, 1996; Pierson & Castles, 2001).
(2) Working Nation

The Working Nation policy was announced in 1994 in response to the Committee on Employment Opportunities’ report, and implemented that year (Edwards, 2001; Keating, 1994).

Working Nation had three strands (Keating, 1994). The centrepiece was a ‘Job Compact’ which guaranteed paid work experience and related training for six to 12 months for people unemployed for over 18 months. The second was a new system of ‘contracted case management’ for long-term unemployed people by competing public and private providers, who were paid partly according to employment outcomes. The third was reform of working-age income support payments to extend activity requirements to new groups, intensify those for employment payments, and improve work incentives.

The Job Compact

The first strand – the Job Compact - was framed as a capacity-building measure:

‘An offer of a job is the core feature of the Job Compact which the Government is providing to those who have been on unemployment allowances for over 18 months. In addition, more intensive case management combined with assistance such as training and voluntary work will prepare people to make the most of their job opportunity.’ (Keating, 1994, p5)\(^{100}\)

Despite the absence of a universal scheme of employment assistance for long-term unemployed people (beyond Newstart interviews) on which to build the Job Compact, the government proposed to implement it within four months of the policy announcement (Edwards, 2001). This required a 50% increase (to AUD1.7 billion) in employment assistance expenditure in the first year, and the establishment of 160,000 additional wage subsidy placements (Keating, 1994).

In the process of implementation, the character of the scheme changed from its original capacity-building intent:

‘Where those things were well crafted there is evidence to suggest they were successful. But what was unfortunate about the implementation of New Work Opportunities (NWO), Jobskills and similar programs was that they tried to do too much too quickly.’ (Service provider 1, Australia)

\(^{100}\)Unemployment payment recipients entered the Job Compact after receiving benefits for 18 months. At the same time, those already on benefits for over 18 months were progressively brought into the Compact, starting with the longest benefit durations.
‘There was some dissatisfaction even within Prime Minister and Cabinet about how it was going. It appeared to be going the CES way of not treating people as individuals, just putting people into any program that was coming along.’ (Official 1, Department of Prime Minister and Cabinet Australia)

The tension at the heart of the Job Compact between its capacity-building aim and the potential for a universal job guarantee to assume an income protection character (if participants did not quickly transition to unsubsidised employment) was now revealed.

Experience with previous public wage subsidy schemes suggested that they had little impact on future employment prospects (Stretton & Chapman, 1990). Therefore, the original plan was for the majority (70%) of placements under the Compact to be offered through the private sector wage subsidy scheme, JOBSTART, which had better employment outcomes (Department of Employment Education Training and Youth Affairs, 1997).

As a backstop to fill anticipated gaps in Job Compact places where take-up of private wage subsidies was expected to be low, the existing Jobskills work experience and training program was expanded and a new public wage subsidy scheme called New Work Opportunities (NWO) was introduced to offer six months of fully subsidised work experience at regular wages in the public and not-for-profit sectors.

When service providers were only able to fill 34% of Job Compact places with JOBSTART wage subsidies, NWO was rapidly expanded to fill the gap (Finn, 1997). The share of Job Compact places filled from the two main public sector wage subsidy schemes (NWO and Jobskills, but mainly the former) rose from one in eight in 1994-95 to two thirds a year later (OECD, 2001b).

**Contracted case management**

A new system of contracted case management was introduced to manage the Job Compact. This put the CES into competition with non-government providers to assess, counsel, and refer long-term unemployed people to employment programs. Providers were paid partly according to employment outcomes achieved, with higher payments for people assessed as harder to place (Department of Employment Education Training and Youth Affairs, 1997).

Although this was intended to personalise employment services, case management was quickly overshadowed by the ambitious Job Compact program participation targets.101

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101 In 1995, only AUD70 million a year was spent on case management compared with AUD1,500 million for wage subsidies. (Department of Employment Education Training and Youth Affairs, 1997;
Social security changes to strengthen work incentives

The third strand was adjustments to social security payments to strengthen work incentives.

The income test for Newstart Allowance was significantly eased (reducing the maximum withdrawal rate from 100% to 70%) to encourage part-time employment. Non-activity-tested payments for older women (such as the Widow Pension and the Age Pension for women aged 60-64) were closed to new entrants and ‘dependency-based’ payments such as joint eligibility for Newstart Allowance for married couples were reformed (Saunders, 1995). In addition, the Job Compact itself was compulsory and this strengthened activity requirements. The maximum penalty for a breach of activity requirements (including participation in the Job Compact) was doubled from a loss of benefits for up to 12 weeks, to up to 24 weeks (Davidson & Whiteford, 2012).

The most significant change from the standpoint of the prevailing family workforce participation model was the introduction of new ‘parenting’ and ‘partner’ payments (Keating, 1994). While sole parents with a child under 16 years continued to receive a non-activity-tested Sole Parent Pension (later ‘Parenting Payment Single’), the partners of unemployed people (who were mainly female) now had to apply for income support in their own right and meet Newstart Allowance job search requirements unless they had a child under 16 years, in which case they were excused on the grounds that their main activity was caring for a child and they received a ‘Parenting Allowance’.

In place of assumed dependency on men, women now received income support based on a clearer demarcation of roles: as carers or unemployed people (Pech & Innes, 1998). For the time being, this assumed fulltime care for children up to age 16, but the path was open to lower this ‘age of eligibility’ for parenting payments and extend job search requirements to parents with younger children in accord with changes in parenting norms.103

OECD, 2001b). The outcomes that were rewarded included placement in a work experience or training program so that case management became a referral conduit to subsidised jobs.

102 Saunders (1995) estimated that the ‘individualisation’ of income support for married women would increase the number of women required to meet Newstart Allowance activity requirements by 84,000 (Saunders, 1995). Gregory (2010) attributed substantial reductions in benefit reliance among mature age women to the closure of mature-age payments (Gregory, 2010). Overall reliance on working-age income support payments among individuals aged 55 to 64 years halved between 1996 and 2007 (Davidson & Whiteford, 2012).

103 Already in 1995, 44% of mothers with a child under 5 and 59% of those whose youngest child was 5 to 9 years were in paid employment (Pech & Innes, 1998).
A5. The character of activation in the first phase

(1) Activity requirements

After the activation turn in 1991, long-term unemployed people were required to enter into Newstart Activity Agreements and participate in employment programs, in addition to existing requirements to search for jobs and report fortnightly to the CES.

When Working Nation was introduced, activity requirements were already relatively strict. In 1995, the Danish Finance Ministry’s index of the strictness of activity requirements returned a score of 3.6 (out of 5) for Australia, compared with the OECD average of 2.9 (Hasselpflug, 2005).

The vast majority of unemployment payment recipients (98%) faced job search or other requirements in 1995 (Table 2 below).

Working Nation significantly expanded work-based activity requirements to women who previously received payments based on financial dependency on their partners or mature age. On the other hand, sole and partnered parents continued to receive payments without job search requirements, as long as they were the primary carer of a child up to 16 years old.

(2) Employment assistance

During the first phase two distinct activation strategies were adopted for long-term unemployed people: the Newstart interviews from 1991 to 1993 and the Job Compact from 1994 to 1996. Table 2 estimates the activation rate (the proportion of unemployment payment recipients with activity requirements) and then profiles the number and average cost of employment program places for long-term unemployed people under each of these strategies.

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104 For example, the default job search requirement unemployed people was to seek 20 jobs per month (OECD, 2007a).
Table 2: Activation rate and the distribution of employment programs for long-term unemployment payment recipients (Australia 1991-96)

(a) Rate of activation (1995)

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of recipients</th>
<th>Percentage currently activated</th>
<th>Number of long-term recipients</th>
<th>Number of program places for LTU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newstart Allowance, Jobsearch Allowance, &amp; Youth Training Allowance</td>
<td>794,800</td>
<td>98%</td>
<td>304,400</td>
<td>145,000</td>
</tr>
</tbody>
</table>

(b) Distribution and character of employment program places (1991-1996)

1. Newstart-related programs (1991)

<table>
<thead>
<tr>
<th>Program</th>
<th>Services provided</th>
<th>Percentage of places</th>
<th>Cost in Ecu millions (unit cost in Ecus in brackets)</th>
<th>Predominant character (percentage of places in brackets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vocational training</td>
<td>Up to 3 months’ vocational training</td>
<td>30%</td>
<td></td>
<td>Capacity-building (30%)</td>
</tr>
<tr>
<td>Job search training</td>
<td>Short job search training course</td>
<td>8%</td>
<td></td>
<td>Not classified</td>
</tr>
<tr>
<td>Job matching</td>
<td>Referral to a job</td>
<td>17%</td>
<td></td>
<td>Not classified</td>
</tr>
<tr>
<td>JOBSTART</td>
<td>6 months of paid work experience with private employers, with half the wage subsidised</td>
<td>10%</td>
<td></td>
<td>Capacity-building (10%)</td>
</tr>
<tr>
<td>Not referred to a program</td>
<td></td>
<td>35%</td>
<td></td>
<td>Not classified</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>40,000 (100%)</td>
<td></td>
<td>Modest capacity building (40%)</td>
</tr>
</tbody>
</table>
## 2. Job Compact programs (1995-96)

<table>
<thead>
<tr>
<th>Program</th>
<th>Services provided</th>
<th>Program places (percentage of places in brackets)</th>
<th>Cost in Ecu millions (unit cost in Ecus in brackets)</th>
<th>Predominant character (percentage of places in brackets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NWO</td>
<td>6 months of paid work experience in public &amp; community organisations, full wage subsidised (later extended to private sector)</td>
<td>36,000 (25%)</td>
<td>276m (5,730)</td>
<td>Income protection (25%)</td>
</tr>
<tr>
<td>Jobskills</td>
<td>6 months of paid work experience in community organisations, full wage subsidised, with part-time vocational training</td>
<td>12,000 (8%)</td>
<td>72m (4,510)</td>
<td>Capacity-building (8%)</td>
</tr>
<tr>
<td>JOBSTART</td>
<td>6 months of paid work experience with private employers, half wage subsidised</td>
<td>23,000 (16%)</td>
<td>48m (1,670)</td>
<td>Capacity-building (16%)</td>
</tr>
<tr>
<td>Other wage subsidies</td>
<td></td>
<td>4,000 (3%)</td>
<td></td>
<td>Not classified</td>
</tr>
<tr>
<td>JOBTRAIN</td>
<td>Up to 3 months of vocational training</td>
<td>32,000 (22%)</td>
<td>30m (720)</td>
<td>Capacity-building (22%)</td>
</tr>
<tr>
<td>SkillShare</td>
<td>Job search assistance and up to 3 months of vocational training</td>
<td>38,000 (26%)</td>
<td>30m (540)</td>
<td>Capacity-building (26%)</td>
</tr>
<tr>
<td>Jobs Education and Training (JET) program</td>
<td>Job search assistance and short vocational training courses for sole parents</td>
<td>61,000 (of whom 15,000 in training)</td>
<td>10m (180)</td>
<td>Modest capacity-building</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>145,000 (100%)</td>
<td>550m</td>
<td>Capacity-building (72%)</td>
</tr>
</tbody>
</table>

Notes:
1. Point in time estimates.
2. Those not exempted from activity requirements.
3. These are flows data. LTU = long-term unemployed.
5. Data for JET are for 1999/00 and include non-Job Compact clients (recipients of Parenting Payment) so are not included in totals.

Sources:
For the activation rate:
Bond & Wang (2001), Department of Employment and Workplace Relations (various years-a)

For employment programs:
Attachment 6 provides details of the derivation of these assessments of the character of employment programs, together with sources.
In 1991, the Newstart interviews and associated referrals had a modest capacity-building character, with 25% of those interviewed referred for job matching or job search training, 30% to a short training program (generally less than three months), and 10% to the JOBSTART private wage subsidy program (Kalisch, 1991). Overall, 40% of interviewees were referred to capacity-building programs (JOBSTART and training) though expenditure on the Newstart strategy was low at Ecu30 million in 1991 (Freeland, 1998; Kalisch, 1991).

In 1994-95, the Job Compact dominated new investment in employment assistance for long-term unemployed people in the Working Nation strategy, accounting for 53% of the Ecu1,040 million cost of the package (Saunders, 1995).

Table 2 (supplemented by more detailed analysis in Attachment 6) indicates that 72% of Job Compact places had a capacity-building character including two wage subsidy schemes (JOBSTART with 16% of places and Jobskills with 8%) and two training programs (JOBTRAIN with 22% and SkillShare with 26%). NWO (with 25% of all places) had an income protection character. The job compact therefore had a predominant capacity-building character.

(3) Financial work incentives

One way to assess the priority given to work incentives in the Working Nation package is to compare expenditures on elements of the package. The estimated cost of the income test changes in their first full year was Ecu60 million (Keating, 1994). This was dwarfed by the Ecu550 million cost of employment program places. This suggests that work incentive-strengthening was a lesser priority overall than capacity-building or income protection.

B. The second phase of activation policy: 1996-2007

B1. Surrounding institutions

(1) Political institutions

Labor lost government to the liberal-national coalition in 1996, two years after the commencement of Working Nation. The liberals had by this stage retreated from the more radical policy positions in its ‘Fightback’ manifesto such as time-limited unemployment

105 The NWO represented 25% of places and 61% of funds expended (Department of Employment Education Training and Youth Affairs, 1997).

106 Nevertheless, the phasing out of mature-age and dependency-based payments had a greater impact on work incentives than the income test changes (Gregory, 2010; Saunders, 1995)
payments and the dismantling of the industrial award system, but it quickly dismantled the Accord’s corporatist governance arrangements (Freeland, 1998).

Their pre-election employment policy argued that (Australian Bureau of Statistics, 2001):

‘The persistence of mass unemployment is the single greatest issue facing Australian society.’
(Liberal and National Parties, 1996, p5)

The new government was sceptical of employment assistance programs and instead emphasised policies to boost economic growth and improve work incentives (Finn, 1997). On his first day in office, Prime Minister John Howard signalled that improving compliance with job search requirements was a priority for the government.

Yet the main changes to employment assistance in its first budget were influenced more by fiscal austerity and NPM ideas than a desire to strengthen work incentives. Sluggish economic growth and a marked increase in social expenditure had left an annual budget deficit of AUD8 billion (Finn, 1997).

(2) The labour market

Along with the decline in centralised wage bargaining and union membership noted previously, three changes in the structure of the labour market during the study period stand out (Wilkins & Wooden, 2014).

First, absent another recession, unemployment fell by half from 8.6% in 1995 to a low of 4.4% in 2007 (Australian Bureau of Statistics, 2010). The total number of unemployment payment recipients fell from 850,000 to 490,000 over the same period, but the share of long-term recipients rose from 38% to 61%. The absolute number of long-term recipients fell only slightly, from 300,000 to 290,000 (Department of Families Housing Community Services and Indigenous Affairs, various years). This suggests that the profile of unemployment payment recipients became more disadvantaged as unemployment fell.107

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107 In addition to a higher share of long-term recipients, between 1994 and 2007 the share of Indigenous people on the register rose (from 4% to 10%), along with people with disabilities (9% to 15%), mature-age workers (13% to 22%), and people with less than Year 10 qualifications (17% to 22%). These groups had below-average employment prospects. In 2007, 52% of all participants in employment assistance programs were in employment three months after completion of the program, but average employment outcomes were lower for long-term unemployed people (43%), Indigenous people (38%), people with disabilities (40%), mature-age workers (43%), and people with less than Year 10 qualifications (40%).

Sources: Department of Families Housing Community Services and Indigenous Affairs (various years); Department of Employment and Workplace Relations (various years-b); Department of Employment, Education and Training (1995); Department of Employment Education Training and Youth Affairs (1997).
‘My sense was that profile of recipients would have changed as unemployment fell. It was probably true that there was a greater proportion who were long-term unemployed or were Aboriginal or had a disability. In other words, the group had relatively more people in it who were hard to find a job.’ (Official 3, Department of Employment)

Second, growth in highly-skilled jobs outpaced ‘middle-level’ and low-skilled jobs.\(^{108}\) All things equal, this would reduce the employment prospects of low-skilled unemployed people. It is likely that this contributed to growth in the share of long-term unemployment payment recipients, as unemployment payment recipients had lower qualifications than the overall population of working age.\(^{109}\)

Third, there was a sharp rise in the employment rate of mothers with dependent children from 55% in 1990 to 61% in 2007, while the proportion with part-time jobs rose from 58% to 61% (Australian Council of Social Service, 2003; OECD, 2001a, 2004a, various years-b). This strengthened arguments for extension of activation to primary care-givers, who faced no job search requirements until their youngest child reached 16 years.\(^{110}\) However, the jobs available to sole parents leaving income support were typically low paid and insecure, and the hours were often unsuitable for parents caring for young children (Bodsworth, 2010; McHugh & Millar, 1996; Pocock, 2005). This placed the one-and-a-half earner model under pressure, along with public budgets since (as discussed later in this chapter) the tax-transfer system was called upon to buttress the incomes of mothers from low income families.

B2. The role of ideas

(1) The activation paradigm

The liberal-led government continued Australia’s commitment to the activation paradigm and added a new ‘moral’ element. It replaced the labor government’s principle of ‘reciprocal obligation’ in which unemployed people received benefits and a job guarantee and in return were expected to take steps to improve their employment prospects, with ‘mutual obligation’ in

\(^{108}\) Using a five-tier ranking of occupational skills, Wilkins and Wooden (2014) found that from 1993 to 2013, the share of the highest-skilled jobs rose by 5.5% while the share of middle-tier jobs fell by 3.8% and that of the lowest tier fell by 3.4%, although the second-lowest tier rose by 0.3% (Wilkins & Wooden, 2014).

\(^{109}\) In 2006, among long-term unemployment payment recipients using employment services, 61% lacked Year 12 qualifications (not Year 10) or equivalent, compared to 33% of people of working age generally (Department of Education Employment and Workplace Relations, 2007; OECD, 2007d).

\(^{110}\) In opinion polling of a random sample of Australian adults in 1998, 51% of respondents supported job search requirements for sole parents with school age children, provided they were only required to seek part-time jobs. This was in keeping with the one-and-a-half-earner model (Eardley, Saunders, & Evans, 2000; Saunders, 2002).
which (in addition to active job search) they were expected to ‘give something back’ to the community in return for their benefits (Finn, 1997; Macintyre, 1999). The obligations of government to provide employment assistance were downplayed.

The centrepiece of the mutual obligation policy was ‘Work for the Dole’, a program established in 1997, which required young unemployed people to work in community projects for six months in return for unemployment payments. Its underpinning principle was that it was:

‘fair and just that people receiving unemployment allowances be asked to make a contribution to the community in return’ (Employment Minister, cited in Senate Community Affairs Legislation Committee, 1997, p1).

In 2000, the government commissioned a study of attitudes of unemployed people to employment, signalling an interest in motivational strategies to reduce unemployment. The Employment Department planned to use this survey to ‘identify the types of assistance required to most effectively generate the desired behaviours of active job search, economic participation and reduction of income support reliance’ (Department of Employment and Workplace Relations, 2002b, p1). A Departmental report concluded that:

‘More than half (57%) of job seekers were in the less motivated segments. This indicates a strong focus for assistance on increasing the ‘benefits’ of job search and paid employment and decreasing the ‘costs’ of moving from unemployed to employed.’ (Department of Employment and Workplace Relations, 2002b, p19)

(2) Program evaluations

An early net impact evaluation found that compulsory attendance at Newstart interviews and related job search assistance in 1991 had a modest positive impact (an increase of eight percentage points) on the probability of employment in the short-term. This echoed the findings of evaluations of the British Restart interviews, discussed in chapter 6 (Dolton & O’Neill, 1996; Kalisch, 1991; Wells, 2001).

Evaluations of the Job Compact programs found that private wage subsidies had the greatest impact, increasing the probability of employment among long-term unemployed people six months after leaving the programs by 28 to 43 percentage points (Department of Employment Education and Youth Affairs, 1996; Stromback & Dockery, 2000). The public wage subsidy

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111 The view that unemployment was largely caused by weak work incentives was consistent with public perceptions at the time. A survey by Eardley et al (2000) reported that 44% of respondents agreed that ‘fewer people want to work these days’ (32% disagreed) and 56% agreed that it is ‘easier to get social security these days’ while 20% disagreed (Eardley et al., 2000).

112 Wells (2001) reported that 9% of those called to Restart interviews left income support as a result (Wells, 2001).
program (NWO) only increased employment in the short term by 4 to 13 percentage points, while two training programs (JOBTRAIN and SkillShare) had an intermediate impact: Jobskills improved short-term employment outcomes by 11% and JOBTRAIN by 4-7%.  

In aggregate, the Job Compact was expected to reduce the number of unemployed people on unemployment payments over 18 months by almost half within a year but it fell by less than 20%, and even then the outcome was partly due to the re-classification of long-term unemployed people as short-term recipients after returning to benefits following work experience (OECD, 2001b).

The official evaluation made similar criticisms to interviewees of the implementation of the Job Compact: an over-emphasis on program participation targets rather than employment outcomes. It was critical of the disproportionate investment in public wage subsidies compared with case management, and concluded that a universal job guarantee for long-term unemployed people was inefficient:

‘The findings of the evaluation suggest that a job guarantee for all disadvantaged clients is not the most appropriate strategy for assisting the long-term unemployed. The high cost and low outcomes of the brokered programs [NWO and Jobskills] suggest that some limits should be placed on the number of placements on these programs. This could be done by reserving access to these programs for the most disadvantaged clients who may not meet the job readiness requirements of many private employers’ (Department of Employment Education Training and Youth Affairs, 1997, p53).

(3) ‘Reforming employment assistance’ and the NPM paradigm

The Working Nation evaluation had a major impact on policy, and public discussion of employment assistance, as the new government used the findings to justify major spending reductions on cost-efficiency grounds (Vanstone, 1996):

‘When [Prime Minister] Howard wanted to cut a third of the budget for labour market programs, [we] worked on a paper, one of the first seen by the government on the issue, and Howard loved it. Because it was us saying we don’t like what they’re doing over there [the Employment Department], have we got value for money for you, we can cut the budget by one third. If it’s

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113 These results were from two studies, the first an official evaluation and the second an academic study published later. The main difference in methodology between the two was that the official study measured net employment impacts six months from leaving a program while the academic study measured impacts six months from program commencement (thus capturing the ‘lock in effect’ of programs as well as the ‘program effect’, as discussed in Chapter 3). The academic study yielded lower results from JOBTRAIN and higher results for NWO and Jobskills, while both found that JOBSTART was the most effective program.
As part of a drive to reduce public expenditure, the government cut employment assistance expenditure by AUD1 billion in its first year by abolishing the key Working Nation programs – NWO, Jobskills, JOBSTART, JOBTRAIN, and SkillShare (Finn, 1997):

‘I have to say that, looking back, there was a very strong focus on value for money. In other words, whether looking at short or long-term unemployment, and the largest expense was for the long-term unemployed, the evaluations that were done suggested you were getting more people into employment at lower cost than under Working Nation.’ (Official 3, Employment Department)

In an instance of ‘blame avoidance’, the new government’s policy statement ‘Reform of Employment Services’ set out a radical redesign of the system informed by the NPM paradigm (Vanstone, 1996). This was used to justify expenditure reductions that may have posed a political challenge if existing programs were simply cut (Finn, 1997; Pierson, 2001b). The changes went well beyond ending the job guarantee, rejecting national work experience and training programs, and privatising the CES:

‘Experience suggests the existence of discrete programs, each with its individual set of objectives and eligibility guidelines, prevents providers from having the flexibility and autonomy they need to reintegrate jobseekers into the workforce. A pool of funds from which providers could purchase the required services on behalf of their eligible jobseekers should encourage them to carefully consider the individual barriers of each client and the most cost effective method of overcoming them.’ (Vanstone, 1996, p xi)

Privatisation of employment services was bound to be controversial, but the seeds for this fundamental restructure of employment services were sown by labor’s contracted case management system for long-term unemployed people (Struyven, 2014):

‘I think the coming of the Howard Government made it possible in terms of the scale and speed of it, as distinct from a Labor Government with its continuing ties to the public sector.’ (Service provider 1, Australia)

The restructure was framed as replacement of bureaucratic service provision for unemployed people by a ‘market’ of competing private and public providers called the ‘Job Network’, which would be more responsive to individual needs:

‘A fully competitive market for employment placement services will replace existing arrangements for labour market assistance. Fair and genuine competition will be assured through the application of competitive neutrality principles.’
‘A corporatised public provider will be established to assume many of the responsibilities currently exercised by the CES. The public provider will be required to operate on the same basis as its private and community sector competitors.’ (Vanstone, 1996, pp viii, ix, and 23)

In a short chapter headed ‘International research, some key results’ the policy statement relied on OECD research to justify a re-orientation of employment assistance towards ‘job search assistance’, which is ‘usually the least costly intervention and has good outcomes compared with other types of assistance’ (Martin, 2000; OECD, 1995; Vanstone, 1996, p6).

The policy did not reject investment in more costly assistance. Instead, it shifted the risks of such investment to non-government providers (Dockery & Stromback, 2001; Sol & Westerveld, 2008).

B3. Changes to the proximate institutions

(1) Early experience with the Job Network (1998-2002)

Consistent with NPM thinking, in the first iteration of the Job Network model providers were funded according to program commencements and employment and training outcomes rather than service inputs: the ‘black box’ model discussed in chapter 3 (Finn, 1997) According to the framework developed by Considine and Lewis (2003), this shifted fully from a ‘procedural’ to a ‘market’ based model, though others refer to ‘quasi-markets’ since in this case there was a single (monopsony) purchaser, the Employment Department (Considine & Lewis, 2003; Le Grand, 1991; Struyven & Steurs, 2005).

When the Job Network commenced in 1998, the 306 providers were funded separately to offer three types of service: Job Matching, Job Search Assistance for those unemployed for three to 12 months, and Intensive Assistance (IA) for long-term unemployed people (over 12 months) and those assessed as at risk of long-term unemployment using a profiling tool (Davidson & Whiteford, 2012).

Most of the annual funding for the Job Network (AUD890 million out of AUD1,000 million) was earmarked for Intensive Assistance, and we focus on that element, which mainly assisted long-term unemployed people (Vanstone, 1996). Providers received up to one-third of Intensive Assistance payments when a jobseeker commenced assistance. The remainder was paid when they attained employment or training outcomes (mainly continuous employment for three or six months).
Controversy over the demise of the CES masked other problems (Finn, 2001). There was no guarantee that the incentives in the Job Network fee structure would ensure that each long-term unemployed person received the services they needed, only a theory that the new ‘market’ would achieve this. One potential problem was anticipated in ‘Reforming Employment Assistance’:

‘It will be necessary to apply differential pricing to avoid a concentration of effort on those who are relatively easy to place.’ (Vanstone, 1996, p12)

Differential pricing meant that those assessed as most disadvantaged attracted higher outcome payments, but this did not prevent practices later referred to as ‘creaming’ (focussing assistance on the easiest to place) and ‘parking’ (failure to invest in the most disadvantaged) (Dockery & Stromback, 2001):

‘There was always this problem with ‘creaming’, how to get people into employment that paid the best returns in the fastest way. In 2002 there was this battle going on between the market providers and the bureaucracy as to how you can stop the system being gamed– gaming is too strong a term because it has an element of corruption – so that the government pays more for the easy wins and doesn’t get the harder wins.’ (Official 3, Employment Department) 114

Another concern, identified in an early official evaluation and also by interviewees, was the low intensity of assistance offered to most long-term unemployed people (Department of Employment Workplace Relations and Small Business, 2000a):

‘When probed on the services they offered to Intensive Assistance Clients, most service providers described job search services. Very few service providers reported that they were offering services which would address underlying barriers to employment such as language classes, counselling or assistance with vocational training’ (Department of Employment Workplace Relations and Small Business, 2000a, p80)

‘We also saw that because of the way the payments were structured there was quite a lot of money to be made in this way. You could make a tidy sum on start-up payments, and you could get a proportion, they used to say about a third, to the second gateway payment even if you did nothing. …In the worst cases, there were places that basically just had a receptionist. People had to come in and sign on, sit in a room and read the paper - that was the service. I interviewed one outfit that had a $9 million contract that made $6 million profit.’ (Academic 2, Australia)

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114 The Employment Department’s main defence against these practices was the ‘Star Ratings’ system. This used statistical estimates of jobseekers’ probability of employment to compare the effectiveness of different providers, who were rated on a scale from one to five. The ratings were used to award ‘business shares’ (a fixed share of unemployed clients in each service catchment area) to competing providers in subsequent tenders. An evaluation by the Productivity Commission (2001), a government advisory body, found that Star Ratings had a strong impact on provider behaviour (Productivity Commission, 2002).
The evaluation concluded that:

‘It is possible that incentives in the fee structure could produce unintended effects which may impact on cost efficiency and equity.’ (Department of Employment Workplace Relations and Small Business, 2000a, p89)

The evaluation estimated that the average employment impact of participation in Intensive Assistance was just 0.5% on average 12 months from the date of commencement (Department of Employment and Workplace Relations, 2001).\textsuperscript{115}

Interviewees indicated that international experience had little impact on employment services policy at this stage, apart from the reputational benefits of positive feedback in OECD reports, which favoured quasi-markets in employment services (OECD, 2001b):

‘I know the OECD report that came out in 2001 talked about the Job Network in glowing terms – they [Employment Department] were very proud about that. But I don’t think the international experience was that influential. If any country was going to be influential it was going to be the UK, but then Australia was ahead of the pack in privatising services anyway.’ (Service provider 2, Australia)

The OECD’s main criticism echoed the official evaluation’s concerns about under-servicing, noting that ‘the most common form of IA was simply contact and personal support.’ (OECD, 2001b, p118). It also reported that ‘nearly one quarter of those surveyed noted that they had seen their provider only once or twice’. This revealed a tension between activation policies and the NPM principle of performance-based contracting. (Australian Council of Social Service, 2004; Finn, 2001):

‘By then there was a second or third generation of bureaucrats running the scheme. The first few were happily agnostic about the methodology. They would even come to meetings and say: ‘that’s not my problem. I’m just purchasing results.’ But as it evolved they were drawn into (as they had to be) the entrails of the system. They were hammered in Senate Committees and in the media for running a scheme that they weren’t really managing. Then you started to see senior bureaucrats taking a much more particular interest in what was happening to jobseekers.’ (Academic 2, Australia)

The Employment Minister ordered a public review of the Job Network by the Productivity Commission, an independent statutory body that promoted economic competitiveness (Productivity Commission, 2002). The Commission’s Report strongly supported performance-based purchasing, then repeated criticisms in the official evaluation:

\footnote{\textsuperscript{115} It estimated the threat effect of referral to the program at a 2% increase in employment, four times the impact of participation in the program itself (Department of Employment and Workplace Relations, 2001, p80)}
‘Many job seekers receive little or no assistance while in ‘Intensive Assistance’. This is popularly called ‘parking’ in the industry….Parking may mean that the net effect of participating in Intensive Assistance is negative for some job seekers, because the level of activity testing in Intensive Assistance is weaker than applies outside the program’. (Productivity Commission, 2002, pxxxiii)

The new system had an inbuilt bias against investments in assistance to overcome major barriers to employment, such as wage subsidies or training. Providers could minimise financial risk, and remain profitable, by offering low-cost assistance such as employment counselling, job search training, and motivational programs (Dockery & Stromback, 2001; Webster & Harding, 2001). In addition, it reduced the intensity of activation for many long-term unemployed people.

By fully replacing the CES and national employment programs with a quasi-market system, the Job Network model set in train a form of path dependency. Henceforth, it would be very difficult to reverse the reform as that would require another highly disruptive restructure of employment services, and possibly compensation for private providers. Further, as the ‘market’ became more concentrated, governments became increasingly reliant on a small number of large providers (Considine, 2005).

(2) Governance of unemployment payments

In another move consistent with NPM ideas, the administration of income support was separated from policy development through the establishment of a statutory service delivery agency called Centrelink (Vanstone, 1996). Policy development remained with the Department of Social Security, later named ‘Family and Community Services’ (FACS).

In 2005, the government shifted the income support policy function of FACS (for people of working age) to the Department of Employment and Workplace Relations (DEWR). This signalled an intention to extend and intensify activation. It also heralded a stronger connection between activation and industrial relations policies, as the Minister for the new department stated:

“If we are to succeed in improving participation in work, especially for the disadvantaged, then it is imperative that we sustain a globally competitive economy. Participation and workplace relations reform are linked. In 1986, Gerard Henderson said of what was then the Department of Employment and Industrial Relations that: ‘The Employment people usually tried to place people in work….In Industrial Relations…the unintended consequence…was to drive workers onto the dole queues…enforcing awards…irrespective of the capacity of individual industries and employers to pay.” (Andrews, 2005, p79)
B4. Changes in activation policies

(1) Tighter activity requirements

In its first budget in 1996, the government tightened activity requirements for Newstart Allowance recipients (Davidson & Whiteford, 2012). This included a requirement to regularly complete a ‘job seeker diary’ recording job search efforts, a system of ‘employer contact certificates’ to verify them, and additional ‘review interviews’ after nine months of unemployment.

Sanctions for non-compliance with these and other requirements became more commonplace. Between 1997 and 2001, the ratio of the number of penalties applied to the number of payment recipients rose from 15% to 18% (Davidson & Whiteford, 2012).

(2) Work for the Dole

Not all national employment programs were displaced by the Job Network. As the government abolished the Working Nation programs, it introduced new ones, of which the centrepiece was ‘Work for the Dole’. In a move which contradicted NPM principles, this was layered on top of the Job Network model (Hall & Thelen, 2009; OECD, 2001b).

Work for the Dole provided six months of compulsory unpaid part-time work experience in community organisations on projects including landscaping, restoration of community halls, and similar activities (Borland & Tseng, 2004). Initially targeted to young people (under 25 years) unemployed for six months, by 2007 it extended to all long-term unemployed people up to 49 years of age, with 93,000 places (Davidson & Whiteford, 2012; OECD, 2001b).

Unlike most employment programs, its formal objectives did not include employment. Instead, they emphasised improved motivation, self-esteem and projects of benefit to the community (Borland & Tseng, 2004; Brock et al., 1993).

Work for the Dole was the core of the ‘mutual obligation’ initiative discussed previously, which required unemployed people to participate in six months of compulsory work-related activity during every year of unemployment (Davidson & Whiteford, 2012). Unemployed people could choose between vocational training, voluntary work or part-time paid employment (if available) and Work for the Dole, but the latter was the default option.
At first sight, the idea that unemployed people should ‘give something back’ to the community suggests that Work for the Dole had a political or ideological purpose. Yet despite the program’s lack of a formal employment objective, it was designed to strengthen work incentives, especially through referral or threat effects:

‘You could have called it ‘community employment program’. The Prime Minister was very insistent that it was called ‘Work for the Dole’ …I think it was meant to send out that message that if you were on the dole and you didn’t find work you had to do forced work.’ (Official 3, Employment Ministry Australia).

‘Tackling unemployment is not just a matter of creating more jobs or training up skilled workers. It requires powerful incentives for long-term job seekers to take jobs that are there... If the alternative to working for a wage is working for the dole, people who can find employment will do so and those who can’t will have the dignity of doing something for their community.’ Abbott, T (Minister for Employment Services), ‘The Dole is a state of mind’, ‘The Australian’ newspaper 8 August 2000.

(3) The Active Participation Model of the Job Network

In response to negative evaluation findings for the Job Network, the government restructured the program in 2002. The name of this new iteration signalled the new emphasis: the ‘Active Participation Model’ (APM) (Department of Employment and Workplace Relations, 2002a):

‘You can think of the Howard years as two very different schemes even though it was still the Job Network: broadly speaking the ‘black box’ or ‘anything goes’ period when agencies were given a very free hand to decide how to relate to job seekers employers and other agencies, and then a series of re-regulations. (Academic 2, Australia)

The objectives of employment assistance reform now shifted from cost-containment to strengthening work incentives through regular interviews and activities:

‘It’s one of those perfect storms in welfare policy. You need a couple of things to collide for something to shift. One was a political ideology. ... There was an almost open antagonism against the unemployed. Then this American idea that you don’t need programs. Working them hard through the administrative system gets them ready and gives them incentives to get into work, including jobs nobody would want to take unless they have to. Then that intersected with the idea that these agencies get a lot of money and don’t do much. So all of these three things landed in the same place: to get these agencies running activities which in themselves have no obvious work preparation or training element to them but will serve this purpose. (Academic 2, Australia)

116 An early independent evaluation suggested that participation in Work for the Dole reduced the probability of employment 12 months afterwards by 12 percentage points due to ‘lock-in’ effects (Borland & Tseng, 2004).
In place of the open-ended funding of ‘Intensive Assistance’, the APM model required providers to follow the fixed ‘service continuum’ shown in Figure 9 (Department of Education Employment and Workplace Relations, 2007; Department of Employment and Workplace Relations, 2002a).

**Figure 9: The Active Participation Model continuum**

![Figure 9](image)

Source: Department of Education Employment and Workplace Relations (2007)

Note:
Top row: Months from commencement with Job Network
Bottom row: IS jst = Intensive Support job search training; ISca = Intensive Support Customised Assistance

For six months of each year of unemployment, long-term unemployed people were required to participate in ‘Intensive Support Customised Assistance’ and for the other six months, Mutual Obligation. Together with Work for the Dole, this tightened the focus on incentives to leave income support:

‘Once the Government realised they were no longer bound by the ‘black box’ principle it became easier to bring forward things that were there all the time like the Work for the Dole idea that being on the dole should mimic work experience.’ (Academic 2, Australia)

Customised Assistance was divided into two periods of three months. The first half comprised intensive employment-related activity such as job search, monitored by providers through compulsory fortnightly interviews. This was similar to the ‘Gateway’ in the British New Deal for Young People (NDYP) (Department of Employment and Workplace Relations, 2002a; Finn & Schulte, 2008). As in NDYP, the second half was devoted to assistance to overcome barriers to employment, but unlike the British New Deals, people were not referred to fixed program options and this help was shorter in duration (three, rather than six or 12 months).

In place of commencement fees with few strings attached, the new model offered service fees tied to a regular schedule of interviews and a ‘Job Seeker Account’ (comprising 20% of all funding) tied to investment to overcome barriers to employment. Outcome payments
remained, but were projected to provide only 23% of the overall funding pool (Department of Employment and Workplace Relations, 2002a):

‘Job Network members will be able to draw down on the Job Seeker Account to purchase employment related services or activities for job seekers. This Account will also be available to fund many other employment related items (for example, wage subsidies, training, clothing, fares assistance, assistance with transport or licences) that may assist the job seeker to get work.’ (Department of Employment and Workplace Relations, 2002a, p18)

Whether the APM model had a work incentive or capacity-building character depended to a large extent on the uses to which this Account was put.\(^{117}\)

(4) ‘Welfare to work’

In 2005, as unemployment was falling to a cyclical low point, the government announced its ‘Welfare to Work’ policy – the name borrowed from activation policies for sole parents in the United States a decade earlier (Australian Government, 2005; Blank, 2000). Its key aim was to reduce welfare rolls by extending activation to groups previously excluded:

The spectre of unemployment has given away in many places to labour shortages, especially of skilled labour. The unemployment queues of the early 1990s have diminished, but the ranks of the disabled pensioners and sole parent beneficiaries have grown rapidly. (Andrews, 2005)

As discussed, in Australia’s categorical social assistance system, this involved adjusting the boundaries between activity-tested (unemployment) and non activity-tested (disability or parenting pensions) payments. This was controversial, especially since the employment payments were lower (Australian Council of Social Service, 2005). By shifting responsibility for payments to the restructured Employment Department, the government signalled that activation would take priority over such equity concerns (Saunders, 2006).

New applicants for income support after 2006 whose youngest children were over seven years old were diverted from Parenting Payment and Disability Support Pension to Newstart Allowance. The Welfare to Work policy required parents who were the principal carers of a child of school-age (6 to 15 years) to seek at least part-time paid employment (15 hours a week) and to participate in the Job Network (Australian Government, 2005). Otherwise their activity requirements were essentially the same as for other unemployed people. This brought the social security system into closer alignment with Australia’s one-and-half-earner model of family workforce participation (Pocock, 2005).\(^{118}\) Further, new applicants for income support

\(^{117}\) This is examined in depth in Attachment 6.

\(^{118}\) In May 2009, there were 22,000 sole parents on Newstart Allowance. An ‘Employment Preparation’ component of the Job Network was introduced to assist parents prepare for employment
assessed as able to work at least 15 hours a week were diverted from Disability Support pension to Newstart Allowance, with similar part time work requirements.

Welfare to Work also intensified activation for people unemployed long-term. Those unemployed for two years or more were divided into two categories (Australian Government, 2005). Those assessed by Job Network providers as ‘work avoiders’ were required to join a ‘fulltime’ variant of Work for the Dole and to work for 25 hours a week for 11 months each year (instead of the previous requirement of 15 hours a week for six months). Another group assessed as needing work experience in regular employment was referred to ‘Wage Connect’, a small private wage subsidy scheme.

The extension and intensification of activity requirements dovetailed with the government’s industrial relations policies (Andrews, 2005). Its ‘Work Choices’ legislation aimed to reduce reliance on awards and collective agreements in favour of individual contracts. It removed the determination of minimum wages from the Workplace Relations Commission to a separately constituted body. The government believed that individual wage bargaining, together with slower growth in minimum wages, would boost low-skilled employment, but this would only work if unemployed people were activated to take up these jobs:

‘It also sends a signal to the lower end of the labour market. So if you’re running an agenda that is not just about ‘Welfare to Work’ but also ‘Work Choices’ or tightening the screws at the lower end of the labour market, then these things have to talk to each other.’ (Academic 2, Australia)

To strengthen financial work incentives, Welfare to Work included a modest easing of the highest income test withdrawal rate for Newstart Allowance, from 70% to 60%, and to 50% for sole parents (Australian Government, 2005). Unemployment payments continued to be ‘frozen’ in real terms as they were not indexed to wage growth.

One component of Welfare to Work was contrary to the activation paradigm. A program to assist unemployed people assessed with social barriers to work (such as mental illness, addictions or homelessness) called the Personal Support Program (PSP) was expanded, removing an extra 40,000 unemployment payment recipients from activation between 1999 after lengthy periods outside the paid workforce, with an average of $300 per client set aside for vocational training. This replaced the JET program, which was wound down (Davidson & Whiteford, 2012). In May 2009 there were 96,000 people with partial work capacity on the Newstart Allowance (Department of Education Employment and Workplace Relations, 2010c, 2010d). The specialised Disability Employment Services (DES) program, which was more intensive than Job Network assistance (the average unit cost of DES was AUD7,500), was expanded but most Newstart recipients with ‘partial work capacity’ were referred to the Job Network.
and 2008 (Davidson & Whiteford, 2012). Participants received social support rather than job search assistance, and the main activity requirement was to remain in the program.\textsuperscript{119}

**B5: The character of activation in the second phase**

**(1) Activity requirements and work incentives**

Australia’s score on the Danish Finance Ministry’s index of strictness of benefit requirements fell slightly from 3.6 in 1995 to 3.4 in 2004, though this was still above the OECD average of 3.0 (Hasselpflug, 2005).\textsuperscript{120}

The APM model intensified activity requirements by increasing the frequency of interviews (fortnightly in the first two months of Customised Assistance) and requiring long-term unemployed people to engage in regular episodes of work-related activity. The slogan in the government’s APM Discussion Paper - ‘activity is the key’ - signalled the main purpose of this redesign of the Job Network model (Department of Employment and Workplace Relations, 2003, p2).

Table 3 (below) indicates in 2007 a reduced proportion, but still the vast majority, of unemployment payment recipients (85%) faced job search requirements (Department of Employment and Workplace Relations, various years-a).\textsuperscript{121}

**(2) Employment assistance**

Table 3 also profiles programs for long-term unemployment payment recipients during the second phase and the Employment Preparation program for sole parents.

\textsuperscript{119} The program was abolished by the subsequent labor government in 2008, with participants were transferred to the Job Network’s replacement, Job Services Australia (O’Connor, 2008).

\textsuperscript{120} The reason for this was that, despite intensification of requirements and monitoring, maximum penalties for non-compliance were reduced (OECD 2007).

\textsuperscript{121} The increase in exemptions was partly due to the expansion of the PSP program.
Table 3: Activation rate and distribution of programs for long-term unemployment payment recipients (Australia 2006-07)

(a) Rate of activation (2007)

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of recipients</th>
<th>Percentage currently activated(^1,2)</th>
<th>Number of long-term recipients (^1)</th>
<th>Number of employment program places (2006-07) (^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newstart and Youth Allowance</td>
<td>502,000</td>
<td>85</td>
<td>293,000</td>
<td>268,000</td>
</tr>
</tbody>
</table>

(b) Distribution and character of employment program places (2007)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group and services typically provided</th>
<th>Program places (percentages in brackets) (^3)</th>
<th>Cost in Ecu millions (unit cost in brackets)(^5)</th>
<th>Predominant character (percentage of places in brackets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Network Customised Assistance 6 months</td>
<td>6 months of employment counselling and intensive employment-related activity for long-term unemployed people</td>
<td>158,000 (59%)</td>
<td>170m (710)</td>
<td>Incentive-strengthening (59%: of whom 18% received training and 10% received a wage subsidy)</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>6 months of paid work experience with private employers, for long-term unemployed people</td>
<td>19,000 (7%)</td>
<td>30m (2,600)</td>
<td>Capacity-building (7%)</td>
</tr>
<tr>
<td>Work for the Dole</td>
<td>Unpaid work experience on community projects for short and long-term unemployed people</td>
<td>62,000 (23%)</td>
<td>170m (1,560)</td>
<td>Incentive-strengthening (23%)</td>
</tr>
<tr>
<td>Personal Support Program  Up to 18 months</td>
<td>Up to 18 months of personal counselling and practical support to ease social barriers to work such as a mental illness</td>
<td>29,000 (11%)</td>
<td>60m (1,440)</td>
<td>Income protection (11%)</td>
</tr>
<tr>
<td>Employment Preparation 4</td>
<td>Career counselling and a training account to purchase skills training for parents returning to paid employment</td>
<td>23,000 (^4)</td>
<td>60m (180)(^4)</td>
<td>Capacity-building (^4)</td>
</tr>
<tr>
<td>All</td>
<td>268,000 (100%)</td>
<td>430m(^4)</td>
<td></td>
<td>Incentive-strengthening (65%)</td>
</tr>
</tbody>
</table>

Notes:
1. Point in time estimates.
2. Those not exempted from activity requirements.
3. These are flows data.
4. Included here to compare investment in work preparation for sole parents with other programs, but not included in the totals as most participants were not long-term recipients.
5. For comparative purposes, in July 2006 AUD1 = €0.6

Sources:
For the activation rate:
Department of Education Employment and Workplace Relations (various years-a); Department of Education, Employment and Workplace Relations (2009); Department of Families Housing Community Services and Indigenous Affairs, various years. The derivation of the activation rate, and the impact of the 2006 Welfare to Work policy which imposed activity requirements on more sole parents and people with disability are further explained in Attachment 5.

For employment programs:
Attachment 6 provides details of the derivation of these assessments of the character of employment program, together with sources.

The largest program for long-term unemployed people in 2007 was the Customised Assistance phase of the Job Network, with 59% of places (Department of Education Employment and Workplace Relations, 2007). This was a hybrid scheme combining job search assistance and work-related activity. Given its strong emphasis on supervised job search and low share of participants receiving training or wage subsidies (28%), Customised Assistance had an incentive-strengthening character.

Work for the Dole (with 23% of places) was the default program for long-term unemployed people during annual mutual obligation periods. It also had an incentive-strengthening character, mainly through the threat effect of referral.

The Wage Connect scheme (with 7% of places), offering six months of subsidised employment with private employers, had a capacity-building character.

Since the Personal Support Program (with 11% of places) lacked an employment objective and mainly provided social support services, it had an income protection character.

Overall, the predominant character of employment assistance for long-term unemployed people in the second phase (with 65% of places in total) was work incentive-strengthening, a major shift from the capacity building focus of the Job Compact.122

The Employment Preparation component of the Job Network for sole parents was the successor to the JET scheme, offering a combination of career counselling and short vocational training courses (Department of Education Employment and Workplace Relations, 2009). As such, it had a modest capacity-building character.

122 Attachment 6 examines the character of each of these programs in more depth.
(3) Financial work incentives

As in the first phase, the income test for Newstart Allowance was slightly eased, reducing the main benefit withdrawal rate to 60% (Department of Education Employment and Workplace Relations, 2009). More significant was the easing of the withdrawal rate for child benefits (Family Tax Benefit) from 50% to 20% between 2000 and 2004 (OECD, 2007c, various years-a).

As discussed, the maximum rate of Family Tax Benefit for low-income families was the same for a family in a low-paid fulltime job as for an equivalent unemployed family, so there was less need in Australia for a separate system of in-work benefits or tax credits to strengthen work incentives for low income families (Ingles, 2001). After a series of increases in the maximum rate and easing of income tests, by 2004 it was similar in value to the British Child Tax Credit for many low income single-income families.123 Together with Australia’s relatively high minimum wage, and a sequence of reductions in income tax rates for low paid workers during the 2000s, this improved financial work incentives for sole parents (Whiteford, 2010).

In addition to the uncertainty of working hours in casual jobs referred to previously, a major weakness in financial work incentives for sole parent families was the high cost of child care. In 2006, the average cost for fulltime day care for a two year-old was 22% of the average fulltime wage, compared with an average of 16% across the OECD (OECD, 2007c). In 2008, the participation rate in formal child care by children under three years was just 25%. Consistent with the one-and-a-half-earner model, in 2008 over 90% of formal child care places for children 0-11 years were part-time.124

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123 By 2004, the level of assistance (through family payments or tax credits) for a couple with two children in Australia on 75% of a single average fulltime wage was the same as for the United Kingdom, at 20% of the average wage (OECD, 2007b).

Conclusions

Consistent with its characterisation as a Liberal welfare regime, during the study period Australia had relatively low unemployment payments and investment in employment assistance, an emphasis on targeting income support to financial need (‘residual’ social security) and lacked robust corporatist governance arrangements in the labour market and proximate institutions. (Esping Andersen, 1999).

Two unusual features of the Australian welfare model were its categorical, nationally administered, income-tested social security payments and quasi-legal regulation of wages and employment conditions resulting in relatively high minimum wages (Castles, 1985). Despite this form of labour market regulation, employment protection arrangements were relatively liberal.

In 1999, Australia had the highest share of low-skilled workers among the four countries, with 43% lacking Year 12 qualifications (OECD, 2007d). It had the highest job turnover, with 17% of unemployed people finding employment within a month (Hobijn & Sahin, 2007). Prima facie, these two features of the labour market privileged a work first approach to employment assistance (Kinnear, Grant, & Oliver, 2003).

Low benefits and high minimum wages kept benefit replacement rates low and facilitated an activation strategy that relied on strong incentives for unemployed people to move quickly from benefits to low paid employment.

Consistent with a one-and-a-half-earner family model of labour force participation, most mothers were employed in the study period but more were employed part-time than full time (OECD, 2007b). Child care was less accessible and more expensive, at least for preschool-age children, than on average across the OECD. These factors help explain the delayed extension of activation policies to sole parents at the end of the study period, and the nature of the requirements imposed (to seek part-time employment) (Andrews, 2005; Pech & Innes, 1998). The poor quality of the jobs widely available to sole parents, and high cost of child care, were a potential source of instability for the one-and-a-half-earner model.

Over a five year period from 1991 to 1996, activation policies swung from Newstart interviews (akin to the British Restart model), to a universal job guarantee with capacity-building and income protection features, and the replacement of most national employment programs with a privatised system of employment services with a work incentive-strengthening character (the Job Network model). The turbulence of this rapid restructure of employment services stood in contrast with the evolutionary approach taken in Denmark and the United Kingdom:
[In Australia] you’re a little more used to make revolutions in your system compared to Denmark … We were amazed by this. The way of handling it … just pull down your old institution and build something new.’ (Official, Employment Ministry Denmark)

The lack of strong veto points in the political decision-making process cleared a path for swift and substantial changes in social security and employment policies when the government changed (Finn, 1997; Pierson, 2001b).

Yet these policy shifts cannot simply be sheeted home to the preferences of the parties in government. The first activation policy pursued by the labor government – centred on the Newstart interviews - was strikingly similar to the incentives-focused Restart policy pursued by the conservative government in the United Kingdom. The dramatic shift to a job guarantee was made in response to a recession rather than a change of government or political ideology (Edwards, 2001).

Similarly, the privatisation of employment services was consistent with the liberal party’s preference to rely more on markets, but the previous government had already planted the seeds of privatisation in its Working Nation policies (Cass, 1992; Finn, 1997).

The change of government in 1996 marked a major shift in activation policies, but to trace its causes we need to more closely examine the evolution of ideas and institutions that underpinned activation policies (Struyven, 2014).

The main ideas that inspired Australian activation policies (drawn from the structural unemployment and activation paradigms) were consistent with those underpinning the OECD Jobs Strategy and the European Employment Strategy. The OECD was a conduit for the early adoption of the precursor to the activation paradigm (the ‘active society’) in the 1980s, but did not inform the detailed development of early Australian activation policies, which relied more on the other English-speaking countries (Cass, 1988; Committee on employment opportunities, 1993; Finn, 1997).

A major source of turbulence in activation policy was the rapid implementation of a universal job guarantee for long-term unemployed people (the Job Compact) in response to a recession, without the institutional foundations to build and sustain it, by a government that lost power two years later.

One challenge for the architects of the Job Compact was that in their search for a capacity-building response to long-term unemployment they could not find this from the usual (English-speaking nation) sources and regarded the Swedish job guarantee as ‘too radical’, so had to
develop a ‘home grown’ alternative (Academic 1 and Official 2, Department of Prime Minister and Cabinet, Australia).  

The experimental nature of Working Nation was reflected in ambiguity over whether the Job Compact was a job guarantee (similar to previous large-scale public wage subsidy schemes) or a capacity-building scheme (with more personalised assistance and training); and early tensions between the new system of case management and placement targets for the Job Compact.

Under these conditions of rapid experimentation, the shape of the proximate institutions at the start of the reform process had a major impact on the form of employment assistance offered to long-term unemployed people.

It was relatively easy for the Australian government to make the transition to universal activation of long-term unemployed people because unemployment payments were directly controlled by central government and there was a long history of supervised job search by the CES.

However, capacity-building employment programs were under-developed. For example, wage subsidy places had to be doubled in less than six months to fulfil the Job Compact. This left the Job Compact programs vulnerable to retrenchment, especially when an evaluation found that key programs were ineffective in improving employment outcomes.

The Job Compact could have been redesigned to improve cost effectiveness, but it lacked the institutional support that could have come from corporatist governance of employment services. Corporatist governance arrangements were introduced in the wider labour market and training systems during the Accord period, but they did not extend to employment services, and were unwound in any event when the government changed.

Power resources theory suggests that unless unemployed people have powerful representatives or institutional champions in politics and the labour market, they will command few resources from the State (Bonoli, 2005b; Korpi, 1983). In Australia, this was evidenced by the much lower benefits they received compared with those receiving Age Pensions, and historically low levels of investment in employment assistance.

‘No government until 1972 showed any intention of providing benefits which would be sufficient for beneficiaries to live on. The fear was expressed that if people could live on unemployment benefit many would choose to do so, despite the work test.’ (Cass, 1989, p18)

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125 No mention was made in the interviews of policy learning from Denmark or the Netherlands, which were undertaking similar policy development processes at this time.
'It [spending on labour market programs] fell away as soon as the Liberals formed government. It was such a soft target. These are people who probably don’t vote at all.' (Official, Department of Prime Minister and Cabinet Australia) 126

The liberal-led government abandoned the capacity-building programs of Working Nation and replaced them, and the CES, with a radically expanded version of labour’s system of contracted case management. While the full privatisation of the CES was consistent with the NPM paradigm and liberal party policy preferences, at first this was a blame-avoidance strategy to counter opposition to a large reduction in employment assistance spending. Later, performance-based contracting of employment services was adapted to another purpose that became increasingly prominent: to strengthen incentives for long-term unemployed people to leave benefits through intensive supervised job search:

‘Working them hard through the administrative system gets them ready and gives them incentives to get into work, including jobs nobody would want to take unless they have to.’

(Academic 2, Australia)

The introduction of Work for the Dole, and the tight administrative control exercised by government over the services provided by the Job Network, are best understood from this perspective, as neither was consistent with the NPM paradigm.

If we look through the dramatic changes of the mid 1990s, by the end of the study period the employment assistance received by long-term unemployed people was a tougher, work incentive-focused version of the original Newstart model, which used job search assistance and low-cost employment assistance to move people into the first available job.

Despite the policy turbulence in the intervening period, this suggests institutional path dependency. Both programs were underpinned by a labour market structure with a high incidence of low-skilled employment and job turnover and a social assistance system with low unemployment payments that was managed directly by central government rather than corporatist or municipal governance. 127

Despite this underlying policy consistency, a key source of instability in the Australian employment services system by the end of the study period was its chronic failure to reduce long-term reliance on unemployment payments. In the wake of solid employment growth, the

126 While voting in Australia was compulsory, this comment could be interpreted to mean that many unemployed people nevertheless did not vote, or that their influence on election outcomes was minimal.

127 When a labor government was formed in 2007, it retained the basic structure of the Job Network’s performance-based purchasing system (O’Connor, 2008). There was no attempt to restore the CES or invest on a large scale in capacity-building programs, though Work for the Dole was downplayed and the compliance and penalty regime was reformed (OECD, 2012).
total number of unemployment payment recipients fell from 850,000 to 490,000 (38%) over the study period, but the number of long-term recipients only declined from 300,000 to 290,000, lifting the long-term share of recipients from 38% to 61% (Department of Families Housing Community Services and Indigenous Affairs, various years).

A likely reason for this result is that the share of low-skilled jobs declined through the study period, undermining the work first approach (Wilkins & Wooden, 2014). If long-term unemployment again becomes a major political concern, another period of policy turbulence is possible as governments either invest in large-scale capacity-building programs or pursue more radical labour market liberalisation in an attempt to grow low-skilled jobs (Gregory, 2005; Kennedy, 2007).

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128 Other reasons include activation policies that shifted people from pension payments to unemployment payments, and the more disadvantaged profile of recipients as unemployment declined.
Chapter 6 Development of activation policies in the United Kingdom

Introduction

The United Kingdom is generally characterised as a Liberal welfare regime (Esping Andersen, 1999). At the start of the study period, employment regulation was lighter than in Denmark or the Netherlands, job turnover was higher, social security payments were lower, and a relatively large share of the workforce was low-skilled (Nickell, 2001). Against this backdrop, investment in employment programs, especially those which strengthened skills as distinct from matching them with employers, was relatively low (Grubb, 2005).

While the United Kingdom had a two-tier system of unemployment payments - unemployment insurance and social assistance – by 1990 there was little difference between those payments apart from the absence of a means test for unemployment insurance payments (Clasen, 2007). Both were paid at flat rates and designed to provide a subsistence income rather than income replacement for unemployed people.

As in Australia, a distinguishing feature of British activation policies was the preeminent role of central government in their governance, funding and control. The end of the United Kingdom’s experiment with corporatist governance of employment assistance in the 1970s and 80s coincided with the commencement of the first phase of activation policies (King, 1993).

While early British activation policies are often associated with the ‘New Deal’ programs introduced by the labour government in 1998, the first phase of activation policies (Part A) began a decade before that with the conservative government’s ‘Restart’ initiative in 1986 (Finn & Schulte, 2008; Wells, 2001).

In the second phase (Part B), the labour government flagged a paradigm change from retrenchment of social security for unemployed people towards a new system of rights and responsibilities for unemployed people, and significantly expanded both capacity-building and incentive-strengthening employment programs (Finn & Schulte, 2008). Yet there were elements of continuity with the previous activation model. This chapter assesses the extent of continuity and change by comparing the character of employment assistance for long-term unemployed people under both governments, and the forces that shaped it.
(1) The backdrop to activation in the United Kingdom: social security payments and employment programs for unemployed people

The main unemployment payments in the United Kingdom in 1990 were Unemployment Benefit (a social insurance payment) and Income Support, a social assistance payment for people of working age with limited means of support (OECD, 1998a). Apart from a recent contributions history (Unemployment Benefit) and a means test (Income Support) the eligibility requirements and maximum rates of payment for unemployed recipients were largely identical. These were both flat-rate benefits whose maximum rates took no account of previous earnings.

In 1996, the two payments for unemployed people were replaced by ‘contributions-based’ and ‘income-based’ Jobseeker’s Allowance, respectively. Contributions-based Jobseeker’s Allowance continued for up to six months, provided the recipient was unemployed and met the other eligibility conditions including active job search (Finn & Simmonds, 2003). On expiry, an unemployed worker could claim the income-based Jobseeker’s Allowance which was means-tested.

Alternative payments were available for those assessed as unable to work. An Incapacity Benefit was paid to people of working age with disabilities and Income Support continued to be paid to others outside the labour force with limited means of support, mainly sole parents. Families with limited means were also entitled to supplementary payments including child supplements and a relatively generous Housing Benefit.

In 2001, the OECD summary measure of net unemployment benefit replacement rates for the United Kingdom was 58%, slightly below the OECD-average figure of 59% (OECD, various years-a). Excluding the generous Housing Benefit from the calculation, replacement rates for unemployment payments were low by OECD standards.

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129 Rates, eligibility conditions, and numbers of recipients are detailed in Attachment 5.

130 Due to its short duration and contribution requirements, only a small minority of JSA recipients (16% in 1996) received the contributions-based payment (Office of National Statistics).

131 Housing Benefit was paid at 100% of private rents up to a cap for families with low incomes (Robinson, 2000). Maximum rates were typically 25-50% of median disposable income, often equal to or greater than Jobseeker’s Allowance. The average value of such benefits across the OECD (and in the other three countries) lay between 5-20% of median disposable income (OECD, various years-a).

132 In 2001, the OECD summary measure of gross benefit replacement rates for different family types (which does not take account of housing benefits or income tax) was 13% compared with an OECD average of 28% (OECD, various years-a).
Over the study period unemployment payments were only indexed to consumer prices rather than wages growth, and their value fell relative to wider community incomes.\textsuperscript{133}

As Figure 10 indicates, the study period was a time of declining unemployment and reliance on unemployment payments. Reliance on unemployment payments tracked the unemployment rate and fell sharply from the mid-1990s. Long-term reliance also fell, but more slowly.

**Figure 10: Unemployment and reliance on unemployment payments in the United Kingdom (1990-2007)**

![Chart showing unemployment and reliance on unemployment payments](chart.png)

**Sources:**
Office for National Statistics. NOMIS data base; OECD labour market statistics data base.

**Notes:**
‘Unemployment Assistance’ refers to Unemployment Benefit and Income Support for unemployed people prior to 1996, and Jobseekers Allowance subsequently. These statistics are expressed as a proportion of the population of working age (not labour force) so the unemployment rates here are lower than the standard ILO measure.

Unemployed people received job search assistance from public Job Centres. After six months’ unemployment, they were required to attend ‘Restart’ Interviews at which their job search efforts were assessed and they could be referred voluntarily to short ‘Restart courses’ in job search methods, or to work experience and training programs including ‘Employment Training’

\textsuperscript{133} For example, the OECD summary measure of the net replacement rate for a single newly-unemployed adult fell from 50% to 46% between 2001 and 2008 (OECD, various years-a, including Housing Benefit.).
and ‘Employment Action’ which typically ran for six to 12 months (Finn, Blackmore, & Nimmo, 1998; Jarvis, 1998).

In 1998, the level of investment in employment assistance for unemployed people was relatively low, at 3.4% of GDP per capita per unemployed person compared with an OECD average value of 9.0% (OECD, various years-c).

A. The first phase of activation policy (1986-1997)

A1. Surrounding institutions

(1) Labour market structure

In 1990, 73% of the working age population in the United Kingdom was employed, well above the OECD average rate of 66% (OECD, various years-c). However, the unemployment rate (7%) was also above the OECD average (6%).

The female employment rate (63%) was well above the OECD average (54%) (OECD, various years-c). Of all mothers, 56% were employed, close to the OECD average (55%) (Le Feuvre, 1996). However, most jobs held by mothers (66%) were part-time. On this basis, the United Kingdom had a one-and-a-half-earner model of family workforce participation (Lewis, Campbell, & Heurta, 2008). This was the main reason for the above-average incidence of part-time jobs overall: 20% of all jobs compared with an OECD average of 10% (OECD, various years-c).

Paid employment among mothers was not well supported by formal child care services. In 1998, 15% of British children aged under three years were in formal child care, well below the OECD average of 25% (OECD, 2001a).

Consistent with its liberal job protection laws, job turnover was relatively high. On average from 1992 to 2006, the job-finding rate within the next month for unemployed people was 5.6%

134 Mothers whose youngest child was less than 12 years (OECD, 2004a).
135 In 1990, the UK scored 0.9 on the OECD index of strictness of job protection, well below the OECD average of 2.2 (on a scale from 1-5) (OECD, 2004b). The average job separation rate from 1998 to 2004 was 1.53% (from employment to another job, unemployment or out of the labour force within the following month), the sixth highest rate of 23 countries surveyed (Hobijn & Sahin, 2007).
for the United Kingdom, just below the average rate of 5.7% for 22 OECD countries surveyed (Hobijn & Sahin, 2007).\textsuperscript{136}

In 1999, 38% of British workers had less than Year 12 qualifications; the same as the OECD average (OECD, 2007d). Of these low-skilled workers, 45% (compared with an OECD average figure of 40%) were not employed in 1999. A large low-skilled workforce was consistent with a wide dispersion of wages in the lower half of the wage distribution. The ratio of the minimum wage to median fulltime earnings in 1999 was 42%, just below the OECD average of 44%, (OECD, various years-a).

Low qualifications were also linked to long-term and structural unemployment, as low-skilled men fared poorly in the industry restructuring of the 1970s and ‘80s (Nickell, 2003b).\textsuperscript{137} On the other hand, the substantial share of low-skilled jobs and high job turnover opened up the possibility that long-term unemployment could be reduced without major investment in capacity-building programs to lift the skills of unemployed workers.

Unemployment fell in the late 1980s, from a peak of 12% in 1984 after a recession to a trough of 7% in 1990. Following another recession in the early 1990s, it peaked again at 10% in 1993. Long-term unemployment peaked at 4% of the labour force (almost half of all unemployment) a year later (OECD, various years-c).

\textbf{(2) Labour market regulation}

Consistent with the Liberal welfare regime, labour market regulation in the United Kingdom was relatively light. For most of the post-war period there was limited coordination of wage bargaining or training provision beyond the workplace level, minimum wages were low, and corporatist systems of labour market governance were weak or non-existent (Nickell, 2003b; Wood, 2001).

The exception was a national experiment with corporatist labour market regulation from the 1960s to the 1980s, consistent with the ‘manpower planning’ paradigm promoted by the OECD at that time (Weishaupt, 2011).

The corporatist approach was embodied in the establishment by a conservative government of the Manpower Services Commission (MSC) in 1974 (Weishaupt, 2011). This statutory body, led by peak union and employer organisations and government representatives, assessed

\textsuperscript{136} Excluding the US as an outlier at 28.2%.

\textsuperscript{137} In 1988, 40% of long-term unemployed adults previously had low-skilled manual jobs compared with 22% of the overall workforce (Secretary of State for Employment, 1988, p15).
workforce and training needs and administered the PES and vocational training (King, 1993; Wood, 2001). It supervised a network of ‘Industry Training Boards’ on which unions and employers were represented. As unemployment rose in the 1970 and 1980s, the MSC shifted its attention to employment and training programs for unemployed people (Wood, 2001).

The conservative government headed by Margaret Thatcher was a reluctant partner in the corporatist system, overseeing a decade of heightened political conflict and labour market liberalisation during the 1980s (Price, 2000; Wood, 2001). The already liberal employment protection laws were eased further, strikes were curbed, and minimum wage regulation through ‘wages councils’ was removed (Nickell, 2001; Wood, 2001).138

(3) Political institutions

The political system was ‘majoritarian’, with a ‘first past the post’ local constituency voting system that made it difficult for minor parties to win seats in the House of Commons where governments were formed (Lijphart, 2012). National politics since the Second World War was mainly a contest between the conservative party (Liberal in orientation using Esping Andersen’s typology) on the Right and the labour party (social democratic in orientation) on the Left (Lee, 1996). While Centre parties such as the liberal party, the social democrats and subsequently liberal democrats held a significant share of the vote, only conservative governments (led by Thatcher and Major until 1997) and labour governments (led by Blair from 1997 to 2007) held power during the study period.

Central government policy making was less constrained by the need to forge consensus in coalition governments or with the social partners (Crouch, 1999). Further, labour market and social security policies were overwhelmingly the domain of central government although later in the study period some employment programs were devolved to the Scottish, Northern Ireland and Welsh assemblies; and Northern Ireland controlled its own public benefits and employment agencies (Ditch & Roberts, 2001).

On the face of it, this suggests that a change of government could trigger relatively abrupt changes in labour market policies - the more so since this area of policy was often strongly contested between the two major parties (Lee, 1996; Wood, 2001).

138 By the end of the 1980s, the United Kingdom registered a score of 1.0 on Nickell's index of coordination of wage bargaining compared with an OECD average of 2.0 on a scale from 1-5 (Nickell, 2003a).
A2. Proximate institutions

(1) Unemployment payments: towards homogenisation

The United Kingdom was one of the first countries to introduce both Unemployment Insurance and a Public Employment Service (PES), which from the outset were closely integrated (Wells, 2001):

‘The exchanges and unemployment insurance were complementary. They were man and wife, mutually supported and sustained by each other. (Trade Minister Churchill, cited in Price, 2000, p22)’

A key underpinning principle for unemployment insurance was the preservation of work incentives according to the ‘less eligibility principle’ (Clasen, 1994). Historically this was achieved by low benefit replacement rates and the monitoring of job search by the PES (Price, 2000).

The social assistance system for families with limited means followed a separate trajectory, from its beginnings in the Elizabethan ‘Poor Laws’ of the 16th century and its administration by local municipalities, to its conversion in the 1940s to a national scheme administered by a statutory National Assistance Board (Clasen & van Oorschot, 2002; Goerne & Clegg, 2013).

The third key component of the tax-transfer system for unemployed people was in-work payments for families, similar to the American Earned Income Tax Credit (Ventry, 2000). In 1988, the conservative government expanded and increased a small payment for low income families called Family Income Supplement and renamed it Family Credit (Dilnot & McCrae, 1998). Consistent with its purpose to supplement low pay and strengthen financial work incentives, only parents employed for at least 16 hours a week were eligible to receive it (OECD, 1998a).

During the 1980s and early 1990s, the conservative government took steps to ‘homogenise’ unemployment payments, culminating with the integration of insurance and social assistance payments for unemployed people into a ‘Jobseekers Allowance’ in 1996, paid at the same flat rate to both groups (Clasen & Clegg, 2006; Finn & Schulte, 2008).139

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139 At the same time, the maximum duration of (non means-tested) contributions-based payments for unemployed people was reduced from one year to six months, reducing the share of unemployment payment recipients in the insurance stream to 16% (Petrongolo, 2008).
The homogenous structure of unemployment payments, and their administrative control by central government, helped clear a path for the early introduction of activation policies (Clasen & Clegg, 2003; Wells, 2001).

(2) Employment services during the corporatist experiment

During the corporatist experiment in labour market regulation from the 1960s to 1980s, the activation path was blocked by corporatist governance of the PES, together with the ‘manpower development paradigm’ (Price, 2000; Weishaupt, 2011). These diverted the employment service from its previous role in monitoring job search among unemployment benefit recipients towards capacity-building for both employed and unemployed workers to prevent skill shortages (Wells, 2012). The PES was separated from benefit administration and governed by the tripartite MSC, and unemployed people were no longer required to register with it or actively search for jobs (Grubb, 2001; Price, 2000; Tsebelis & Stephen, 1994).

When unemployment rose above 10%, and the long-term share of unemployment payment recipients rose to 40% in the 1980s, the policy response was to introduce and expand ‘special schemes’ for long-term unemployed people (Finn & Schulte, 2008; Price, 2000). The largest of these were the Youth Training Scheme (YTS) and the Community Program.¹⁴⁰ These voluntary schemes were administered by the MSC, under the guidance of unions and employer representatives. They comprised up to year’s work experience in subsidised public jobs, at times combined with vocational training whose quality was widely criticised. For the most part the programs acted as a substitute for regular paid employment rather than a path towards it (King, 1993; Price, 2000):

‘The reason why the Community Program was designed and structured as it is, was as much political as it was about actually an efficient labour market intervention and it was literally about keeping people off the streets’ (Non-government service provider, United Kingdom)

‘What’s built into it is full trade union involvement representing the corporatist strand that was still very strong until the late 1980’s in the UK. Rate for the job, which should be paid to people on temporary jobs, ‘no substitution’ rules, guarded by a structure which involved trade unions, local employers and the then Manpower Services Commission.’ (Academic 1, United Kingdom)

¹⁴⁰ Over the five years from 1983 to 1988, the YTS enrolled over 350,000 participants annually and the Community Program had 100-200,000 (King, 1993).
A3 The role of ideas

(1) Structural unemployment, activation and the Restart experiment

The conservative government changed tack on employment policy in the late 1980s, adopting the activation paradigm, after the Prime Minister appointed David Young chair of the MSC to win ‘the battle for people’s hearts and minds’ on the unemployment issue (Young, D (1990), cited in Price, 2000, p238).

The new activation policy followed two tracks: first to displace the ‘manpower development’ function of the PES by restoring and strengthening its job search supervisory role, and second to convert the work experience and training programs for long-term unemployed people to a capacity-building function to improve the match between their skills and the emerging needs of employers (Price, 2000; Streeck & Thelen, 2005).

In 1986, on the advice of the Employment Department rather than the MSC, the government piloted a new scheme for people unemployed for six months called ‘Restart’ (Price, 2000). Its centrepiece was the ‘Restart interview’ with a ‘personal advisor’ at the PES to discuss their employment prospects, job search efforts and strategies, and employment assistance needs (Finn & Schulte, 2008). This was the hub from which unemployed people were referred to a menu of programs ranging from a new suite of job search training schemes (‘Job Clubs’ or ‘Restart courses’) to the existing work experience or training programs.

There were two prongs to the Restart interviews and associated job search assistance schemes: personalised help with job search and the threat effect of a compulsory interview together with monitoring of job search. The personalisation of employment assistance came from the NPM paradigm while the threat effect came from a view that the low level of unemployment payments was insufficient incentive to compel people to search for jobs (Finn et al., 1998; Wells, 2001).

“One of our two Secretaries of State at that point, Lord Young, was a seriously innovative thinker. ... One of the things he said was, ‘Well, if there are so many people long-term unemployed and we're worried about them being out of touch, why don't we just talk to them? Why don't we call them in?' ‘Well, they won't come in.' He said, ‘Well, surely they should lose their benefit then.'” (Government service provider, United Kingdom)

An interviewee working in the PES at that time suggested that this two-pronged approach provided the template for future activation policies:

‘All of that led to the creation of the Restart regime which actually brought everything together for the first time. Suddenly you had something which is kind of still in place to this day, which is
an advisory regime which gives you a tough advisory gateway at the very start of the process that sort of sets the scene, explains what things are like, draws up a job seeker's agreement and then puts in place an arrangement to see people roughly six monthly thereafter. Now, it has been tweaked in many ways since then; managed in many ways, but that's the fundamental.' (Government service provider, United Kingdom)

The government evaluated Restart using a net impact study. This found that an additional 9% of unemployed people left benefits as a result of referral to a Restart interview (Wells, 2001). More people left the register just before the interview, or were penalised for failure to attend, than were referred to a job or employment program.141 Whether due to Restart or a resumption of economic growth, the number of long-term Jobseekers Allowance recipients fell in its first year of operation from 1,348,000 to 1,172,000 (Price, 2000).

The Prime Minister partly attributed the conservatives’ win in the 1987 election to the new activation policies:

‘the schemes for getting the unemployed back to work made a major contribution to our winning the 1987 general election. (Thatcher 1995, p421, cited in Price 2000, p257).

‘Of all the schemes introduced by the Government, Restart had the most marked effect on the unemployment figures.’ (Chancellor Nigel Lawson, cited in Price, 2000, p256).

In 1988, now in a stronger political position to put its stamp on employment policy, the government released a ‘White Paper’ (policy statement) called ‘Training for Employment’. Its starting point was the structural unemployment paradigm:

‘The economy is creating huge numbers of jobs and in some areas there are complaints with even unskilled jobs being hard to fill. At the same time unemployment, though falling, is at historically high levels.’ (Secretary of State for Employment, 1988, p9)

The explanation given for this paradox was growth in long-term unemployment whose main causes were identified as follows:

‘New jobs may not be in the same area as the unemployed, unemployed people may not have the skills to fill the new jobs, they may be demotivated and discouraged by their unsuccessful search for work, or they may not see much incentive to go back to work.’ (Secretary of State for Employment, 1988, p10)

141 Of the 38,000 participants in the original pilot scheme in 1986, 9,300 left benefits after being contacted to attend interviews and another 800 were penalised for infractions, compared with just 321 who were placed in jobs. More (2,700) were referred to ‘Restart courses’ or ‘Job Clubs’ (2,700) than the Community Program (1,500) or vocational training (400) (Price, 2000, p244).
Training for Employment brought the two tracks of the new activation policy together to justify the switch to activation.

The first track was universal application of Restart interviews for individuals who became unemployed long-term, followed by regular interviews with the PES to assist them people to find jobs more quickly and supervise job search.

The White Paper combined a ‘soft’ argument for strengthening work incentives that ‘many have become accustomed to life on benefit and fear the responsibilities a return to work would bring’ and a ‘hard’ argument that ‘it is an obligation on all Governments to make sure that the social security system is not abused’ (Secretary of State for Employment, 1988, pp28, 33).

This harder edge reflected the political colour of the government that introduced activation policies in the United Kingdom, which was liberal rather than social democratic.142 Yet the idea that the PES should supervise job search was a long-standing tradition abandoned during the corporatist experiment, and now restored (Wells, 2001).

Since Restart preceded advocacy of activation policies by the OECD and EU, this idea was based on local experience rather than international policy transfer. It provided a template for activation policies later advocated in the OECD ‘Jobs Strategy’ (Casey, 2004; OECD, 1996a).

The second track of the new activation policy, following advice from the MSC, was the re-orientation of temporary work programs from income protection to capacity-building:

‘The emphasis has now to be switched from programs which provide temporary work to programs which can retrain unemployed people to compete successfully for the permanent jobs becoming available. (Secretary of State for Employment, 1988, p5)’

The White Paper proposed the merger of the YTS and Community Program into a scheme called ‘Employment Training’. This offered long-term unemployed people up to 12 months of work experience combined with training in ‘basic working skills including literacy and numeracy to training at craft and technician level’ (Secretary of State for Employment, 1988, p22). The Minister set an ambitious target to expand the scheme to 600,000 people a year in ‘the largest training programme we have ever had in this country, costing 1.5 billion pounds’ (Secretary of State for Employment, 1988, p3).

142 In his history of the Employment Service, Price described the ‘fraud drives’ of the Employment Secretary, Norman Fowler: ‘during the August silly season, he would capture headlines with announcements about the success of his fraud drives, while his tirades against the fiddlers in the dole queues helped to win him standing ovations at the [conservative] party conference.’ (Fowler, N cited in Price, 2000, p260).
A4. The introduction of activation policies

The policies announced in the 1988 White Paper marked the commencement of the first phase of activation policy. Also in that year, the government announced the restoration of the PES role in testing work availability and brought it under the direct control of the Employment Department instead of the MSC (Price, 2000).

Each of the two tracks of activation policy - the interview-based Restart strategy and more intensive work experience and training programs – now had an institutional champion: the Employment Department (which managed the PES and Restart) and the MSC (which managed Employment Training).

Tensions grew within the MSC over the Employment Training program, between those who favoured investment in longer training courses - especially the unions and educators – and the government, which resisted this (King, 1993). Another source of conflict was the rate of payment for trainees: benefits set by government rather than an hourly training wage negotiated with unions.¹⁴³

The unions, together with community organisations working with unemployed people, were also concerned that the Restart interviews were compulsory and that unemployed people may be compelled to participate in employment programs as well (Price, 2000). The Trades Union Congress decided in 1988 to boycott the scheme:

'It was just an increasing unease, I think, across the trade union movement of ... a) the scrapping of the Community Program, b) replacing it by a program which they didn’t think would help unemployed people as much, but also by the increased mandation, you know, it was when Restart was coming in.' (Non-government service provider, United Kingdom)

This triggered the government’s abrupt decision in that year to abolish the MSC and replace Industry Training Boards with employer-controlled ‘Training and Enterprise Councils’ (Price, 2000). Labour market policy was now concentrated within the Employment Department and the twenty-year experiment with corporatism ended:

‘This is the point at which they break up the Manpower Services Commission, so ended corporatism, helped by the trade union movement, which fell on its sword at that point in time, and decided to boycott everything.’ (Academic 1, United Kingdom)

¹⁴³ Unlike the Community Program, participants were paid a 'training allowance' equivalent to unemployment payments plus GBP10 a week for expenses.
Activity requirements for Unemployment Benefit were progressively tightened during the first phase. From 1989, unemployed people were required to undertake active job search, monitored through fortnightly 'signing in' interviews at the PES as well as six-monthly Restart interviews (Finn & Schulte, 2008; Price, 2000). The range of jobs that skilled unemployed workers were required to accept widened. These initiatives, and an increase in the maximum benefit disqualification period for non-compliance from 13 to 26 weeks, were badged the ‘stricter benefit regime’.

With the introduction of Jobseeker’s Allowance in 1996, unemployed people faced a statutory requirement to participate in employment programs as well as attend interviews (Finn & Schulte, 2007). They were also required to enter a ‘Jobseeker’s Agreement’ with their personal adviser in the Employment Service, specifying steps they would take to improve their job prospects.

In 1991, in a crucial test for activation policy, a recession increased unemployment from 6.8% in 1990 to 10.4% three years later. Long-term unemployment rose to 1,038,000, almost restoring it to its 1988 level (Office of National Statistics, various years; OECD, various years-c).

Despite the rise in long-term unemployment, Employment Training fell well short of its original target of 600,000 places. In 1992, it had 248,000 places (House of Commons Employment Committee, 1996; Secretary of State for Employment, 1988). In contrast, 611,000 job-seekers participated in the job search training programs run by the PES including the new ‘1-2-1’ program (in which long term unemployed people were interviewed frequently to counsel them on job search), Restart courses and Job Clubs. The balance of investment in employment assistance had shifted towards supervised job search assistance and away from the capacity-building track. From 1990 to 1993, spending on PES administration rose by almost half while spending on training programs fell by a third (Robinson, 2000, p18).144

The rise in long-term unemployment led to political pressure to revert to large-scale work experience programs, in the form of either subsidised public employment or work-for-benefits schemes. In 1996 the Employment Standing Committee of the House of Commons held a public inquiry entitled ‘Right to Work/Workfare’ (House of Commons Employment Committee, 1996; OECD, various years-c). The inquiry attracted bipartisan support for the idea of ‘turning welfare into work’ through a ‘work guarantee’ for long-term unemployed people (House of

144 The average unit cost of labour market programs fell sharply. By 1995 employment assistance expenditure was approximately half that (in constant 1995 values) in 1986 when there were also 3-3.5 million people on unemployment payments (Wells, 2001, p251).
Commons Employment Committee, 1996; p6). The government flatly rejected work guarantees.\textsuperscript{145}

‘The Government opposes workfare in its purest sense, of ...universal or very large-scale programmes of State-provided work, because such programs tend to distort private sector activity and damage the job creating potential of the economy.’ (House of Commons Employment Committee, 1996, Annex: Government response to the Employment Committee’s Report on the ‘Right to Work/Workfare’, p2)

Nevertheless, the final iteration of the government’s policies to reduce long-term unemployment combined the Restart model of job search assistance with three months of compulsory unpaid work experience in a pilot scheme dubbed ‘Project Work’:

‘The Project Work pilots are one of the latest developments in the Government’s policy towards long-term unemployment. They begin with a period of help including the full range of provision including one-to-one counselling, Workstart [wage] subsidies and for those who can benefit, vocational training. Only after these avenues have been tried is work experience introduced. ...To maintain the participants’ attachment to the labour market the work experience is combined with job search and limited to 13 weeks. This work experience is mandatory. As the Committee’s report says, mandatory programmes can be of value where people are in need of motivation.’ (House of Commons Employment Committee, 1996; Annex: Government’s response to the Employment Committee’s Report on the Right to Work/Workfare’, p3.)

A5. The character of activation in the first phase

(1) Activity requirements

In 1995, one year before the tightening of activity requirements through the Jobseeker’s Allowance, the share of unemployment payment recipients actively seeking employment rose to 86% (Rayner, Shah, White, Dawes, & Tinsley, 2000).

Although a high share of unemployment payment recipients was activated, benefit requirements were not as intensive as in most OECD countries. In 1995-97, the United Kingdom’s score on the Danish Finance Ministry’s index of strictness of benefit requirements was 2.6 (on a scale from 0-5) compared an OECD average score of 2.9 (Danish Finance Ministry, 1997). A likely reason for this was its recent transition from a relatively liberal activity

\textsuperscript{145} Instead it introduced two small programs offering six months of unpaid work experience with community organisations for people unemployed long-term: ‘Employment Action’ and later ‘Community Action’ (Jarvis, 1998). In 1995 the replacement program for Employment Training, ‘Training for Work’ had 280,000 participants (House of Commons Employment Committee, 1996; Payne, Lissenburgh, & Range, 1999).
regime, although by then activity requirements and their supervision were much stricter than at the beginning of the first phase.

Activity requirements did not extend to sole parents until their youngest child reached 16 years (Goerne & Clegg, 2013).

(2) Employment assistance

When we examine the profile of employment programs for long-term unemployed people towards the end of the first phase in 1995 (Table 4 below), the new emphasis on job search monitoring and assistance is clear.

An interviewee who was a long-standing senior official in the Employment Ministry described these policy settings in this way:

‘Actually we spend virtually the lowest in the OECD on active labour market policies because essentially our active labour market policy is to call people in and nag them. Then if we want to spend more we call them in more often.’ (Official, Employment Ministry United Kingdom)
Table 4: Activation rate and distribution of employment programs for long-term
unemployment payment recipients (United Kingdom 1995)

(a) Rate of activation (1995)

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of recipients</th>
<th>Percentage of recipients currently activated</th>
<th>Percentage of long-term recipients currently activated</th>
<th>Number of employment program places (1995)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobseekers Allowance</td>
<td>2,147,000</td>
<td>86</td>
<td>n.a.</td>
<td>688,000</td>
</tr>
</tbody>
</table>

(b) Distribution and character of employment program places (1995)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group and services provided</th>
<th>Number and percentage of program places</th>
<th>Unit cost (Ecu in 2000 prices)</th>
<th>Predominant character (and percentage of places)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restart courses</td>
<td>On Jobseekers Allowance over 6 months; job search training</td>
<td>107,000 (16%)</td>
<td>70</td>
<td>Incentive-strengthening (16%)</td>
</tr>
<tr>
<td>1-2-1</td>
<td>On Jobseekers Allowance over 6 months; regular interviews with Employment Service</td>
<td>94,000 (14%)</td>
<td>50</td>
<td>Incentive-strengthening (14%)</td>
</tr>
<tr>
<td>Jobclubs</td>
<td>On Jobseekers Allowance over 6 months; job search training</td>
<td>243,000 (35%)</td>
<td>150</td>
<td>Incentive-strengthening (35%)</td>
</tr>
<tr>
<td>Training for Work</td>
<td>On Jobseeker’s Allowance over 6 months; Up to 12 months’ vocational training and/or unpaid work experience</td>
<td>214,000 (31%)</td>
<td>2,100</td>
<td>Capacity-building (31%)</td>
</tr>
<tr>
<td>Community Action</td>
<td>On Jobseeker’s Allowance over 12 months; Up to 12 months’ unpaid work experience on community projects</td>
<td>29,000 (4%)</td>
<td>2,100</td>
<td>Income protection (4%)</td>
</tr>
<tr>
<td>Workstart</td>
<td>On Jobseeker’s Allowance over 12 months; Up to six months’ subsidised temporary employment in the private sector</td>
<td>1,000 (0%)</td>
<td>2,000</td>
<td>Capacity-building (0%)</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>688,000 (100%)</td>
<td></td>
<td>Incentive-strengthening (65%)</td>
</tr>
</tbody>
</table>
Notes:
n.a. = not available
1. Point in time estimates.
2. Those not exempted from activity requirements.
3. These are flows (not point in time) data.
4. Program expenses are adjusted to 2000 prices using the Consumer Price Index (X1.27).
http://www.bankofengland.co.uk/education/Pages/resources/inflationtools/calculator/default.aspx
(accessed October 2017). In July 1999 GBP1 = Ecu1.5

Sources:
For the activation rate:
Rayner et al. (2000); Office of National Statistics (various years)
For employment programs:
Attachment 6 provides details of the derivation of these assessments of the character of employment
programs, together with sources.

Two of the main programs available to long-term unemployed people, with 31% of program
participants, had a capacity-building character: ‘Training for Work’ (with vocational training
courses or on-the-job training) and ‘Workstart’ (private wage subsidies) (Payne et al., 1999,
p18).
Community Action (with 4% of participants) had an income protection character, similar to the
former Community Program.
The remaining programs, with 64% of participants, centred on the Restart interviews. They
offered supervised job search assistance and had an incentive-strengthening character, due
to the strong emphasis on the threat effect of participation in interviews and referrals to job
search training schemes, together with the restored job search monitoring and compliance
function of the PES.
The interviewee who worked in the PES at this time described the overall approach as ‘work
first’:

‘We needed to retain a community work, work experience, social enterprise type of program for
the real hard cases where there isn’t much going on. That meant that the Community Action
Program was born out of the ashes. But, actually, what we really needed to do was to prod,
provoke, enlist, enrol people back into the labour force through a combination of sanctions,
encouraging self-employment with various smaller scale but successful enterprise programs,
and .. once people got into the labour force they would then acquire the skills that would enable
them to progress. It was called a work first strategy.’ (Government service provider, United
Kingdom)
Since 65% of places were in programs with an incentive-strengthening character, this was the predominant character of employment assistance at the end of the first phase.\textsuperscript{146}

(3) Financial work incentives

In addition to the tightening of activity requirements and the Restart interviews, the government maintained financial work incentives by keeping benefits low (indexing them to consumer prices rather than wages) and introducing an in-work payment, Family Credit (Finn & Schulte, 2007).\textsuperscript{147}

In 1998, Family Credit was paid to 757,000 families (almost half of whom were sole parents) at a cost of GBP2,400 million (OECD, 1998a). This was four times the expenditure on employment assistance that year (GBP600 million), underscoring the high priority given to strengthening work incentives (Finn & Schulte, 2008).

These attempts to strengthen financial work incentives did not include a major effort to reduce the above-average cost of child care (OECD, 2007b). Family Credit included a modest child care ‘earnings disregard’, but it was only available to parents already in paid work. It did not subsidise child care costs for parents searching for jobs (Brewer & Browne, 2004).

B. The second phase of activation policy (1997-07)

B1. Surrounding institutions

(1) The change of Government in 1997

In 1997, the labour party was elected after 18 years of conservative government. The new government badged itself as ‘New Labour’ to distinguish itself from previous labour administrations associated with high welfare expenditures and inflexible labour markets (Crouch, 1997; Labour Party, 1997). The key ideological adjustments included a commitment to maintain the relatively liberal public regulation of product and labour markets, strict fiscal policies, support for the structural unemployment paradigm with its emphasis on supply side solutions to unemployment, NPM ideas in public administration, and importantly a 'rights and

\textsuperscript{146} This was a major shift from the previous emphasis on income protection for long-term unemployed people through the Community Program and YTS in the early 1980s (King, 1993)

\textsuperscript{147} Family Credit of GBP49 per week (more for larger families) was paid to a family with children whose main income-earner was employed for at least 16 hours a week, subject to a family income test.
responsibilities’ agenda in social security policy discussed later in this chapter (Daguerre & Taylor Gooby, 2003). The government branded this new policy direction as a ‘third way’ between liberal and social democratic policies.

Its election manifesto promised to ‘get 250,000 young unemployed off benefit and into work’ while at the same time working ‘within the departmental ceilings for spending already announced’ by the conservatives (Labour Party, 1997, pp6,15.). There were less specific commitments to assist long-term unemployed adults, lone parents and people with disabilities on social security payments into employment.

‘It’s difficult to explain the extent of which, you know, those six pledges, really just drove everything that the government was doing, yes...it really did dominate the politics, therefore, the budgets, therefore the operational delivery.’ (Non-government service provider, United Kingdom)

The Treasury under Chancellor Gordon Brown was given a key role in developing activation policies, in part to resolve the tension between major new investment in employment assistance and fiscal policy (Daguerre & Taylor Gooby, 2003; Walker & Wiseman, 2003).

(2) Labour market conditions

Unemployment declined during the second phase, from 7.1% in 1997 to 5.1% in 2007 (OECD, various years-c). Reliance on unemployment payments fell more rapidly from 1,620,000 to 871,000 people (Office of National Statistics).

This reduction in unemployment was achieved in part through expansion of low-skilled service jobs. From 1990 to 2007, the share of low-skilled service jobs in the United Kingdom rose by 4 percentage points (Oesch, 2015).

Between 1991 and 2005, as reliance on Jobseeker’s Allowance and Income Support fell, the profile of those still receiving these payments became more disadvantaged (in terms of their health, education and housing status) relative to the rest of the working-age population (Cappellari & Jenkins, 2008):148

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148 From 1991 to 2005, reliance on these payments among people of working age fell from 9% to 7%, but their profile became more disadvantaged. The share of recipients with health problems rose from 53% to 76% (compared with a rise from 50% to 59% for non-recipients), the proportion lacking educational qualifications fell (from 40% to 33%) more slowly than among non-recipients (from 13% to 6%), and the proportion living in rented housing rose from 59% to 78% (Cappellari & Jenkins, 2008).

Since these factors were all negatively associated with exits from benefits, Cappellari and Jenkins (2008) found that the changing profile of recipients partly explained a decline in the average annual exit rate from benefits from 38% to 27%. The share of individuals reliant on these payments nevertheless declined due to a fall in the entry rate from 4.3% to 2.2% of all non-recipients of working age. This was attributed to falling unemployment, tightening benefit eligibility requirements, and the
‘I think that it is generally true that the extent of employability of those people who are left on JSA, overall, was a lot lower than when JSA [incidence] was higher. That’s one of the intended policy impacts. You skim off the most employable by a very active regime. People for whom that doesn’t work, yes, they sit there and become long-term unemployed.’ (Non-government service provider, United Kingdom)

Despite the more disadvantaged profile of working-age social security recipients identified by Cappellari and Jenkins (2008), the share of long-term Jobseeker’s Allowance recipients declined sharply over the same period, from 31% in 1991 to 19% in 2005 (Office of National Statistics, various years). Growth in the share of low-skilled jobs noted above, along with displacement of unemployed people from Jobseeker’s Allowance to incapacity benefits and family tax credits, were among the likely contributing factors (Brewer & Browne, 2004; Oesch, 2015; Petrongolo, 2008).

The decline in long-term unemployment gradually diverted activation policies to other target groups:

‘As unemployment fell and we moved close to full employment, by historical standards unemployment rates were about 4.5%. [long-term unemployment] stopped being the target population of government policy. The focus shifted very strongly elsewhere, particularly lone parents and then onto disabled [people].’ (Academic 2, United Kingdom)

While paid employment among mothers increased, a majority of those employed were still in part-time jobs. A one-and-a-half-earner model of family workforce participation persisted, though during the study period the United Kingdom was gradually moving closer to a dual-earner model. Part-time employment was relatively unattractive (due to its often precarious nature, working hours inconsistent with caring roles, and low hourly rates of pay for low-skilled jobs), pushing mothers towards jobs with longer hours (Lewis & Campbell, 2007; Lewis et al., 2008). Pulling against this were the limited availability of such jobs in occupations where those with low qualifications were likely to work such as hospitality and retail jobs, and the high cost introduction and expansion of tax credits in the early 2000s, which substituted for unemployment payments for those in paid employment of 16 hours a week or more (Cappellari & Jenkins, 2008).

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149 Growth in low-skilled service jobs helped absorb potential entrants to unemployment (such as school leavers and sole parents), offsetting to a degree the lower exit rate among workers affected by a decline in low skilled manual jobs (Oesch, 2015).

150 By 2000 the number of lone parents (1 million) and people with disabilities (2.1 million) receiving working-age social security payments together exceeded the number of Jobseeker’s Allowance recipients (1.2 million) (Evans, 2001)

151 Maternal employment rose from 58% in 1990 to 64% in 2006 (below the OECD average of 67%), while the part-time share of those jobs fell from 66% to 53% (still well above the OECD average of 18%). Sources are provided in Attachment 7.
of child care (Holmes & Mayhew, 2012). To improve financial work incentives for mothers, the government came under pressure to increase in-work benefits (such as Family Credit) for low income families with children.

In 2007, the employment rate among sole parents was relatively low at 51% (up from 42% in 1990), compared with an OECD average rate of 68%.

At least until the end of the 1990s, the effect of the one-and-a-half-earner model was that public expectations of labour force participation among mothers with children below school leaving age were low, and support for activation of sole parents was weak, as a prominent labor politician noted:

> ‘an approach which made the drawing of benefit [for sole parents] conditional on seeking work, either after two years on benefit, or once children began school, would not win the support of the House of Commons, and would likely be strongly opposed by a majority of voters’ (Field, cited in Saunders, 2000, p45)

(3) Labour market regulation

The new government did not restore corporatist governance arrangements in employment policy (Crouch, 1999; Goerne & Clegg, 2013). Job Centres remained under the control of the Employment Department and the tripartite Wages Boards that had set minimum wages in low-paid sectors were not restored. While employers and unions were represented on Learning and Skills Councils, these bodies were employer-led.

The main achievements of the Trades Union Congress in its lobbying of the labour government over labour market policy were a statutory National Minimum Wage set by a ‘Low Pay Commission’ and new employment-based tax credits discussed later in this chapter (Goerne & Clegg, 2013).


During the second phase, the labour government undertook two major reassessments of activation policies: at the beginning of its first term (1997-2002) when it refreshed the ‘rights and responsibilities’ discourse and introduced the New Deal employment programs, and in the mid-2000s (2002-07) when it extended activation to new groups and restructured

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152 The average cost of full-time day care for a two year-old in the United Kingdom in 2004 was 28% of the average wage, compared with 16% across the OECD. Sources are provided in Attachment 7.

153 Sources are provided in Attachment 7.
employment assistance in response to evaluations of its early programs, and lower unemployment. Since these reassessments both led to major shifts in activation policy, we deal with each in turn.

(1) Structural unemployment and activation

Consistent with its ‘New Labour’ brand, an early government Green Paper distanced the government from the employment policies of previous conservative and labour administrations.154

‘The welfare state now faces a choice of futures. A privatised future with the welfare state becoming a residual safety net for the poorest and most marginalised; the status quo but with more generous benefits; or the Government’s third way – promoting opportunity instead of dependence.’ (Secretary of State for Social Security, 1998, p19)

The activation paradigm was well-suited to this political re-branding. A key theme of the new employment policies was that ‘paid work is the surest route out of poverty’. (Blair T, Preface, in Secretary of State for Social Security, 1998, p iii). Now that the activation paradigm was taking shape in international policy discourse, labour could articulate it more clearly than the conservatives a decade before, and claim it as their own. It also had a greater need to do so, to justify to its constituents a shift in its previous opposition to compulsory participation in employment programs.

The Green Paper identified similar problems to those listed in Training for Employment, including skills deficits, work incentives and benefit ‘fraud’, albeit with a new emphasis on ‘inequality and social exclusion’:

‘There are three key problems with the existing system:

- inequality and social exclusion are worsening, especially among children and pensioners, despite rising spending on social security;
- people face a series of barriers to paid work, including financial disincentives; and
- fraud is taking money out of the system and away from genuine claimants.’ (Secretary of State for Social Security, 1998, p1)

The activation paradigm aligned with the government’s reframing of poverty and social disadvantage as ‘social exclusion’, of which exclusion from paid employment was a key component.155 The message here was that bringing social security recipients into paid

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154 This was the name given to policy documents used for consultation. These were followed by ‘White Papers’ or ‘command papers’ outlining the policies decided by the government.

155 The Cabinet Office Social Exclusion Unit defined social exclusion as: ‘A combination of linked problems such as unemployment, low skills, poor housing, family breakdown, high crime rates, that lead people or places to be excluded from the mainstream’ (Bradshaw, 2003, p171).
employment was a better solution to entrenched social disadvantage than the traditional labour agenda of income redistribution (Bradshaw, 2003). Nevertheless, soon after the new government was formed the Prime Minister committed to halve child poverty by 2010.

The Green Paper listed five key elements of the Government’s ‘attack on worklessness’: improved labour market assistance for long-term unemployed people through programs called ‘New Deals’, individualised service delivery led by personal advisers, capacity-building to reduce ‘barriers to work’ such as low skills, tax and benefit reforms to ‘make work pay’, and a new principle of mutual responsibility between government and benefit recipients (Secretary of State for Social Security, 1998, p23).

Consistent with NPM thinking, the idea that unemployed people should be required to participate in employment programs in return for their benefits, was framed as a contract between unemployed citizens and Government:

‘Our ambition is nothing less than a change of culture among benefit claimants, employers and public servants – with rights and responsibilities on all sides’. (Secretary of State for Social Security, 1998, p24)

The Green Paper’s language, including calls for a ‘change of culture’ and a ‘crack down on dishonesty in the benefit system’ departed from labour’s previous portrayal of unemployed people as victims of economic conditions and harsh government policies (Clasen, 2007; Labour Party, 1997, p18; Taylor-Gooby, 2004). Its landmark ‘New Deal for Young People’ (NDYP) program offered long-term unemployed young people four program ‘Options’ but added the rider: ‘without a fifth option of life on full benefit’ (Labour Party, 1997, p18):

“Crucial to the New Deals and New Labour is it enables them to have a narrative about being tough on the unemployed as well as being helpful to them. So one of the slogans with which the New Deal is constantly described and talked about, in terms of Ministers and [Chancellor] Brown, is the idea of ‘no fifth option’.” (Academic 1, United Kingdom)

As with the conservatives, the new government framed the unemployment problem within the structural unemployment paradigm, calling for a ‘supply side agenda for the Left’ (Blair & Schroeder, 1998, p6). Significantly, it viewed growth in low-skilled employment (with wages supplemented by government) as a key part of the solution:

‘The labour market needs a low-wage sector in order to make low-skill jobs available. The tax and benefits system can replenish low incomes from employment and at the same time save on support payments for the unemployed.’ (Blair & Schroeder, 1998, p11)
(2) International influences

Since the second phase of activation policy in the United Kingdom followed the emergence of activation policies in other ‘pioneer’ countries, there were more opportunities for international policy learning. While the government examined activation policies in Sweden, Denmark and the Netherlands, its closer policy networks with other English-speaking countries (especially the United States and Australia) meant that these held more sway (Brown, 2008; Daguerre & Taylor Gooby, 2003; Dolowitz, Greenwald, & Marsh, 1999; Johnson & Tonkiss, 2003):156

‘New Labour ... was very much influenced by the success of the new Democrats on a general level. Brown and Blair obviously got long, extensive - particularly Brown - connections in the States. It’s no accident they picked the ‘New Deal’ as the name for the program. In terms of what the program is, it probably owes more to arguments around job guarantees and the Swedish [model]. By that time - I’m not sure this influenced Brown directly, himself, but certainly the people around him started to be aware of the [Australian] ‘Working Nation’ kind of approach. (Academic 1, United Kingdom)

British activation policies under labour pulled in two directions: towards American compulsory job search assistance schemes and tax credits and European (especially Scandinavian) work experience and training programs (Deacon, 2000; Peck & Theodore, 2000a).

The European Commission and its EES had less direct impact on labour’s activation policies (Daguerre & Taylor Gooby, 2003). This was consistent with British policy makers’ ‘relatively indifferent or outright hostile’ response to European social policies (Goerne & Clegg, 2013, p71). Here a different political dynamic was at work. Labour’s policy manifesto promised to ‘give Britain the leadership in Europe which Britain and Europe need’ (Labour Party, 1997, p5). This formulation allowed it to engage with the European Union more positively than its predecessor while minimising criticism that British independence was threatened (Mailand, 2008b).

While Mailand (2008) found that the EES had little direct policy influence on British policies, the prestige attached to ‘leading’ European activation policy reinforced policy directions taken. The Prime Minister, Tony Blair, played a key role in international policy collaborations with leaders of fellow social democratic-oriented governments who together influenced the employment policies of the European Union (de Koning et al., 2002; Weishaupt, 2011).

156 A statement released by the government on the tenth anniversary of the New Deal programs stated that they ‘incorporated lessons from the US, and from successful labour markets in Europe, especially Scandinavia’ (Brown, 2008, p7).

(1) The New Deals

During the first half of the second phase, the government progressively rolled out employment programs called ‘New Deals’ for different target groups, commencing with sole parents and young people, followed by long-term unemployed adults, people with disabilities, and partners of unemployed people (Jarvis, 1997). From the outset, there was a tension between lifting the United Kingdom’s relatively low investment in employment assistance and its commitments to restrain budget spending.\(^{157}\)

Given the election pledge on youth unemployment, its flagship employment program was the ‘New Deal for Young People’ (NDYP). This was introduced nationally in 1998 and targeted towards young people (up to 25 years) unemployed for 6 months. In its design, the government steered a middle course between more expensive capacity-building programs and the low-cost interview-based approach. The program was divided into three stages: a four-month ‘Gateway’ in which jobseekers were interviewed regularly by a personal adviser in the PES and assisted with job search, followed by a 6 to 12 month ‘Options’ phase in which they had to choose among four more intensive programs, and a six month ‘follow through’ for those who had still not found employment (Figure 11).

Figure 11: New Deal for Young People: Sequence of assistance.

Source: Goerne and Clegg (2013, p34)

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\(^{157}\) To get around the new government’s commitment to its predecessor’s strict fiscal targets, the New Deals were funded by a one-off levy on the ‘excess profits’ of privatised utilities, projected to raise GBP5,000 million, of which GBP2,900 million was spent on New Deal programs from 1997 to 2003 (Beale, 2005).
The Options were an ‘Employment Option’ (a private sector wage subsidy of GBP60 a week for a six-month work placement on regular wages combined with at least one day of week of vocational training), ‘Voluntary Sector’ and ‘Environment Task Force’ Options (six months’ unpaid work experience with community organisations), and an ‘Education Option’ (up to 12 months fulltime education or vocational training for those lacking qualifications equivalent to 12 years of schooling).

In constructing the NDYP, the Government used the building blocks fashioned by the conservatives, ‘converting’ them into a hybrid scheme that combined supervised job search with work and training guarantees (Finn & Schulte, 2008; Streeck & Thelen, 2005).

As with Restart interviews, the Gateway combined the threat effect of compulsory interviews and supported job search. The innovations here were the ‘Personal Advisers’ to provide that support and its extension over a four-month period:

‘I think you can regard the gateway almost as being an extended Restart period.’ (Official, Employment Ministry United Kingdom)

The Gateway also acted as a triage system to ration access to the Options. This was consistent with NPM thinking and the views of the OECD, which argued that personalised assistance was more cost effective than universal provision work experience or training offered regardless of individual need (Martin & Grubb, 2001; Wells, 2001).

The Options were similar to the previous work experience and training schemes, except that access to them was now universally available and compulsory for all jobseekers that passed the Gateway. An academic interviewee who also played a role in the development of the NDYP described this ‘layering’ of capacity-building elements on top of the original Restart model as follows:

‘It was almost as though the work experience model was turned off, activation was turned on, that was progressively expanded and ramped up, and then there was an attempt to try and see whether you could get more out of combining the two than if you do the two separately. That was certainly my reading of the literature at the time and it was what I took into government as being the logic of New Deal.’ (Academic 2, United Kingdom)

The Employment Department official quoted above viewed the Options in a different light, emphasising the threat effect of compulsory participation:

‘If you look at what they specified in the manifesto and what the New Deal looked like you could see similarities but they are not exactly the same. You say that there was a degree of continuity between what was there before and the New Deal, I’m quite pleased about that because I designed the New Deal... Actually the purpose of the ‘no fifth options’ was very much
Employment Department. They were not employability measures. They were a 'no fifth option'. They were there to say that you've got to do something active and that the focus of that activity should be that you will always have an eye on getting a job in the future basically.’ (Official, Employment Ministry, United Kingdom)

This was backed by increased sanctions for unemployed people who failed to participate in the program. 158

Among the New Deals, NDYP attracted most of the funding (Jarvis, 1997).159

A pilot for a New Deal for Long-Term Unemployed (NDLTU) adults (25 to 49 years) was introduced in 1998 (Beale, 2005). The original scheme targeted adults on Jobseeker’s Allowance for over 2 years. They were required to participate in a 3 month ‘intensive advisory’ process comprising regular interviews with a Personal Adviser, job search assistance, and referral to assist with other issues such as disabilities. Those still unemployed afterwards could volunteer for an additional six months of intensive work-related activity including subsidised employment with a private employer, further intensive job search assistance, or a waiver of restrictions on fulltime participation in vocational training while on Jobseeker’s Allowance. The program was an abbreviated version of the NDYP, without automatic referral to Options.

Long-term unemployed adults also had access to a new vocational training program called Work Based Learning for Adults (WBLA) which offered up to 12 months of vocational or employability training (Beale, 2005).

The New Deal for Lone Parents (NDLP) was introduced in 1998 for sole parents on Income Support whose youngest child was over five years, modelled on the Australian JET program (Beale, 2005; Pierson & Castles, 2001). Since that payment had no activity requirements, participation was voluntary. The program combined career counselling, training, child care subsidies and benefits advice from Personal Advisers. Sole parents were also given access to a range of employment and training programs, including WBLA.

The New Deals were administered by the PES while the Options were delivered in partnership with local networks of non-government providers (Finn, 2005).

158 In addition to a loss of benefits for two weeks for a first breach of requirements and 4 weeks for a second breach, a new penalty of 26 weeks off benefits was introduced for a third breach within a 12 month period (Beale, 2005).

159 Although young people comprised 9% of all New Deal target groups, it received 77% of the funding (Evans, 2001)
(2) Making work pay

Like the conservatives, the government prioritised policies to ‘make work pay’ for low-paid working families:

‘The ‘better off in work’ line of thinking strand ran through the Blair Government just as vigorously [as with the Conservatives]. The only difference was that their proposed solution was not lower benefits or a tougher benefit regime, because they thought all that had been done. The only other thing you could do was affect the other side of the equation; affect the demand side by saying ... we’ll pay you in-work benefits.’ (Government service provider, United Kingdom)

The government was especially concerned about work incentives for sole parents, whose employment rate in 1998 was one third lower than for partnered mothers (Blundell & Meghir, 2001).

It responded with three policies: a ‘National Minimum Wage’; a ‘Working Families Tax Credit’, and by continuing the freeze on (after-inflation) maximum rates of Jobseeker’s Allowance (Finn & Schulte, 2008).160

A Low Pay Commission was established in 1998 to set a statutory National Minimum Wage (NMW) each year (Goerne & Clegg, 2013). The NMW rose by one third from 1999 to 2004, off a low base.161

Low minimum wages both increased the need for in-work benefits and reduced their cost, since the benefit could be phased out at relatively low family incomes and paid to fewer people (Immervoll & Pearson, 2009). Based on experience with the American Earned Income Tax Credit, in 1997 the government replaced Family Credit with a ‘Working Families Tax Credit’ (WFTC) paid through the tax system (Strickland, 1998).162 As with Family Credit, WFTC was not paid to individuals employed for less than 16 hours a week, continuing a policy bias in favour of ‘working poor’ families over those out of paid work.163

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160 In 2001, the maximum JSA rate for a single adult was 13.4% of average earnings. By 2006, this had fallen to 11.8% (Finn & Schulte, 2008)

161 In 2000, it was 41% of the median fulltime hourly wage, below the OECD average level of 45% (OECD, various years-a).

162 The WFTC had the same maximum rate (GBP49 a week), a higher (by GBP2.5) supplement for additional children, and a more liberal family income test with a tax free threshold of GBP90 (instead of GBP79) and payment withdrawal rate of 55% (instead of 70%).

163 In 2002, the government simplified family payments by merging additional unemployment benefits for children and the WFTC into a new Child Tax Credit (CTC) (HM Treasury, 2002). To preserve incentives to move from unemployment to fulltime employment, a separate Working Tax Credit was introduced for low-paid workers with or without children.
In 1998, the government released a Child Care Strategy in response to concerns about high child care costs (Goerne & Clegg, 2013, p35; OECD, 2007b). This included a ‘child care element’ in the WFTC. However, as discussed, out-of-pocket child care costs in the United Kingdom were still relatively high in the second phase. Later, the government guaranteed access for three and four year-olds to twelve and a half hours of preschool each week, and introduced a ‘right to request’ higher or lower working hours for parents to assist them to balance caring roles and paid work.

In addition to boosting work incentives, the government’s motives for introducing the WFTC included raising the incomes of labour’s political constituency and the child poverty commitment referred to previously:

‘crucially in the dynamics of the New Labour politics …that agenda [activation] then becomes absorbed into the child poverty agenda, and we see tax credits used as one of the primary tools for reducing child poverty.’ (Academic 2, United Kingdom)

B4. Changes in the proximate institutions

Labour maintained the benefit structure for people of working age it inherited from the conservatives, including (controversially) Jobseeker’s Allowance (Clasen, 2000; Finn & Schulte, 2007).

Two governance changes were made in the early 2000s to integrate payment of benefits and employment assistance. The Social Security and Employment Departments were merged into a new Department for Work and Pensions (DWP), and the local benefit offices and PES were merged into a new ‘one stop shop’ agency called JobCentre Plus (Finn & Schulte, 2008). Policy responsibility for vocational training remained with the Department for Education and Skills, reinforcing the division between employment programs for unemployed people and mainstream training programs that emerged when the MSC was abolished.

164 Unlike the child care component of Family Credit, this extended to all parents eligible for the WFTC and was paid at a higher rate of 70% of out-of-pocket child care costs in approved care up to a ceiling of GBP135 per week. By 2000, 110,000 families received this child care subsidy, a rise of over 150% in 12 months, but the average claim was only GBP32 a week and only 10% of WFTC recipients claimed it (Strickland, 1998).

165 Brewer and Browne (2004) estimated that the WFTC boosted paid workforce participation among sole parents by five percentage points from 1999 to 2002, but had no significant impact on overall workforce participation among partnered mothers (Blundell, Duncan, McCrae, & Meghir, 2000; Brewer & Browne, 2004).
This completed the reversal of the separation between benefit administration and employment assistance during the corporatist experiment, and sent a clear message that receipt of benefits was tied to active job search:

‘The more I’ve been around the more I think the financial incentives are not the big drivers in all of this. That’s why you need other incentives and disincentives which are the administrative incentives.’ (Official, Employment Ministry United Kingdom)

In employment services, the government experimented with market governance in a small ‘Employment Zones’ scheme for long-term unemployed people introduced in 15 disadvantaged regions in 2000 (Daguerre & Taylor Gooby, 2003; Johnson & Tonkiss, 2003; Millar, 2000).

The Zones were run by non-government agencies funded mainly according to employment outcomes, an idea borrowed from the United States and Australia (Finn, 2005; Griffiths & Durkin, 2007). Providers were paid a small up-front fee at the time of registration and more substantial fees if the jobseeker remained in employment and off benefits for at least 13 weeks.

Privatisation of the PES was not pursued, largely due to the high priority given to integrating benefits and employment services in a ‘one stop shop’ agency:

‘Intensive intervention at the start of a claim, focused on assisted job search, is now established as the best way to help people to move back into sustainable employment. As a one stop shop, Jobcentre Plus should therefore remain at the core of the service provided and retain ownership of claimants as they pass through the system.’ (Freud, 2007, p6)

B5. The role of ideas (2002 – 07):

In the mid 2000s, the labour government reassessed its activation policies:

‘[There was] intense debate between the modernisers and the traditionalists in Labour, particularly expressed around what do we mean by public sector reform and how we’re going to do it, and a determination to use market mechanisms and quasi-markets, not just exclusively in employment services but more widely than that. Linked to that is then the issue about churning and the issue about skills, and there’s a number of major reviews in this period where basically … Labour’s now had the best part of eight, nine, 10 years in power, it’s starting to want to refresh its agenda.’ (Academic 1, United Kingdom)

This reassessment was key to labour’s policy choice between greater investment in capacity-building for long-term unemployed people (in response to the more disadvantaged profile of
unemployed people and persistent skills deficits at the lower end of the labour market) or greater reliance on an incentive-strengthening approach (in response to higher cost of capacity-building programs in the context of a policy goal to extend activation to ‘new groups’).

(1) Evaluations of the New Deal programs

Evaluations of the New Deals generally found that they were cost-effective in improving short-term employment outcomes, but pointed to a need for greater investment in capacity-building for the more disadvantaged cohorts on unemployment payments in the second phase (Hasluck & Green, 2007).

Net impact evaluations of NDYP found that it increased short-term employment outcomes among young unemployed people in the range of five to nine percentage points (Blundell, 2003; Finn & Schulte, 2008). Macro-economic studies found that it substantially increased youth employment without reducing jobs for older workers. In 2000, the Government announced that its (1997 election) youth employment target had been achieved (Finn, 2002; National Audit Office, 2002; Riley & Young, 2000).

One evaluation identified the Employment Option (private wage subsidies) and the Gateway (job search assistance) as the two most effective elements of the NDYP (Dorsett, 2004). These findings were consistent with the relative performance of similar employment programs in international studies discussed in Chapter 3 (Card et al., 2009; Martin & Grubb, 2001). Compared with the NDYP, the NDLTU had much weaker employment outcomes since it targeted a more disadvantaged population. Only 16% of NDLTU participants left the program for employment in its first two years (Millar, 2000). One reason identified for its poorer performance was limited use of work experience and training, since participation in those

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166 It found that continued participation in the Gateway after the mandatory four months had a greater impact on the probability of exit from benefits 12 months after program commencement than participation in the Education Option (by 10 percentage points), Environmental Task Force Option (by 9 percentage points), and the Voluntary Sector Option (by 5 percentage points). However, the Employment Option increased exits to employment relative to ‘extension’ of the Gateway by 21 percentage points.

167 The evaluation attributed the apparently superior performance of the Gateway to the lock-in effects of the Options, but noted that the Education Option was likely to have better employment outcomes if measured over a longer period.

168 One third of male participants and one quarter of females had been unemployed for at least five years before participating in NDLTU, compared to the one third of NDYP participants unemployed for at least a year. One half of NDLTU participants lacked formal academic qualifications compared with one third of NDYP participants (Hasluck, 2000, pp32,47).
programs was voluntary and less than 10% joined them (Hasluck, 2000; McQuaid & Lindsay, 2002).

The Government re-designed NDLTU in 2001 and it was re-named ‘New Deal 25+’ (ND25+). This brought it closer to the NDYP model: a Gateway of up to four months’ intensive job search assistance, an Intensive Activity Period of 13 to 26 weeks for those leaving the Gateway without obtaining employment, and a follow-through period of six to 13 weeks. For those under 50 years, participation in work experience and training during the Intensive Activity Period became compulsory. A later evaluation found that these changes were associated with a doubling of the employment entry rate of participants from 16% to 30% (Hasluck & Green, 2007):169

‘Based on the evaluation of early versions of ND25plus, it would appear that advice alone is not sufficient to get many long-term, unemployed adults back into employment. Only when mandatory activities including work experience and training were introduced is there any evidence of a significant impact on job entry.’ (Hasluck & Green, 2007, p40)

As the New Deals matured, there was a growing tension between their reliance on inexpensive job search assistance and the apparent deepening of labour market disadvantage among the target groups as unemployment fell. Concerns were raised about the ‘cycling’ of jobseekers through programs. Between 2001 and 2003, 35% of all NDYP commencements had previously joined a program (Bivand, 2006; Finn & Schulte, 2008).170

Data on payment flows showed a steady decline in the share of NDYP participants exiting to employment from 1999, and a decline (from a lower base) in exits to employment among ND25+ participants after 2004 (Department for Work and Pensions, 2007a). This supported an emerging view that a work-first approach was insufficient for people unemployed long-term (McQuaid & Lindsay, 2002).

(2) The transitional jobs and skills agendas

In the mid-2000s, the government responded to these concerns by exploring options to strengthen work experience and training for long-term unemployed people:

‘So the options were you repeat the [New Deal] program ad nauseum, right until such time as they die or something. You put in place some kind of alternative more intensive program, which is what Step Up was, or you move towards some kind of punishment or ‘work for the dole’ kind

169 A net employment impact evaluation undertaken in 2001 found that ND25+ increased the probability of exit from unemployment by four percentage points (Lissenburgh, 2001).

170 A study of repeat claimants of Jobseeker’s Allowance in 2006 found that in that year, two-thirds of claims were made by people who had previously claimed the payment (Carpenter, 2006).
of model. So … there were various experiments, small scale things dotted around which looked moderately encouraging given the severely deprived nature of the group that you’re talking about but it was expensive. It never got past that.’ (Academic 2, United Kingdom)

A new scheme called StepUp was piloted from 2002 to 2004 to offer a ‘transitional job’ on regular wages for long-term unemployed people who left the NDYP or ND25+ without securing a job (Bivand, 2006). They were matched with an employer in the public or community sectors and given a 12-month work placement, together with support from a ‘work buddy’ (mentor) and ‘support worker’ (personal adviser). The placements were brokered by non-government organisations. Participants were required to seek unsubsidised jobs six months into the placement (Finn & Simmonds, 2003).

The official evaluation found that those eligible for the program were severely disadvantaged in the labour market, with over a third lacking employment for the last three years (Bivand, 2006). It concluded that the program increased the probability of employment among participants by 3 to 23 percentage points:171

‘So it is that concentrated, extensive effort, you know, personal advice, waged work and intensive job search towards the end – that ILM [‘intermediate labour market’ or ‘transitional job’] package – which does seem to work for those more disadvantaged, older groups that have been locked out.’ (Non-government service provider, United Kingdom)

Despite its promising results for more disadvantaged jobseekers, the program ended in 2006.

In 2004, the government commissioned an inquiry into skills. The report noted the high share of British workers (30%) lacking Year 12 qualifications and even higher share (50%) of those with no formal qualifications who were out of work. It was critical of the ‘work first’ orientation of existing employment programs:

‘The short-term focus [on employment outcomes within 13 weeks] moves attention away from pre-work interventions that might improve the sustainability of employment, as well as creating little incentive to build links with in-work support that might improve retention.’ (Leitch, 2006, p13).

Among the report’s recommendations were proposals to refer long-term unemployed people to compulsory vocational training where the PES assessed this would improve their job prospects, and that training be offered when low-skilled unemployed workers obtained a job to help them progress their careers. The Minister for Work and Pensions countered that

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171 Its effects were strongest for adults who were more disadvantaged in the labour market, yet motivated to find a job. Their employment probability was raised by 23% (Bivand, 2006). Its unit cost was GBP8,000 (Beale, 2005).
implementing the recommendations to improve access to training for jobseekers would entail ‘substantial cost’ and that training was ‘best provided in work’ (House of Commons Work and Pensions Committee, 2007, pp36,38.). The government implemented some of the report’s less costly proposals such as ‘skills health checks’ but maintained its overall ‘work first’ approach: 172

‘The idea is how can we join up work-first employment interventions which get people through the door, with then training programs which will progress them, advance them, help them stay in work?’ (Academic 2, United Kingdom)

(3) The ‘80% in employment’ target and activation of ‘new groups’

A key constraint on investment in work experience and training for long-term unemployed people was competition for public funds between more intensive support for the falling number of long-term unemployed people (156,000 in 2003) and the government’s desire to extend activation to new groups (Office of National Statistics, various years):

‘[Long term unemployment] was shrinking to sufficiently small numbers that it wasn’t deemed to be a target group worth making a big investment in politically and the political energies were going elsewhere.’ (Academic 2, United Kingdom)

In 2001, a new requirement was introduced for sole parents with a school age child on Income Support to attend compulsory ‘Work Focussed Interviews’ with the PES, though they were not at that stage required to seek employment (Harker, 2006). Similarly, a ‘Pathways to Work’ program required people with disabilities to attend six-monthly interviews after commencing Incapacity Benefit (Gregg, 2008).

By 2005, concerns were raised that these policies were not lifting employment among their target groups. 173 In 2006, the government set a target to raise the proportion of people of working age in employment from 75% to 80% (from 56% to 70% for sole parents). The Minister announced a review of the government’s activation strategy including benefit conditionality and more ‘flexible’ approaches to employment assistance (Department for Work and Pensions, 2006; House of Commons Work and Pensions Committee, 2007).

172 The WBLA program was abolished in favour of a ‘Skills Account’ offering free access to training up to a Year 12 equivalent qualification level for employed and unemployed people. (Department for Work and Pensions & Department for Innovation Universities and Skills, 2007; House of Commons Work and Pensions Committee, 2007, p38). Activity requirements for Jobseeker’s Allowance limited time spent in training to 16 hours a week. This was eased slightly to allow up to eight weeks of fulltime training.

173 In 2005, with unemployment at a cyclical low of 4.7%, only 49% of people with disabilities and 53% of sole parents were employed, compared with 75% of the working age population (House of Commons Work and Pensions Committee, 2007).
(4) The flexibility agenda

After seven years’ experience with the New Deals, policy makers, experts, and welfare advocates concluded that a more flexible system of employment assistance was needed to bring these new target groups into activation:

‘We have a system that is based on rules according to what benefits you have moved on to – the unemployed, partners of the sick and disabled, the sick and disabled themselves, and lone parents. They all have complex and highly variable systems of rules ... We need to move towards a system that I would describe as personalised welfare where the support package to help the individual back to work is tailored to that individual’s needs. ... The providers should be incentivised on the basis of getting people back to work.’ (Gregg, P cited in House of Commons Work and Pensions Committee, 2007, p19)

Employment Zones became the standard bearer for a new, personalised approach. A review of official evaluation findings compared net employment impacts of the Zones with equivalent New Deals, with mixed results (Griffiths & Durkin, 2007). The Zones achieved better employment outcomes over the shorter term (12 months after commencement in the program) but the longer-term results (six to 12 months later) were not significantly different from those of the ND25+. Both results were attributed to the program’s incentives to pursue quick employment outcomes:174

‘EZs appear to achieve their better results through a combination of financial and operational flexibilities and a highly incentivised funding regime which focuses all efforts on achieving job placements that sustain for 13 weeks’ (Griffiths & Durkin, 2007, p3).

‘This particular funding device helps explain why job search, job preparation and short work-focussed training courses tend to be used in preference to longer and more structured programs of training and assistance. ... The work first approach is thus a direct consequence of the way in which EZs are funded and incentivised’ (Griffiths & Durkin, 2007, p18).

(5) Bringing it all together: the Freud Report

There were tensions between the competing policy ideas discussed above. Performance-based funding was likely to favour a work first approach, which was more effective in the short-term but had more doubtful long-term impacts (Petrongolo, 2008). Yet investment in longer-term work experience and training programs and their extension to new target groups would

174 Measuring employment outcomes 12 months after commencement (five months after the period of ‘intensive activity’) captured the effect of a payment system that rewarded providers for outcomes sustained for three months. On this basis, participation in the Zones increased the probability of employment for long-term unemployed adults by 10 percentage points. When their longer-term employment outcomes (18 to 20 months after referral) were compared with the ND25+, the difference was not statistically significant (Griffiths & Durkin, 2007).
be more costly at a time when the ‘windfall levy’ had expired and the budget was under pressure (Beale, 2005; Finn & Schulte, 2008).\textsuperscript{175}

To resolve these tensions, a new employment services model was recommended in a 2007 Report to the DWP by David Freud (Freud, 2007), an investment banker:

‘s\'o a whole suite of policy ideas there, but it\'s the public sector reform, the benefit transfer, and the churn, and then the extension of activation to these new groups that comes out of that, ...were all pulled together in the Freud Report.’ (Academic 1, United Kingdom)

The Freud Report favoured replacing national programs such as the New Deal Options with performance-based purchasing of employment services for long-term unemployed people from competing non-government providers, as in the Employment Zones:

‘Employment Zone providers emphasise a ‘work first’ approach, holistic one-to-one support that considers personal barriers to work as well as employment-related barriers, flexibility in provision, regular contact, and job matching. In short [it] combines the most important elements of the JSA regime with what works from the New Deals.’ (Freud, 2007, p55)

While the Report gestured towards the Leitch Report’s arguments for skills development, the reference to ‘work first’ signalled its preference for supervised job search over new investment in work experience and training programs:

‘Evidence from the OECD also suggests that activation policies that focus on assisted job search tend to be the most successful ...where providers have flexibility over provision they tend to focus on the most efficient, and work-focussed, interventions - in particular around intensive adviser support.’ (Freud, 2007, p44)

A key attraction of performance-based contracting was the idea that financial risk could be shifted to private providers by in effect converting future unemployment payments into a funding stream for employment services (Freud, 2007; House of Commons Work and Pensions Committee, 2007).\textsuperscript{176}

‘Outcome based contracts, properly managed, mean that the Government can pay by results, so that contractors rather than the Department bear a greater share of the risk.’ (Freud, 2007, p52)

\textsuperscript{175} Annual expenditure on employment assistance for unemployed people, still low by OECD standards, was rising as the New Deals expanded, from 0.22% of GDP in 1998 to a peak of 0.28% in 2004. Measured as a percentage of GDP per capita per unemployed person, the rise was steeper: from 0.14% in 1998 to 0.33% in 2004 (OECD, various years-d and author’s calculations).

\textsuperscript{176} Despite their emphasis on job search assistance, the Employment Zones were more costly on average than the New Deals, due to the more extended nature of intensive job search support (Griffiths & Durkin, 2007). The goal was to reduce those costs over time.
Performance-based contracting would build on a ‘high volume, low cost’ model for employment services already in place:

‘Well we’re driven by the sort of per unit costs and you know, there has been a progressive reduction over the period. New Deals early on, it was probably still paying out at around about 2,000 pounds, maybe two and a half thousand pounds and FND [Flexible New Deal] was considerably less and Work Program was less again. Now, ...that’s feasible within a program design that does have the Gateway upfront and is high-volume, low-cost, moves people onto other destinations.’ (Non-government service provider, United Kingdom)


In 2007, the government published a White Paper on welfare reform in which it presented its plans to extend activity requirements to sole parents and people with disabilities and replace the various New Deals with a single ‘Flexible New Deal’ (FND) funded along the lines advocated by Freud (Department for Work and Pensions, 2007c).

First, it announced that Incapacity Benefit and Income Support for people with disabilities would be replaced with an ‘Employment and Support Allowance’. (Department for Work and Pensions, 2007c). Those assessed as ‘employment ready’ would be required to undertake work focused interviews and work preparation activities and receive the ‘Employment’ component of the new payment. Those not considered ready for employment would not face activity requirements and would instead receive the ‘Support’ component.

Second, sole parents whose youngest child was over 11 would be required to seek paid employment and participate in employment programs, with exemptions for those unable to secure child care (Department for Work and Pensions, 2007c).

Third, the FND would replace the various New Deals which were no longer considered cost-effective (Department for Work and Pensions, 2007b, 2008b):

‘The Flexible New Deal was something that came out of DWP. So that was officials-led. In a sense they felt that the New Deal as such had run its course and that they wanted to both re-energise it but also to reconfigure it with an emphasis on the parts which were cheaper and deemed to be more effective.’ (Academic 2, United Kingdom)

The expected flows of unemployed people through the new employment services system are shown in Figure 12.
Responsibility for employment assistance would remain with JobCentre Plus for the first 12 months of payment (Department for Work and Pensions, 2007a). Then, they would be transferred to non-government FND providers to assist them to find a job over the next 12 months. FND providers would undertake an initial assessment, develop an action plan, and interview clients regularly, but beyond this the form of employment assistance was not specified. Instead, 80% of their funding would come from employment outcome-based payments.  

The New Deal Options were replaced by a much shorter four-week ‘mandatory work-related activity’ to be offered by FND providers, and those who left the FND without finding employment could be required to undertake a period of compulsory fulltime ‘work for your benefit’ (Department for Work and Pensions, 2007a, 2008a). The short duration of the mandatory activity and introduction of work-for-your-benefits pilots indicate that these activities were mandated with threat effects in mind:

‘A period of fulltime mandatory activity within the FND model maintains a founding principle of the New Deals since 1998, that no jobseeker can choose a lifetime on benefits... Mandatory activity works through a number of routes including ...refreshing basic employability habits and

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177 Critics of the purchasing model raised concerns about the lack of differentiation in fee levels according to labour market disadvantage, arguing this would lead to ‘parking’ of harder-to-place jobseekers (Mulheirn & Menne, 2008)
The FND was budgeted on the basis that it would not increase the overall cost of employment assistance for long-term unemployed people, despite the entry of the abovementioned ‘new groups’ into the activation system:

‘The cost of the Flexible New Deal stage has been estimated based on the ...EZs and New Deals. We expect to drive efficiencies through increasing the size and scale of the contracts, intervening earlier for jobseekers over 25 years and bearing down on EZ costs, which are particularly high (Department for Work and Pensions, 2007c, p19).’

It was piloted in 2009 but before it was extended to more regions the funding model was adjusted in light of the recession of the previous year (Department for Work and Pensions, 2012a). In 2010, the labour party lost government and the incoming conservative-liberal government replaced it with the ‘Work Program’ (Department for Work and Pensions, 2011). This was broadly similar in design to FND, but with a much greater emphasis on payment for sustained employment outcomes.

B7. The character of activation in the second phase

(1) Activity requirements

According to the Danish Finance Ministry’s Index, in 2004 activity requirements for Jobseeker’s Allowance and their enforcement were still less stringent (returning a score of 2.4 out of 5) than the OECD average (2.9) (Hasselpflug, 2005).

The below-average score was consistent with its relatively lenient activity requirements before activation policies were introduced. The Danish survey takes account of activity requirements, monitoring and penalties. One area where the United Kingdom was relatively strict was monitoring of compliance with activity requirements.  

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178 In that year, in response to the recession, the labour government also introduced a six-month wage subsidy scheme for long-term unemployed young people called the ‘Future Jobs Fund’ as part of a ‘Youth Guarantee’ which also offered vocational training for early school leavers (Berry, 2014). The program was abolished by the newly-elected conservative-liberal alliance government in 2010.

179 In a later study, albeit in 2011, the OECD concluded that: ‘the United Kingdom was one of the four strictest OECD countries (alongside Portugal, the Slovak Republic and Australia) for job-search monitoring in 2011 (OECD, 2014a; Venn, 2012)."
The new government largely maintained the legislated activity requirements inherited from the conservatives, and increased sanctions for unemployed people who did not join compulsory employment programs. The main change to the intensity of activation was the use of the New Deal programs to more closely monitor job search (for example, the NDYP Gateway) and the threat effects of universal referral to programs at certain points in the unemployment spell (for example the NDYP Options) (Blundell, 2003).

Few unemployment payment recipients were exempted from activity requirements. As shown in Table 5 (below), in 1998, 10% of Unemployment Benefit recipients in the United Kingdom were not actively seeking and available for employment (Rayner et al., 2000).

On the other hand, the United Kingdom was slower to extend requirements to parents caring for school age children than most other OECD countries (Carcillo & Grubb, 2006).

(2) Employment assistance

Employment programs in the second phase, from the early New Deals (from 1998 to 2001) to the FND (in 2009) are also profiled separately in Table 5.

Table 5: Activation rate and distribution of employment program places for long-term unemployment payment recipients (United Kingdom 1998-2009)

<table>
<thead>
<tr>
<th>(a) Rate of activation (1998)</th>
<th>Number of recipients</th>
<th>Percentage of recipients currently activated</th>
<th>Percentage of long-term recipients currently activated</th>
<th>Number of employment program places (1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobseekers Allowance</td>
<td>1,350,000</td>
<td>90</td>
<td>n.a.</td>
<td>588,000</td>
</tr>
</tbody>
</table>

180 In addition to a loss of benefits for two weeks for a first breach of requirements and 4 weeks for a second breach, a new penalty of 26 weeks off benefits was introduced for a third breach committed within a 12 month period (Beale, 2005).

181 Unfortunately, more recent data on the labour force status of unemployment payment recipients have not been published. However, as discussed in Attachment 5, the exemption rate was likely to be lower than this at the end of the study period.
(b) Distribution and character of employment program places (1999-2009)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group and services provided</th>
<th>Number and percentage of program places (^3)</th>
<th>Unit cost (Ecu in 2000 prices)</th>
<th>Predominant character (and percentage of places)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Original New Deal programs (1999-01)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Deal for Young People (1999-00)</td>
<td>Under 25 years and on Jobseeker’s Allowance over 6 months; Employment counselling, supervised job search assistance and work experience and training options</td>
<td>190,000 (33%)</td>
<td>2,250</td>
<td>Modest capacity-building: (33% comprising: 60% job search assistance, 26% capacity-building, 6% incentive-strengthening, 6% income protection)</td>
</tr>
<tr>
<td>New Deal for LTU Adults (1999-00)</td>
<td>25-49 years and on Jobseeker’s Allowance over 24 months; Employment counselling, supervised job search assistance, and more limited investment in work experience and training</td>
<td>135,000 (23%)</td>
<td>825 (^4)</td>
<td>Modest capacity-building (23% comprising: 81% job search assistance, 14% capacity-building)</td>
</tr>
<tr>
<td>New Deal for Lone Parents (1999-00)</td>
<td>Sole parent on Income Support, youngest child over 5 years; Employment counselling, job search assistance and access to short training programs</td>
<td>92,000 (16%)</td>
<td>600</td>
<td>Modest capacity-building (16% comprising: 64% job search assistance, 36% capacity-building)</td>
</tr>
<tr>
<td><strong>Program</strong></td>
<td><strong>Main target group and services provided</strong></td>
<td><strong>Number and percentage of program places (^3)</strong></td>
<td><strong>Unit cost (Ecu in 2000 prices)</strong></td>
<td><strong>Predominant character (and percentage of places)</strong></td>
</tr>
<tr>
<td>New Deal for Disabled People (NDDP) (1998-00)</td>
<td>People with disabilities on Incapacity Benefit or Income Support Employment counselling, job search assistance and access to short rehabilitation and training programs</td>
<td>8,000 (1%)</td>
<td>3,750</td>
<td>Not classified (1%)</td>
</tr>
<tr>
<td>Work Based Learning for Adults (2001-02)</td>
<td>Over 24 years and on Jobseeker’s Allowance over 12 months; Short or longer term vocational or basic skills training for up to 12 months</td>
<td>108,000 (19%)</td>
<td>3,070</td>
<td>Capacity building (19%)</td>
</tr>
</tbody>
</table>
Program | Main target group and services provided | Number and percentage of program places | Unit cost (Ecu in 2000 prices) | Predominant character (and percentage of places)
--- | --- | --- | --- | ---
Employment Zones (2000-01) | Private providers paid for employment outcomes for long-term unemployed people, mainly job search assistance | 42,100 (7%) | 4,350 | Not classified (7%)
StepUp (2002) | 50 weeks' employment at minimum wage, with mentoring and training, for long-term unemployed who left the New Deals without obtaining a job | 1,500 (0.3%) | 13,000 | Capacity building (0%)
All | | 577,000 (100%) | 1,200m | Modest capacity-building: (37%)

2. Flexible New Deal (2009-11)

| Flexible New Deal (2009-11) | | 408,000 | 2,250 | Incentive-strengthening |

Notes:
n.a. = not available
1. Point in time estimates.
2. Those not exempted from activity requirements.
3. These are flows data.
5. Total, not unit cost, in 2001, in Ecu millions.

Sources:
For the activation rate:
Attachment 5 explains the derivation of these estimates of the activation rate, together with sources.
For employment programs:
Attachment 6 outlines how these assessments of their predominant character were derived, together with sources.

The main ‘original New Deal’ programs targeting long-term unemployed in 1999-2001 were New Deal for Young People (with 33% of places), New Deal for Long-term Unemployed (23%), New Deal for Lone Parents (16%), New Deal for Disabled People (1%), Work Based Learning for Adults (19%), Employment Zones (7%), and StepUp (0.3%).

The NDYP combined a Gateway of intensive job search assistance (with 60% of places at a point in time) which we have not classified; the Employment and Education Options (with 26% of places) with a capacity-building character; an Environmental Task Force (with 6% of places) with a work incentive-strengthening character; and a Voluntary Work Option (with 6% of places) with an income-protection character.
Since 26% of participants received capacity-building assistance and 6% received assistance with an income protection or incentive-strengthening character respectively, the NDYP had a modest capacity-building character overall.

Similarly, of the 19% of NDLTU participants who received more than job search assistance, 14% received subsidised employment or vocational training, so it had a modest capacity-building character. The NDLP, where 36% of participants received training or job retention support, also had a modest capacity-building character.

Given its education and training focus, WBLA had a capacity-building character along with the much smaller StepUp scheme that offered more intensive work experience in a regular job together with training.

Given the financial incentives for providers to place people quickly in employment, the Employment Zones mainly offered job search assistance, which we have not classified (Griffiths & Durkin, 2007).

There is no detailed breakdown of the assistance provided to people with disabilities in the NDDP, though this program was modest in scale, with 8,000 participants (Beale, 2005; Millar, 2000).

On the whole, employment assistance for long-term unemployed people during the early New Deal period (1998-01) had a modest capacity-building character, with 37% of places in capacity-building programs, or components of hybrid programs such as NDYP.

As with the Employment Zones on which it was modelled, the outcomes-based purchasing system of the FND discouraged significant investment in capacity-building because providers had 12 months to secure jobs lasting three to six months that attracted outcome payments (Bredgaard, Larsen, & Moller, 2005; Griffiths & Durkin, 2007).

Data on the forms of help offered in the FND (Appendix 6) indicates that job search assistance and work-for-benefits overwhelmed the much weaker investment in wage subsidies and training, compared with NDYP. This gave the FND a predominant incentive-strengthening character.182

182 The ‘work for your benefit’ scheme was later re-named but its content was consistent with the original title (Vegeris et al., 2010).
In addition, the character of the job search assistance, which was the main help received, changed with the removal of support from PES personal advisors:

“Well, the Flexible New Deal was the first one where they got rid of the personal advisor and they got rid of the follow through - it became much more harsh. It wasn’t about what is the best [help]. It was more conditionality than: ‘we can help you but you’ve got to take up the help’.” (Official, Employment Ministry United Kingdom)

In the first half of the second phase, the labour government adopted a modest capacity-building approach to employment assistance for long-term unemployed people through its early New Deal programs. At the end of that phase, as it struggled to extend activation and employment programs to sole parents and people with disabilities while containing budgetary costs, it stripped away most of the capacity-building elements of the New Deals, leaving a combination of supervised job search and a work-for-benefits scheme in the FND, which had an overall incentive-strengthening character. The mechanism by which this shift was made (as in Australia) was the displacement of capacity-building programs by a system of performance-based contracting.

The combination of supervised job search and work-for-benefits in the FND harked back to the last iteration of employment assistance for long term unemployed people announced by the conservatives, Project Work.

(3) Financial work incentives

By 2001, 1,250,000 families received the ‘Working Families Tax Credit’ (WFTC) - over 50% more than received Family Credit - at an overall cost of GBP6,000 million (Robinson, 2000).

A comparison of the cost of this initiative with the GBP800 spent on employment assistance for long-term unemployed people in 2001 (the peak year for such expenditure during the second phase) suggests that ‘making work pay’ was given greater priority than capacity-building programs to assist people disadvantaged in the labour market. (Finn & Schulte, 2008; Robinson, 2000).

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183 In 2003, a new Child Tax Credit replaced WFTC at a cost of an extra GBP2,700 million (Brewer, 2003).
Conclusions

The British system of limited labour market regulation, low minimum wages and unemployment payments, and limited investment in employment assistance were consistent with the Liberal welfare regime (Esping Andersen, 1999).

A majoritarian political system, weak corporatism, and the limited role played by sub-national governments in activation policy, left the party in power in the United Kingdom in a relatively strong position to restructure benefits and employment assistance.

This was demonstrated when activation policies were introduced by the conservative government in the late 1980s. In this politically turbulent period, systemic change was undertaken in labour market regulation (including removal of corporatist regulation of the labour market and training systems), and new paradigms (economic liberalism, structural unemployment, and activation) reshaped political discourse (Crouch, 1997; Hall, 1993). Systemic change also occurred in the benefits and employment services systems, including the dismantling of the MSC, bringing the PES under direct bureaucratic control, and replacing separate social insurance and social assistance payments for unemployed people with the Jobseeker’s Allowance (Finn & Schulte, 2007; King, 1993).

By the end of the first phase, employment assistance for long-term unemployed people had an incentive-strengthening character, centred on supervised job search through the Restart interviews and associated programs. The activation paradigm placed a strong emphasis on the ‘duty’ of unemployed people to search for jobs and join employment programs, and much less emphasis on their ‘right’ to employment assistance.

It is tempting to conclude that this was the result of a conservative government informed by liberal economic ideas and in a strong position to implement them. Yet the first iteration of its activation policy placed stress on training for long-term unemployed people to assist them to adjust to a restructuring labour market. Further, when the Labour party formed government in 1997 it retained the core elements of the benefit structure, activity requirements, and the ‘Restart model’ of employment assistance introduced by the conservatives (Secretary of State for Employment, 1988; Secretary of State for Social Security, 1998).

These ‘overlaps’ between the employment assistance policies of two opposing parties suggest that the character of employment assistance was shaped by more than the political preferences of the party in government. Path dependency in the key institutions shaping 184 The newly-announced ‘Project Work’ scheme added compulsory participation in a work-for-benefits program to these elements (Employment Service, 1998).
employment policies explains much of the consistency, and apparent bi-partisanship, in activation policy throughout the study period. This took three forms.

First, certain features of the British labour market privileged an incentive-strengthening approach to employment assistance: light labour market regulation (including low minimum wages), relatively high job turnover, a large share of low-skilled workers, and a growing share of low-skilled jobs (Berry, 2014). One implication was that access to jobs for low-skilled unemployed people was more direct and less mediated by training requirements and corporatist modes of regulation:

‘the entry points in both - to work, in both the Netherlands and Denmark to some extent are more formal than they are in the UK. ... There's much more unionisation. There's much more tripartism. There is a segmented labour market. So if you want to undertake better jobs and do training for better jobs those better jobs are all in ...the sort of standard labour market. ... That sometimes means that they need to get to a higher level possibly in order to get into this more formal element. ...Whereas in the UK... there's big advantages of having lots of opportunities but it isn't half wasteful in terms of information. You just need (a) to know what the opportunities are and (b) you just need someone kicking you to keep on looking for them.’ (Official, Employment Ministry, United Kingdom)

All things equal, this privileged an incentive-strengthening approach to activation.

Second, the United Kingdom had a ‘one-and-a-half income’ model of family workforce participation throughout the study period. (Lewis et al., 2008). A key tension in that model was low rates of pay in the jobs available to mothers with limited qualifications, which reduced financial returns from part time jobs (Blundell et al., 2000). These factors help explain two aspects activation policies for sole parents: the strong emphasis on boosting financial work incentives through in-work tax credits under both governments, and the delayed extension of activity requirements to those with school-age children (which at the least required substantial public investment in child care, in-work benefits, and employment assistance) (Harker, 2006).

Third, the United Kingdom had a long tradition of supervised job search through the PES. This was held in abeyance during the corporatist experiment in the 1970s and 80s, but restored and intensified by the conservative government (Wells, 2001). Professor Minford, who advised that government on labour market policy, later commented that:

‘this pushing and pressuring [of unemployed people] ..is actually a very old-fashioned idea, in fact, it goes back before Beveridge, it goes back to the Poor Laws, that you should be rather

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185 Against this, high child care costs discouraged longer working hours.
tough in eligibility conditions and the Employment Service should be very tough in its administration of these benefits in terms of eligibility.’ (Minford & Layard, 1997, p6)

These factors reinforced and stabilised (and in the case of the supervisory role of the PES, reinstated) long-standing ‘traditions’ in employment and welfare policy including a ‘work first’ approach to employment assistance (emphasising rapid transitions to employment), regular contact with unemployed people and supervised job search, and the priority given to financial work incentives for unemployed people.

Other factors disrupted the status quo, especially in the politically turbulent period when activation policies were first introduced.

The dismantling of corporatist governance in employment services and training, especially the abolition of the MSC, reduced union influence over activation policies and drove a wedge between ‘training’ programs run by the Training and Enterprise Councils and ‘employment’ programs run by the Employment Department. Along with the realisation that long-term unemployment could be reduced through the threat effect of Restart interviews, this was pivotal in the progressive winding back of training programs in favour of supervised job search in the first phase (Price, 2000).

Similarly, the progressive dismantling of unemployment insurance, and the ‘homogenisation’ of benefits for unemployed people through the Jobseeker’s Allowance, smoothed the path to activation, especially requirements and employment programs that ‘pushed and pressured’ unemployed people to leave benefits:

‘the fact that we don’t have a social insurance system anymore, does give – the social insurance makes the benefits feel like rights and entitlements to the recipients, that it’s their money. Which means that the activational stuff is more naturally applied to social assistance.’ (Academic 2, United Kingdom)

One of the interesting findings in this chapter is that after a period of political turbulence and systemic change in the 1980s, most changes in activation policy were gradual and evolutionary.

When the labour party formed government in 1997, it did not attempt to restore corporatist governance in the labour market, raise unemployment payments, or reverse the Jobseeker’s Allowance reform to restore unemployment insurance. After a long period in opposition, labour was hemmed in by the paradigm shift towards economically-liberal policies and the structural changes to labour market institutions made by the conservatives (Crouch, 1997; Hall, 1993).

Instead, along with other European social-democratic parties and the democratic party in the United States, the new government laid claim to the activation and NPM paradigms, re-
branding these as part of a ‘third way’ approach between liberal and social-democratic thinking (Blair & Schroeder, 1998). The activation paradigm, centred on a ‘contract for welfare’ with ‘rights and responsibilities on all sides’ was well-suited to the political re-branding of ‘New Labour’ (Secretary of State for Social Security, 1998, p19).

The OECD and European Commission influenced British activation policies more through the prestige associated with a leading international role in social policy rather than detailed policy learning. In borrowing policy ideas from other countries, the United Kingdom leaned towards English-speaking countries with Liberal welfare regimes.

Employment assistance was reformed mostly by ‘layering’ new elements on top of existing systems. A key example was the conversion of the Restart interviews and stand-alone wage subsidy and training programs into labour’s landmark employment program: the NDYP (Finn & Schulte, 2007; Streeck & Thelen, 2005). The result was a hybrid scheme that combined job search assistance (Gateway) and capacity-building elements (Options), giving it a modest capacity-building character.

The other key element of labour’s activation policies was a major expansion of employment-based tax credits to ‘make work pay’ (Blundell & Meghir, 2001). Much more was spent on these incentive-strengthening reforms than on employment programs.186 By subsidising low pay, they complemented a work first approach to activation.

The main challenges to that approach, which became more acute towards the end of the study period, were a high level of ‘churn’ between relatively insecure low skilled jobs and benefits, and the more disadvantaged profile of long-term unemployed people as unemployment fell (Cappellari & Jenkins, 2008; Finn & Schulte, 2007; Leitch, 2006).

On the other hand, growth in low-skilled jobs had until this stage made room for the United Kingdom to reduce long-term unemployment without up-skilling unemployed people, and evaluations indicated that supervised job search assistance was effective in improving the employment prospects of less-disadvantaged unemployed people at much lower cost (Dorsett, 2004; Oesch, 2015). This was an important consideration, given the government’s plans to extend activation to new groups and reduce the budget deficit (Department for Work and Pensions, 2007a).

The Freud Report offered a solution to these policy tensions based on the NPM paradigm: by contracting out employment services for long-term unemployed people and paying providers

186 In its first year, GBP6,000 million was spent on the Working Families Tax Credit, compared with GBP800 million for the New Deals (Finn & Schulte, 2008; Robinson, 2000).
to employment outcomes in line with future benefit savings from activation, the government could extend it to more people at a lower unit cost (Freud, 2007):

‘the magical solution is we pay for this through future benefit savings and the prior contracting model.’ (Academic 1, United Kingdom)

Here the NPM paradigm provided a solution to a policy dilemma, rather than acting as the driver of change in its own right. Once implemented through the FND, outcomes-based purchasing of employment assistance nevertheless impacted on the form of assistance provided, privileging job search assistance over work experience and training. The FND stripped back the capacity-building elements of the NDYP and replaced them with four weeks of ‘mandatory work-related activity’ designed with incentive effects in mind (Department for Work and Pensions, 2007a).

Labour had attempted to re-engineer employment services in a way that combined work-incentive and capacity-building approaches but with the demise of unemployment insurance, the MSC and corporatist governance arrangements, and a labour market with low minimum wages and a large low-skilled sector, this hybrid model lacked a firm institutional foundation:

‘it [employment programs in Denmark and Holland] grew out of that kind of logic which firmly put a work backstop or a work training backstop ... at the end of your [unemployment insurance benefit] period, and the [job] search part of it was very much the bit that you added on. Whereas our stuff was this pure social assistance model [which].. pushed people .. to look at [job search] support. But there was no logic to integrate the two together. In a sense there was no institutional setting which created that. It had to be externally forced in, which Labour did, but it hasn’t survived.’ (Academic 2, United Kingdom)
Chapter 7: Development of activation policies in the Netherlands

Introduction

The Netherlands was characterised by Esping Andersen as a ‘hybrid’ welfare regime containing elements of the Conservative and Social Democratic regimes (Esping Andersen, 1999). Consistent with the Conservative regime, it had relatively low female employment participation at the start of the study period and a corporatist system of labour market governance (Hartog, 1999). Consistent with the Social Democratic regime, it had relatively high unemployment payments and investment in employment assistance. A consensual political system with an emphasis on ‘subsidiarity’ or decentralised responsibility combined to form the Dutch ‘polder model’ of cooperative governance (Becker, 2000; Kuipers, 2006).

The Netherlands gained notoriety in the early 1980s as ‘the sick man of Europe’ with an unemployment rate close to 10% and heavy reliance on disability benefits (de Jong, 1999; Visser & Hemerijck, 1997). It then forged a reputation for labour market success when unemployment was reduced to 7% in 1990 and less than 3% in 2000, half the OECD average (OECD, various years-c). Wage moderation achieved through corporatist collaboration, and an easing of tight labour market regulation which made room for rapid growth in female part-time employment, were among the factors judged to have contributed to this ‘Dutch miracle’ (Hartog, 1999; Visser & Hemerijck, 1997).

There was considerable turbulence in the political and labour market institutions throughout the study period, as an unusual labour-liberal government was formed and elements of the corporatist system were dismantled and reformed (Kuipers, 2006). This included systems of governance, funding and control of unemployment payments and employment assistance which were restructured throughout the study period. (de Koning, 2010).

Two phases of activation reforms are identified (Sol & Westerveld, 2008). The first (Part A), began in 1995 with the decision of the labour-liberal government to expand subsidised public jobs for long-term unemployed people and require participation in these and other employment assistance programs. The second (Part B) began with a restructure of benefits and employment assistance pursuant to the ‘Work and Income Reorganisation (SUWI) Act’ and ‘Work and Benefits (WWB)’ Act and the shift to a conservative-liberal Government in 2002. A key development in this phase was decentralisation of responsibility for employment services for social assistance recipients to municipalities. The implications of these governance
changes, together with broader political and labour market settings, for the character of employment services is assessed.

(1) The backdrop to activation policies: the main benefits and employment programs for unemployed people

Unemployment insurance payments paid under the Werkloosheidswet (hereafter WW) scheme were time-limited and restricted to unemployed people registered with the Public Employment Service (PES) who met minimum employment and contribution requirements (Kuipers, 2006; Sol & Westerveld, 2008).187

In 1990 the maximum rate of payment was 70% of the previous wage up to a ceiling, resulting in a relatively high benefits by OECD standards (Eurostat, various years-b; Sol & Westerveld, 2008).188 Consistent with the Conservative welfare regime there was considerable variation in rates of payment, depending on the previous wage.189

Unemployed people whose insurance entitlements expired and others lacking private means of support received municipal social assistance payments under the Abw (Algemene Bijstandswet) scheme, later renamed Wet Werk en Bijstand (WWB) (Eurostat, various years-b; Sol & Westerveld, 2008). These payments, financed by central government and administered by municipalities, were available to individuals in low-income households.

In contrast to Denmark, where unemployment insurance was more widely accessible, in 1990 over twice as many Dutch unemployment payment recipients relied on social assistance than unemployment insurance payments (Attachment 5).

A key feature of Dutch social assistance was the legislative link between benefits and the statutory minimum wage – the so-called ‘net-net link’ (Stigter, 1997). In 1990 benefits for couples were set at 100% of the minimum wage after tax, payments for single adults at 70% and for sole parents at 90%. Modest child and housing benefits were also paid.

The Dutch disability insurance scheme or Wet op de Arbeidsongeschiktheidsverzekering (WAO) was one of the most comprehensive in the OECD (Kuipers, 2006). From 1976, it incorporated occupational disability insurance (worker’s compensation) within a social security payment for people experiencing a loss of earning capacity due to disability (de Jong, 1999).

187 Rates, eligibility conditions, and numbers of recipients are detailed in Attachment 5.
188 In 2001 the OECD summary measure of net unemployment benefit replacement rates for the Netherlands was 70%, well above the OECD-average figure of 59% (OECD, various years-a).
189 This was due in part to a high maximum payment of Ecu1,920 per month (Attachment 5).
As Figure 13 shows, the study period was a time of declining unemployment and reliance on unemployment payments, with the exception of a modest rise in unemployment in the early 2000s. From 1993, reliance on unemployment insurance followed a similar pattern to unemployment. Reflecting their greater distance from the labour market, reliance on social assistance was not as responsive to reductions in unemployment.

Figure 13: Unemployment and reliance on unemployment payments in the Netherlands (1990-2007)

Sources:
Central Bureau of Statistics (various years); Groot I et al (2008); OECD (various years), Labour market statistics database.
Note:
‘Unemployment insurance’ refers to the WW payment. ‘Social assistance’ refers to the Abw and WWB payments.
These statistics are expressed as a proportion of all individuals of working age, so unemployment rates shown here are lower than those usually cited in labour market surveys, which are expressed in proportion to the labour force.

In 1990 employment assistance was provided by the Public Employment Service (PES), a central government instrumentality. Unemployment insurance recipients, and those social assistance clients considered ready for employment, were required to register with the PES, which provided job search and job matching assistance and administered employment programs including vocational training and wage subsidies. Participation in programs was voluntary.
In 1998, the Netherlands had among the highest expenditures on employment assistance for unemployed people (excluding disability programs) in the OECD, spending 22.07% of GDP per capita per unemployed person compared with the OECD average of 9.02% (OECD, various years-d).

A. The first phase of activation policy (1994-2002)

A1. The role of surrounding institutions

(1) Labour market history and structure

Early policy responses to high unemployment and long-term unemployment

Activation policies were part of a broader policy response to fiscal and economic pressures arising from high and entrenched long-term unemployment and reliance on disability pensions during the 1980s. These challenges were especially acute in the Netherlands, due to policy settings and labour market outcomes consistent with the Conservative welfare regime including low workforce participation (especially among women), a preference for strict job protection and generous income protection with few activity requirements for prime age men. (Esping Andersen, 1999; Palier, 2010).

High long-term unemployment was a legacy of recessions in the 1970s and 1980s and what was described as a ‘social security trap’: a cycle of higher labour costs (due to wages growth for skilled workers and associated social security premiums), shedding of low-skilled workers, and higher social security costs (Hartog, 1999; Stigter, 1997).

During the 1980s, employment policies focussed on the demand side of the labour market. Their key aim was to boost low-skilled employment through reductions in minimum wages, employer social security contributions concessions and wage subsidies for employers of low-paid workers, together with a partial liberalisation of income protection laws (Hartog, 1999; van Berkel & Schampheleire, 2001; van Opstal, Roodenburg, & Welters, 1998).

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Footnote: From 1980 to 1990, the share of people of working age not in paid employment rose from 31.9% to 41.8% (Eurofound, 2002; van Oorschot, 2002). This included a rise of 192,000 in disability benefit recipients and 359,000 in social assistance clients (van Oorschot, 2002). In 1985, 12% of the labour force was unemployed and another 11% received disability pensions (de Jong, 1999). In 1990, 3.7% of the labour force (45% of all unemployed people) compared with an OECD average of 2.0% (31%) were unemployed long-term.
The social partners (peak union and employer organisations) played a prominent supporting role when, fearing a loss of power to bargain independently, they negotiated a three-year wage freeze in the ‘Wassenaar agreement’ of 1982 (Visser & Hemerijck, 1997). The agreement included reduced working hours and liberalisation of rules restricting part-time employment. It was widely regarded as a turning point in labour market policy (Visser & Hemerijck, 1997):

‘I don’t know whether you’ve ever heard of it but in Holland we are always very...how do you say that? proud of our Wassenaar Agreement.’ (Municipal service provider, Netherlands)

These policies were associated with strong employment growth (especially part-time jobs for women), and the emergence of a secondary labour market of low-skilled ‘flexible’ jobs managed by labour-hire companies (Hartog, 1999; Sol, 2002).191

**Labour market structure in 1990**

At 62% of the working age population, the employment rate in 1990 was lower than the OECD average (66%) (OECD, various years-c). A major reason was the still low female employment rate (47% compared with the OECD average of 54%).

At the start of the study period, family workforce participation was consistent with the ‘male-breadwinner model’ (Esping Andersen, 1999; Kremer, 2001; Lewis, 2001). In 1990, just 45% of mothers of children under 14 years were employed (compared with an OECD average of 54%), of whom 87% were employed part-time (Le Feuvre, 1996). Access to formal child care was limited. In 1992 less than 2% of children under three years old were in day care centres. (Netherlands Scientific Council for Government Policy, 1990). However, that model was being disrupted by growth in female part-time employment unleashed by the Wassenaar agreement.192

Labour turnover was relatively low. The average job-finding rate for unemployed people was 2.3% in the next month, well below the 5.7% for 22 OECD countries surveyed (Hobijn & Sahin, 2007).193 This posed a special challenge for activation policy in the Netherlands (Gerritsen & Hoj, 2013).194 Low job turnover was associated with relatively strict employment protection

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191 Throughout the 1980s, real wage growth was zero, employment grew by 9%, but average annual working hours fell from 1,612 to 1,475 (de Jong, 1999). By 1990 32% of employees were part-time compared to a European average of 14%.

192 From 1984 to 1994, the share of couples with a male breadwinner only fell from 67% to 42%, mainly due to a rise in female part time employment (OECD, 2001a).

193 Excluding the US as an outlier at 28.2%.

194 In 1996, only 31% of unemployment insurance recipients and 18% of social assistance recipients who were unemployed for between 1-2 years secured employment within the next 12 months (Eurofound, 2002)
legislation, with relevant OECD’s index returning a score of 3.1 for the Netherlands, well above the OECD-average of 2.2 (OECD, 1999c).

People of working-age were relatively highly skilled, with 35% lacking Year 12 qualifications or above compared with an OECD average of 38%. Conversely, the labour market prospects of low-skilled workers were relatively weak, with 45% (compared with an OECD average figure of 40%) out of paid employment in 1999. The highly-skilled nature of Dutch employment was consistent with its high minimum wage, at 55% of median full-time earnings compared with an OECD average of 44% (OECD).

The unemployment rate in 1990 was 7%, slightly above the OECD average of 6% (OECD, various years-c). Of greater concern, and consistent with low job turnover, was the high rate of long-term unemployment, at 3.7% of the labour force (45% of all unemployed people) compared with an OECD average of 2.0% (31%).

Further, through the 1980s and early 1990s a growing share of low-skilled unemployed workers were channelled into a generous disability benefit scheme administered jointly by employers and union, neither of which had an interest in reintegrating people with disabilities into the labour market (Hartog 1999, Kuipers 2006). 195

(2) Corporatist labour market governance

Corporatist governance was embedded in Dutch labour market institutions (Visser & Hemerijck, 1997). After World War II, wages growth was restricted to keep Dutch industries competitive through industry-based collective agreements extended legislatively to non-unionised workers, giving governments an effective veto over pay rises. Nickell’s coordinated wage bargaining index returned a score of 3.0 for the Netherlands in 1990, well above the OECD average of 2.0 (Nickell, 2003a).

However, unions were weak at the workplace level (Hartog, 1999). They accepted wage restraint in return for industry-wide wage fixation and a seat at the table, along with employers, in national economic and social decision-making. Dialogue between national union and employer organisations was formalised outside government in a ‘Foundation of Labour’ (STAR). The social partners met together with government in the tripartite Social Economic Council (SER), a statutory advisory body which governments consulted over major policy changes.

195 By 1995, there were ninety sickness, disability or unemployment beneficiaries for every hundred low-skilled employees (Stigter, 1997).
This formal policy dialogue was underpinned by a network of expert advisory bodies including the Netherlands Scientific Council for Government Policy (WRR) from which governments commissioned reports on emerging issues (and to which they had to respond formally in Parliament), the Central Planning Bureau (CPB) which advised on economic policy and the Social and Cultural Planning Bureau (SCP) which advised on social policy (European foundation for improvement of living and working conditions, 2002).

The social partners were primarily responsible for administration of industry-based social insurance schemes, which were financed jointly by employer, employee and government contributions (Eurofound, 2002).

(3) Political institutions

Under its ‘polder model’ of cooperative governance, Dutch politics was segmented or ‘pillarised’ according to regional and religious affiliations (Becker, 2000). After World War II there were separate political parties and trade unions for people of different religions and a tradition of cooperation across economic class lines within religious or regional institutions.¹⁹⁶ A related, and defining, feature of Dutch systems of governance was the ‘subsidiarity principle’, according to which social programs should be managed by institutions closest to the community, such as unions, employers or municipal government (Becker, 2000; Evans, 2013).

These interests were balanced by a parliamentary system that was consensual rather than majoritarian (Lijphart, 2012). It was rare for a single political party to hold most seats in parliament. Governing coalitions were formed based upon formal agreements negotiated after elections (Kuipers, 2006). The major party of the Right was the liberal party (VVD) and the major party of the Left was the social-democratic party of labour (PvdA). The conservative christian democratic party (CDA) played the pivotal role in right and left-wing governing coalitions from the 1960s up to 1994.

The polder model, together a consensual parliamentary system in which the conservative party played a pivotal role, helps explain the ambiguous or ‘hybrid’ nature of the Dutch welfare regime. Esping Andersen originally classified it as a Conservative regime but by the end of

¹⁹⁶ For example, the Red Cross operated as three associations marked by different colours: yellow and white for Catholics, orange and green for Calvinists, and green for others (Goodin & Smitsman, 2000).

Polders are lands reclaimed from the sea, which the Dutch people maintained through technology (dykes and windmills) and cooperative effort. The ‘polder model’ describes a resulting ‘tradition of mutual consultation’, especially in social policy where the unions and employers were part of an ‘unofficial power circuit’ running parallel to the parliamentary system (Ministry of Social Affairs and Employment, 2005, p60)
the 1990s he argued that it also had Social Democratic features (Esping Andersen, 1990, 1999).

The need for political coalition-building and consensus often delayed or restrained reforms, but meant that they were less likely to be overturned by a change of government (Kuipers, 2006).

By the 1990s the ground was shifting under the polder model. In 1994 an unusual ‘purple coalition’ of labour and liberal parties excluding the christian democrats signalled a shift in Dutch politics as the importance of religious affiliation diminished (Becker, 2000). This lasted until 2002 and brought activation policies to the Netherlands (Sol & Westerveld, 2008).

From the early 2000s the balance of power was disrupted again by ‘protest parties’ with an anti-immigration focus, especially the ‘List Pim Fortuyn’ which backed the conservative-liberal coalition government formed in 2002 (Armingeon, 2011).

A2. Role of the proximate institutions

(1) Pressure for reform of benefits and the PES

Before the activation turn, unemployment payments with limited activity requirements, together with high take-up disability pensions, were part of a compensatory approach towards unemployment that privileged income protection over workforce participation (Becker, 2000; de Jong, 1999; Kuipers, 2006).

Hemerijck & Marx (2010) found that the Netherlands also lagged other OECD countries in the development of employment services:

‘In contrast to the domains of social security and industrial relations, there was no active labour market policy tradition to build upon. A dormant state monopoly ran job placement services which were shunned by employers and skilled workers, and over-run by the unemployed for which little could be done.’ (Hemerijck & Marx 2010, p135)

The Netherlands had a weak policy tradition of vocational training for long-term unemployed people:

‘We don’t have a real history of vocational training for long-term unemployed. ...We had a history of really high quality vocational training, but it was organised within the PES. As the PES didn’t service the long-term unemployed, they didn’t get much, or anything at all.’ (Academic 1, Netherlands)
By the early 1990s, fiscal pressures, together with concern that the high level of long-term reliance on these payments persisted despite lower unemployment, focussed policy attention on the perceived weak links in the system: disability benefits, long-term reliance on unemployment payments, and an ineffective PES.

(2) Dismantling of corporatist governance

The governance of these proximate institutions reinforced institutional path dependency favouring income protection over activation (de Koning, 2010; Stigter, 1997; van der Veen, 2000). The administration of unemployment insurance and disability benefits was divided into industry and occupation-based funds controlled by unions and employers, who had incentives to shift costs to government. Social assistance was managed by municipalities, who also lacked incentives to lift labour market participation among recipients since 90% of benefit costs were met by central government (OECD, 1998b).

The PES was a government instrumentality holding a monopoly over registration of job vacancies. It mostly confined itself to job-matching, and coordination between it and the various benefit agencies was weak (de Koning, 2007b). In 1989, the system was reformed by opening up its job matching function to competition with private recruitment agencies and introducing a new corporatist governance structure to facilitate a more proactive approach to matching jobseekers and vacancies, especially in areas of labour shortage.

As it prioritised its market share in labour recruitment, the PES neglected people who were harder to place (de Koning, 2004). The new corporatist governance system also reinforced the existing bias within the PES against disadvantaged job-seekers, many of whom received benefits from the municipalities which sat outside the corporatist governance structure. Employment programs for long-term unemployed people were poorly developed, and focussed on wage subsidies:

‘In 80s, beginning of the 90s, there was this tripartite Public Employment Service, with a lot of influence by the trade unions and the employer associations and of course, they were very eager to defend, in my words, the insiders. As a way of window dressing, they also wanted to do something for outsiders. They had an arrangement whereby these type of work experience programs came into being, but they were very restricted.’ (Academic 1, Netherlands)

Another institutional hurdle to activation was the disability benefits system. Reform of disability benefits was politically difficult, especially for the labour party since many of its constituents either received this payment or expected to in the event of injury or job loss. (Kuipers, 2006). In 1991, in a climate of fiscal crisis, the christian democrats pressed their labour party partners in government to support legislation to restrict access to disability payments to people with
severe disabilities and extend these new eligibility requirements to existing recipients. In response, 250,000 people joined a union-led demonstration against the changes. After intense public debate, they were implemented in 1993.\textsuperscript{197}

In 1992, administrative weaknesses in the disability benefit system were revealed by a Parliamentary inquiry (Buurmeijer, 1993; Kuipers, 2006). The ‘Buurmeijer Report’ was a scathing critique of the role of the social partners in the expansion of disability benefit rolls. It concluded that through lax administration of eligibility rules they engaged in ‘social dumping’ at the expense of taxpayers. It argued that corporatist governance of benefits was a barrier to labour market participation. At this time also, wage bargaining was decentralised, reducing the institutional power of the peak union and employer organisations (Stigter, 1997; van Dijk, 1995).

‘They [the social partners] were felt to have had a too big influence on, especially the administration of the social insurances. That was felt to be one of the reasons for major cost overruns so to say, in the 1980s and the 1990s. That also had an influence on how the public employment service ran at that time.’ (Official 1, Employment Ministry Netherlands)

This disability benefit ‘crisis’ was later viewed as a turning point in Dutch social policy from income protection towards employment participation (Netherlands Scientific Council for Government Policy, 1997, p17). Both labour and the christian democrats suffered major losses in the 1994 election, yet labour emerged to lead the new ‘purple coalition’ (red and blue) government with the liberal party (Kuipers, 2006).

Throughout the following decade, governments restructured the administration of benefits and labour market assistance for unemployed people. These were ‘systemic’ or ‘third order’ reforms designed to loosen the control over both exercised by the social partners (Hall & Thelen, 2009; van der Veen, 2000).

In 1995 the Van Dijk Commission reviewed the effectiveness of the PES, especially its help for people disadvantaged in the labour market (de Koning, 2007b). The Commission found that the PES offered little help to long-term unemployed people. It criticised the role of the social partners in PES administration and the lack of cooperation between social insurance agencies and the PES, which made it difficult to implement job search requirements.

The following year, the Law on the Employment Service removed the social partners from the governing board of the PES and shifted part of the funding for employment assistance from

\textsuperscript{197} Over the next two years disability benefits were withdrawn or reduced in half of all re-assessed cases (van Oorschot, 2004).
the PES to the benefit agencies (social insurance funds and municipalities), who could elect to purchase employment assistance from the PES or private ‘reintegration services’ set up by labour hire firms (Stigter, 1997). This was intended to strengthen the link between employment assistance and payment of benefits. Then in 1997 the statutory tripartite bodies that administered the industry-based social insurance funds were wound up and replaced by private bodies contracted by a new social insurance agency controlled by the government, the LISV (van der Veen, 2000).

The gap left by the dismantling of corporatist governance of benefits and the PES was filled by the progressive adoption of New Public Management (NPM) principles, especially the idea of a functional split between purchasers and providers:

‘We had a government of politicians who were strong believers in the private market which was a leading thought when they had to seek an alternative for the existing format. Because they had to remove the social partners from their responsibility which was, in Holland, quite a move and everyone felt strongly that it was necessary but everyone felt that it was a painful move.’

(Government employment service provider, Netherlands)

These dramatic governance changes were path-dependent in one key aspect. While in some respects the government asserted greater control, the purchaser-provider split was consistent with the subsidiarity principle (Becker, 2000).

It is significant that these changes occurred under a labour-led government, which, due to its links with the unions, would ordinarily be expected to support corporatist governance (Kuipers, 2006). Having already lost political support through the disability pension reforms, the labour party concluded that it should push ahead with activation policies (which they believed were blocked by the corporatist governance arrangements), and also took the opportunity to shift blame to the social partners.

A3. The role of ideas: From growing workforce participation to activation

(1) Lifting workforce participation

The political and administrative turbulence associated with the introduction of activation policies was not the outcome of a clash between a clearly articulated set of new ideas (activation and structural unemployment) and conservatism or resistance in the implementing institutions (the benefit system and PES). As a coherent framework for public policy, activation was not fully articulated until the late 1990s.
The first major official publication to argue for activation policies for unemployed people offered high-level ideas rather than a reform plan. In a country with low workforce participation, the ground had to be prepared first by promoting the idea of higher workforce participation among people reliant on social security, and among women (Becker, 2000; Cox, 2001).

In 1990, the then christian democrat – labour government requested a report from the WRR on workforce participation. The report's central argument was that:

‘The low participation rate is the Achilles heel of the Dutch socio-economic system.’
(Netherlands Scientific Council for Government Policy, 1990, p2)

The Council noted that at 59% the workforce participation rate was well below the OECD average (66%) and that there were 35 working-age social security recipients for every 100 employees (Netherlands Scientific Council for Government Policy, 1990). It also raised concerns about the high share of long-term unemployed people.

It argued that a rise in workforce participation was needed to overcome the social security trap discussed previously. It advocated abandonment of the male-breadwinner model through investment in child care services, more flexible working arrangements for mothers, and minimum wages based on the needs of a single adult rather than a family:198

‘the drive on the part of women and young people towards economic independence and emancipation, ..has placed the traditional family- and breadwinner-based philosophy under pressure (Netherlands Scientific Council for Government Policy, 1990, p8).’

The report advocated an ‘active labour market policy’ as part of a shift towards a ‘mobilising welfare state’ (Netherlands Scientific Council for Government Policy, 1990, pp33, 111.). Its elements were listed rather than elaborated. They included more intensive participation requirements and tougher sanctions for unemployed people, employment counselling and work experience placements for long-term unemployed people, expansion of adult education and training for low-skilled workers and unemployed people, assistance with child care costs for single parents, and stricter eligibility requirements for disability payments (Netherlands Scientific Council for Government Policy, 1990, p111; Visser, 2002b).

In common with early official reports on activation policy in the other three countries, the report used moral as well as economic arguments:

198 By the early 1990s a formal policy goal of the Dutch government was for both parents in a married couple family to combine part-time employment and informal child care (Knijn & van Wel, 2001; Kremer, 2001).
‘Citizenship continues to signify a dual structure of responsibility, in which the active performances of the State are at the same time the rights of the citizen and the active performances of the citizen give expression to his responsibility to society.’ (Netherlands Scientific Council for Government Policy, 1990 p34)

The report was influential among policy makers (Visser, 2002b). It signalled a paradigm shift from social protection for unemployed people, and financial dependency among women, towards activation (Cox, 1998). Its emphasis on workforce participation was consistent with the structural unemployment paradigm, but this was not articulated.

The labour party, which previously emphasised the right to social security, now prioritised income security through employment. This was symbolised in its leader Wim Kok’s 1994 election slogan: ‘Jobs, jobs, jobs’, and its use of the metaphor of converting the ‘safety net’ to a ‘trampoline’ (Cox, 1998; Hemerijck & Sleegers, 2007). At this stage however, activation was little more than an idea.

(2) Activation: ‘from sharing to earning’

A more comprehensive framework for activation policies was developed in a later WRR report in 1997 entitled ‘From sharing to earning’ (Netherlands Scientific Council for Government Policy, 1997). That report noted that labour market conditions had improved and workforce participation was now close to the European average. It identified the next challenge: to reduce the high reliance on social security by bringing recipients of working-age benefits including long-term unemployed people into employment.

To deal with the ‘stubborn problem [that] still remains at the lower end of the labour market’ the report identified three alternative policy frameworks to lift employment participation and reduce social security reliance among low-skilled workers (Netherlands Scientific Council for Government Policy, 1997, summary p1). The structural unemployment paradigm informed these policy options, and the term was used in this report (Netherlands Scientific Council for Government Policy, 1997, p84). As outlined below, the three frameworks broadly corresponded to the Liberal, Social Democratic and Conservative welfare regimes, respectively.

The first framework, ironically labelled ‘entitlements policy’, would strengthen employment participation by cutting social security benefits. It relied exclusively on work incentives: a reduction in the minimum wage to encourage employment of low-skilled workers and a reduction in social security payments to encourage unemployed people to take up these job opportunities. This framework, consistent with the Liberal welfare regime, was quickly dismissed as a ‘neoclassical’ or ‘anglo-saxon’ model that would be ‘destructive of human
capital’ and had nothing to offer the ‘genuine bottom end of the labour market’ (Netherlands Scientific Council for Government Policy, 1997, pp60, 76).

The second policy framework was called the ‘active integration model’. This preserved minimum wage and benefit levels and relied on an:


In this framework, income protection was conditional on and supplemented by individualised employment assistance (including counselling, training and wage subsidies) to improve work capacity and skills. This capacity-building approach was consistent with the Social Democratic welfare regime.

The report advocated this approach but warned that it would not succeed if sufficient low-skilled jobs were not available. It recommended combining this with another policy framework which it called a ‘supplementation model’ (Netherlands Scientific Council for Government Policy, 1997, p68). This referred to wage supplementation to guarantee work to long-term unemployed people and expand low-skilled jobs:

‘By selectively opening up the bottom end of the labour market room can be created for individuals with low labour productivity, especially in sectors where there are unfulfilled social needs.’ (Netherlands Scientific Council for Government Policy, 1997, p20)

The ‘supplementation model’ identified weak growth in low-skilled jobs as a key challenge for activation, but the proposed solution harked back to previous ‘job creation’ policies rather than a new activation paradigm (Sol, 2002). It was consistent with the Conservative welfare regime’s use of dual labour markets (with high wages and job protection for high-skilled workers and more ‘flexible’ lower paid jobs for those with lower skills), to escape its ‘low employment trap’ (Esping Andersen, 1999; Palier, 2012). 199

In a gesture to labour party policy preferences, the report argued that the supplementation model would expand employment in community services, noting that ‘the education and health

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199 This strategy avoided broad-based labour market liberalisation on the one hand, and the need for substantial investment to lift the skills of low-skilled labour market ‘outsiders’ on the other, thereby preserving traditional status distinctions in the labour market associated with the Conservative regime (Palier, 2012).
sectors had been cut in the last 15 years’ (Netherlands Scientific Council for Government Policy, 1997, summary, p2).200

(3) International influences

Interviewees had different views on international influences on activation policies in the Netherlands. Some argued the OECD and European Union had no direct influence:

‘We had to acknowledge that after 12 months of unemployment you should do something for people but it was not based on European law. It was not, no. There was no discussion in Dutch Parliament about European law, no. We felt that we were obliged to do something for these people but driven more by economic arguments than by social or other arguments.’

(Government service provider, Netherlands)

Yet the Netherlands was an early adopter of the ‘comprehensive approach’ to long-term unemployment recommended in the European Employment Strategy (EES), which was embedded in the 1998 Jobseeker’s Employment Act (WIW) discussed later in this chapter (Zjil, 2002). This called for governments to compel all young people unemployed for six months, and adults unemployed for 12 months, to join an employment program (European Commission, 2002).

The Dutch Employment Minister was a strong advocate for this policy within the European Union, in large part to reinforce domestic policies (van Gerven, 2008). Thus, the EES provided a positive feedback loop from Dutch policies to international agencies and back. The adoption of Dutch policies by the EU lent international prestige to the government:

‘That's how things go in the Netherlands. They noticed that it was not fully comprehensive and they didn't know how to effectuate it. Or they know if they were to do so it would become very costly probably….So they knew it was probably not the right path to go, but there was some agreement – I don’t know, with the OECD or other countries. There was some prestige going on because we said, we want this comprehensive approach.' (Official 1, Employment Ministry Netherlands)

Another interviewee suggested that informal connections between the European social democratic parties had an influence on Dutch activation policies:

‘There was a little bit more interest in what happens outside the Netherlands within employment services. That is due to the fact that we have this Dutch miracle in the 80s and in the 90s, we

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200 In 1998, the share of employment in social services (health, education and welfare) in the Netherlands was 28%, above the UK (26%) but below Denmark (31%) (Visser, 2002b, p7). This is consistent with Esping Andersen’s characterisation of Conservative and Liberal welfare regimes as relatively reluctant investors in public social services (Esping Andersen, 1999).
had the social democrats in government. Not all the time, but sometime, during this ‘miracle’ there was a lot of contact between our Prime Minister - his name was Kok - and Blair and other social democrats in Europe.’ (Academic 1, Netherlands)

If the Dutch Government was ‘claiming credit’ for the comprehensive approach as an activation policy leader within Europe, it was unlikely to acknowledge an intellectual debt to the European Commission (Bonoli, 2005a). Yet is likely that the EES reinforced the policy direction it was already taking.

A4. The introduction of activation policies

(1) From ‘Melkert jobs’ to the comprehensive approach

By the mid-1990s policy attention had shifted from reform of disability payments to long-term unemployment. In 1994, the Minister for Social Affairs and Employment, Ad Melkert (from the labour party), aimed to strengthen employment assistance for long-term unemployed people as part of a wider strategy to reduce poverty and social exclusion, but was sceptical of the ability of the PES to help them (Vrooman & Hoff, 2004). Consistent with the WRR’s supplementation model, the government’s response was to ‘displace’ employment assistance and training programs run by the PES with wage subsidies for long-term unemployed people administered by the municipalities, known as ‘Melkert Jobs’, after the Minister. (Sol & Westerveld, 2008; Streeck & Thelen, 2005).

The Melkert Jobs were the centrepiece of the new activation policy which combined compulsory participation, decentralisation of purchasing of employment services (weakening the PES) and a job guarantee (de Koning, 2007b):

‘And so two things happened then…First, we started to grow to a more liberal and private approach to the reintegration market but secondly, we also – that was the influence of the social democrats – had all kind of calculations to help people who were out of work for a long time and needed a job and so a big amount of subsidised jobs and, as we call them the Melkertbanen [Melkert jobs] which was named after the Minister of Social Affairs of that time.’ (Municipal service provider, Netherlands)

The role of the social partners in employment services was displaced by the municipalities and private employment service providers:

‘One of the reasons there was a tripartite organisation [of the PES] was that there was discontent about the servicing of the lower part of the client pool, but after a couple of years, the municipalities decided this type of [corporatist] organisation wasn’t really working for them.
There was too much power from the other two parties who always agreed on issues; co-insiders as they have a lot of political power. They [municipalities] arranged more support amongst politicians for a different type of program: more demand oriented in terms of ...subsidised jobs and they were successful.’ (Academic 1, Netherlands)

‘Municipalities I think, had quite a good entry at Minister Melkert’s Office.’ (Official 2, Employment Ministry Netherlands)

For their part, the unions were critical of the ‘Melkert jobs’:

‘when that started to change and more responsibility and more power came to the municipalities, the unions felt that they were losing their playing field and so they weren’t always too enthusiastic about it, and also not about ... bringing people to work in all kinds of jobs without reasonable ... labour conditions.’ (Municipal service provider, Netherlands)

In the original Melkert scheme (‘Melkert 1’), these jobs were permanent positions in municipal services, paid at 120% of the minimum wage (Schampheleire & Van Berkel, 2001). Their dual purpose was to provide jobs for long-term employed people and strengthen community services:

‘the rationale behind it was that now we’re paying them money for doing nothing, instead of paying them for doing nothing we could pay them a little bit more and then they could return something back to the community, to society.’ (Municipal service provider, Netherlands)

The Melkert jobs continued the Dutch policy tradition of creating jobs for low-skilled workers (Hartog, 1999). They were complemented by tax incentives for employers to employ long-term unemployed people and low skilled workers generally (Eurofound, 2002; Interdepartmental working group on the future of labour market policy, 2001).201

In 1995, the New Abw Act codified activity requirements for municipal social assistance clients at the national level for the first time. They were now required to register with the PES and actively seek employment unless exempted on grounds such as caring for a child under 5 years, disability or illness, or a low likelihood of securing employment. The Act required municipalities and their clients to negotiate formal workforce reintegration plans (Sol & Westerveld, 2008).

Activity requirements for insured unemployed people were codified in the Law on Penalties and Measures in 1997 (van Oorschot, 2002). This required unemployed people to actively

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201 In 1996, the VLW Act provided a social insurance contribution rebate for up to five years for private employers hiring long-term unemployed people paid up to 130% of the minimum wage. In addition, the SPAK program offered a social insurance contribution rebate for every employee paid less than 115% of the minimum wage. Both sought to expand low-skilled employment.
search for employment and participate in employment assistance programs such as subsidised jobs or training. This law formalised benefit sanctions, including up to one months’ loss of benefits (Spies & van Berkel, 1999). Monitoring of compliance with job search requirements was reinforced in 1998 through four-weekly interviews with the PES (van den Berg & van der Klaauw, 2001).

In 1998, the elements of activation policy for long-term unemployed people were brought together for the first time under the rubric of the Jobseeker’s Employment Act (WIW). One year later, this was bolstered by the ‘comprehensive approach’ (‘Sluitende Aanpak’), a government commitment to offer an employment program to all long-term unemployment payment recipients (defined as six months’ unemployment in the case of people under 25 years) (Kok, Korteweg, & van der Meer, 2004; Spies & van Berkel, 1999).202

The WIW Act required the PES to negotiate a suitable individual action plan with each unemployed person on registration. A four-tier assessment tool was developed for this purpose.203 Active job search and participation in employment programs were compulsory for those classified in Levels one to three. Those classified as Level four could be referred to voluntary ‘social activation’ schemes comprising unpaid work in community services or group activities to improve self-esteem and social skills (de Koning, 2007b).

The assessment of work capacity was largely discretionary. These assessments revealed path dependency within municipal welfare services: an ongoing emphasis on income protection rather than activation:

“That there was a ‘granite core’ of difficult to place clients, as they [municipalities] called them, basically that was thought. It was estimated by the municipalities themselves to consist of like between 70 and 80 per cent of their whole books of beneficiaries so to say, whereas, here in The Hague [Employment Ministry], the people tended to have a slightly more optimistic view of that. They said, ‘you just have to try harder’. (Official 2, Employment Ministry Netherlands)

The WIW Act was the high-water mark for investment in employment programs, ranging from permanent and temporary wage subsidies to short-term training courses and social activation.

The benefit agencies (social insurance funds and municipalities) were given discretion over the form of assistance provided under the comprehensive approach, including whether to purchase employment services from the PES or contract them out to private ‘reintegration

202 This was to be fully implemented by 2002.

203 Level one was for those assessed as likely to find employment with minimal help; Level two for those requiring modest assistance such as short vocational training; Level three for those needing more substantial help such as a subsidised job; and Level four for those considered unlikely to secure employment in the foreseeable future. (Sol & Westerveld, 2008; Spies & van Berkel, 1999 ).
companies’ (de Koning, 2007b; Koning, 2009). These were paid according to a combination of service inputs (such as short training courses) and employment outcomes. Municipalities also developed their own in-house subsidised employment schemes, often provided by the same municipal ‘SW’ agencies that administered sheltered employment for people with disabilities (Sol & Westerveld, 2008).

A5. The character of activation policies in the first phase

(1) Activity requirements

In 1995-97, the Netherlands had relatively strict activity requirements and sanctions, scoring 3.7 out of 5 on the Danish Finance Ministry’s index, compared with an OECD average score of 3.0 (Danish Finance Ministry, 1997). Although the shift from ‘sharing to earning’ came later in the Netherlands than the other three countries, the new emphasis on personal responsibility was strong for those activated.

Those with job search requirements were required to undertake four search activities per month. Between 1990 and 1994, the number of sanctions imposed for non-compliance with these requirements rose from 12% to 17% of the number of unemployment insurance recipients (van der Veen, 2000). This rose again from 25% in 1996 to 45% in 1998, so that by the late 1990s the Netherlands had the second-highest sanctioning rate in Europe (van Ours, 2006).

On the other hand, the scope of activation among social assistance recipients was uneven. In 1999, 20% of unemployment insurance clients were exempted on the grounds of labour market disadvantage (category four in the assessment tool) compared with 42% of social assistance recipients (Table 6 below). Yet many of the latter group obtained employment (Hoff, Jehoel-Gijsbers, & Wildeboer-Schut, 2003, p21).

Consistent with low (but increasing) female workforce participation, sole parents whose youngest child was preschool age were automatically exempted, and exemption rates for

204 Note that the number of recipients was a point-in-time measure while the number of sanctions was a flow measure.

205 For example, 10% of those classified at Level four in Rotterdam Municipality found employment within a year (OECD, 1998b).
those with school-age children varied substantially across municipalities (Knijn & van Wel, 2001).

**2. Employment assistance**

Driven by the comprehensive approach, employment assistance expenditure rose from 10% of GDP per capita per unemployed person in 1995 to 30% in 2002. From 1995 to 2000, the average expenditure per unemployed person rose from Ecu4,700 to Ecu13,100 (de Koning, 2010).

This was mainly due to the expansion of public wage subsidies.

Table 6 shows the activation rate for unemployment payment recipients (job search or program participation) in 1999, and profiles the major programs offered to unemployed people in 1998. As discussed in Attachment 6 (where the derivation of these estimates is explained), compiling these data was challenging.

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206 In 1999 the rate of exemption for sole parents with school-age children varied from 25% in The Hague to 50% in Zaanstad (Knijn & van Wel, 2001).

207 Table 6 shows that public wage subsidies comprised 61% of expenditure allocated to employment assistance in 1998. In 1997, approximately 180,000 individuals were engaged in some form of subsidised employment including 40,000 Melkert 1 jobs and a large sheltered employment scheme for people with disabilities (Schampheleire & Van Berkel, 2001; Spies & van Berkel, 1999).

208 The distribution of program places by duration of unemployment was not available in the published data (though most places went to long-term recipients); some estimates of program places were given on a stocks (point-in-time) basis while others were given on a flows basis, and in one case an estimate for program participation was derived from program expenditure. Nevertheless, the predominant character for employment assistance for insured and uninsured unemployed workers is clear from the available data (Attachment 6).
Table 6: Activation rate and distribution of employment programs for long-term unemployment payment recipients (Netherlands 1998-89)

<table>
<thead>
<tr>
<th>(a) Activation rate (1999)</th>
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<tbody>
<tr>
<td>Number of recipients</td>
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<tr>
<td>Unemployment Insurance (WW)</td>
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<tr>
<td>Social Assistance (Abw)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>(b) Distribution and character of employment program places (1998)</th>
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</thead>
<tbody>
<tr>
<td>Program</td>
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<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>All unemployment payment recipients</td>
</tr>
<tr>
<td>Regular reintegration trajectories</td>
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<tr>
<td>Unemployment insurance (WW) recipients</td>
</tr>
<tr>
<td>Vocational training</td>
</tr>
<tr>
<td>All</td>
</tr>
<tr>
<td>Social assistance (AWB) recipients (N = 412,000)</td>
</tr>
<tr>
<td>Subsidised public sector job (Melkert 1)</td>
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<tr>
<td>Subsidised public sector job (WIW)</td>
</tr>
<tr>
<td>Private wage subsidy (WIW-Melkert 2)</td>
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<tr>
<td>Vocational training (WIW)</td>
</tr>
</tbody>
</table>
Social activation (WIW) 1-2 years of voluntary work for benefits in public or community organisations (for long-term unemployed clients assessed with limited job prospects)  

| All | stock = 5,700 | 124m | Income protection |

All unemployment payment recipients

| All | Income protection |

All | 3,305m | Income protection |

| All | Income protection |

3,679m |

Notes:
n.a. = not available

1. Point-in-time estimates.

2. Those not exempted from activity requirements (including job search and/or program participation).

3. These are flows except where point-in-time (stocks) data are specified. Since these statistics cannot be added, percentage shares are not calculated.

4. Total costs are in millions of Ecus. Unit costs, where available, are in brackets. 1998 currency converted from Guilders to Euros (1 Euro = 2.2. Guilders)


5. in 1995.

Sources:

For activation rates:
Benefit recipient data supplied by Netherlands Department of Employment and Social Affairs (SZW) in September 2011; Hoff et al. (2003); Interdepartmental working group on the future of labour market policy (2001)

For employment programs:
Attachment 6 provides details of the derivation of these assessments of the character of employment programs, together with sources.

The most common program for unemployment insurance (WW) recipients was regular reintegration trajectories. Breakdowns of the content of these programs were not available but the literature indicates these mainly comprised job search assistance and short vocational training courses (de Koning, 2007b; Koning, 2009; Struyven & Steurs, 2002). Unemployment insurance recipients also received longer vocational training courses through training centres run at this time by the PES. Overall, employment assistance for WW recipients had a modest capacity-building character since places in regular trajectories exceeded those in training courses.

Social assistance recipients were offered either the original ‘Melkert 1’ jobs described previously, or programs funded by central government through a municipal work fund established under the WIW Act, which was divided into three streams (Spies & van Berkel,

209 While these were also open to social assistance recipients, most were allocated to those with unemployment insurance (de Koning, 2005).
1999; van Opstal et al., 1998): public wage subsidies (Melkert 1 and WIW jobs), private wage subsidies (Melkert 2 jobs), and vocational training and social activation programs.210

The first stream subsidised employment (usually for 1-2 years) with municipal employment organisations (‘job pools’) for jobseekers considered unlikely to secure an unsubsidised job. When this is combined with the (permanent) Melkert 1 jobs, public wage subsidies had the largest share of municipal program places. Since they were poorly designed to aid transitions to unsubsidised jobs, these schemes became alternatives to mainstream employment, and had an income protection character:

“Municipalities they liked it because it was free, and just one part of their jobs could be replaced by ‘Melkertbanen’, and this was financed by the State. Workers did like it because these jobs were not paid too bad, …almost every time higher than the minimum wage. And they were protected by employment protection legislation, everything. They just had a standard job. So these two – they both had an interest in not getting a job after it. Why would they?” (Official 1, Employment Ministry Netherlands)

The second stream of WIW programs were the ‘Melkert 2’ private wage subsidies. Since these were designed to improve employability and (as discussed later in this chapter) had much higher employment outcomes than the public wage subsidies, they had a capacity-building character, but comprised a small minority of places overall.

The third stream had two components, the first of which were vocational training programs with a capacity-building character.

The other (smaller) component was the new social activation schemes. Since these were designed to improve social skills and keep people occupied rather than boost their employment prospects, they had an income protection character (Sol & Westerveld, 2008; van Oorschot, 1998).

Given the income protection character of the public wage subsidies that provided most program places for social assistance clients, employment assistance for long-term social assistance recipients had a predominant income protection character.

Since the overall number of places in income protection-oriented programs exceeded those with a capacity-building character, employment assistance for long-term unemployment payment recipients had a predominant income protection character.

210 The ‘Melkert 1’ program was kept separate from the WIW on the grounds that those were permanent jobs. In 1999, they were replaced by an ‘I-D jobs’ (‘inflow-outflow jobs’) scheme which prioritised transitions to unsubsidised employment.
(3) Financial work incentives

During the first phase, there was little policy attention given to financial work incentives for unemployed people until 2001, when existing personal tax allowances and the SPAK tax incentive for employers were replaced by a modest universal earned income tax credit (Gautier & van der Klaauw, 2009; Nekkers, Roorda, & van der Waart, 2003). This was a partial shift from a low-skilled job creation strategy towards a work-incentive approach. To avoid income-testing the new tax credit and contain its cost, it was set at the modest level of Ecu1,213 per year (Ecu23 per week), limiting its impact on work incentives.

Given the high benefit replacement rates in the Netherlands, incentives for unemployed people to move into full time jobs were limited and were not greatly improved by the new tax credit (Hartog, 1999; Nekkers et al., 2003).211

For low-skilled sole parents receiving social assistance, this problem was acute: researchers found that they would typically have to undertake at least 32 hours of paid work each week in 2001 to be better off, but most preferred shorter hours to combine paid work and care, given limited access to affordable child care services (Knijn & van Wel, 2001). On the other hand, in a significant departure from the male breadwinner model, work incentives for ‘second income-earners’ in married couple families were improved by removing a tax allowance shared between couples (Nekkers et al., 2003).

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211 In 2001, a single unemployment insurance recipient had to earn 109% of the minimum wage to obtain a higher after-tax income than unemployment benefit. Largely due to the tax credit, this fell to 96% in 2004 (Nekkers et al., 2003). When the costs of working (and any entitlements to means tested supplements) are considered, this was still likely to leave an unemployed person taking up a job at the minimum wage worse off. Financial incentives for social assistance recipients were further weakened by the withdrawal of benefits on a Euro for Euro basis from those with earnings.
B. The second phase of activation policy (2002-2007)

B1. Surrounding institutions

(1) The change of Government in 2002

Following the 2002 elections, the labour-liberal coalition lost government and was replaced by a conservative-liberal coalition. The stability of the consensual political system was again shaken by the unexpected electoral gains of a small anti-immigration party, ‘Pim Fortuyn’s List’ (PFL) (Pennings & Keman, 2002). Support for the major parties fell in the face of an economic downturn and public concern about non-western immigration. A series of conservative-liberal coalition governments ruled from 2002 to 2007 but these were not as stable as the purple coalitions of the 1990s (Pellikaan, Lange, & van der Meer, 2007).\footnote{After the 2007 elections, a conservative-labour coalition government was formed.}

A significant influence on activation policy at this time was renewed fiscal pressure due to the economic downturn and budgetary requirements linked to adoption of the Euro currency in 2002 (Hemerijck & Sleegers, 2007):

‘And then, in 2001 for the first time, we had to cut some expenses. And then, I think, it lasted until – I do not know the exact year, but in 2004, I think, they decided to cut expenses on ‘Melkertbanen’ [‘Melkert jobs’] for the first time…which was not too easy because the municipalities, at that time they received a total amount which they could spend on ‘Melkertbanen’ or wage subsidies or activation.’ (Official 1, Employment Ministry Netherlands)

(2) Labour market conditions

Between 1995 and 2000, the economy grew strongly and unemployment fell dramatically from 7.1% to 2.5% of the labour force (OECD, various years-c). Reliance on unemployment payments fell from 8.6% to 5% of the population of working age (Central Bureau of Statistics, 2009).

The policy shift away from the male breadwinner model continued throughout the study period, with female employment rising sharply from 47% in 1990 to 68% in 2007 (OECD, various years-c). The shift was to a one-and-a-half earner rather than dual-earner model (Lewis, 2001; Visser, 2002a).\footnote{In 1998, 36% of married couple families of working age had ‘one-and-a-half’ wages (with the male employed fulltime), 14% had two fulltime wages, 30% were single wage-earning couples (only the male employed), and 20% had other household earnings patterns (Jager, 2003).} In 2008 the Netherlands had the highest rate of part-time employment among women in the OECD: 60% compared to an average of 25% (OECD, 2009b). Part-time
work employment was regulated under the Flexibility and Security Act (1996) and Working Hours Adjustment Act (2000) in order to provide hourly pay rates, working conditions, and job security on a par with full time jobs, and to give parents the right to reduce or increase their working hours unless this would seriously disrupt the workplace (Yerkes & Visser, 2006).

Growth in female employment led to political pressure to improve access to child care services (Knijn & van Wel, 2001). In 2005, direct funding for day care centres was replaced with subsidies paid to parents based on their incomes (Gautier & van der Klaauw, 2009). Following this reform, take-up of formal child care for 0 to 2 year-olds rose above OECD-average levels, though it was still relatively expensive.214 The security and flexibility of part time jobs, and high cost of child care, helped entrench the one-and-a-half-earner model in the Netherlands.

The importance of the secondary labour market was evidenced by the 12% share of employees with fixed term contracts in 2008, compared with an average of 8% across the European Union (Schmid, 2010).215 This impacted activation policies. In Rotterdam in the early 2000s, 38% of social assistance clients who found employment were engaged by labour hire firms (van Berkel, 2007).

Reducions in unemployment during the 1990s, together with labour shortages, reinforced support for activation policies:

‘We were ...at an economic very good period. We have a problem with part-time working in Holland. Not all the people who can work a full work week work a full work week. We had to get people into the labour market because otherwise we would have problems with our position in the world market. People were pensioning at 60, 56, 57. A lot of people went out of the labour market so we had to push them back into the labour market when they were unemployed or disabled. So everyone was thinking this was a small investment because we would perform better in our position in the world market.’ (Government service provider, Netherlands)

Unemployment then doubled from 2.5% of the labour force in 2001 to 5% in 2004 following an economic downturn, increasing claims for unemployment payments (van Geuns & van Gent, 2007).216

214 Participation of 0-2 year-olds in formal day care rose from 6% in 1990 to 54% in 2006, well above the OECD average of 28%. In 2006 the average cost for a two year-old was 18% of the average wage, just above the OECD average of 16% (OECD, 2007b).

215 Using a broader measure of non-standard work (including part time, fixed term and self-employment), 13% of low-skilled Dutch workers were in non-standard work compared with a European average of 7% (Schmid, 2010).

216 The annual intake of new social assistance clients in both 2003 and 2004 was 110,000 compared with 98,000 in 2002 (Ministry of Social Affairs and Employment, 2007).
By 2005, unemployment began to fall again, but long-term reliance on unemployment payments was again entrenched. In that year, 49% of WW recipients were long-term claimants, a total of 149,000 people (Groot et al., 2008). However, due to benefit time limits, less than 20% of WW recipients received unemployment insurance for more than three years. In contrast, 86% of social assistance clients were long-term recipients (288,000 individuals) and over 60% received benefits for more than three years. Prolonged reliance on unemployment payments was mainly a problem for the municipalities.

This was due in part to greater labour market disadvantage among WWB recipients, and in part to their higher rate of exemptions from activation and referral to programs with an income protection character (Groot et al., 2008; van Geuns & van Gent, 2007).217

“Well clearly there’s a considerable difference between the profiles of the two types of recipients. So if you think of the insured then you are talking about people that usually find a job within a year. So I think that from ...the insured people who are flowing into unemployment, ... 80 per cent is out of it within a year. If you think of social assistance benefits people ... well it’s probably maybe 25 per cent or something like that.” (Academic 2, Netherlands)

After 2004 unemployment fell again, reaching 3% in 2008 (OECD, various years-c).

B2. The role of ideas

A major reassessment of activation policy led by an inter-departmental working group of officials preceded the change of government (Interdepartmental working group on the future of labour market policy, 2001). Its report offers insights into the thinking of policy makers on future activation policies.

“There was this report, which I think you know, which I think was also quoted in your papers, the famous ‘Aan de slag’ study, back in 2001 I think. It was a report by a working party where the

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217 In 2007, 67% of WW recipients were in employment two years after joining an employment program compared with 19% of WWB recipients (van Geuns & van Gent, 2007)

On average from 1999 to 2005, 31% of long-term WW recipients were older than 55 years (whose average probability of being in employment two years after joining a program was 23% in 2007, compared with the overall average for WW recipients of 67%); and 42% had no post-school qualifications (whose average probability of being in employment two years later was 46%).

WWB recipients were less likely to be of mature age, but even among shorter-term WWB recipients (0-18 months on benefits), 47% were migrants (whose average probability of being in employment two years after joining a program was 14% compared with the overall average for WWB recipients of 19%), and 63% had no post-school qualifications (whose average probability of being in employment two years after joining a program was 12%), while 27% were sole parents.

Ministry of Finance, Ministry of Social Affairs and a few other ministries, participated in. So it translates, 'let's go to work'." (Official 2, Employment Ministry, Netherlands)

This report lay the foundations for far-reaching governance reforms in the Work and Income Reorganisation (SUWI) Act of 2001 (Sol & Westerveld, 2008). Significantly, it was the labour-led government (albeit in coalition with the liberal party) that consolidated in legislation the shift from corporatism towards governance systems informed by the NPM paradigm.

(1) Changes in the activation paradigm

By the end of the study period, public support for unemployment payments was cautious and conditional. Van Oorschot and Meuleman (2011) found that in 2008, while 75% of respondents supported benefits for unemployed people, 42% believed that many people made fraudulent claims and over 90% of respondents supported requirements for long-term unemployed people to search for jobs and participate in employment programs (van Oorschot & Meuleman, 2011).

Interviewees noted an ideological shift in public attitudes during the 2000s from an emphasis on the rights of unemployed people to benefits and subsidised jobs towards a duty to search for employment and rely less on benefits:

*Interviewee: ‘When you have a benefit you have to work for it which was the dominant culture from let’s say 2005/06 with the more liberal approach in Holland. If you get benefits you work for it. In the ‘80s it was totally the other way around. If you got benefits you...’.*

Interviewer: ‘That was your right?’

Interviewee: ‘Yes. You could stay on benefits for your whole life.’ (Government service provider, Netherlands)

‘Well it is connected to the general trend in society I think. That there’s a general view, an increasing view I think, that if people are unemployed it’s mainly their own fault.’ (Official 1, Employment Ministry Netherlands)

One interviewee noted differing attitudes towards insured and uninsured unemployed workers:

‘When you’re in the WWB [social assistance] you’re already down at the lower level of unemployment. But when you have a benefit with us ... [unemployment insurance] you’re still a responsible worker. You still have the skills and attitude and the culture around you because you are a worker. It’s quite different.’ (Government service provider, Netherlands)
Another factor influencing attitudes towards social assistance clients was the growing antagonism towards non-European migrants noted previously, who were more likely to be blamed for failure to secure employment (Kootstra, 2016).218

(2) Evaluations

The Interdepartmental Working Group noted in its report that little information was available on the cost effectiveness of Dutch employment programs (a recurring problem in the decentralised employment services system) so it relied mainly on ‘evaluation of foreign studies’ and ‘working visits’ to employment services to inform its work (Interdepartmental working group on the future of labour market policy, 2001, p6).219

Its report compared the impacts of four program types and concluded that ‘mediation services’ (job search assistance), vocational training, and public wage subsidies had ‘small’ or ‘very small’ impacts on employment, while ‘job search incentives’ (activity requirements and sanctions) and private wage subsidies were relatively effective. (Interdepartmental working group on the future of labour market policy, 2001, Appendix 4, pp33-40).

The Employment Ministry was especially sceptical of public wage subsidies: 220

‘But gradually, as the evidence pointed out ...people, they never get out of these jobs. It is very expensive. It’s more expensive than just the benefit in the first place. And gradually these things got known.’ (Official 1, Employment Ministry Netherlands)

218 In 2005, 38% of social assistance recipients were new migrants from non-European backgrounds (van Geuns & van Gent, 2007).

219 A later evaluation estimated that the net employment impact of employment programs (the change in the probability of employment one and a half years after commencement in a program) for WW recipients unemployed for 1-2 years averaged +1 percentage point in 2003, +1.7% in 2004 and +1.9% in 2005, a low but increasing impact (Groot et al., 2008).

The same report found that the average net employment impact for Abw/WWB recipients unemployed long-term between 1999 and 2005 was also low and varied significantly among programs. Vocational training increased the probability of employment by an average of 4 percentage points, job matching by 2.6%, job search assistance by 0.8%, employment counselling and assessment by 0.8%, and social activation and voluntary work reduced the probability of employment by 0.8%.

A later evaluation (covering the period from 2002 to 2004) of the net employment impact of employment assistance for social assistance recipients (measured two years from program commencement) found that on average the programs raised the probability of employment by 7 percentage points (van Geuns & van Gent, 2007). This may reflect changes in the composition of programs away from wage subsidies towards ‘work first’ schemes, but a breakdown of impacts for short-and long-term recipients was not provided.

220 In 2000, only 19% of WIW wage subsidy program participants and 6% those in ‘ID jobs’ (the former ‘Melkert 1’ jobs) were in unsubsidised jobs one year after placement (Interdepartmental working group on the future of labour market policy, 2001).
The report argued that where subsidised employment performed a useful public service function, it should be funded through social service budgets (Interdepartmental working group on the future of labour market policy, 2001, p82). Significantly, it noted the contradiction between this view and the policy of the (labour-led) government:

‘the creation of work for people not immediately able on their own to find a place in the regular labour market is an unmistakable political priority.’ (Interdepartmental working group on the future of labour market policy, 2001, p63).

One academic interviewee questioned this critical view of public wage subsidies, suggesting they could help the most disadvantaged jobseekers:

‘I think that is true for a considerable number of people with the social assistance benefit that they have hardly any chance of finding employment, normal employment. I think this kind of program makes sense - there’s a positive net effect because without participation in this type of program they would have remained unemployed.’ (Academic 2, Netherlands)

The report downplayed the role of capacity-building programs in improving the job prospects of long-term unemployed people. It argued that training should only be funded if closely connected with work experience or a prospective job (Interdepartmental working group on the future of labour market policy, 2001, p48). Here there was a gap in its logic: this ‘work first’ approach would only succeed in lifting the low rates of exit from long-term unemployment (noted previously) if demand for low-skilled labour grew strongly, an issue not addressed in the report.221

On the other hand, the report placed strong emphasis on activity requirements and sanctions. It argued that exemptions from activity requirements in social assistance should be wound back, and that coordination between benefit agencies and employment services to monitor job search should be strengthened (Interdepartmental working group on the future of labour market policy, 2001, p62).222

While the report marked a shift in official thinking on activation policy from the previous emphasis on income protection towards incentive-strengthening approaches, it did not

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221 One goal for the partial privatisation of employment services at this time was to tap into the secondary labour market by contracting employment assistance to private labour hire agencies (Sol, 2002).

222 The report noted that work experience could be used as a device to improve incentives to leave income support, where the placement is a ‘relatively unattractive option’. It did not explore this possibility in depth but as discussed below, this idea was later adopted by municipalities (Interdepartmental working group on the future of labour market policy, 2001, p59).
advocate changes in the profile of employment assistance programs. Instead, the Employment Ministry argued for the decentralisation of responsibility for activation:

Interviewer: ‘So those who were paying the benefits in each case should be also responsible for activation?’

Interviewee: ‘Absolutely, yes. And also government at central level being responsible for the system and not for all the details on the ground.’ (Official 2, Employment Ministry Netherlands)

There was a tension between this laissez faire view of the governance of employment assistance, together with the rejection of large-scale public wage subsidies and the downplaying of capacity-building programs, and the comprehensive approach (which at this time was underpinned by the wage subsidies and training programs).

While the Working Group report was silent on the comprehensive approach, an official evaluation in 2003 under the new government advocated its abandonment (Kok et al., 2004). While it found that over 80% of those who became long-term unemployed were offered a place in a program, it drew a sharp distinction between the employment prospects of new claimants and those already unemployed long-term, and questioned the value of guaranteed employment assistance for the latter:

‘This group [long-term unemployed] had been unemployed for so long that the objective of preventing long-term unemployment was not appropriate. For this group the return to the labour market was further away in time and social inclusion was the primary goal.’ (Kok et al., 2004, p vi).

‘The two objectives (prevention of long-term unemployment and social inclusion) require a different approach...The objective of prevention could be achieved by measures focused on the behaviour of the unemployed from the commencement of unemployment. …The objective of social inclusion should focus on improving the qualifications and social skills of those without perspective of a regular job.’ (Kok et al., 2004, summary).

This dual strategy of activation for short-term unemployed people and ‘social inclusion’ for long-term unemployed people ran contrary to the activation paradigm. Nevertheless, it captured the challenge of activation in a labour market with limited availability of low-skilled jobs and slow job turnover and pointed to the solution that was eventually adopted.

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223 These two goals were connected, in theory, by the idea of a ‘reintegration ladder’ borrowed from employment programs in Wisconsin (USA) and used by municipalities to guide activation policies for unemployed people. (Council for Work and Income, 2008; Wiseman, 2001). The idea was that the most disadvantaged unemployed people would progress step by step from social activation to employment preparation or a subsidised job, and from there to open employment. However, as discussed later in this chapter, there is no evidence to suggest that such progression from social activation programs was common.
(3) **New Public Management ideas and subsidiarity**

The Working Group advocated the application of NPM principles to employment assistance to take previous reforms to systems of governance, funding and control to their logical conclusion. The WIW funding streams would be replaced by:

‘an undifferentiated reintegration budget by which municipalities can purchase reintegration services and reintegration companies get the opportunity to look for the most effective approach to reintegration.’ (Interdepartmental working group on the future of labour market policy, 2001, p82)

It proposed that private reintegration companies be paid at least in part according to employment outcomes achieved (Interdepartmental working group on the future of labour market policy, 2001, p82). In this way, centralised control of service inputs would be replaced by financial incentives for private providers to use the most cost-effective tools.

The adoption of NPM ideas including privatisation was more than an ideological shift. It also reflected institutional path dependency. The role of the social partners was diminishing but central government continued to devolve responsibility to other institutional actors, in this case municipalities and private employment services. As discussed, the subsidiarity principle was a long-standing feature of the Dutch State, associated with its ‘pillarisation’ across different regional and religious centres of power:

‘*During NPM, there came more pillarisation than before. Not from the old pillarisation but just nicely fitted the New Public Management ideas of what we see now. We have a whole decentralised structure.*’ (Academic 1, Netherlands)

Rather than take direct responsibility for employment assistance, the idea was that central government would replace the guiding hand of the social partners with a government-created employment services market.

In the final years of the labour-liberal government, there was a push from within the social insurance agencies and governing parties to privatise benefit administration as well as employment assistance, but the labour party ultimately rejected this:

Interviewee: ‘*we had the wish and the politicians supported it to do everything that had to be operated in a private setting.*’

Interviewer: ‘*So why did they pull back?’*

Interviewee: ‘*Because … the politicians on the Left side saw the risks that you have benefit in private hands … that you have a difference in whether you’re enough disabled to get benefits. The different policies, different ways of operating .. would be triggered by private needs and not by public needs.*’

(Government service provider, Netherlands)
Another feature of the ‘polder model’ with significant implications for employment services was the explicit recognition of unemployed ‘clients’ as stakeholders in the system, rather than simply consumers in an employment services market. This explains an unusual feature of the Dutch benefit system at this time: the system of ‘client councils’ which the unemployment insurance agencies and municipalities were required to maintain and consult over the quality of the services provided (Ministry of Social Affairs and Employment, 2005). These typically comprised representatives nominated by unions, disability and ethnic or local community organisations. During the 2000s, a National Client Council (LCR) advised the Employment Minister on policy and service delivery issues.

B3. Changes in the proximate institutions

As in the first phase, activation policies were largely shaped by the restructure of the proximate institutions. This came in two steps: the Work and Income Reorganisation (SUWI) Act legislated by the outgoing labour-liberal coalition in 2001 and the ‘Work and Assistance’ (WWB) Act legislated by the incoming conservative-liberal coalition in 2004.

In both reforms, direct administrative control by central government was replaced by indirect systems of control based on the management of incentives and outcomes: 224

Interviewer: ‘So was the view then, that we get the incentives right and those who have the responsibility will choose the most effective programs?’

Interviewee: ‘Yes, from my perspective that was very much the thinking at the Ministry.’

(Official 2, Employment Ministry Netherlands)

(1) Privatisation of employment services under the SUWI Act (2001)

The SUWI Act removed remaining corporatist elements from unemployment insurance administration, replacing the industry-based social insurance funds with a single public authority with no social partner representation, the Unemployment Insurance Institute or UWV (Sol & Westerveld, 2008). The role of the social partners was limited to representation on a national advisory council, the ‘Council for Work and Income’ (RWI) which advised the Employment Minister on the effectiveness of employment programs:225

224 This was later summarised as ‘three D’s’: ‘decentralisation, deregulation, and de-reporting’ (Ministry for Social Affairs and Employment, 2007, p18).

225 Unemployed clients were represented through client councils within each municipality and industry and a peak body, the National Client’s Council (LCR) attached to the RWI.
The functions of the PES were now divided among three layers of organisations. The job-seeker assessment and job brokerage functions (at least for short-term unemployed people) were shifted to the first layer, a network of new public authorities called Centres for Work and Income or CWI (Sol & Westerveld, 2008). Employment programs such as training or wage subsidies were coordinated and purchased by the second layer, the benefit agencies (UWV and municipalities) from the third layer, the private ‘reintegration providers’ (Struyven & Steurs, 2002). The new structure is shown in Figure 14 below.

Figure 14: Governance of unemployment payments and employment assistance under the SUWI Act (2001)

Source: Struyven and Steurs (2002)

At first, the UWV was required to contract out all of its ‘reintegration’ (employment assistance) services to private providers and municipalities were required to contract out at least 70% of employment assistance services (Carcillo & Grubb, 2006).
In the first few years after passage of the SUWI Act in 2001, private providers were contracted to offer ‘trajectories’ (sequences of employment assistance) to small batches of UWV or municipal clients grouped according to common characteristics (Sol & Hoogtanders, 2005; Struyven & Steurs, 2002). Trajectories typically lasted for one to two years. For the most part, the assistance provided was not specified in detail. Instead, payments to providers were divided into up-front fees on registration of jobseekers and subsequent payments for employment outcomes sustained for up to six months. Providers competed for contracts on the basis of cost as well as quality of services offered.

To maximise short-term outcomes at the lowest cost, the reintegration providers concentrated on job search assistance, though short vocational training courses were also offered (Council for Work and Income, 2008; de Koning, 2010; Struyven & Steurs, 2002; Unemployment Insurance Authority (UWV), 2006). Over time, as this quasi-market matured, the UWV reduced the average cost of these ‘regular trajectories’.

Shortly after passage of the SUWI Act, the newly elected conservative-liberal government commenced a retreat from the original privatisation agenda:

‘SUWI was passed at the end of 2001, as a bill, so at the start of 2002, SUWI was there, but almost immediately afterwards, the cabinet who had introduced it fell. There were elections and a new government took office. …the new government was not sort of so very much a friend, so to say of SUWI. So immediately after its birth, it became a little bit of an orphan. The new government had a model in its head of decentralisation of policies to municipalities.’ (Official 2, Employment Ministry Netherlands)

The guiding principle of governance reforms in the second phase was the decentralisation of governance of employment services in the hands of the benefit agencies (UWV and municipalities), rather than privatisation:

‘In Holland when you give money to an insurance system you have to have responsibility how this money is spent, which is very dominant in our culture.’ (Government service provider, Netherlands)

A key step in the retreat from privatisation was the abandonment in 2005 of the requirement for municipalities to purchase from private providers (Finn, 2008), for reasons discussed later. Then in 2006, the UWV employed its own ‘reintegration coaches’ to provide case management and job search assistance for WW recipients (Finn, 2008). Subsequently, private providers

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226 The typical cost of each trajectory fell from Ecu4,700 in 2002 to Ecu2,000-3,000 by 2007 (Finn, 2008).

227 Prior to this, in 2004, concern within the Parliament that the outcomes-based funding model left too little room for vocational training led to the introduction of a separate UWV ‘training budget’ (Finn, 2008).
were more likely to be contracted to provide specific services such as job search assistance or training rather than entire trajectories.\textsuperscript{228}

An important development within the new reintegration market was the emergence of Individual Reintegration Agreements (IROs) in 2005 (Westerveld & Faber, 2005). These resulted from pressure, within the UWV and Parliament, to give unemployed people more choice over the instruments used for activation. In the IRO system, akin to a voucher for employment services, the client would choose both their provider and reintegration trajectory though the contents of an IRO still had to be approved by a UWV case manager. One interviewee viewed this as a logical extension of the subsidiarity principle:

‘It was a typical Dutch invention because in Holland things work when you give people responsibility. That’s our doctrine, the way we work here. You have to have your own responsibility in creating results. So these [reintegration] companies weren’t performing as good as we thought they would be and not as good as the politicians hoped. So it was a political move to lay the responsibility more with the clients. So they could pick their own reintegration company which they would work with because as a central public company I don’t want to hold the responsibility for the fit between the client and the reintegration company.’ (Government service provider, Netherlands)

The budget for each IRO was capped at Ecu5,000 - higher than the Ecu2-3,000 typically paid for regular trajectories (Finn, 2008). They proved very popular with clients and by the end of 2006, 30,000 out of 45,000 trajectories for WW recipients were IROs (Sol & Westerveld, 2008; Westerveld & Faber, 2005).

Although IROs could in theory also be offered to social assistance clients, this was rare (Council for Work and Income, 2008; van Geuns & van Gent, 2007).

Since its clients were recently unemployed workers who had contributed to an insurance fund, the UWV perceived its relationship with its unemployed clients differently to that of the municipalities, and adopted IROs rather than the ‘work first’ programs used by the municipalities (discussed below):

“When you’re in the WWB [social assistance] you’re dependent on the municipality and you have to accept everything. When you have a benefit with us you are still a worker but currently unemployed. This difference in culture meant that we didn’t implement this ‘work first’, no. So

\textsuperscript{228} In 2005, the share of programs contracted out to private providers by the UWV was 52\% compared with 78\% in 2002 (Ministry of Employment and Social Affairs, 2007). In 2008, municipalities provided 28\% of reintegration trajectories in-house, 22\% through private reintegration providers, and 50\% through affiliated organisations including the SW agencies (Council for Work and Income, 2008)
it’s subtle but it’s quite a different culture with the municipalities than with us.” (Government service provider, Netherlands)

(2) Municipal activation and the WWB Act (2004)

The main purpose of the WWB Act was to reduce reliance on benefits, especially social assistance (Sol & Westerveld, 2008).

The Act brought systemic change to the governance, funding and control of municipal activation, by replacing direct central government control (through national employment programs) with decentralised responsibility (municipal discretion) coupled with financial incentives to reduce local benefit rolls.

The government now funded social assistance (renamed WWB in place of Abw) with block grants through a municipal ‘Income Fund’, based on prevailing economic conditions in each region and a municipality’s relative performance in reducing unemployment. If they spent more than this in any year, municipalities had to use their own funds, but if they spent less they could keep any savings (Sol & Westerveld, 2008):229

‘So what really started there was a process that municipalities started to feel responsibility for the number of people they were having on their money – on the benefits. That was the first time because before that the municipalities really felt it was an issue for the job centres: we were paying the benefits and they should bring back the people to work.’ (Municipal service provider, Netherlands)

Municipal employment assistance was funded through a separate ‘Work Fund’ which could only be used for employment programs (Sol & Westerveld, 2008). In return for their increased responsibility for income support, the municipalities sought more freedom to decide how the Work Fund was spent:

‘There was wheeling and dealing over what the municipalities would get back for taking over a number of responsibilities. There was a very strong pressure from the municipalities that, okay, if we get the full budget responsibility, then we also need to have as much leeway. That was very much the thinking at the Ministry, yes.’ (Official 2, Employment Ministry Netherlands)

The removal of the requirement to purchase services from private reintegration providers led to the retreat from privatisation discussed previously. Reasons for this included the challenges municipalities faced in administering employment service purchasing on a small scale,

229 This was similar to the ‘block grant’ funding model used by the US government for state government income support payments for sole parents under the TANF program in 1996, a reform that was studied by Dutch policy makers. Unlike the US model, benefit entitlements were still underpinned by central government legislation (Blank, 2000; Sol & Westerveld, 2008).
mistrust of private providers, and ‘public patronage’ or a desire to support their own organisations including municipal sheltered work (SW) agencies (Koning, 2012):

‘many municipalities were finding out that there was not only the incentive from the Work and Social Assistance Act which was there, but there was also another incentive, also financial. That they were basically the owners of these SW branches and they wanted to also shift some of the business to these branches, because then they would make less of a loss.’ (Official 2, Employment Ministry Netherlands)

The WIW law was set aside, and along with it the quarantining of funds for wage subsidies, training and other programs required to implement the comprehensive approach (Finn, 2008):

‘one smart thing is in these policies that – in 2004 you got this lump-sum financing of municipalities, plus the fact that the amounts that could be spent on these Melkert jobs, …wage subsidies, job training, schooling and perhaps some other things. … municipalities could decide on their own if they would maintain …these Melkert jobs or not.’ (Official 1, Employment Ministry, Netherlands)

In a form of ‘blame avoidance’, the shift in responsibility to municipalities smoothed the path politically to remove expensive national programs such as public wage subsidies. National programs were displaced by a new performance-based funding systems, one for reintegration providers targeting employment outcomes, and another for municipalities targeting reduced benefit rolls. The comprehensive approach was effectively abandoned, at least for WWB recipients, though this was not formally announced until 2008 (Council for Work and Income, 2008; Finn, 2008):

‘Well the comprehensive approach, yes, but that was already abandoned quite early I think, around 2004, 2005. That was already sort of off everybody’s agenda, because the comprehensive approach was very much a steering instrument for central government, to get something back from the budgets which it made available for municipalities before the introduction of the Work and Social Assistance Act.” (Official 2, Employment Ministry Netherlands)

Along with the UWV, at first municipalities had limited experience in employment service purchasing:

‘So I didn’t know what to do with all the money, to tell you the truth. There was – at a certain time I had so much money that we needed to have a meeting several times to see how we could spend it all. And because it was not nice to – for - especially for the alderman who was responsible, that you didn’t spend all your money and you still have a lot of people claiming benefit.’ (Municipal service provider, Netherlands)
The WWB reforms impacted the targeting and character of employment assistance in three ways.

First, the fiscal pressure to reduce their benefit rolls quickly, together with limited political rewards for improving net employment impacts as distinct from overall reductions in benefit reliance, led municipal politicians to search for ‘quick wins’ (Regioplan, 2005; Sol, 2007):

‘Well, [the local politicians] … can score well if they show that they were successful in getting a large number of people back to work, whether this is the group which would have found their way by themselves, that’s not so much sort of in their interest.’ (Official 2 Employment Ministry, Netherlands)

Second, the pressure for quick wins led municipalities to focus their attention on stricter benefit gate-keeping to discourage new claims (Ministry of Employment and Social Affairs, 2007; Sol, 2007).230

To perform this gate-keeping function, a new type of employment program called ‘work first’ was introduced (Sol, 2007). By 2006, 81% of municipal welfare departments described their approach to activation as ‘work first’ (Sol & Westerveld, 2008). These programs, often work-for-benefits schemes, were designed to discourage claims or transition recipients off benefits as quickly as possible using ‘threat effects’ rather than capacity-building. Municipal policy makers learnt about this approach from the United States (Sol, 2007):231

“But first was something revolutionary. The idea that you could say to someone, ‘Oh, you want benefit? Then you have to do this or we send you there’, was quite new but first a lot of people were hesitating whether it was still allowed to do so. And it helped [that], even my employer here organised trips to Wisconsin – I’ve been there myself.” (Municipal service provider, Netherlands)

The new emphasis on gate-keeping, together with abandonment of the comprehensive approach, led to the third outcome: neglect of long-term unemployment. The new fiscal incentives reinforced this trend:

‘So what’s happening is that all the energy of the municipalities has been focussed on the first year, first months basically, to put it more strong. Of course, as a by-product of ‘work first’, automatically the quality of the people in the second year goes down, but on top of that I’m

230 A survey of municipalities found that in 2004, 63% gave priority to reducing the inflow to benefits rather than increasing outflow (Sol, 2007).

231 The term originated in the US in the 1990s, when there was a policy debate between advocates of ‘work first’ and ‘human capital development’ programs for unemployed sole parents (Berlin, 2002). Among Dutch municipalities at this time, ‘work first’ was less clearly defined and the term was often used as a generic descriptor for activation (Finn, 2008; Sol & Westerveld, 2008).
quite sure, but this is more anecdotal, that policies to help these people they are not increased, or they’re not stimulated. That's what's happened. And I think this is a big problem that municipalities are a bit short-sighted. So if you incentivise them then this is what you can get.’ (Official 1, Employment Ministry Netherlands)

In 2005, the exemption rate from activity requirements among WWB recipients remained high at 40% (van Geuns & van Gent, 2007). This was due to a combination of social barriers to employment, weak fiscal incentives to assist long-term unemployed people, and path dependency within municipal welfare services. Social service workers were aware of the challenges confronting them in assisting their most disadvantaged clients into employment, and accustomed to protecting them from the associated risks:

“And there are a lot of powers with the frontline workers, with the client managers who are speaking with the people in the frontline... I’ve been a front worker myself. If you would have been my client I would say, ‘I don’t think you can go to work, you won’t be safe. I will save you from all the negative effect from the system.’ And some people have this idea that people, for example women with small children, they shouldn’t go to work.” (Municipal service provider, Netherlands)

(3) Political effects of decentralisation

A key risk for governments purchasing employment services based on outcomes (whether employment outcomes or reductions in benefit rolls) is reduced accountability and transparency:

‘There is only limited insight into the effectiveness and efficiency of support for reintegration. There is a serious shortage of information in this area, and it is not easy to draw any definite conclusions from the statistics that are available.’ (Council for Work and Income, 2008, p2)

Under these circumstances, it was increasingly difficult for the Employment Ministry to justify budget allocations for employment services:232

‘Nowadays hardly anybody believes in this privatisation model anymore. They say, well, they just want to make too much money out of it, or they are only just in it for themselves.’ (Official 1, Employment Ministry Netherlands)

“The effect of all this was that in Parliament, there was after some news on the telly and in the papers about one position costing … an incredible amount of money and the discussion in our parliament was about: … ‘I heard that and in the paper I saw this;’ without really concentrating on what exactly should be looked at. By that time, the Parliament was against reemployment

232 In 2008, the annual audit of the Ministry of Employment and Social Affairs tabled in Parliament concluded that: ‘We cannot judge whether the reintegration budgets for UWV and municipalities were efficiently [spent]’ (Auditor-general, 2008, p11).
servicing, but the Ministry ... they were in favour. They are still in favour of reemployment servicing, but have a hard time to convince Financial Affairs and Parliament.” (Academic 1, Netherlands)

In 2012, a new liberal-conservative government cut employment services funding for WW and WWB clients by half (from Ecu1,300 to Ecu700) in a budget austerity package (European Union Network of Independent Experts on Social Inclusion, 2013).

B4. The character of activation policies in the second phase

(1) Activity requirements

During the second phase, activity requirements were tightened and extended. Instead of being allowed to restrict job search to skilled employment for some time after claiming benefits, both WW and WWB recipients with formal qualifications were now required to seek ‘generally accepted work’. Activity test exemptions for WW recipients over 57 years were removed, though existing recipients kept their exemptions (Sol & Westerveld, 2008).

The approach to activity requirements for sole parents was more ambiguous. In 2004, the WWB Act removed the exemption for sole parents with preschool age children (Davidse & Kraan, 2008; Ministry of Social Affairs and Employment, 2007). It was replaced with a default requirement to seek employment (subject to availability of child care) and discretion for case workers to offer exemptions on such grounds as medical conditions and caring responsibilities. This was reversed in 2007 by a new conservative-labour coalition government, restoring the previous exemption provided sole parents participated in training (Davidse & Kraan, 2008; Ministry of Social Affairs and Employment, 2007).233

According to the Danish Finance Ministry index, in 2004 activity requirements were stricter (with a score of 4.0) than in the Netherlands in 1998 (3.7) and the average value for OECD countries surveyed (3.0) (Hasselpflug, 2005).

Yet the scope of activation was still very uneven.

In 2007, 91% of unemployment insurance recipients had activity requirements (Table 7 below). The remaining 9% were still exempted on the grounds of mature age (Auditor-general, 2008).

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233 Among WWB clients in 2007, 27% were sole parents (Ministry for Social Affairs and Employment, 2007).
Among social assistance recipients, 40% were exempted in 2005, very close to the 42% exempted in 1999 (Hoff et al., 2003; van Geuns & van Gent, 2007). The main reasons were poor physical health (41%), poor mental health (18%) ‘social situation’ for example addictions or homelessness (19%), and child care reasons (11%) mainly for sole parents (Ministry of Social Affairs and Employment, 2007).

There were major variations in activation rates of social assistance recipients among municipalities. On average, between 2002 and 2005, the municipality of Amsterdam exempted four times the share of recipients that were exempted in Rotterdam, mainly on medical grounds (Groot et al., 2008).234

(2) Employment assistance

Expenditure on labour market assistance rose sharply from 10.2% of GDP per capita (per unemployed person) to 33.4% in 2001, and then fell to 17.7% in 2007 (OECD, various years-d).235 This corresponds to the build-up of investment in public wage subsidies and other national programs under the comprehensive approach, and the retreat from that strategy during the second phase (Finn, 2008).

The activation rate and profile of employment assistance for long-term unemployment payment recipients at the end of the second phase is summarised in Table 7.

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234 Among men, 28% were exempted in Amsterdam compared with 7% in Rotterdam. Among women, 41% were exempted in Amsterdam compared with 9% in Rotterdam.

235 These trends are charted in Attachment 6. Expenditure on employment assistance remained high by OECD standards at the end of the study period. In 2007, employment assistance expenditure was 0.71% of GDP in 2007 compared with an OECD average of 0.51% (Organisation for Economic and Social Development, various years).
Table 7: Activation rate and distribution of employment programs for long-term unemployment payment recipients (Netherlands 2005-08)

(a) Activation rate (2005-07)

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of recipients 1</th>
<th>percentage of recipients activated 1,2</th>
<th>percentage of long-term recipients activated 1,2</th>
<th>Number of employment program places 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment insurance (WW)</td>
<td>171,000</td>
<td>91</td>
<td>n.a.</td>
<td>128,100</td>
</tr>
<tr>
<td>Social assistance (WWB)</td>
<td>264,000</td>
<td>60</td>
<td>n.a.</td>
<td>212,600</td>
</tr>
</tbody>
</table>

(b) Distribution and character of employment program places (2008)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group, services provided &amp; average program duration (years, in brackets)</th>
<th>Number and percentage of program places 3</th>
<th>Cost (Ecu millions) and unit cost in brackets4</th>
<th>Predominant character (and percentage of places)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment insurance (WW) recipients</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job search assistance</td>
<td>All recipients assisted by UWV Job search assistance involving at least 3 meetings with a reintegration coach (0.5 years)</td>
<td>61,500 (48%)</td>
<td>174m (2,500)</td>
<td>Not classified (48%)</td>
</tr>
<tr>
<td>Regular reintegration trajectory</td>
<td>All recipients assisted by UWV Job search assistance and short training courses (under 3months) provided by reintegration companies (1.2 years)</td>
<td>23,700 (19%)</td>
<td>61m (3,100)</td>
<td>Not classified (19%)</td>
</tr>
<tr>
<td>Individual Reintegration Agreement (IRO)</td>
<td>All recipients assisted by UWV Job search assistance and longer training courses provided by reintegration companies (trajectories selected by clients) (1.3 years)</td>
<td>30,600 (24%)</td>
<td>103m (4,500)</td>
<td>Capacity-building (24%)</td>
</tr>
<tr>
<td>Vocational training</td>
<td>All recipients assisted by UWV Longer training courses by public educational institutions (1.3 years)</td>
<td>9,400 (7%)</td>
<td>27m (4,000)</td>
<td>Capacity-building (7%)</td>
</tr>
<tr>
<td>Unpaid work experience</td>
<td>All recipients assisted by UWV Content not specified (1.4 years)</td>
<td>2,900 (2%)</td>
<td>11m (5,500)</td>
<td>Not classified (2%)</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>128,100 (100%)</td>
<td>377m (4,200)</td>
<td>Modest capacity-building (31%)</td>
</tr>
<tr>
<td>Program</td>
<td>Main target group, services provided &amp; average program duration (years, in brackets)</td>
<td>Number and percentage of program places</td>
<td>Cost (Ecu millions) and unit cost in brackets</td>
<td>Predominant character (and percentage of places)</td>
</tr>
<tr>
<td>---------</td>
<td>---------------------------------------------------------------------------------</td>
<td>----------------------------------------</td>
<td>---------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td><strong>Social assistance (WWB) recipients</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job search assistance and work for benefits</td>
<td>Mainly for new entrants 'work first' schemes including job search assistance, monitoring, and work-for-benefits (1.3 years)</td>
<td>72,100 5</td>
<td>433m 5 (6,000)</td>
<td>Work incentive-strengthening 5</td>
</tr>
<tr>
<td>Reintegration services</td>
<td>For all recipients Job search assistance (1.3 years)</td>
<td>2,800 (2%)</td>
<td>5m (1,800)</td>
<td>Not classified</td>
</tr>
<tr>
<td>Subsidised public-sector job (former ID jobs)</td>
<td>Mainly for long-term recipients Ongoing public-sector job paid at up to 102% minimum wage for 32 hours pw (9 years)</td>
<td>19,400 (14%)</td>
<td>486m (25,100)</td>
<td>Income protection (14%)</td>
</tr>
<tr>
<td>Wage subsidies (former WW jobs)</td>
<td>Mainly for long-term recipients Paid work experience in a regular public or private sector job (1 year)</td>
<td>19,900 (14%)</td>
<td>399m (20,000)</td>
<td>Income protection (14%)</td>
</tr>
<tr>
<td>Vocational training</td>
<td>Mainly for long-term recipients Longer vocational training courses (over 3 months)</td>
<td>13,400 (10%)</td>
<td>104m (7,800)</td>
<td>Capacity-building (10%)</td>
</tr>
<tr>
<td>Social activation</td>
<td>Mainly for long-term recipients with poor job prospects 1-2 years of voluntary work and/or social support (1.3 years)</td>
<td>32,200 (23%)</td>
<td>104m (3,200)</td>
<td>Income protection (23%)</td>
</tr>
<tr>
<td>Other support services</td>
<td>Not specified</td>
<td>52,900 (38%)</td>
<td>131m (2,500)</td>
<td>Not classified (36%)</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td></td>
<td>140,500 5 (100%)</td>
<td>1,230m 5 (7,800)</td>
<td>Income protection (51%)</td>
</tr>
<tr>
<td><strong>All unemployment payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All</strong></td>
<td></td>
<td>268,600 (100%)</td>
<td>1,607m</td>
<td>Modest income protection (27%) 6</td>
</tr>
</tbody>
</table>

Notes:
n.a. = not available

1. Point in time estimates.
2. Those not exempted from activity requirements (including job search and/or program participation). The estimate for WW recipients is for 2007; that for WWB recipients is for 2005.
3. These are flows data.
4. Total costs are in millions of Ecus. Unit costs, where available, are in brackets.
5. ‘Work first’ schemes are included to illustrate differences in assistance given to short and long-term recipients but are not included in totals as these programs targeted short-term recipients.

6. This is calculated by adding the shares of places in each program, rather than shares of places allocated to insured and uninsured unemployed people respectively. Since the share of places with an income protection character (27%) exceeds that with a capacity-building character (20%), the predominant character of employment assistance overall was modest income protection.

Sources:
Attachment 5 explains the derivation of these estimates of the activation rate, together with sources.
Attachment 6 explains the derivation of these assessments of the character of employment program, together with sources.

Unemployment insurance recipients

Aside from job search assistance from reintegration coaches employed by the UWV (48% of places), the largest share of places for unemployment insurance recipients were in reintegration trajectories purchased from private providers, divided into regular trajectories (19%) and IROs (24%).

Regular trajectories mainly comprised assessment, job search assistance and job referrals, and in a small minority of cases (5%), vocational training, and are not classified. (Struyven & Steurs, 2002; Unemployment Insurance Authority (UWV), 2006).

Since IROs offered a choice of assistance, and users were relatively highly educated already, they were more likely to choose vocational training (Tergeist & Grubb, 2006):

‘vocational training because the IRO was almost always chosen for people who had a higher background of training. So people who have a higher background in training always choose more training.’ (Government service provider, Netherlands)

Since vocational training was often included in IROs, they had a capacity-building character, along with the 7% of places in separately-identified vocational training courses.

Employment assistance for long-term unemployment insurance recipients in the second phase had a modest capacity-building character, largely due to the introduction of client choice in the form of Individual Reintegration Agreements (IROs).

Social assistance recipients

The main change in employment assistance for social assistance recipients in the second phase was a shift from public wage subsidies to job search assistance and work-for-benefits programs for new claimants and social activation for long-term recipients.

The largest single category, with 72,100 places, was the ‘work first’ programs targeting new entrants rather than long-term recipients, so these are not included in the overall count in
Table 7 (Eurostat, various years-a; Sol, 2007; Tempelman, Burden, & Kok, 2010, p10). As discussed, these had a work incentive-strengthening character:236

“So the idea was if a person becomes unemployed when it's not necessary to become unemployed then this system would provide incentives for those people to say: 'well in that case I don't want benefits'.” (Academic 2, Netherlands)

For long-term social assistance recipients, the main programs were public wage subsidies (28% of all places), social activation (23%), and vocational and Dutch language training (10%). A substantial proportion of places (36%) could not be allocated from the data to specific programs.

The public wage subsidy schemes (comprising 28% of places) retained their income protection character but their share of places was diminishing. The number of public and private wage subsidies fell from over 80,000 in 1998 to just under 40,000 a decade later, most of which were from legacy schemes such as ID jobs which were difficult to close as many were permanent positions (Ministry of Employment and Social Affairs, 2007). New wage subsidies were still offered, but rarely:

‘The chance to receive a subsidised job or a wage subsidy is small, many times smaller than the chance of a regular trajectory.’ (Groot et al., 2008, p28)

Among long-term recipients, wage subsidies were being displaced by social activation, which rose from 5,700 places in 2001 to 32,200 in 2008 (23% of places). Social activation comprised group-based activities incorporating voluntary work and social support, with limited vocational content (Council for Work and Income, 2008; Van der Aa & van Berkel, 1998). Their connection with paid employment was weak and they had an income protection character:237

‘Municipalities do still have some social activation, we call sociale activering. I don’t know whether it fully means the same as in English. What it means is like teaching basic skills and also working at doing voluntary work, but also basic skills like…organising your daily schedule, be somewhere in time, but it’s still far away from normal employment.’ (Official 1, Employment Ministry Netherlands)

236 Work first strategies diverted (prevented) an estimated 17% of new social assistance claims during 2004 and 2005 (Sol, 2007).

237 There was little quantitative research on its employment impact. A study of 206 disadvantaged social assistance clients participating in social activation in 2004-05 found that while municipal social services set employment goals for half the group, only three secured employment within a two-year period (Inspectorate for Work and Income, 2006).

In a quantitative evaluation of employment programs from 1999 to 2005, Groot et al. (2008) found that social activation had on average a negative impact (0.8%) on the probability of employment among long-term social assistance recipients 18 months after participating in the program.
“In my opinion when you look back to the projects and you can qualify them as 'we keep them busy', it's a waste of money because we didn't invest anything. A lot of people say...that the people have more working experience and everything, but it didn't bring them anywhere.”
(Municipal service provider, Netherlands)

Vocational training had a capacity-building character but remained a small scale program for social assistance clients (with 10% of places), while IROs were rarely offered to social assistance clients (Council for Work and Income, 2008).

Employment assistance for long-term social assistance clients retained its predominant income protection character, with 51% of places.\textsuperscript{238}

The predominant character of employment assistance for long-term unemployment payment recipients overall was modest income protection, since the largest share of places (27%) had an income protection character.

Despite major structural change in benefits and employment services, and the redesign of programs, the predominant character of employment assistance for insured and uninsured long-term unemployed workers respectively, remained the same.

Conclusions

In the 1990s, the Netherlands was characterised as a ‘hybrid welfare regime’ combining elements of the Conservative and Social Democratic regime types (Esping Andersen, 1999). Its hybrid character was facilitated and reinforced by the Dutch ‘polder model’ of governance, which combined decentralised responsibility (to organisations representing diverse interests such as unions, employers, municipalities and religions) and consensual decision-making at central government level to mediate among them. (Becker, 2000).

At the beginning of the study period, the surrounding institutions had features consistent with the Conservative welfare regime including corporatist labour market regulation and a male-breadwinner model of family labour force participation (Hemerijck & Marx, 2010). In politics, the christian democrats were the lynchpin of a succession of coalition governments.

In the two decades before the activation turn (the 1970s and 1980s), strict job protection laws favoured male breadwinners and reduced labour market turnover. Female workforce

\textsuperscript{238} It is likely that this percentage was significantly higher, as the large residual category ‘other support services’ (with 36% of places) probably included many places with an income support character (Eurostat, 2009).
participation was low. As demand for labour shifted to higher skilled jobs, low-skilled workers were increasingly excluded as well. (Gerritsen & Hoj, 2013; Kremer, 2001; Nickell, 2003a). Under these conditions, many became unemployed (Hartog, 1999). In response, the social security system prioritised income protection over employment participation (especially by shifting low-skilled workers to disability pensions), while low-skilled jobs were subsidised by employment programs and tax concessions for employers.

Two changes in the surrounding institutions disrupted these pillars of the Conservative welfare regime.

First, in response to high unemployment, in the early 1980s the social partners negotiated wage restraint and a loosening of controls over part-time employment and labour hire companies (Visser & Hemerijck, 1997). This opened up a secondary labour market for low-skilled jobs and dramatically boosted employment, especially part-time jobs. Most of these part-time jobs went to women, converting the male breadwinner model into a one-and-a-half earner model of family workforce participation.

Second, the ‘purple coalition’ government in the 1990s signalled a period of instability and change in Dutch politics as the influence of the christian democrats waned, and later as populist anti-immigration parties gained support. (Kuipers, 2006).

These transformations in politics and the labour market opened up a space for activation policies. This began with acceptance among policy makers of the idea that lifting workforce participation was critical to grow the economy, fulfil the economic potential of the female workforce, and reduce the high level of reliance on social security, though it was the late 1990s before a coherent articulation of the activation paradigm was given in a government advisory report (Netherlands Scientific Council for Government Policy, 1997).

The OECD and EU had limited direct influence on Dutch activation policies, except that the EES reinforced the labour-led Government’s support for the ‘comprehensive approach’ to long-term unemployment through the prestige associated with the role it played in advocating that model throughout Europe (van Gerven, 2008).

The Dutch welfare state also had features consistent with the Social Democratic welfare regime, including high unemployment payments and minimum wages for low-skilled workers. With the declining influence of the christian democrats and a rapid rise in workforce participation the Dutch welfare state took on more of the complexion of that regime, but within limits. Low-skilled employment was promoted in a segmented labour market, women were still
largely quarantined in part-time jobs, and the Netherlands lacked a tradition of capacity-building programs for unemployed people.

The reform process was turbulent because systemic change in the governance, funding and control of benefits and employment services was needed to implement the activation agenda:

‘it's really sad that so much energy and money was spent on these reorganisations and not on developing better measures and policies.’ (Academic 2, Netherlands)

Corporatist governance of unemployment insurance and the PES, together with weak connections between municipal social services, the PES and labour market were barriers to activation (Kuipers, 2006).

Reforms to systems of governance, funding and control of benefits and employment services followed two tracks during the first phase.

First, corporatism was displaced by governance systems informed by NPM principles. The PES was effectively abolished and the new unemployment insurance authorities were required to purchase employment assistance from private ‘reintegration companies’. That this change occurred under a labour-led government, despite its political connections with the unions, suggests that its causes ran deeper than the policy preferences of the government of the day:

‘they had to remove the social partners from their responsibility which was, in Holland, quite a move and everyone felt strongly that it was necessary, but everyone felt that it was a painful move.’ (Government service provider, Netherlands)

The result was a mix of employment services for insured workers that mainly comprised job search assistance (privileged by the performance-based contracting system for private providers). There was modest investment in vocational training financed by residual training programs, but these were not expanded to underpin a clearly defined capacity-building approach to long-term unemployment:

‘We don’t have a real history of vocational training for long-term unemployed.’ (Academic, 2, Netherlands)

The second track was a shift in responsibility for employment assistance for social assistance clients to municipalities, as funds were diverted from the PES to subsidised public jobs for long-term recipients. This continued the tradition of subsidising jobs in a labour market with low turnover and limited opportunities for low-skilled workers. The organisational culture within municipal social services, together with the emphasis on subsidised public jobs, reinforced an income protection approach to social assistance clients.
‘The [municipal] social services’ view on who belongs to the ‘hard core’ [those unable to work] has shifted in the past years from 80% to 35% of their list of clients. There is evidently some leeway in the perception of social services, which is not only determined by the economy.’ (Ministry of Social Affairs and Employment, 2007, p12)

The different treatment of insured and uninsured unemployed people was due to a combination of social disadvantage among the latter group and the institutional separation of social security for unemployed people between unemployment insurance for those recently out of work and municipal social assistance for those more distant from the labour market. This elevated the social status of the former and emphasised barriers to employment among the latter.

Rather than homogenise benefits or employment assistance for these two groups, the government, following the Dutch tradition of subsidiary, progressively ceded more autonomy to municipalities in the provision of employment services.

At the end of the first phase, subsidiarity and NPM principles were aligned in the SUWI Act, which required the benefit agencies to purchase employment services from private providers. However, two elements of the system were out of alignment with both the activation and NPM paradigms: the comprehensive approach (an employment services guarantee for those unemployed long-term) and the large public wage subsidy programs underpinning it. These tensions were revealed when the labour-led government tasked public officials to reassess activation policies using evidence from program evaluations, which found that subsidised jobs rarely led to unsubsidised employment (Interdepartmental working group on the future of labour market policy, 2001).

In the second phase under the conservative-liberal government, these tensions were resolved by abandoning the comprehensive approach and winding down national wage subsidy schemes. The delegation of responsibility for employment services to private providers and municipalities, initiated by the labour-led government, helped the new government to avoid blame for abandoning these commitments championed by the labour party.

Decentralisation of responsibility was now taken a step further through the WWB Act, which gave municipalities greater autonomy over their employment services within a framework of fiscal incentives to reduce their benefit rolls as quickly as possible.

Perhaps surprisingly, the outcome of this second round of restructuring of the governance of employment assistance was the continuation of a modest capacity-building approach to employment services for long-term unemployment insurance recipients and an income protection approach for long-term social assistance clients.
Despite the removal of union representation in the governance of their benefits and employment services, modest investment in vocational training for long-term unemployment insurance recipients continued in the second phase. This was reconciled with the performance-based contracting system through the introduction of IROs, which gave unemployment insurance recipients more control over the help they received from employment service providers. The IROs were the outcome of lobbying in the parliament and the activation strategy of the UWV, which both reflected the higher status of the unemployed workers with insurance who ‘still have the skills and attitude and the culture around you because you are a worker’ (Government service provider, Netherlands). In contrast, social assistance recipients were rarely offered IROs.

In response to their new fiscal incentives, municipalities pursued an aggressive work incentive-based strategy towards new claims. This diverted a group with relatively good employment prospects (short-term unemployed) from benefits. Since a growing share of social assistance clients were new migrants from non-western countries, this tougher approach was supported by growing anti-immigrant sentiment.239

An income protection approach was maintained for long-term social assistance recipients, albeit in a different form. Public wage subsidies were gradually displaced by less expensive social activation schemes as a means to activate those considered difficult to place in employment. This also enabled municipalities to cross-subsidise their sheltered work agencies for people with disabilities.

If we look through the turbulence of governance changes in the proximate institutions, another explanation for the consistency of employment assistance for insured and uninsured workers over the study period was the structure of the labour market. The emergence of a secondary labour market of low-skilled jobs created enough space to activate those low-skilled workers without major barriers to employment, so investment in training remained modest and a tougher approach was taken to new claimants for social assistance. Yet the employment prospects of long-term unemployed people (especially those on social assistance benefits) remained poor despite very low unemployment (3%) at the end of the study period in 2007 (OECD, various years-c).240

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239 In 2005, 38% of social assistance recipients were new migrants from non-European backgrounds (van Geuns & van Gent, 2007).

240 As discussed, in 2007 only 19% of individuals who received WWB benefits two years previously were off benefits and in employment (van Geuns & van Gent, 2007).
The slow turnover of jobs, and limited availability of low-skilled jobs, continued to privilege an income protection approach to the most disadvantaged unemployment payment recipients.

Similarly, the persistence of a one-and-a-half earner model of family workforce participation gave rise to an ambivalent approach to activation of sole parents. The availability of part-time jobs for women with hourly pay and conditions on a par with fulltime jobs, combined with the high cost of child care, ‘locked in’ that model (Knijn et al., 2007; Visser, 2002a; Yerkes & Visser, 2006). In 2004, an exemption from job search requirements for sole parents with preschool-age children was removed, then restored in 2007 subject to a requirement to participate in training.
Chapter 8 : Development of activation policies in Denmark

Introduction

Denmark is generally characterised as a Social Democratic welfare regime (Esping Andersen, 1999). Before the 1990s Denmark, seemed an unlikely international leader in labour market policy. As discussed in Chapter 2, within the Social Democratic regime it was Sweden whose ‘active labour market model’ attracted international attention and was propagated through international institutions such as the OECD (Goul Andersen, 2011a; Weishaupt, 2011 p141). The Danes had relatively generous income support and labour market programs but lacked a coherent labour market policy model to match the Swedish one. Employment outcomes were not outstanding: in 1990 unemployment was 8% compared with 4% in Sweden (OECD, various years-c).

A decade later these numbers were reversed: Swedish unemployment was 8% following a prolonged recession in the early 1990s while in Denmark it had fallen to 5% (OECD, various years-c). By the end of the study period (2007), a labour market policy model attributed to Denmark – ‘flexicurity’ – was promulgated by the European Union and OECD (European Commission, 2007; OECD, 2006). The flexicurity model combined three elements in what has been called a ‘golden triangle’: ‘light touch’ labour market regulation, generous social security payments, and high investment in employment assistance and training (Madsen, 2002).

The turning point for labour market policy in Denmark is often identified as the 1994 reform of a social democrat-led government which introduced a ‘right and duty’ for long-term unemployed people to participate in employment programs, a policy the government called ‘activation’ (‘aktivering’) (Goul Andersen & Pedersen, 2007).

Part A of this chapter explores the key influences on the evolution of employment assistance for long-term unemployed people during the first phase of social-democrat-led government and assesses the character of the resulting programs.

In Part B, we turn to the ‘second phase’ of activation policy which followed the election of a liberal-led government in 2001, with special emphasis on the role of the proximate institutions in promoting path dependency and change.

There was much continuity over the study period in employment assistance for long-term unemployed people, despite significant changes in systems of governance, funding and control of activation. The effects of a tightening labour market, a progressive reduction in the duration of unemployment insurance payments, and structural changes designed to
homogenise employment assistance for insured and uninsured unemployed people, are examined.

(1) The backdrop to activation in Denmark: the main social security payments and employment programs for unemployed people

In 1990 there were two main social security payments in Denmark for unemployed people: unemployment insurance (‘Arbejdslosshedsdagpenge’) for those with the requisite work and contributions history paid by social insurance organisations run by unions, and a social assistance safety net payment (‘Kontanthjælp’) paid by municipalities.241

Danish unemployment insurance was among the most generous and accessible in the OECD (Dahl, Boesby, & Ploug, 2002). In 2001 the OECD summary measure of net unemployment benefit replacement rates for Denmark was 79%, well above the OECD-average figure of 59% (OECD, various years-a). Since the maximum rates of unemployment insurance were 90% of the previous wage up to a ceiling of approximately two-thirds of the average wage, the system was highly redistributive (Kvist et al., 2008).

Although fund members were required to make modest contributions, in the early 1990s 80% of the cost was met from public revenue (Goudswaard & Caminada, 2015).

Coverage was high: in 1990 approximately 80% of those registered with the public employment service received unemployment insurance (Goul Andersen, 2011). High benefit levels, wide coverage, and limited variation in rates of payment were consistent with the Social Democratic welfare regime (Esping Andersen, 1990).

Unemployed people who did not qualify for social insurance payments could apply for municipal social assistance. Its cost was shared equally between central and local government. Social assistance provided a general safety net for adults of working age in low-income households. The maximum rate for a single adult was 60% of the maximum rate of unemployment insurance, which provided an indirect link between social assistance payments and wage movements (Eurostat, various years-a).

Unemployment payment recipients with job search requirements were required to register with the public employment service (‘Arbejdsformidlingen’) or AF, which was controlled by a

241 Rates, eligibility conditions, and numbers of recipients are detailed in Attachment 5.
statutory authority, the ‘Arbejdsmarkedsstyrelsens’ (AMS). Its main role was to match unemployed people with job vacancies.\textsuperscript{242}

As Figure 15 indicates, the study period was a time of declining unemployment and reliance on unemployment payments. Reliance on unemployment insurance closely tracked the unemployment rate, but reliance on social assistance, and long-term reliance on both payments, were less responsive to labour market conditions.\textsuperscript{243}

\textbf{Figure 15: Unemployment and reliance of unemployment payments in Denmark (1990-2007)}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{unemployment_reliance.png}
\caption{Unemployment and reliance of unemployment payments in Denmark (1990-2007)}
\end{figure}

\textbf{Sources:}
Ministry of Labour (2010); Pedersen & Kohler (2008); Danish National Statistical Office (various years); OECD (various years-c).

\textbf{Note:}
‘Unemployment insurance’ refers to Arbejdsløshedsdagpenge. ‘Social assistance’ refers to Kontanthjælp. ‘All unemployment payments’ refers to both payments. These statistics are expressed in proportion to the population of working age rather than the labour force. Separate data were not available for long-term unemployment insurance and social assistance clients, though the majority of long-term recipients were social assistance clients.

\textsuperscript{242} The AMS also controlled a network of government vocational training centres for unemployed people, the ‘Arbeidsmarkedssuddannelser’ (AMU).

\textsuperscript{243} There were major differences between unemployment insurance and unemployment statistics as measured by the national statistical office. Many employees (approximately 20\% of unemployment insurance recipients) received unemployment insurance during seasonal layoffs (Westergaard-Nielsen, N 1993). Further, benefit statistics were calculated as full-year equivalents (two recipients employed half-time and seeking more hours counted as one). In 1994, of 219,000 unemployed on the ILO definition 44,000 did not receive benefits, while 114,000 unemployment payment recipients were not unemployed on the ILO definition (OECD 1994, ‘Employment outlook’, p133).
There were two main employment programs for insured long-term unemployed people (Dahl et al., 2002). The first was the job offer scheme (Arbejdstilbudsordeningen or ATB) which provided seven to nine months’ subsidised employment in the public or private sectors on regular wages. In 1990, an unemployment insurance payment recipient was entitled to up to three job offers within each unemployment spell (Dahl et al., 2002). Participation was voluntary but re-qualified participants for unemployment insurance.

The second major labour market program for long-term unemployed people was the education offer scheme or uddannelsestilbud which provided up to 18 months’ fulltime vocational training and also requalified people for unemployment insurance (Jensen, 1999; Kvist et al., 2008).

In 1998, Denmark had among the highest expenditures on employment assistance for unemployed people (excluding disability programs) in the OECD, at 26.3% of GDP per capita per unemployed person compared with the OECD average of 9.02% (OECD, various years-d).

A. The first phase of activation policy: 1994-2001

A1. The role of surrounding institutions

(1) History of corporatist governance in the labour market

At the beginning of the study period Danish labour market policies were characterised by corporatist governance in which the social partners cooperated with government to regulate wages and reduce unemployment (Larsen, 2004).

Danish industry was not dominated by a few large employers as in Sweden, and the ability of employers to hire and fire workers was relatively unimpeded (OECD, 1993). Thus, security of employment with a single employer was relatively weak. This economic vulnerability was partly compensated by a tradition of ‘associationalism’ or collective organisation among people with similar interests (for example, farmers and workers). Under the ‘Ghent system’, unemployment insurance was established and administered by the labour unions, and participation was high but voluntary (Kaspersen & Schmidt-Hansen, 2006). This was a major reason for the high unionisation rate of 75% of all employees in 1990 (Amsterdam Institute for Advanced Labour Studies; Goul Andersen, 2011).
The state played an active role in reducing economic vulnerability, in collaboration with the social partners (Kaspersen & Schmidt-Hansen, 2006). Wage bargaining was coordinated by the peak union and employer organisations (Landsorganisationen i Danmark or LO and Dansk Arbejdsgiverforening or DA respectively) with limited direct government involvement. However, they were encouraged to take account of the national interest through formal participation on statutory advisory bodies. By 1990 these included a National Labour Market Board (the Board of the AMS) and a National Economic Council (Damgaard, 2005; Kaspersen & Schmidt-Hansen, 2006). Governments generally developed labour market policies by consensus with the social partners (Green-Pedersen, 2002; Kaspersen & Schmidt-Hansen, 2006).

A turning point for labour market policy came in 1969 when unemployment insurance payments were dramatically increased (from 50% of previous wages to 80%) and the right to redundancy payments was removed (Green-Pedersen, 2002; Madsen, 2007). Municipal social assistance payments were increased and indexed to wage movements. These payment increases followed a change in the financing of unemployment insurance benefits in 1967, when central and municipal governments took on most of that responsibility (Goul Andersen, 2011).

These interconnected labour market policies laid the foundations for what was later known as the ‘flexicurity’ model combining liberal employment protection rules with generous and accessible social security payments (Goul Andersen, 2011; Larsen, 2004). Much of the financial risk of unemployment was borne by government.

In this period of labour shortages, another foundation of the modern Danish labour market was also laid – high workforce participation, especially among women. The child care law of 1964 made public child care services readily available and heavily subsidised for both preschool and school age children, and paid maternity leave financed by government was introduced in the early 1970s (Halvorsen & Jensen, 2004).244

However Denmark lagged its Swedish neighbour in implementing the comprehensive system of labour market programs that became a hallmark of the Social Democratic welfare regime (Larsen, 2004; Weishaupt, 2011). The AF was only established in 1969.

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244 From 1960 to 1973 the labour force grew from 71% to 77% of people of working age, and female labour force participation grew from 44% to 63%.
(2) Labour market structure in the first phase

Economic growth slowed in the 1970s and 1980s and unemployment rose from 2% of the labour force in 1973 to 9% in 1983 (Andersen, 2003; OECD, various years-c). As a result, from 1986 to 1993, public transfers to households rose in real terms by 40% (Goul Andersen, 2011a).

Nevertheless, Denmark had one of the highest employment rates in the OECD in 1990 at 75% compared to an OECD-average rate of 66% (OECD, various years-c). This was mostly due to a high female employment rate (71% compared with an OECD average of 54%). Most jobs for women (81%) were fulltime, consistent with a dual-earner model of family workforce participation (Lewis et al., 2008). In 1998, 64% of children under 3 years received formal child care, well above the OECD average of 25% (OECD, 2001a).

During the study period, the Danish labour market had high job turnover (Andersen & Svarer, 2007). On average from 1992 to 2004, the job-separation rate was 1.87%, the highest of 23 OECD countries surveyed (Hobijn & Sahin, 2007).245

This was facilitated by relatively liberal job protection rules. Denmark scored 1.5 on the OECD index of strictness of employment protection legislation, compared with the OECD average score of 2.2 (OECD, 1999c).

On average, from 1992 to 2004, the job-finding rate within the next month for unemployed people was 4.8% in Denmark compared with an OECD average value of 5.7% (Hobijn & Sahin, 2007).246

In 1999, Danes of working age were relatively highly-skilled, with only 20% lacking Year 12 qualifications or equivalent, compared with 38% across the OECD (OECD, 2001a). Employment growth through the 1980s and 1990s was biased towards jobs with higher skills but workforce skills were upgraded at the same pace so that skills-biased growth was not the cause of higher unemployment (Andersen, 2003):

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245 This refers to the share of employees leaving jobs each month for other jobs, unemployment, or out of the labour force.

246 Excluding the United States as an outlier at 28.2%. On the face of the below-average value is inconsistent with Denmark’s above-average job separation rate (above). One reason for this is the skewed nature of the data, with a small number of countries reporting very high job-finding rates. Denmark had the eighth-highest rate among 22 OECD countries surveyed. Moreover, a country can have a relatively high job-separation rate and relatively low job-finding rate for unemployed people if more people move between jobs (or from employment to outside the labour force) without becoming unemployed.
‘So you have not had this redundant unskilled population which you had to put to work somewhere in services.’ (Academic 1, Denmark)

The compression of skills in Denmark was reflected in the wage distribution. The ratio of the fifth to the first deciles of individual earnings in Denmark in 1995 was 1.5, compared with 1.7 across the OECD (OECD, 2007e).

The high skills threshold required to enter employment presented a hurdle for the relatively low number of low-skilled workers. In 1999, 39% of those lacking Year 12 qualifications were not employed, close to the OECD average (OECD, 2001a):

 ‘Yeah, we have [a high skills threshold to get into employment], but it reflects the level of the benefits which establishes the level of the lowest income.’ (Official, Employment Ministry Denmark)

(3) Political institutions

Since the Second World War, Danish politics were polarised between a Left bloc led by the social democratic party (Socialdemokratiet or SD), and a Right bloc led by either the conservative party (Det Konservative Folkeparti or KF) or the liberal party (Ventstre) (Green-Pedersen, 2002). Since the 1970s, minority governments have been the norm. The political system was consensual rather than majoritarian, with major policy change often negotiated with the opposition rather than imposed unilaterally by the leading party in government (Lijphart, 2012).

Conservative-led coalitions ruled from 1982 until 1993, making largely unsuccessful attempts to reduce social security payments on the grounds that they could no longer be afforded at a time of high unemployment (Green-Pedersen, 2002). This was resisted by the social democrats, whose leader argued that the 1987 election was:

 ‘going to be a fight between whether we have a welfare state or a society where everyone has to look after themselves’. (Green-Pedersen, 2002 p119)

The political stalemate over welfare reform was broken when the social democrats returned to power from 1993 to 2001 under the leadership of Poul Nyrup Rasmussen, and implemented the first major activation reform in 1994 (Kvist et al., 2008). However, as explained below, activation was not simply a social-democratic project.
A2. The role of ideas:

(1) The Zeuthen Commission

The structural unemployment paradigm gained credence in the late 1980s in response to a simultaneous rise in unemployment and inflation (Goul Andersen & Pedersen, 2007).

In 1988, the National Economic Council published a report arguing that most unemployment was now structural (Danish Economic Council, 1988):

‘during the ’70s and ’80s, we talked about conjunctural unemployment so we were just waiting for better times. But there were some years where there actually were changes in the conjunctures but what you could see was that people were not actually capable to take up these old jobs so that’s why suddenly there was an emphasis of we have to do something – and even the so-called leading economist in Denmark had this idea that you could not get under 8% structural unemployment – because you could see these …bottlenecks at the labour market at that time although we had unemployment very, very high.’ (Academic 2, Denmark)

In 1989 the conservative-led government released a statement on structural unemployment (Ministry of Labour, 1989). It advocated economically-liberal solutions, anticipating policy prescriptions later advanced by the OECD in its 1994 Jobs Strategy (Goul Andersen, 2011a; OECD, 1996a). These included curbs to wage growth and reductions in benefits and income taxes. It also advocated improved vocational training, and more efficient job matching by the AF to reduce skills mismatch. While the unions and social democrats could readily agree with the skill-enhancing policies, they rejected reductions in wages and benefits (Goul Andersen, 2011a).

The exception was a youth activation policy legislated with social democrat support in 1990. This required young social assistance recipients (18 to 19 years) to enrol in six to 18 months of training or subsidised employment after two weeks on benefits, and reduced their benefit rate (Kvist et al., 2008). This was a watershed in social security policy since participation in employment programs was previously voluntary and major reductions in benefits were rare (Jensen, 1999).

The government attempted to resolve the political impasse over broader labour market reform by establishing a commission of inquiry, with government and social partner representation, into ‘structural problems in the labour market’ (Udredningsudvalget) (Zeuthen, 1992).

The Zeuthen Report, released in 1992, provided the conceptual framework for the activation policies pursued by the social democratic government elected the following year (Larsen &
Goul Andersen, 2009). It also provided a venue for the stakeholders to negotiate a compromise over labour market reforms to reduce unemployment:

'It changed the way we looked at labour market policy, and it was quite dramatic, but a very important change in mindset from many actors. On this Committee we have both the social partners and different Ministers, and it did a lot of analysis and it did a lot of politics actually, and they found a solution. The key factor was that we came from a system where you could re-enter through the unemployment system by having a subsidised job, and the principal change was in this new system, they didn’t have this opportunity, and at that time it was a revolution'.

(Employment Ministry official, Denmark)

This compromise avoided reductions in benefit rates or wages. Changes were recommended in four main areas (Larsen & Goul Andersen, 2009):

- Removal of the link between participation in labour market programs and re-qualification for unemployment insurance, reducing the effective duration of unemployment insurance benefits from up to nine years to seven, while making participation in employment programs compulsory;
- Individualisation of labour market programs (using ‘individual action plans’) for insurance and social assistance clients, with employment as the main goal;
- Administrative reforms to the AF to increase the discretion of local managers to adapt services to local labour market conditions and the needs of unemployed people, with oversight from new regional management bodies incorporating the social partners;
- Shifting the financing of unemployment insurance (in part) to the social partners.\(^{247}\)

The Commission’s starting point was the structural unemployment paradigm, with an employment capacity-building focus:\(^{248}\)

‘The overall direction for all activation measures is to reduce structural unemployment through ongoing skilling of the workforce.’ (Zeuthen, 1992, p5)

Its activation model was firmly grounded in corporatist labour market regulation:

‘There must be more effective interaction between the social partners and labour market and educational institutions.’ (Zeuthen, 1992, Preface, p2.)

\(^{247}\) This resulted in a general tax increase on wages rather than a new system of social insurance contributions.

\(^{248}\) There was little discussion of the need to increase employment participation generally (including among women), since Danish workforce participation rates were already high.
The main direction of reform was to free up employment assistance from its income protection role (requalifying long-term unemployed people for benefits) so that it could better perform its capacity-building function:

“The [income] ‘maintenance line’ is still dominant. The [activation] measures have not only been designed to qualify unemployed to be ready for employment through preventive actions, but also to ensure the unemployed continued to qualify for compensation through the benefit system.” (Zeuthen, 1992, p3)

The Commission did not consider in detail the activation of municipal social assistance clients:

‘The Commission’s consideration on this point has been limited, due to the fact that there has been no analysis [which] could form the basis for a reassessment of county and municipal efforts. The Committee has therefore only focused on the future responsibilities and tasks between the labour market administration and municipalities.’ (Zeuthen, 1992, p5)

The Commission adopted the Danish term ‘aktivering’ (activation) that was subsequently used by the OECD and the European Commission to describe policies to strengthen employment participation among social security recipients.

The Commission’s compromise solution was structured to attract support from key stakeholders (Larsen & Goul Andersen, 2009). By improving skills and imposing stricter activity requirements on long-term unemployed people, activation would avoid the need to reduce benefits (opposed by unions and social democrats). It could also attract support from employers and the liberal and conservative parties since it held out the prospect of increased labour supply and reduced reliance on benefits.

At the heart of the new activation paradigm was a re-conceptualisation of the implied social contract between unemployed people and government: in return for benefits and an offer of employment assistance to help prepare individuals for employment, they would be required for the first time to participate in employment programs (Kvist et al., 2008). Although labour market programs were not as well established in Denmark as in Sweden, this was consistent with a long-standing principle of Nordic labour movements that workers should both ‘do your duty and demand your rights’ (Dolvik, Fløtten, Hippe, & Jordfald, 2015, p95). It was also consistent with the Nordic ‘active line’ which privileged active participation in the labour market as the path to greater social equality (Johansson & Hvinden, 2007):

‘I think it was more driven by arguments that people need first of all a job, and we could give them a job; this was the main approach to a decent life as a grown-up in Denmark. I think it’s important to bear in mind that also at this time, the participation rate among both men and women is so high that it’s common knowledge, or commonly accepted, that a decent grown-up had to have a job.’ (Official, Employment Ministry Denmark)
This ‘rights and duties’ discourse was not spelt out in the Zeuthen Report, which focussed on the economic case for activation. It emerged later as the social democrat-led government announced its activation policies in the face of anticipated resistance from its constituents to compulsory employment programs and an effective reduction in the duration of benefits (Larsen & Goul Andersen, 2009).

(2) International influences

Since the EES was developed well after 1994, we discuss its impact on Danish policies later and focus here on the impact of the OECD Jobs Study released in 1994 (Casey, 2004; OECD, 1996a). That publication outlined nine proposals to reduce structural unemployment including downwards flexibility in wages for low-skilled workers, easing of job protection laws, active labour market policies, and reform of skills and benefit systems including potential benefit reductions (OECD, 1996a).

An academic interviewee suggested that the Jobs Study came too late to influence the early activation policies in Denmark:

‘Denmark was inspired by Sweden. It did not copy the Swedish program but they were inspired when they introduced this active labour market policy. Not in any direct way but you obtained much agreement on that in Zeuthen Commission in 1992. And the trade unions had been preparing this for quite a while. But with the OECD Jobs Study, this did not have much impact because you were sort of longer in the process. You have had the discussion in the early 1990s about whether to reduce unemployment benefits and there was very strong resistance against that.’ (Academic 1, Denmark)

The subsequent dialogue between the OECD and Danish authorities on activation policy revealed major differences of view. While the OECD supported the new Danish activation policy, it argued for lower unemployment payments and minimum wages, precisely the outcomes the Danish policy sought to avoid:249

‘With the labour market reforms of 1994 and the measures embodied in the 1996 budget the Danish authorities have taken important steps to redress the causes leading to a weak labour market performance…. However, the Danish unemployment insurance scheme is still one of the most generous in the OECD area, in particular for low-skilled workers. …the scheme still gives marked disincentives to active job search on the part of some unemployed and leads to a compression of the wage structure, thus pricing low-skilled workers out of jobs.’ (OECD, 1996b, p86)

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249 As discussed in Chapter 4, the OECD later accepted that a ‘northern European labour model’ with these features was an alternative path to lower unemployment (OECD, 2006).
The Danish Economic Council subsequently argued that the combination of high benefits and activation had reduced unemployment without cutting benefits:

‘The favourable employment effects of the active labour market policy are remarkable because they have not been followed by increasing income inequality. This is primarily due to the maintenance of a high rate of replacement of unemployment benefits. Active labour market programs have been effective in testing whether the unemployed are actually available for work.’ (Danish Economic Council, 2002, p353).

A3. The introduction of activation policy

While the leadership of the major parties and the social partners supported activation, it took a change of government to implement it. After a decade of political contest over welfare reform, the conservatives were not in a strong position to implement policies which tightened eligibility conditions for unemployment payments (Green-Pedersen, 2002). The social democrats took the opportunity to ‘claim credit’ for polices advocated by experts as economically responsible (Bonoli, 2005a).

The labour market institutions and programs underpinning activation policies were already largely in place (Halvorsen & Jensen, 2004; Larsen, 2004). In Streek and Thelen’s (2005) terminology, these programs were ‘converted’ from an income-protection function to a capacity-building one (Streeck & Thelen, 2005).

Activation was synonymous with participation in employment programs, rather than job search. At first, the requirement to join these programs applied only during an ‘active period’ after four years on unemployment insurance. Although job search requirements were still in force before the ‘active phase’, the first three years were initially referred to as the ‘passive period’. During the active period, unemployed people were required to spend at least 75% of the time in a program (Kvist et al., 2008).

As unemployment fell throughout the first phase, the requirement to participate in employment programs was brought forward and the duration of unemployment insurance was reduced (Figure 16).
By 2001, the maximum period of unemployment insurance was reduced from seven to four years and the 'active period' commenced after six months' unemployment (Figure 8.2):

>'The shift was actually starting during the last period of the Social Democratic government where they reduced the period of unemployment benefits from seven to four years. And...the signal was, well, in a period of time where...employment is strong and so forth you couldn't keep people on social benefits or on unemployment benefits when there was job openings. So it was also meant as a kind of a signal to the unemployed, well now you have four years to get yourself together, do something about it. That kind of underlying agenda was very increased during the Conservative-Liberal government.' (Municipal service provider 2, Denmark)

From 1996, social assistance recipients classified as 'available for employment' were also required to participate in programs after 12 months on benefits, while young people under 25 years were fast-tracked into employment programs after 13 weeks (Eurofound, 2000; Kvist et al., 2008).\textsuperscript{250}

\textsuperscript{250} In 1999 this activation threshold was raised to 26 weeks' unemployment (Dahl et al., 2002).
Job search requirements were tightened progressively from 1994. Six-monthly compulsory interviews were introduced with the AF to ensure compliance and offer guidance (Danish Employment Council, 2004). From 1998 unemployment insurance recipients were required to seek employment below their occupational skill level after six months on benefits instead of 12 months, and accept a job requiring up to three hours’ travel daily (Dahl et al., 2002).

The 1998 Act on Active Social Policy tightened job search requirements for those social assistance recipients assessed as ready for employment and imposed new penalties for non-compliance including a 20% reduction in benefits for non-attendance in programs (Ministry of Employment, 2003c).

A4. The role of proximate institutions:

A key feature of the institutional structure of unemployment payments was the separation between labour market policy (the province of central government and the social partners) and social policy (the province of the municipalities) (Damgaard, 2005). Separate national ministries had responsibility for each: the Labour Ministry (Arbejdsm ministeriet) and Social Affairs Ministry (Socialministeriet).

There were major differences in organisational culture between these systems (Damgaard, 2005). The unemployment insurance system emphasised continuity of income and engagement with the labour market, while the social assistance system emphasised poverty alleviation and social barriers to employment. The AF was administered by staff with expertise in matching individuals to jobs, while municipal programs were administered by social workers:

‘It is well known that the social service treat people as clients instead of people who just need a job, and so instead of solving the social problem on their home basis, we try to solve the problem on the labour market.’ (Official, Employment Ministry Denmark)

The shift in the purpose of employment programs from income protection to capacity-building led to a reassessment of both systems and the relationship between them.

(1) Reform of unemployment insurance and the employment service

Danish activation policy in the first phase was largely shaped by the unemployment insurance system, and reforms to that system proposed by the Zeuthen Commission.

Given the corporatist governance arrangements in the labour market, the unions and employers were in a strong position to influence the new activation policy, which was framed as strengthening, not retrenching, the entitlements of insured workers (Goul Andersen, 2011a). The centrepiece of the political compact between the social democrat-led government
and the unions over activation policy was a trade-off between a shorter maximum period of unemployment insurance and investment in capacity-building programs so that shorter benefits did not expose them to risk:

“Well you could also say that the activation for the insured was part of an agreement between the government and mostly the trade unions that okay, we’re lowering the time you can get the uninsured benefits but on the other hand we from the government would do more for these people. We will give them job training, we will give them education.’ (Municipal service provider 1, Denmark)

The long duration of unemployment insurance also gave ample time for capacity-building programs to prepare unemployed people for jobs (Kvist et al., 2008) (Danish Employment Council, 2004).

Reforms to the AF system to implement the activation policy centred on three changes, which combined corporatist governance and elements of NPM ideas (Weishaupt, 2011). First, at the commencement of the ‘active period’, the AF negotiated with each long-term unemployed person an Individual Action Plan (Individuel Handlingsplan). This was the gateway to referral to a wage subsidy or training program (Kvist et al., 2008). Second, regional managers of the national labour market authority (AMS) were given more discretion to determine the mix of labour market programs offered by local AF offices (Eurofound, 2000; Lindsay & McQuaid, 2009). Third, the role of the social partners in governance of the AF was strengthened. In addition to the National Labour Council, they were represented on new Regional Labour Market Councils (Figure 5.3). These advised AMS regional managers on the targeting, design and implementation of employment assistance programs, entrenching a role for the social partners in administration of employment assistance as well as policy. (Damgaard, 2005):

‘But what was happening at the same time was that the social partner has huge, huge, huge influence when they made their reform in 1994. They were actually the ones in charge of prioritising what types of instruments to use, what types of target groups to give services. And they had a huge, huge budget, these regional boards.’ (Academic 2, Denmark)

The new organisational structure for employment services established in 1994 is shown in Figure 17 below.
(2) Reform of municipal social assistance

At the time when activation was extended to social assistance in 1996, municipal social service departments administered employment and social support programs for social assistance clients, while the AF provided job-matching services for them.

Unlike the AF, municipal social services lacked detailed knowledge of local labour markets. Underpinning the individual action plans for social assistance clients was a long-standing assessment system for new claimants which divided them into two categories: those whose ‘main problem’ was unemployment (referred to subsequently as ‘job ready’) and those with ‘other problems’ such as a disability, illness or recent marital separation (Rosdahl & Petersen, 2006). The former (one third of the total in 1990) were required to register with the AF and
seek employment while the latter (two-thirds) were exempted and could voluntarily join municipal social support programs (Danish Finance Ministry, 1997).

Municipal employment assistance was restructured in 1994 (Damgaard, 2005; Eurofound, 2000). Municipalities joined the Regional Employment Councils. In addition, a parallel set of Local Coordination Committees were established, with social partner representation, to advise municipalities on their employment assistance work. A National Coordination Committee (later ‘Social Council’) with similar representation was established to oversee the Local Committees and advise the Social Affairs Minister on employment assistance for social assistance clients (Figure 18 below).

Figure 18: Governance of employment assistance for social assistance recipients (late 1990s)

Source: (Eurofound, 2000).
Funding arrangements differed between employment programs for unemployment insurance and social assistance clients. Central government fully funded the AF programs but only half the cost of municipal programs. (Ministry of Employment, 2003c). Further, wage subsidies for the Jobtraining program (the main activation program for insured workers) did not attract the 50% central Government subsidy for municipalities. This encouraged municipalities to use lower-cost programs (Beer et al., 2008).

The overall effect of the separate system of governance, funding and control of social assistance was to reinforce its historical emphasis on income protection and ‘barriers to employment’, while discouraging costly investments in capacity-building.

**A5. The character of activation in the first phase**

**1) Activity requirements**

In 1996, Denmark had a relatively liberal activity requirements and sanctions, scoring 2.8 out of 5 on the Danish Finance Ministry’s index, compared with an OECD average score of 3.0 (Danish Finance Ministry, 1997).

There were two aspects to activity requirements for unemployed people: general activity requirements (including registration with the AF and active job search) and participation in activation programs (Kvist et al., 2008).

In 1998, 75% of unemployment insurance recipients were required to register with the AF and seek employment compared with just 40% of the one-third of social assistance clients whose ‘main problem was unemployment’ (Danish Employer’s Federation, 2005). Thus, one in eight social assistance clients had job search or other requirements.

By 2001, the share of unemployment insurance clients participating in programs at a point in time was 27%, rising to 54% for those unemployed for 3 years or more (Table 8 below). Social assistance clients were as likely to be activated earlier in the payment spell as they were after 12 months (29% compared with 25-34%). One reason for this was their relative youth since young people were required to participate earlier (Dahl et al., 2002).251

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251 These statistics were inconsistent with the requirement that those targeted for activation participate in programs for 75% of the remainder of their unemployment spell, which was viewed by program administrators as unrealistic (Eurofound, 2000). Social assistance clients referred to programs were only ‘activated’ for one quarter of their remaining time on benefits on average (Rosdahl & Petersen, 2006).
(2) Employment assistance

Although unemployment fell sharply from 1994 to 2001, public investment in employment programs gathered pace.\textsuperscript{252} As a proportion of GDP per capita per unemployed person, expenditure on employment assistance for unemployed people rose from 14.8\% (already the second highest in the OECD after Sweden) to 32.5\% (OECD, various years-d).

Table 8 shows the activation rate for unemployment insurance and social assistance recipients, and profiles employment program places for the three years from 1995 to 1998 (the start of the phase), and 2001 (end of the phase). The average of these values is used to assess the predominant character of employment assistance in the first phase.

Table 8: Activation rate and distribution of employment programs for long-term unemployment payment recipients (Denmark 1995-2001)

(a) Activation rate (1995 and 2001)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of recipients</th>
<th>Percentage of all recipients currently activated</th>
<th>Percentage of long-term recipients currently activated</th>
<th>Number of employment program places</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1.2.</td>
<td>1.2.3.</td>
<td>1.</td>
</tr>
<tr>
<td></td>
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<td>1.2.3.</td>
<td>1.2.3.</td>
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<td></td>
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<td>1.2.3.</td>
<td>1.2.3.</td>
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<tr>
<td></td>
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<td>1.2.3.</td>
<td>1.2.3.</td>
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<tr>
<td></td>
<td></td>
<td>1.2.3.</td>
<td>1.2.3.</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>231,000</td>
<td>As job-seekers: 75\textsuperscript{4}</td>
<td>n.a.</td>
<td>14,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: n.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>120,000</td>
<td>As job-seekers: 70\textsuperscript{5}</td>
<td>In programs: 33-54\textsuperscript{6}</td>
<td>28,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 27\textsuperscript{6}</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>102,000</td>
<td>As job-seekers: 37\textsuperscript{3}</td>
<td>n.a.</td>
<td>38,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 11\textsuperscript{3}</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>91,000</td>
<td>As job-seekers: 26\textsuperscript{6}</td>
<td>In programs: 25-34\textsuperscript{6}</td>
<td>48,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 29\textsuperscript{6}</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources:
Kvist et al. (2008); Danish Employer's Federation (2005); Danish National Statistical Office (various years); Ministry of Employment (2003c); Ministry of Employment (2005).

\textsuperscript{252} In 1994 there were 387,000 unemployment insurance and social assistance benefit recipients altogether and 32,000 program places; a ratio of 1:12. In 2001 there were 211,000 benefit recipients and 76,000 activation program places, a ratio of almost 1:3 (Kvist et al., 2008).
Notes:
n.a. = not available
1. Point in time estimates
2. Fulltime equivalent statistics, as explained in Attachment 5.
3. ‘Activated’ refers to those with job search requirements and those participating in an employment program during the ‘active period’.
5. Unemployment insurance (UI) recipients could be required to search for jobs and join activation programs at the same time so there is overlap between these two categories. For unemployment insurance clients, we assume the incidence of program participation was the same for those not seeking employment as for job-seekers. On this basis, in 2001 27% of the 30% not currently seeking jobs were in an activation program (8% of the total). The non-jobseeker program participants are added to the percentage who were jobseekers (70%) to calculate the overall percentage activated (78%).
6. These values varied by duration of unemployment.

(b) Distribution and character of employment program places (1995-2001)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group and services provided</th>
<th>Percentage of program places (1995-98 to 2001), with average in brackets</th>
<th>Unit and total cost (Ecu in 2002 values)</th>
<th>Predominant character (and percentage of places)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education &amp; training courses</td>
<td>6-18 months’ fulltime education/vocational training</td>
<td>49 to 59 (54)</td>
<td>Ecu13,000 (unit cost)</td>
<td>Capacity-building (54%)</td>
</tr>
<tr>
<td>Public job training</td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>35 to 27 (31)</td>
<td>Ecu22,000 (unit cost)</td>
<td>Capacity-building (31%)</td>
</tr>
<tr>
<td>Private job training</td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>11 to 6 (9)</td>
<td>Ecu16,000 (unit cost)</td>
<td>Capacity-building (9%)</td>
</tr>
<tr>
<td>Individual job training</td>
<td>6-18 months’ work experience in ‘created jobs’, pay equivalent to benefits</td>
<td>1 to 0 (1)</td>
<td></td>
<td>Income protection (1%)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>4 to 8 (5)</td>
<td></td>
<td>Not classified (5%)</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>100%</td>
<td>Ecu320m (unit cost Ecu7,000)</td>
<td>Capacity-building (94%)</td>
</tr>
<tr>
<td>Program</td>
<td>Main target group and services provided</td>
<td>Percentage of program places (1995-98 to 2001), with average in brackets 7.</td>
<td>Unit and total cost (Ecu in 2002 values)</td>
<td>Predominant character (and percentage of places)</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Social assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Individual job training</strong></td>
<td>3-18 months’ work experience in ‘created jobs’, pay equivalent to benefits</td>
<td>24 to 48 (36)</td>
<td>Income protection (36%)</td>
<td></td>
</tr>
<tr>
<td><strong>Special activation projects</strong></td>
<td>6-18 months’ unpaid work in created jobs, &amp; social support</td>
<td>34 to 24 (29)</td>
<td>Income protection (29%)</td>
<td></td>
</tr>
<tr>
<td><strong>Education &amp; training courses</strong></td>
<td>6-18 months’ fulltime education/ vocational training</td>
<td>22 to 17 (20)</td>
<td>Capacity-building (20%)</td>
<td></td>
</tr>
<tr>
<td><strong>Public job training</strong></td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>2 to 8 (5)</td>
<td>Capacity-building (5%)</td>
<td></td>
</tr>
<tr>
<td><strong>Private job training</strong></td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>12 to 3 (8)</td>
<td>Capacity-building (8%)</td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td>6 to 0 (2)</td>
<td>Not classified (2%)</td>
<td></td>
</tr>
<tr>
<td><strong>All</strong></td>
<td></td>
<td>100</td>
<td>Ecu187m 8. (unit cost Ecu5,000)</td>
<td>Income protection (65%)</td>
</tr>
<tr>
<td><strong>All</strong> 5.</td>
<td></td>
<td></td>
<td>Ecu507m</td>
<td>Capacity-building (62%)</td>
</tr>
</tbody>
</table>

Sources: Attachment 6 explains assessments of the character of employment program and provides sources.

Notes (continued):

7. Average values in 1995-98, in 2001, with the overall average of these two statistics in brackets.


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Unemployment insurance recipients were referred to the following programs: education and training programs (with 54% of places), public Jobtraining (31%), private Jobtraining (9%), and individual Jobtraining (1%).

The most common program for unemployment insurance recipients was full time education or vocational training courses, short courses run by the AMU (training colleges run by the AF) and longer courses (up to 18 months) run by adult education providers. These had a capacity-building character.

In the public Jobtraining scheme, they were employed temporarily by public employers on a subsidised wage for six to 12 months, during which they received vocational training. Given its emphasis on training, this had a capacity-building character.

The private Jobtraining scheme was the equivalent scheme in private sector employment, and also had a capacity-building character.

Overall, programs for unemployment insurance recipients had a predominant capacity-building character (with 94% of places).

The balance of programs was different for social assistance recipients: individual Jobtraining (with 36% of places). Special projects (29%), education and training programs (20%), public Jobtraining (5%), and private Jobtraining (8%).

Individual Jobtraining targeted social assistance clients assessed as able to work but with poor employment prospects. It comprised up to 18 months’ work experience during which they were paid a training wage equivalent to the unemployment insurance payment plus a ‘work subsidy’ of Ecu1 per hour. This program had an income protection character as its connection to regular employment was weak.

Special Activation Projects’ targeted social assistance clients with ‘problems other than unemployment’ and comprised combinations of up to 18 months of unpaid work experience and social support in a group setting. These were provided in-house by municipalities. Since they placed little emphasis on transitions to open employment they had an income-protection character.

Overall, programs for social assistance recipients had a predominant income protection character (with 65% of places).

In 2001, the AF spent Ecu320 million on activation programs for insured unemployed people at an average cost of Ecu7,000 per head. Despite the greater labour market disadvantage of
their clients, municipalities spent less: Ecu187 million or Ecu5,000 per head (Ministry of Employment, 2003c).

(3) Financial work incentives

High unemployment payments meant that financial incentives to move from unemployment to a low paid fulltime job were relatively weak in Denmark.\textsuperscript{255} Work incentives for single individuals without children on unemployment insurance improved marginally during the first phase. Dahl and colleagues (2002) found that the benefit replacement rate for a single worker on unemployment insurance who was previously employed at the average fulltime production worker wage fell from 65.8\% in 1994 to 61.4\% in 1999. (Dahl et al., 2002, p31). They found this was due as much to wage increases over the period as to changes in the tax-transfer system. On the other hand, the replacement rate for the same worker on the social assistance payment rose slightly from 38.6\% to 40.9\%.

The main policy change impacting on work incentives for unemployed people was a reduction in the lowest rate of personal income tax from 15\% to 8\% in 1994. In 1998, the maximum threshold for the lowest personal income tax rate was increased. However, these income tax reductions were largely offset by a new tax at a rate of 8\% on labour earnings to help finance unemployment insurance and by an increase of six percentage points in the municipal income tax rate (Danish National Centre for Social Research, 2002; OECD, 1999b).

An evaluation of the implementation of the European Employment Strategy in Denmark undertaken by the Danish National Institute for Social Research in 2002 concluded that:

‘The changes in the Danish tax system have not been directed towards an increase in the incentives of unemployed and inactive persons to take work......This conclusion is very much in accordance with the political goals in Denmark during the 1990s when changes in the tax system were not used as active tools in the policies to increase employment. (Danish National Centre for Social Research, 2002, p45.)

The lack of major effort to improve financial work incentives was due to more than political preferences. In a country where unemployment benefit replacement rates were high, it was difficult to improve incentives without either reducing benefits, increasing minimum wage rates (which were already high) or introducing in-work benefits such as earned-income tax credits

\textsuperscript{255} As discussed, the maximum unemployment insurance rate for a single adult was 90\% of the previous wage up to a ceiling and the maximum social assistance payment was 60\% of the unemployment insurance rate.
which would have been costly in a country with a relatively narrow pay distribution). In its 1999 economic survey on Denmark, the OECD acknowledged:

‘Although [earned income tax credits] is suggested as a way of improving incentives for low paid workers, closer analysis indicates that in the Danish case – characterised by a strong compression of wages and generous unemployment benefits – such schemes do not add much to labour market performance.’ (OECD, 1999b, p84)

B. The second phase of activation policy (2001-07)

B1. Surrounding institutions

(1) Labour market conditions

The Danish economy grew faster during the 1990s than the previous decade, averaging 2.5% per year from 1993 to 2001 (Andersen, 2003). By the start of the second phase in 2001, the unemployment rate had fallen from 9% in 1990 to a 20 year low of 4% (OECD, various years-c). The priorities for employment policy shifted to management of labour shortages, and to take advantage of lower unemployment to reduce reliance on income support.

The National Economic Council estimated in 2002 that half the reduction in unemployment during the 1990s was structural (due to the activation policy and decentralisation of wage bargaining) and the other half was due to a combination of an economic recovery and ‘leave schemes’ (mostly abandoned by this time) which had reduced labour force participation (Danish Economic Council, 2002).

Whether or not activation reduced structural unemployment, policy makers were encouraged by falling unemployment to continue down this path (Larsen & Goul Andersen, 2009).

‘completely unexpectedly, you had a decline of unemployment from what was considered a natural level of some 8%. And then, suddenly, to everybody’s surprise it was more than halved in the final quarter of 1999. And, of course, you introduce active labour market policy, you observe the enormous decline in employment and say, well, this is the way to do it.’ (Academic 1 Denmark)

Lower unemployment also influenced the design of employment assistance since there was more pressure to bring people into jobs quickly to overcome labour shortages, and it was easier for unemployed people to secure a job without retraining:
‘The more the demand increased the more the policies were drawn in the direction of ...subsidised jobs and more away from education and qualifications because we had to get people out on the labour market, and fast.’ (Municipal service provider, Denmark)

(2) Changes in the profile of unemployed people

From 1990 to 2001, the share of social assistance recipients among those receiving unemployment payments rose from 35% to 48%, due in part to the decline in unemployment (which impacted more rapidly on receipt of unemployment insurance) and partly to the reduction in the maximum duration of unemployment insurance (Danish National Statistical Office, various years).

Between 1994 and 2005, the long-term share of social assistance recipients declined from 44% to 39%, an outcome to which activation policies contributed (Bolvig, Jensen, & Rosholm, 2003). Over the same period, a growing share of social assistance clients had other characteristics associated with poor employment prospects such as a lack of post school qualifications (from 64% to 67%) and ‘non-western’ backgrounds (from 17% to 30%). On the other hand, they were younger on average than insured unemployed workers (in 2001, 40% of social assistance recipients were under 30 years compared with 23% of unemployment insurance recipients) (Ministry of Employment, 2003a; Rosdahl & Petersen, 2006).

The more disadvantaged profile of unemployment payment recipients (especially social assistance clients) as unemployment fell posed challenges for activation policy in the second phase. The over-representation of migrants from ‘non-western’ backgrounds (principally from the Middle East, North Africa and Turkey) also posed a political challenge to the legitimacy of the system.

(3) The change of Government in 2001

A liberal-led government was formed after elections in 2001. Although unemployment was low, the economy slowed for a few years and this was a time of growing concern about increases in non-western migration to Denmark and a perceived loss of cultural identity (Hedetoft, 2006). According to Hedetoft (2006) the 2001 election was fought ‘largely on the basis of immigration’ (Hedetoft, 2006, p408).

256 In 2001, 34% of social assistance recipients reported reduced work capacity due to illness or a disability (compared with 8% of all employees), 19% reported personal or psychological barriers to work, and 21% reported abuse of alcohol (Rosdahl & Petersen, 2006).
As the liberal and conservative parties together lacked a parliamentary majority, the government required the support of smaller parties including a new anti-immigration party, the Danish Folkeparti, whose role in employment and social security policy was significant.

Nevertheless, the liberals and social democrats sought to maintain the broad political consensus over activation policy (Mailand, 2008a).

B2. The role of ideas

(1) Flexicurity

As discussed, Danish labour market policy was characterised by a light regulation of employment contracts, generous social security payments, and investment in employment programs to assist workers to adjust to labour market requirements. In the early 2000s, this combination was given a name – ‘flexicurity’ (flexibility with security) – and promoted across the European Union as an employment model that combined the European tradition of strong social protection with a more economically-liberal approach to labour market regulation (European Commission, 2007; Madsen, 2004). The so-called ‘golden triangle’ of the ‘flexicurity model’ is shown graphically in Figure 19 below.

Figure 19: The flexicurity model

Source: Madsen (2006)
Note: ‘LMP’ refers to ‘labour market programs’.
By the end of the 1990s, Denmark with its ‘flexicurity’ model became a standard-bearer for successful Nordic approaches to employment within the European Union (Meidner, 1997; Weishaupt & Lack, 2011):

‘We also travel a lot with ‘flexicurity’ and it may be we used too much time by telling about ‘flexicurity’ instead of finding out what they did in other countries for some years because it was so extremely popular.’ (Official, Employment Ministry Denmark)

The international prestige associated with the country’s status as a successful labour market reformer reinforced the Danish model of activation domestically, notwithstanding the change of government. As the liberal Minister for Employment stated in a press release in 2005:

‘Last fall I had a visit from my French colleague, Minister Gerard Larcher. He came to look at our unique Danish ‘flexicurity’. ..He could see that in Denmark we have the world’s best resource: namely flexible employees...Part of the explanation lies in our social safety net and our flexible rules for hiring and firing employees... It was a fun idea to show an impressed Larcher around and then simultaneously read in the paper that the social rates are too high...Although politicians from around the world flock to Denmark to admire our unique Danish flexicurity, we must not rest on our laurels.’ (Frederiksen, 2005)

(2) The re-framing of ‘rights and duties’

During the second phase, the ideological basis for activation was re-balanced:

‘as unemployment declined, there was more and more emphasis on duties and less on right but still a fair balance, you could say, with much emphasis on the right, the so-called right to activation.’ (Academic 1, Denmark)

Interviewees perceived a hardening of attitudes towards unemployed people among policymakers and the wider population:

‘I think that also this political shift that happened, and also a shift in the activation policy, ... and now it’s not the society’s problem you can’t find a job, you have to make an effort yourself.’

(Municipal service provider, Denmark)

Public attitudes towards insured and uninsured unemployed people differed. As an academic interviewee noted:

Interviewer: ‘So is there a different public attitude to the two groups then?’

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257 Goul Andersen (2006) reported public opinion research which found a modest reduction in support among Danes for increases in unemployment payments between 1990 and 2001 (Goul Andersen, 2006). On average, a slight majority favoured higher unemployment insurance benefits in 1990 (a combined score of +2) compared with a slight majority favouring lower payments in 2001 (a score of -1). A majority already favoured reductions in social assistance payments in 1990 (a score of -11) and that increased slightly in 2001 (to -13).
Interviewee: ‘Yes. Ordinary unemployed, they are part of us and social assistance claimants a little more those people. But if you explore the attitudes towards cutting benefits or expanding benefits, it is almost the same but with a small preference nearly always for the people on unemployment insurance.’ (Academic 1, Denmark)

A greater emphasis on the obligations of unemployed people to seek a job at a time of low unemployment was consistent with the ‘work line’ in Nordic social policy (Halvorsen & Jensen, 2004):

‘But, of course, when you have a huge shortage of labour then of course it’s natural to tighten up and say, well, there’s some jobs here, it’s not very interesting but there’s that job and then they cannot find anybody to perform the job. We offer you that job so you should take it. That’s in complete accordance with a 100-year tradition of the Danes.’ (Academic 1, Denmark)

The most significant hardening of policy and public attitudes was directed towards migration from ‘non-western’ countries. Hedetoft (2006) argued that the ‘universality’ of the Danish welfare state was predicated on cultural similarity:

“These [welfare state] structures are costly, ideologically basing themselves not only on conceptions of social egalitarianism and universalism but also on the assumption that citizens earn their entitlements by contributing over a lifetime of active work … Cultural belonging and political rights are thus intertwined, and ‘equality’ is interpreted to mean two different things simultaneously: ‘cultural similarity’ and ‘political sameness’ (in respect of civil rights). In the Danish language, one word covers both these meanings (lighed).” (Hedetoft, 2006, p402)

This was not a common feature of countries with a Social Democratic welfare regime, so it cannot be attributed to their relatively accessible and generous social security systems, including social assistance (Andersen, Larsen, & Moller, 2007). Nevertheless, opposition to ‘non-western’ immigration in the parliament and among the public impacted public support for social assistance in Denmark during the 2000s.

(3) International influences

By the start of the second phase, Denmark was regarded within Europe as an employment policy ‘success story’, having reduced unemployment without reducing minimum wages and social security entitlements (Auer, 2000; Leschke, 2011).

‘And the Government did get quite some prestige in the European Union because the European Union also liked to think that this was the new way of doing things in the socially responsible way and was different from what OECD recommended at that time because they…

Interviewer: ‘They wanted to cut benefits?’

Interviewee: ‘Yeah, yeah. And they wanted to reduce minimum wages and they’re still things [that] depend on each other.’ (Academic 1, Denmark)
Denmark’s over-compliance with European employment benchmarks reduced the potential influence of the EES on Danish activation policy since there was less scope for improvement (Mailand, 2008b).

An interviewee suggested another channel of influence – the use of OECD and European Union guidelines and reports by politicians to support policy positions they already favoured:

‘You sometimes hear that different kind of policy areas are influenced by European strategies or legislations or OECD and you take figures and reports and say well according to the OECD or according to the EU. Of course it influences Danish policies. …Well if we want to legitimise our own policies, it’s always good to point out well according to the OECD – and I think that’s the way that most politicians will use these strategies.’ (Municipal service provider, Denmark)

In the implementation of activation policies, Danish officials were also guided by countries perceived to have expertise in implementing NPM principles in activation:

‘So I think we got some experience from the Netherlands, but also inspiration from the US. There’s a certain way of managing social programs which is very widespread in the US, and we have a lot of civil servants studying these experiences to make the contract with the private firms more effective, how should we measure this, and how should we pay them.’ (Official, Employment Ministry Denmark)

While Denmark continued to resist economically-liberal approaches to the setting of benefits and wages, it was prepared to experiment with models of governance of employment services drawn from NPM ideas.

(4) Evaluations of employment assistance programs

By the early 2000s, the Danish National Social Research Institute (SFI) had conducted net impact evaluations of the effects of employment programs (Kvist et al., 2008). The Ministry of Employment summarised the results in positive terms (Ministry of Employment, 2003a; Ministry of Labour, 2000).

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258 By 2001, Denmark had already adopted as policy the European Commission’s guideline on activation: for all unemployed people to be offered training, work experience, a job, or other employment program by the time they reached 12 months’ unemployment, or six months in the case of young people (European Commission, 1997; Ministry of Employment, 2002a).

259 On average, the Employment Ministry estimated that participants in employment programs increased their probability of employment six months later by 13 percentage points in the case of insured unemployed people, 7% for social assistance clients assessed as ready for employment, and 11% for those with ‘other problems’ (Ministry of Employment, 2003a).

Private wage subsidies were found to raise the probability of employment for insured unemployed people by 32%, for social assistance clients ‘ready for employment’ by 27%, and for those with ‘other problems’ by 37%. For public wage subsidies the estimated average impacts were lower at 17%, 15%, and 25%, respectively. For vocational training programs average impacts were 16%, 2%, and
‘The analysis shows that there are positive effects for both [unemployment insurance and social assistance] recipients to participate in activation. The effects [for] insured claimants are about the same compared to uninsured recipients when excluding the municipal activation projects, which have a different purpose.’ (Ministry of Employment, 2003a, summary p1.)

According to an academic interviewee, these studies nevertheless lowered policy-makers’ expectations of their impact on unemployment, especially longer training courses, since their net impacts were low in the short-term:

‘And then you started with this fixed-effect measurement where it [asked] what would have been the transition to employment if nothing had happened, based on the previous experience. And if you compared these figures with the actual figures - the first report coming out from the Ministry of Labour in 2000… concluded that there was virtually no effect [of training courses] at a micro level.’ (Academic 1, Denmark)

The Employment Ministry interviewee had a more nuanced view of the benefits of training, suggesting that its suitability depended on the state of the labour market:

‘I think we have a lot of evidence showing that ...it was quite effective to put pressure instead of educating people. You might say, to be critical, that was made in a period of tremendous economic boom and so it was easy to find a job, but on the other hand, you might say that ‘Yes, that was the case’, and that now that it was very, very important that we kept up this pressure ...because now there was a job. Nowadays we have problems with this economy, and I think from a theoretical and practical point of view that it’s wise to put more pressure on education now.’ (Official, Employment Ministry Denmark)

From the government’s perspective, the evaluation findings supported its view that employment assistance should move away from training towards work experience and training in a regular employment setting:

‘Overall, private Jobtraining has the greatest effects. It is noteworthy that the effects of training in the AF and individual job training in the municipalities, which are the most widely used tools, are relatively modest compared to the other tools’. (Ministry of Employment, 2003a p140)

Danish evaluations were more sanguine about the impact of public wage subsidies than the OECD (Martin & Grubb, 2001). Cost-benefit evaluations by the Danish Economic Council (2007) and Jespersen et al (2004) found that they yielded net fiscal savings despite finding that they had a negative impact on subsequent employment among participants (Danish Economic Council, 2007; Jespersen, Munch, & Skipper, 2004). This was due to evaluation

3%. The worst performing programs were job search assistance, with average impacts of -2%, 1%, and 4%, respectively; and the special projects whose average impact was estimated at 6% for those who were ‘ready for employment’ and 7% for those with ‘other problems’.
design, as the Danish studies (unlike the OECD) took account of the value of the work performed by participants in subsidised jobs.

Evaluations consistently found that the special projects were among the least effective programs, often concluding that they reduced the employment prospects of social assistance clients due to lock-in effects (Rosholm, 2011). The interviewee from the Ministry was especially critical:

‘I think it’s a philosophy that we changed in these years, that even if people have severe social problems, they may also have health problems or they just have lack of qualifications, it’s always better to be in a normal workplace instead of these artificial projects.’ (Official, Employment Ministry Denmark)

Towards the end of the second phase, official evaluations placed more emphasis on the incentive effects of referrals to programs and supervised job search, but these effects were not observed among long-term social assistance clients (Rosholm, 2011). These findings suggested that labour market assistance for people with substantial labour market disadvantage would need to rely more on capacity-building.

B3. Changes to activation policies


The first major policy statement of the liberal-led government on activation entitled ‘More people at work’ was released in 2002, following a round of negotiations with the social partners and political parties (Mailand, 2008a; Ministry of Employment, 2002a). The resulting law was supported by the social democrats and the social partners.

These reforms aimed to extend activation to more disadvantaged unemployed people and shift the balance of employment assistance to shorter, less expensive programs with a focus on work experience in regular employment.

The main reforms included (Ministry of Employment, 2002a):

- The intensification of activity requirements and their extension to new groups including young people with low qualifications, individuals over 50 years and new migrants, to take up ‘a unique chance to get the slightly weaker unemployed into the labour market’ while unemployment was low (pp 1,5);
- A focus on the ‘direct route to employment’ rather than ‘meaningless activation’ (p9);
- Making it ‘more worthwhile to work’ (p6);
The ‘absolute harmonisation of the regulatory framework for insured unemployed and social assistance recipients’ (p8);

To personalise employment services through a ‘market orientation and the involvement of other actors with...specialised knowledge about certain segments of the labour market and special groups of unemployed’. (p13)

The intensification and extension of activation was a logical extension of the policies pursued in the first phase and this was underpinned by falling unemployment.

The new emphasis on ‘the direct route to employment’, and the idea that activation was often ‘meaningless’ marked a change of tone from policy statements of the previous government, which emphasised improvements in work capacity:

‘We moved in this period from a heavy weight on education and qualification to more discussion on availability as we called it – a solution that people should seek these jobs.’ (Official, Ministry of Employment Denmark)

‘But now the shift came, now the government told us that the best way of getting people into jobs was giving them on the job training or subsidised salaries. Those were the best without any question. But all kind of education was something that was, well it was Social Democratic heritage which was not good.’ (Municipal service provider 2, Denmark)

Nevertheless, the statement signalled that capacity-building programs would continue for those with barriers to employment:

‘The unemployed who can take a job tomorrow just have to be conveyed to a job or helped to look for work. Those who lack qualifications will be offered training or an internship at a company. Those who lack work experience, an internship or work experience in a private or public business. Those who have problems in addition to unemployment will have support that enables them to take a job.’ (Ministry of Employment, 2002a, p8)

A new emphasis on financial incentives was another shift from the previous government’s activation policies. Consistent with the dual breadwinner model of labour market participation in Denmark, couples now faced a ‘mutual breadwinner obligation’ to search for employment (Ministry of Employment, 2002a, p34). The income test for social assistance payments for couples was eased to encourage this.

While the above changes were backed by the social democrats, other social assistance changes mainly affecting new migrants were not. These were passed with the support of the Danish Folkeparti in a separate ‘Law on Immigration’ in 2002 (Hedetoft, 2006; Mailand, 2008a;)

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260 This referred to partial privatisation of employment services.
Ministry of Employment, 2002a; Pedersen, 2011). They included a ‘benefit ceiling’ restricting supplementary benefits for social assistance clients, a ‘Starthelp’ payment that was 35% to 50% less than regular social assistance for people who had not resided in the country for seven of the last eight years, and a lower ‘housewife’s allowance’ paid to a partner outside the paid workforce.\textsuperscript{261}

The most important institutional change, which was supported in principle by the social democrats, was the homogenisation of employment assistance for insured and uninsured unemployed workers (Mailand, 2008a). This signalled a paradigm shift from the historic separation of employment and social policy:\textsuperscript{262}

\textit{‘In the old days it was totally different systems in social welfare, and it was also part of the period in the new government from the start of 2001, that this system should be more and more integrated and the same, and we use the same words, and the same concepts.’} (Official, Ministry of Employment)

\textbf{(2) ‘A new chance for all.’ (2005)}

In 2005 the government released its second major policy statement on activation: ‘A New Chance for All’ (Ministry for Integration, 2005). This was influenced by two developments: more labour shortages (triggering a further extension of activation to new groups) and growing anti-immigration sentiment which strengthened the hand of the Danish Folkeparti (triggering tougher requirements and lower benefits for new migrants.

The objectives in the first paragraph of this statement included that:

\textit{‘There must be general support for society’s basic values such as democracy and equality. More immigrants [should be] in work, young immigrants and descendants must have an education to the same extent as Danish youth and [end] ghetto-isation.’} (Ministry for Integration, 2005, summary, p1)

The most controversial measure was the halving of social assistance payments for couples in which both partners remained out of paid work for more than 300 hours over a two-year period, through the abolition of the abovementioned housewife’s allowance (Hedetoft, 2006). This

\textsuperscript{261} The previous social democrat-led government had attempted to introduce a lower social assistance payment for new migrants in 1999 but the legislation was withdrawn following complaints to international tribunals that it was discriminatory. The liberal-led government found a way around this constraint. In all, non-western migrants and their descendants comprised 81% of those affected by ‘Starthelp’, 93% of those affected by the lower benefits for married couples, and 68% of those affected by the ‘benefit ceiling’ (Pedersen, 2011).

\textsuperscript{262} This paradigm shift was consistent with Clasen and Clegg’s (2006) homogenisation thesis: that activation policies would, over time, equalise the treatment of recipients of different payments (Clasen & Clegg, 2006; Hall, 1993).
policy implicitly targeted married women from non-western backgrounds whose labour force participation was low. Instead of imposing job search requirements as a condition of payment, it simply reduced benefits to a group who were unable to secure a job. This was a departure from the Social Democratic welfare regime’s model of social security (Pedersen, 2011).

The other key element of ‘A New Chance’ was an effort to intensify activation and improve the employment prospects of social assistance clients more disadvantaged than the ‘slightly weaker unemployed’ targeted in the previous statement. This included the growing share (now 70-80%) of social assistance clients assessed with ‘problems other than unemployment’ (Danish Employment Council, 2006; Ministry for Integration, 2005):

‘As you say the more skilled got jobs, those who did not have any social problems got jobs and what was left, those with a lot of problems. So the government also launched a special program called ‘A New Chance for All’, for the uninsured to get jobs. And they had more focus especially late in the period of this government, they had more focus on activation on a job and not these programs [special projects].’ (Municipal service provider 1, Denmark)

For the first time, social assistance clients assessed with ‘other problems’ were required to participate in employment programs, though not necessarily to search for jobs.

**B4. Changes in the proximate institutions**

(1) Unemployment payments

The reduction in the maximum term of unemployment insurance to four years, together with the slower reduction in social assistance recipients as unemployment fell, increased the share of unemployment payment recipients on social assistance benefits. This prompted the shift in policy effort towards activation of social assistance recipients, which in turn required reforms to the governance, funding and control of municipal activation.

(2) The governance of employment assistance: municipalisation

In the second phase, the governance, funding and control of employment services was changed in three ways. First, as part of its ‘homogenisation’ of employment services, the government shifted employment assistance responsibilities from the AF to municipalities.

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263 Nevertheless, unemployment insurance coverage remained strong, with 85% of employees enrolled with a fund at the end of the study period. Near the end of the second phase the liberal-led government sought to reduce the maximum benefit period to two years, which was implemented beyond the study period (Goul Andersen, 2011a).
Second, there was simultaneous tightening of central government control over municipal employment services through NPM-inspired systems of coordination and control referred to as ‘centralised decentralisation’ (Bredgaard & Larsen, 2008b). Third, the government experimented with a greater role for private employment services.

The first step in homogenising activation for insured and uninsured workers was the concentration of ministerial responsibility for the AMS and municipal employment services previously divided between the Labour Ministry and Social Affairs Ministry in a single Employment Ministry (Kvist et al., 2008). The National Employment Council and Social Council were replaced by an Employment Council on which the social partners and municipalities were represented. Unified Regional Councils replaced the separate regional governance bodies for the AF and municipal welfare services.

The second step was the progressive ‘municipalisation’ of employment services. This was a ‘systemic change’ designed in part to reduce the influence of the unions (Hall & Thelen, 2009; Larsen, 2012).

While the unions and social democrats supported a unified system of employment services, they expected this to be provided through the AF, not the municipalities (Mailand, 2008a):

‘Interviewee: Insured and uninsured, yeah. I think that was the overall plan and that was both the Social Democratic recommended and also the Liberal-Conservative government that wished this...
Interviewer: So the Social Democrats wanted that as well?
Interviewee: No, they didn’t want it placed in the municipalities.
Interviewer: Because the trade unions wouldn’t like it?
Interviewee: Yes. Yes.’ (Municipal service provider, Denmark)

The implementing law was eventually passed with the support of the Folksparti but not before the original plan was watered down so that most job centres were jointly administered by the AMS and municipalities, with a minority run by municipalities on an ‘experimental basis’ (Bredgaard & Larsen, 2008b; Mailand, 2008a).264

The new governance structure is shown in Figure 20 below.

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264 In 2008, beyond the study period, this was altered to full municipal control (Goul Andersen, 2011a). Our analysis is restricted to the hybrid model illustrated in Figure 20.
Since the AMS (the supervisory body for the AF) was still governed by a board on which the social partners were represented, and cooperation with the social partners continued at the regional level, corporatist governance arrangements were not eliminated (Damgaard & Torfing, 2010):

‘we had partnership between the job centre and the trade unions here in [municipality] about doing something for the long-term receivers of insurance. And especially here in Northern Jutland, we have a long tradition of cooperation.’ (Municipal service provider, Denmark)

This is consistent with Mailand’s (2008) finding of:

‘a trend that has been seen since the mid-1990s towards a weaker social partner role in policy formulation, but still strong influence in agenda-setting and policy implementation.’ (Mailand, 2008a, p52)

The second key direction of reform of governance, funding and control of employment services was to strengthen central government control of municipal activation:

‘The employment system must be designed to ensure that the rules laid down by the elected Parliament are complied with...We need consistency between central and local priorities.’ (Fredericksen, C cited in Larsen, 2012 p7)

The government believed this was necessary to alter a culture in municipal social services which it believed privileged income protection over activation. In 2005, the Danish employer’s
federation (DA) published a critical analysis of activation of social assistance recipients (Danish Employer's Federation, 2005). This found that only 42% of social assistance clients in match group 1 (the most job-ready) was registered with the AF although this was a legislative requirement. Overall, only one in four social assistance recipients was registered in 2004 compared with one in three in 1995. The main reason given for this in municipal assessments was illness or disability. Moreover, the rate of AF registration among social assistance clients varied among municipalities from less than 10% to over 60%. The report also found wide local variations in the rate of participation in activation programs.

The government introduced a new five-tier profiling tool in 2004 to break down the traditional distinction between social assistance recipients whose ‘main problem was unemployment’ and those with deeper ‘problems other than unemployment’, but municipal assessments of disadvantage remained largely discretionary (Hansen, 2007).

A more effective mechanism to tighten control over the new local employment services was reform of the financing of activation (Bredgaard & Larsen, 2008b).

Employment programs for insured and uninsured unemployed workers were still funded separately. Programs for insured clients were fully funded by central government, but funding for longer training programs was curtailed. Training of more than 6 weeks’ duration was restricted mainly to long-term unemployed clients and its cost was capped (Beer et al., 2008).

After 2006, in a move that mimicked NPM strategies used in Welfare to Work reforms in the United States, central government funding was tied to the degree of activation of social assistance clients (Beer et al., 2008; Blank, 2000; Carstensen & Pedersen, 2008). Previously, half the cost of benefits and employment programs for social assistance clients was refunded by central government. The subsidy for benefits was reduced to 35% during ‘passive periods’ and raised to 65% during activation (Andersen, 2011; Danish Labour Market Authority, 2006). This was used to reward the AF and municipalities for timely activation. Funding was also altered to encourage use of the government’s favoured programs:

‘I think it was around 2005, 2006, 2007, they said it was important that as many as possible got [the Jobtraining program]. So they changed the funding for the municipalities so they got, I don’t

265 In 2006 the vast majority of unemployment insurance recipients (72%) were classified at Level one (the least disadvantaged group categorised as ‘immediate match’), while 68% of social assistance clients were classified at Levels 4-5 (‘low match’ and ‘no match’), corresponding to the previous category ‘problems other than unemployment’ (Stigaard, Sørensen, Winter, Frisberg, & Henriksen, 2006).

266 A new ceiling on overall expenditure was introduced, initially averaging Ecu2,400 per unemployment payment recipient (Deloitte consulting, 2006). A cap was also placed on public wage subsidies, at Ecu13 an hour.
remember the percentages but if you used courses in a training program your funding was reduced to 30%, whereas the funding for Jobtraining and especially private Jobtraining was perhaps 50%.' (Labour market authority official, Denmark)

The new financing system thus combined an incentive for municipalities to place social assistance clients in activation programs, and an incentive to use inexpensive programs, because not all of their cost was refunded (Beer et al., 2008; Rosholm & Svarer, 2010).

These fiscal incentives, together with a general tightening of legislated activity requirements and the introduction of compulsory quarterly interviews with employment services, led municipal social service managers to put greater stress on the employment potential of their clients (Stigaard, 2008 pp69, 70). However, social workers reported that they gave priority to ‘guidance and clarification’ programs (mainly special projects) over job training with wage subsidies (the programs preferred by central government). Their managers believed private job training was more effective but social workers found it challenging and time-consuming to recruit private employers, given the disadvantaged profile of their clients.

(3) The role of ‘other actors’

Another attempt by the government to bring about systemic change in employment services was the requirement to use ‘other actors’ (Bredgaard et al., 2005; Hall & Thelen, 2009). At first, the AF was required to contract out employment services for at least 10% of its unemployment insurance clients. By 2005 almost half were assisted by private providers (Skou, Winter, & Beer, 2008). This rapid expansion was driven by financial incentives.

Rather than force the AF to make greater use of private providers for the entire sequence of employment assistance, the government changed the purchasing rules in 2005 to limit contracting-out to specific target groups. The purchase of services from private providers fell rapidly from 45% of insured unemployed workers in 2005 to 15% in 2007 (Deloitte consulting, 2008; Skou et al., 2008).

Municipalities made less use of private providers, with only one quarter of them contracting-out employment services in 2006 (Skou et al., 2008):

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267 A standard funding formula was used to purchase employment services from private providers, in which they received 25% of their funding for each client on referral and 75% on the attainment of employment outcomes (Bredgaard, 2010).

268 The AF was under pressure to implement the new requirement to interview all clients every three months without additional resources. If it contracted these interviews out their cost was met by central government. Activation programs were less likely to be contracted out.
‘The municipalities, they have a low tradition for contracting out the services, they have a tradition of keeping things inside. And all the contracted market was for the insured unemployed. So the Government wanted to encourage them to still contract out services so they made some kind of additional funding if they would contract their services out. But [later] it completely disappeared.’ (Academic 2, Denmark)

Had private providers played a more prominent role it is likely that employment services would have leaned towards job search assistance targeting quick employment outcomes (Bredgaard & Larsen, 2008a). However, during the study period they played more of a background role as a competitive threat to the new Job Centres, an additional resource to meet administratively burdensome client contact requirements, and a specialised service for specific client groups (especially professional workers):

Interviewee 2: ‘I think that the focus [of other actors] should be if it can help these specific type of groups … because they have a broader network of private enterprises and therefore they can often help them in another way that we can’t. So we actually see them more, it sounds like competition to our efforts but more that we subsidise each other. They can do some things that we can’t and so forth.’

Interviewer: So they’re operating more at the higher levels in the labour market then?

Interviewee 1: ‘Yep, yep.’ (Municipal service provider 2, Denmark)

B5. The character of activation in the second phase

(1) Activity requirements

Activation was broadened in scope and intensified in the second phase. In 2005 Denmark scored 3.8 on the Danish Finance Ministry’s index of strictness of activation compared with an OECD average of 3.0 (Hasselpflug, 2005).269

Activity requirements were extended in the second phase to unemployed people aged 50 to 60 years; new migrants; and social assistance clients assessed with ‘problems other than unemployment’ (Ministry for Integration, 2005; Ministry of Employment, 2002a).270

In 2006, activation was intensified through the introduction of a standard requirement for work-ready unemployed people to apply for at least four jobs a fortnight, report weekly to job centres,

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269 Another indicator of tightening of benefit compliance arrangements was an increase in the share of recipients of unemployment payments sanctioned for breaching activity requirements, from 4% in the late 1990s to 12% in 2005 (Andersen & Pedersen, 2007).

270 Access to the ‘Efterlon’ early retirement payment was restricted from 2006 to those with at least 20 year’s membership of a social insurance fund.
and seek employment while on employment programs (Danish Employment Council, 2006; Danish Labour Market Authority, 2006). After two-and-a-half years’ unemployment those not exempt from activation were in principle required to participate continuously in employment programs.

While the formal requirement for long-term unemployed people to participate in employment programs for 75% of the time was eased to 50%, Job Centres were now required to interview unemployed people at least every three months to assess needs and monitor job search (Bredgaard & Larsen, 2008b).

The progressive extension and tightening of activity requirements was consistent with the policy direction pursued by the previous government in a tightening labour market (Goul Andersen & Pedersen, 2007).

Nevertheless, an academic interviewee identified an enduring gap between legislative intent and the implementation of activation:

‘People were not nearly activated to the extent that it was projected in the legislation. So if you can read in the law that everybody should be activated after nine months and should be subject to activation all the time, then the actual rate of activation has fluctuated between – I’ve seen it down to 19% and up to 25% or something like that because it was a bit too costly. (Academic 1, Denmark)

Table 9 (below) shows the activation rate and the character of major employment programs for long-term unemployment payment recipients.

The share of unemployment insurance recipients searching for jobs rose from 70% in 2001 to 80% in 2007, while the employment program participation rate for long-term recipients (at a point in time) was stable at 40% on average (consistent with joining a program for six months of each year).

The share of social assistance clients searching for jobs fell from 26% in 2001 to 20% in 2007, while the program participation rate among long-term recipients rose from 25-34% to 40%. This reflects, on the one hand a higher share exempted from job search due to ‘problems other than unemployment’, and on the other hand the new requirement for this group to join programs.

The overall share of unemployment insurance recipients with activity requirements (job search or activation) rose significantly from 78% to 84%, while among social assistance there was less change (a rise from 55% to 57%). The activation rates of the two groups still differed markedly despite the government’s efforts to homogenise employment assistance.
Table 9: Activation rate and distribution of employment programs for long-term unemployment payment recipients (Denmark 2001-2007)

(a) Activation rate (2001 and 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of recipients</th>
<th>Percentage of all recipients currently ‘activated’</th>
<th>Percentage of long-term recipients currently activated</th>
<th>Number of employment program places</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>1.2.</td>
<td>1.2.3.</td>
<td>1.4.</td>
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<td>2.</td>
<td>3.</td>
<td>4.</td>
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<tr>
<td></td>
<td></td>
<td>5.</td>
<td>6.</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance 5.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>120,000</td>
<td>As job-seekers: 70</td>
<td>In programs: all: 78</td>
<td>In programs: 33-54</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 27</td>
<td>all: 76</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All: 84 5</td>
<td></td>
<td>28,000</td>
</tr>
<tr>
<td>2007</td>
<td>61,000</td>
<td>As job-seekers: 80</td>
<td>In programs: all: 84</td>
<td>In programs: 40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 20</td>
<td>All: 84 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All: 84 5</td>
<td></td>
<td>14,000</td>
</tr>
<tr>
<td>Social assistance 6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>109,000</td>
<td>As job-seekers: 26</td>
<td>In programs: all: 55</td>
<td>In programs: 25-34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 29</td>
<td>All: 55</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All: 55</td>
<td></td>
<td>48,000</td>
</tr>
<tr>
<td>2007</td>
<td>58,000</td>
<td>As job-seekers: 20</td>
<td>In programs: all: 57</td>
<td>In programs: 40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In programs: 37</td>
<td>All: 57</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>All: 57</td>
<td></td>
<td>30,000</td>
</tr>
</tbody>
</table>
## (b) Distribution and character of employment program places (2001-2007)

<table>
<thead>
<tr>
<th>Program</th>
<th>Main target group and services provided</th>
<th>Percentage of program places (from 2001 to 2007, with average in brackets)</th>
<th>Unit cost (Ecu in 2005 values)</th>
<th>Predominant character (and percentage of places)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment insurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education &amp; training courses</td>
<td>1-18 months’ fulltime education/ vocational training</td>
<td>59 to 49</td>
<td>14,000</td>
<td>Capacity-building (54%)</td>
</tr>
<tr>
<td>Public job training</td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>27 to 29</td>
<td>21,000</td>
<td>Capacity-building (28%)</td>
</tr>
<tr>
<td>Private job training</td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>6 to 13</td>
<td>11,000</td>
<td>Capacity-building (10%)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>8 to 9</td>
<td></td>
<td>Not classified (8.5%)</td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>100</td>
<td></td>
<td>Capacity-building (92%)</td>
</tr>
<tr>
<td><strong>Social assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual job training</td>
<td>3-12 months’ work experience in 'created jobs', pay equivalent to benefits</td>
<td>47 to 17</td>
<td></td>
<td>Income protection (32%)</td>
</tr>
<tr>
<td>Special activation projects</td>
<td>6-18 months’ unpaid work in created jobs, &amp; social support</td>
<td>24 to 38</td>
<td></td>
<td>Income protection (31%)</td>
</tr>
<tr>
<td>Education &amp; training courses</td>
<td>1-18 months’ fulltime education/ vocational training</td>
<td>17 to 17</td>
<td></td>
<td>Capacity-building (17%)</td>
</tr>
<tr>
<td>Public job training</td>
<td>6-12 months’ work experience &amp; vocational training in regular paid jobs</td>
<td>8 to 1</td>
<td></td>
<td>Capacity-building (4.5%)</td>
</tr>
</tbody>
</table>
Private job training | 6-12 months’ work experience & vocational training in regular paid jobs | 3 to 8 (5.5) | Capacity-building (5.5%)  
Other | 0 to 19 (9.5) | Not classified (9.5%)  
All | 100 | Income protection (63%)  

<table>
<thead>
<tr>
<th>All unemployment payments</th>
</tr>
</thead>
</table>

Private job training | 6-12 months’ work experience & vocational training in regular paid jobs | 3 to 8 (5.5) | Capacity-building (5.5%)  
Other | 0 to 19 (9.5) | Not classified (9.5%)  
All | 100 | Income protection (63%)  

Notes:
n.a. = not available
1. Point in time estimates
2. Full time equivalent statistics, as explained in Attachment 6.
3. ‘Activated’ refers to those with job search requirements during the ‘passive period’ and those participating in an employment program during the ‘active period’.
5. Recipients could be required to search for jobs and join activation programs at the same time so there is overlap between these two categories.
6. These values varied by duration of unemployment.
7. Average values in 2001 and 2007, with the overall average of these two statistics in brackets.
Sources:
Attachment 5 explains the derivation of rates of activation, together with sources.
Attachment 6 explains the derivation of these assessments of the character of employment programs, together with sources.

(2) Employment assistance

Table 9 indicates that in the second phase, 54% of program places for unemployment insurance recipients were in education and training courses, 28% were public Jobtraining, and 10% were private Jobtraining, so that 92% of places had a capacity-building character.

The main change to capacity-building programs for insured workers was the shortening of the average duration of training courses. This was consistent with the tightening labour market
and the shorter duration of benefits, as well as the policy preferences of the liberal-led government for training in a work setting (Deloitte consulting, 2006):271

“We in the 90s tried to – well [for] this person, we have half a year of education and then to prepare them for going to another education and getting some job training and some private enterprise [work placement] ... we had this long-term view. But then the focus shifted. Now we have to get people out on the labour market in the fastest, shortest period of time. And of course the room for making individual adjustments ... was narrowed. And also ... they actually reduced our budgets so we couldn’t make a lot of education. We had to use Jobtraining much more in order to get our budgets to balance.’ (Municipal service provider 1, Denmark)

The dominance of special projects and Individual Jobtraining (55% of all places on average in 2011 and 2007) indicates that employment assistance for social assistance clients retained its income protection character in the second phase. A higher share of social assistance clients was activated, but not in a way that improved their employment prospects (Rosholm, 2011; Skipper, 2010). The interviewee from the Employment Ministry expressed disappointment with this outcome:

“A New Chance for everybody’, it was extremely difficult and it cost a hell of a lot of money because just to bring the municipality ... to do it, we gave them lots and lots of money, which is out of style. ... and, of course, it didn’t succeed very well. This was people who were having social benefits for their whole life, or for 20 years, or for five years, or for six years; we couldn’t just put them on the job again.” (Official, Employment Ministry Denmark)

It is striking that despite the policy goal of narrowing differences in the treatment of unemployment insurance and social assistance clients, there was little convergence in the forms of assistance received by the two groups. Two reasons were given for these enduring differences by interviewees at a municipal service provider - institutional path dependency and the more disadvantaged profile of social assistance clients:

Interviewee 2: ‘So I think okay it’s changed but it’s not changed that much. I think it’s almost the same picture. And there are some kind of historical traditions.’

Interviewee 1: ‘Yes but also because a lot of the persons in the uninsured, they have other problems than unemployment and you have to work with them, you can’t just send them out into a company. You have to do something else with them.’ (Municipal service providers 1 and 2, interviewed together, Denmark)

271 By the end of the study period, the majority of education and training courses were of less than three months’ duration though some still extended for over 12 months (Rosholm, 2011).
(3) Financial work incentives

The liberal-led government sought to improve financial work incentives by adding a ‘work deduction’ equal to 2.5% of earnings up to an annual ceiling of Ecu320 to the personal income tax system in 2004. This was financed by a reduction in expenditure on employment assistance through the removal of the abovementioned ‘75% rule’ (Goul Andersen, 2011a; Ministry of Employment, 2003b). The work deduction was set at a modest level to limit its cost (European Commission Director-general for Economic and Financial Affairs, 2004).

According to Madsen (2007), this had a small but significant impact on the effective tax rates facing unemployed workers moving into low paid fulltime employment (Madsen, 2007). The average effective tax rate for a single Danish unemployed worker moving into a fulltime job at two thirds of the average wage remained high, declining from 91.5% in 2003 to 89.9% in 2007.

In a literature review on work incentives, Clement and Andersen (2006) found that benefit replacement rates appeared to have no significant impact on the probability of employment in Denmark. Activity requirements and referral to employment programs had greater impact (Clement & Goul Andersen, 2006).

The government placed financial work incentives for unemployed people onto the policy agenda but was constrained in dealing with the problem by high unemployment payment rates, which it was reluctant to reduce across-the-board.272

Conclusions

At the beginning of the study period, Denmark had characteristic features of the Social Democratic welfare regime: corporatist regulation of the labour market with the state leaving room for coordinated bargaining between the social partners, a relatively skilled workforce, high labour force participation, a dual-earner model of family workforce participation, high minimum wages and unemployment payments, and high public investment in employment assistance. These features were combined with a more liberal approach to employment protection in what was later called ‘flexicurity’.

The centrepiece of the 1994 activation policy was the conversion of employment assistance for insured unemployed workers from an income protection function to a capacity-building one.

272 According to Mailand (2008): “the Prime Minister said that the government had no plans for a general reduction of benefits, but that it would look at the ‘corners which lacked incentives to return to work’” (Mailand, 2008a, p12).
One pre-condition for this in a consensual political system with corporatist governance in the labour market was agreement among the major parties and social partners that activation was necessary to reduce structural unemployment. The activation of unemployment insurance recipients was a bargain between government and the unions in which a shorter duration for unemployment insurance payments (seven years) was exchanged for a right to capacity-building programs. This trade-off provided a template for future activation policies, and the governance of employment assistance for insured workers was altered to make room for a more proactive role for the social partners to implement (and entrench) this bargain.

Along with the high share of skilled jobs, this explains why Danish activation of insured unemployed workers was synonymous with participation in a capacity-building programs such as education and training courses and subsidised public or private jobs with a formal training component, rather than job search assistance. Little emphasis was placed on policies to improve financial work incentives such as tax credits. This was consistent with the view of the OECD that there was less room for such policies when benefits and minimum wages were high.

Progress in activating municipal social assistance clients was much slower. The social assistance system was separate from the corporatist arrangements in unemployment insurance, and connections between it and the public employment service (AF) were weak. Municipal social services followed an income protection logic in which most social assistance clients were assessed as too socially disadvantaged to join the labour market, due to ‘problems other than unemployment’. The minority formally brought into the new activation arrangements were mainly assisted through unpaid internships and ‘special projects’ run in-house by municipalities with an income-protection character.

Under the liberal-led government in the second phase, most changes in activation policies and employment assistance for long-term unemployment payment recipients were evolutionary rather than systemic. Further, most major changes to activation policy were negotiated with the social democrats. Existing employment programs were mostly retained.

As unemployment fell, the duration of unemployment insurance benefits was reduced, and early evaluations cast doubt on the effectiveness of training programs, there was a shift from fulltime training courses to wage subsidy schemes for unemployment insurance recipients, and the average duration of training courses was reduced. These changes reflected a tighter labour market as much as a change in the policy preferences of the government.

Two changes introduced by the new government disrupted the institutional set-up in benefits and employment services.
First, the new government made a sustained effort to homogenise employment assistance for insured and uninsured workers. This attempt to lower the institutional barriers that previously separated employment and social policy was pursued under the banner of ‘equal treatment’ for insured and uninsured workers and was supported by the social democrats. In this, the government was influenced by the tightening labour market and the opportunity this provided to reduce reliance on social assistance.

In its efforts to reduce a perceived bias in municipal assessments of social assistance clients towards exemptions on grounds of social disadvantage, and to reduce reliance on the ‘special projects’, the government used fiscal instruments and a new assessment tool to tighten control over municipal activation. While a higher share of social assistance recipients was activated, these efforts did not shift employment programs for social assistance recipients from their income protection character. One reason for this enduring difference in treatment between insured and uninsured workers was that as unemployment fell, the profile of social assistance clients became more disadvantaged.

As evidenced by major inconsistencies in the assessment of disadvantage both between municipalities, and over time, this was not the only reason. Another factor was path dependency within the benefits and employment services systems, which were divided into a system for insured unemployed people (treated by default as labour force participants) and social assistance recipients (generally regarded as too disadvantaged to seek employment). As municipal social services came under pressure from central government to activate social assistance clients (many of whom were likely to need expensive capacity-building programs and partnerships with employers to achieve employment outcomes), the in-house ‘special projects’ were used as a safety-valve.

Towards the end of the study period, the liberals attempted to bring systemic change to employment services by shifting the governance of the public employment services to municipalities and introducing a requirement to contract out a share of employment services to private providers. The municipalisation of employment services, completed in 2009, significantly reduced the role of the social partners, which was the political objective of the reform. However, the unions remained influential through their political connects in the parliament, and representation on regional advisory bodies. Privatisation of employment services was promoted by the government to reduce costs, but this was resisted by municipalities which generally preferred to offer services in house, and the government did not consistently pursue privatisation of AF services.

The second disruptive change was retrenchment of social assistance for new migrants, including reductions in maximum social assistance payments for the first seven years of
residence and the removal of payments from partners of long-term unemployed people who lacked a recent employment history. While this was opposed by the social democrats, it demonstrated that it was possible in Denmark to systematically exclude populations from a purportedly broadly based, generous benefits system. Power resources theory offers an explanation: the generous benefit system was based on citizenship in a country that was relatively homogenous and whose political institutions responded to the needs of ethnic Danes (Hedetoft, 2006; Korpi, 1983). Growth in non-European migration prompted a backlash which challenged the consensual model of Danish politics and strengthened a populist anti-immigration party which became a key political partner for the liberals.

On balance, there was much stability in activation policies and employment assistance during the two phases despite the change of government. Employment assistance for unemployment insurance recipients retained its capacity-building character and assistance for social assistance recipients retained its income protection focus.

In the second phase, a tightening labour market and growth in the share of social assistance recipients in unemployment payment (as the duration of unemployment insurance was reduced), had at least as much influence over the shape of employment assistance programs for long-term unemployed people as the change of government. This was underscored by the desire of both major parties to attract broad cross-party and social-partner support for activation reforms.

Likely explanations for policy consistency include stability in the surrounding institutions. Capacity-building programs for insured long-term unemployed people were consistent with a labour market with corporatist governance and high minimum wages that required a skilled workforce. Corporatism in the labour market and a consensual system of politics were mutually reinforcing, with negotiations between governments and the social partners often preceding and facilitating negotiations with other parties in Parliament.

Path dependency within benefits and employment services systems, including the separation between unemployment insurance and social assistance and municipal governance of the latter, also worked against major policy change. This helps explain why governments went to so much effort to restructure systems of governance, funding and control of the proximate institutions, including the strengthening of the governance role of the social partners by the social democrats and the shift to municipal governance under the liberals. These changes were not the inevitable result of adoption of the activation and NPM paradigms. They were adaptations of long-standing national institutions (which were themselves gradually evolving) to these new ideas and changes in the labour market: from concern about entrenched long-term unemployment in the first phase to labour shortages in the second.
Chapter 9: Comparison of activation policies in the four countries and response to research questions

This chapter compares the evidence and analysis from the country chapters, including statistical indicators of activation policies and key influences upon them. It is divided into five parts:

Section 9.1 assesses similarities and differences in the character of activation policies, focusing on employment assistance for long-term unemployed people. It concludes with a response to Research Question 1 (outlined in Chapter 4).

Sections 9.2 to 9.4 assess the reasons for these similarities and differences, taking account of different national configurations of ideas, surrounding institutions, and proximate institutions.

Section 9.5 summarises Sections 9.2 to 9.4 and responds to Research Question 2.

9.1 Activation policies

The four countries are regarded by the OECD as pioneers in activation policies (OECD, 2005b). The activation turn came in 1986 in the United Kingdom (with Restart interviews), in 1991 in Australia (Newstart interviews), in 1994 in Denmark (individual action plans for unemployment insurance recipients) and from 1995 in the Netherlands (with subsidised public jobs) (Kalisch, 1991; Kvist et al., 2008; Sol & Westerveld, 2008; Wells, 2001).

As activation policies matured in the second phase, they converged towards a common core of activity requirements comprising regular interviews with employment services, job search requirements, and compulsory participation in employment programs drawn up in personal employment plans.

A key difference between these early activation policies in the United Kingdom and Australia on the one hand and Denmark and the Netherlands on the other, was that in the former two countries interviews with the PES and supervised job search played the central role in activation of long-term unemployed people and only a minority were referred to employment
programs beyond job search assistance. In Denmark and the Netherlands, activation was associated with participation in ‘activation programs’ such as work experience, training, or social support (Kalisch, 1991; Kvist et al., 2008; Robinson, 2000; Sol & Westerveld, 2008; Wells, 2001):

‘My sense is that [what] they were doing was different in [Denmark and Holland]. They [employment programs] were seen to have their own intrinsic purpose which, in addition, was activating.’ (Official 1, Employment Ministry United Kingdom)

(1) Scope and strictness of activation

The rate of activation (share of recipients with activity requirements) and its intensity (the strictness of requirements) are compared in Table 10.

Table 10: Strictness of requirements and the activation rate

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strictness of activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>requirements (1998 and 2004)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strictness of activity</td>
<td>3.6</td>
<td>2.6</td>
<td>3.7</td>
<td>2.8</td>
</tr>
<tr>
<td>requirements index (1998)$^1$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strictness of activity</td>
<td>4.2</td>
<td>2.4</td>
<td>4.0</td>
<td>3.8</td>
</tr>
<tr>
<td>requirements index (2004)$^1$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard job search &amp;</td>
<td>8-20</td>
<td>10</td>
<td>4</td>
<td>At case</td>
</tr>
<tr>
<td>reporting requirements (2007)</td>
<td>applications per month, report every 2 weeks</td>
<td>applications per month, report every 4 weeks</td>
<td>workers’ discretion, report at least every 3 months</td>
<td></td>
</tr>
<tr>
<td>Level of sanctions (2004)$^2$</td>
<td>2.3</td>
<td>2.7</td>
<td>5.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

273 The exception was a two-year period in Australia from 1994-95 when the Job Compact guaranteed a temporary job or training place for all recipients unemployed for 18 months (Keating, 1994).
### Rate of activation (% activated in 2008)

<table>
<thead>
<tr>
<th>Percentage of unemployment payment recipients activated (2008)</th>
<th>85</th>
<th>90</th>
<th>72</th>
<th>67</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of unemployment, parenting and mature-age payment recipients activated (2008)</td>
<td>61</td>
<td>44</td>
<td>72</td>
<td>34</td>
</tr>
</tbody>
</table>

Sources:
Danish Finance Ministry (1998); Hasselpflug (2005); OECD (2009), Social benefit recipients database (2008); Danish Employer’s Federation (2005); Department of Employment and Workplace Relations (various years-a); Skipper (2010); van Geuns and van Gent (2007); OECD (2007a, 2014a); Rayner et al. (2000); Venn (2012); Central Bureau of Statistics (2009); Groot et al. (2008) Kvist et al. (2008); Department of Family and Community Services (various years).

Notes:
1. Index of strictness of availability requirements (Danish Finance Ministry measure) Activity requirements only, not including sanctions; values from 0-5, increasing with strictness.
2. Index of level of sanctions for non-compliance (Danish Finance Ministry measure); values from 0-5 increasing with higher sanctions. OECD average was 3.0
3. The derivation of these data is explained in Attachment 5.

'Activated' refers to either a job search requirement or compulsory participation in an employment program. This is a point-in-time measure calculated by subtracting the share of recipients formally exempted from those requirements.

Unemployment payments’ include social assistance benefits in Denmark and the Netherlands. The other payments are Parenting Payment and various mature-age payments for people under Age Pension age (Australia), Income Support (United Kingdom), and the Efterlon mature-age payment (Denmark).

The Danish Finance Ministry’s index of strictness of availability requirements indicates that Australia, the Netherlands and Denmark increased the intensity of activity requirements between 1998 and 2004, and had stricter than average requirements in the second phase compared with other OECD countries (Danish Finance Ministry, 1998) (Hasselpflug, 2005). The United Kingdom’s score remained below average, consistent with its relatively loose activity requirements before activation policies were introduced.\(^{274}\)

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\(^{274}\) A later survey using 2007 data found that Australia and the United Kingdom were stricter than the other two countries on two key measures not fully captured in the Danish Finance Ministry index: job search requirements and the frequency of monitoring of requirements (Venn, 2012).
Three of the four countries imposed lower sanctions than the OECD average while penalties in the Netherlands were markedly higher. The level of sanctions has an ambiguous relationship with the strictness of activation, since countries with weak activity requirements or monitoring may attempt to offset this with tougher sanctions that are less frequently applied in practice (Grubb, 2000a; Hasselpflug, 2005).

Turning to the rate of activation, we find that at the end of the study period in 2008 there were still major implementation gaps. The activation rate among unemployment payment recipients was much lower in Denmark and the Netherlands, due to high exemption rates for social assistance clients in the latter two countries (41% in the Netherlands and 44% in Denmark) (Skipper, 2010; van Geuns & van Gent, 2007). This was largely due to the discretion afforded municipal welfare services in exempting social assistance clients from activity requirements, discussed later.

On the other hand, Australia and the United Kingdom, which had categorical social assistance benefit schemes, effectively exempted recipients by assigning them to different payments such as the Australian Parenting Payment and Mature Age Allowance and the British Income Support payment. While beyond the scope of this study, comparisons of the incidence of activation should arguably include those alternative payments (de Deken & Clasen, 2010).

In the last row of Table 10, we test the impact on activation rates of including payments for parents and people of mature age when calculating activation rates. This reduces activation rates substantially in Australia and United Kingdom, and also in Denmark due to its ‘Efterlon’ pre-retirement benefit.275 When compared on this basis, the Netherlands had the highest activation rate, followed by Australia, while the United Kingdom and Denmark had much lower activation rates.

While Australia and the United Kingdom were slower to extend activation to sole parents, their system of legislated categorical payments meant that it was possible to do so more quickly once the policy decision was made. At the end of the study period, the Australian and British governments announced the extension of activation to sole parents with school-age children, (Australian Government, 2005; Department for Work and Pensions, 2007b). The lower

275 In 2008, 4.4% of people of working age received Parenting Payment in Australia, 1.8% received Income Support (for sole parents) in the United Kingdom, and 4% received the ‘Efterlon’ early retirement benefit in Denmark (Madsen, 2007; OECD, 2016). Disability pensions were the other main substitute for unemployment payments, but all four countries had those benefits and since there was no uniform definition of disability for benefit purposes the relative strictness of disability pension eligibility is hard to assess.
activation rate in the United Kingdom compared with Australia in the last row of Table 10 reflects the later implementation of these changes in that country.

As unemployment fell, a growing share of unemployment payment recipients (especially social assistance recipients) had characteristics associated with poor employment outcomes including longer unemployment duration, mature age, low formal qualifications and (especially in the Netherlands and Denmark) migrants from non-European backgrounds (Cappellari & Jenkins, 2008; O’Connor, 2008; Rosdahl & Petersen, 2006; van Geuns & van Gent, 2007).

The more disadvantaged profile of unemployed people meant that more intensive and costly employment assistance, for example subsidised work experience, training and mentoring, was likely to be needed (Hasluck & Green, 2007; McQuaid & Lindsay, 2002). This created a tension between the expansion of activation policies to more disadvantaged groups such as people with disabilities and fiscal cost constraint (Heidenreich & Graziano, 2014). Despite this tension, there was no major retreat from activation policies in the four countries during the second phase.276

By the end of the study period, activation policies were a robust feature of employment and social security policies to reduce unemployment across the four countries. However, the disadvantaged profile of benefit recipients and the cost of assisting them slowed the pace of expansion of activation in Danish and Dutch municipalities (through discretionary exemptions) and contributed to the relatively late extension of legislated activity requirements to ‘new groups’ such as sole parents and people with disabilities in Australia and the United Kingdom.

(2) Expenditure on employment assistance

Figure 21 shows trends in per-capita expenditure on employment assistance (including job search assistance and PES administration), adjusted for variations in unemployment.

276 Towards the end of the study period, Australia and the United Kingdom extended activation to many sole parents and people with disabilities. Denmark extended activation programs to social assistance clients previously assessed with ‘problems other than unemployment’. The Netherlands removed exemptions from job search requirements for mature-age unemployment payment recipients (Australian Government, 2005; Department for Work and Pensions, 2007b; Ministry for Integration, 2005; Schils, 2007).
Figure 21: Expenditure on employment assistance (% of GDP/population per unemployed person)

Sources:
OECD (various years-d); OECD (various years-c).

Notes:
Public expenditures on active labour market assistance excluding rehabilitation and sheltered employment (in proportion to GDP per working-age adult divided by the number of unemployed people).

Estimates are not available for the whole period for the OECD as a whole, but OECD average expenditure as a proportion of GDP (not adjusted for unemployment rates) sat consistently between Australia and the Netherlands (OECD, various years-d).

Comparing expenditure trends in the four countries in the first phase, labour market assistance as a percentage of GDP per capita per unemployed person approximately doubled from 3% to 7% in Australia from 1991 to 1995 and from 15% to 33% from 1994 to 2001 in Denmark. It trebled from 10% to 30% in the Netherlands from 1995 to 2002. On the other hand, it halved from 6% to 3% between 1990 and 1997 in the United Kingdom.

During the second phase, this pattern was reversed. Public expenditures on employment assistance declined sharply at the start of the second phase in Australia (from 5% of GDP per capita per unemployed person in 1996 to 3% two years later), in Denmark (from 33% in 2001 to 22% two years later), and the Netherlands (from 30% in 2002 to 21% two years later) and rose gradually (from 3% in 1997 to 6% four years later) in the United Kingdom before falling back to its 1997 level at the end of the study period.
Despite the more disadvantaged profile of unemployed people in the second phase, average expenditures on employment assistance did not increase, except in the United Kingdom where they fell again at the end of the study period.

While there was a degree of convergence in overall spending levels between the two higher and lower-spending countries in the second phase, the gaps between them remained large. The average spending level in Denmark and the Netherlands respectively was still at least 4 times that in Australia and the United Kingdom, compared with 5 times in the first phase (OECD, various years-d).

Comparisons of overall spending on employment assistance tell only part of the story since different programs have different purposes and political champions (Bonoli, 2010; Clasen et al., 2016; Vlandas, 2011). In this study, programs are classified according to their predominant character (main purpose): income protection, work capacity-building, and work incentive-strengthening.

(3) Predominant character of employment assistance for long-term unemployed people

Table 11 compares the predominant character of employment assistance for long-term unemployment payment recipients in each phase in the four countries.277

Table 11: Expenditure on, and predominant character of, employment assistance for long-term unemployment payment recipients

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>First phase</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure on employment assistance (per cent) 1</td>
<td>4.8</td>
<td>3.7</td>
<td>22.0</td>
<td>24.2</td>
</tr>
</tbody>
</table>

277 Attachment 6 explains how the predominant character of employment assistance was assessed in each country and provides sources.
### Character of employment assistance for long-term unemployed people

<table>
<thead>
<tr>
<th></th>
<th>Unemployment insurance recipients</th>
<th>Social Assistance recipients</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Modest capacity-building ²</td>
<td>Income protection</td>
<td>Income protection</td>
</tr>
<tr>
<td>Modest capacity-building ²</td>
<td>Income protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity-building</td>
<td>Income protection</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Second phase

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on employment assistance (per cent) ³</td>
<td>4.7</td>
<td>5.8</td>
<td>19.1</td>
<td>24.2</td>
</tr>
</tbody>
</table>

### Notes:
- **Attachment 6** explains the derivation of these assessments of the character of employment assistance.
Where the predominant character of employment assistance was capacity-building this is shaded in red (blue for incentive-strengthening, and green for income protection).

1. Public expenditure on employment assistance for unemployed people (excluding disability programs) as a percentage of GDP per capita per unemployed person. Average annual value for each phase.

2. In these cases, the largest share of places for long-term unemployed people (but less than 50% overall) had this character.

3. The predominant character of employment assistance in Australia changed during the first phase from modest capacity-building in the Newstart strategy to capacity-building in the Working Nation programs.

4. In the United Kingdom, it changed in the second phase from modest capacity-building in the original New Deals to incentive-strengthening in the Flexible New Deal.

The general pattern was reasonably consistent across the two phases, apart from the switch from capacity-building to incentive-strengthening in Australia. The United Kingdom and Australia mainly favoured incentive-strengthening programs while the Netherlands and Denmark mainly favoured capacity-building for unemployment insurance recipients and income protection for social assistance recipients.

This is consistent with the quote from the British policy maker cited at the beginning of this chapter that contrasted British and Australian employment programs (whose main purpose was to keep people active in the labour market), with their Dutch and Danish equivalents which had ‘their own intrinsic purpose that was, in addition, activating’. (Official 1, Employment Ministry United Kingdom). The Dutch and Danish programs were primarily designed to either improve the skills of insured workers or provide an alternative to regular employment for social assistance recipients.

In the United Kingdom and Australia, early activation policies (Restart and Newstart) centred on job search assistance, with capacity-building programs offered as an add-on for a minority of long-term unemployed people assessed as needing extra help. This was an outgrowth of the traditional dual role of the PES in those countries, to provide job matching services and maintaining compliance with unemployment payment job search requirements:

‘Actually we spend virtually the lowest in the OECD on active labour market policies because essentially our active labour market policy is to call people in and nag them. Then if we want to spend more we call them in more often.’ (Official, Employment Ministry United Kingdom)

The early New Deals built on foundations already in place by converting the Restart interviews into the gateway phase and layering the Options (which mainly had a capacity-building function) on top (Finn & Schulte, 2007). The incentive-strengthening elements of the New
Deals were buttressed by the Labour administration’s substantial investment in tax credits (Dorsett, 2004; Robinson, 2000). Later, the Flexible New Deal removed the Options, leaving an incentive-strengthening work for benefits scheme as the last resort for those who did not secure employment though job search assistance.

In contrast to evolutionary change in the United Kingdom, the development of employment assistance policies in Australia was more turbulent over the study period. A Danish Employment Ministry official commented that:

‘[In Australia] you’re a little more used to make revolutions in your system compared to Denmark….We were amazed by this. The way of handling it,… just pull down your old institution and build something new.’ (Official, Employment Ministry Denmark)

The main reason for this was the rapid introduction, and abolition two years later, of the labor government’s ambitious Job Compact (Finn, 1997). After pursuing modest a capacity-building approach centred on compulsory interviews and job search assistance (the Newstart strategy), the government switched to a job and training guarantee that more closely resembled the Dutch or Danish activation models introduced at that time than the New Deals of its British counterpart.

Taking a long view of 17 years of activation policy, the Job Compact was exceptional rather than transformative. In the second phase, job and training guarantees were emphatically rejected by the liberal-led government and the PES was privatised.

As in Australia, there was considerable turbulence in activation policies and their governance in the Netherlands, as programs were replaced or re-designed and governance systems for benefits and employment services were repeatedly restructured (Green-Pedersen, 2002; Sol & Westerveld, 2008). The main changes in employment programs included the introduction and retrenchment of public wage subsidies, and the tilt towards incentives-oriented ‘work first’ programs for new social assistance applicants, though these did not generally extend to long-term recipients (Sol, 2007).

Despite many changes in the governance of activation, the predominant character of Dutch employment assistance programs for insured and uninsured workers did not change. Employment assistance for long-term unemployment insurance recipients had a modest capacity-building character (mainly due to vocational training programs) and an income protection character for long-term social assistance clients (mainly due to public wage subsidies and social activation programs).
In both phases, Denmark’s employment assistance programs had a capacity-building character for unemployment insurance recipients (largely in the form of vocational training and work experience combined with training) and an income protection character for social assistance clients (largely through special municipal projects) (Danish Employment Council, 2006; Kvist et al., 2008).

As in the United Kingdom, change in activation policy in Denmark was evolutionary. The forms of employment assistance offered to insured and uninsured long-term unemployed workers (respectively) in Denmark were remarkably stable once the activation system was put into place, despite significant governance changes in the second phase (municipalisation of employment services) and the liberal-led government’s efforts to homogenise employment assistance. (Bredgaard, 2010; Ministry of Employment, 2002a).

The persistence of investment in relatively costly capacity-building or income protection-oriented programs in Denmark and the Netherlands and the more hesitant commitment to these programs in Australia and the United Kingdom, largely explains the differences in expenditures on employment assistance between these two pairs of countries (Grubb, 2005).278

(4) Response to Research question 1: Similarities and differences in the character of employment assistance for long term unemployed people

In Chapter 4 we posed Research Question 1 as follows:

RQ1. What were the key similarities and differences in the purpose and character of the four countries’ employment assistance for long-term recipients of unemployment payments over the study period (1990-2007), especially the balance struck between income protection and active engagement with the labour market, and between strengthening work incentives and work capacity?

All four countries developed formal systems of reciprocal obligations (‘rights and duties’) between long-term unemployed people and government, and were among the first OECD countries to do so (Grubb, 2000a).

However, a key finding is that by the end of the study period, major gaps persisted between the stated intention of activation policies and the exemption of many unemployment payment recipients from activity requirements, including over 40% of social assistance clients in

278 Attachment 6 compares public spending on major programs in the four countries in more detail.
Denmark and the Netherlands. Australia and the United Kingdom effectively exempted sole parents whose youngest child was under 16 years until 2007 by placing them on alternative benefits.

Beyond this common core, activation policies followed parallel but distinct paths in the four countries, and these international differences persisted.

Major differences in the predominant character of employment assistance persisted in both phases of activation policy despite some convergence towards greater reliance on job search assistance to move people more quickly into employment during the second phase.

Aside from the short-lived Working Nation programs in the first phase and modest investment in capacity-building in the early British New Deals in the second, Australia and the United Kingdom prioritised work incentive-strengthening through supervised job search or work-for-benefits schemes. This was reinforced by the greater efforts made in those two countries to ‘make work pay’ by keeping benefits low and expanding tax credits of family payments for low paid working families (Blundell & Meghir, 2001; Davidson & Whiteford, 2012).

Denmark and the Netherlands privileged work capacity-building for insured long-term unemployed workers (through training and paid work experience) while employment assistance for long-term social assistance clients had a predominant income-protection character (through Melkert jobs, social activation and special projects). The main differences between them were the greater intensity of capacity-building programs for insured workers in Denmark compared with the Netherlands, which lacked a strong tradition of training programs for long-term unemployed people. A further point of difference was the use of incentive-strengthening ‘work first’ programs for short-term unemployed social assistance clients in the Netherlands.

We now turn to the influences that contributed to these outcomes, grouped together as ideas (9.2), surrounding institutions (9.3) and proximate institutions (9.4).

9.2 The influence of ideas: activation, structural unemployment and New Public Management

(1) The first phase: activation and structural unemployment paradigms

The activation paradigm combined the new emphasis on strengthening labour supply in the structural unemployment paradigm with the ethical principle that unemployed people had
‘duties’ to participate in the labour market and employment programs as well as ‘rights’ to benefits (Layard, 1995; Lindbeck, 1999; OECD, 1989).

‘Our ambition is nothing less than a change of culture among benefit claimants, employers and public servants – with rights and responsibilities on all sides’ (Secretary of State for Social Security, 1998, p24).

While all four countries were early adopters of these paradigms, this occurred at different times and was framed differently depending on national circumstances and the parties in power (Cass, 1988; Netherlands Scientific Council for Government Policy, 1997; Secretary of State for Employment, 1988; Zeuthen, 1992).

Both governments led by the ‘Left’ (social democrats) and ‘Right’ (liberal and conservative parties) were able to support the activation paradigm, with each emphasising different aspects. The Left viewed it as an economically credible alternative to the reductions in benefits and minimum wages advocated by their political opponents and emphasised its capacity-building elements. For the Right it reinforced a long-standing emphasis on work incentives and cost-containment (Weishaupt, 2011).

To fully assess the impact of international policy transfer on activation policies in the four countries, a wider range of interviews (including with officials from international institutions such as the OECD and European Commission) would be required. The following conclusions are based on the interviews, analysis of official documents in the four countries, and the international comparative literature on activation.

These differences of framing and emphasis were echoed in the contrasting employment policies developed during the 1990s by the OECD and European Commission, which articulated the structural unemployment and activation paradigms from different perspectives. The OECD emphasised labour market de-regulation and work incentives while the Commission emphasised corporatist governance of the labour market and the rights of long-term unemployed people to capacity-building employment assistance (Casey, 2004; European Commission, 2002; OECD, 1996a; Weishaupt, 2011).279

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279 During the 2000s, EC and OECD employment policies converged as the OECD acknowledged that high benefits and minimum wages and corporatism were compatible with low unemployment, and the EC paid more attention to policies to ‘make work pay’ (OECD, 2006; Weishaupt, 2011).
These international institutions helped forge international policy consensus over activation as an idea, but their influence over policy development in the four countries in the first phase was limited because they were early adopters of activation policy:

‘I don’t see the OECD as significant because it wasn’t doing the work we needed at the time.’

(Official 2, Department of Prime Minister and Cabinet Australia)

In the second phase, their main impact was to reinforce policies already in place through the international prestige bestowed upon the four countries as activation ‘success stories’.

Informal international networks among countries with historical connections (especially the English-speaking countries) and among political parties (especially social democrats) were more important for policy transfer in the first phase. This collaboration was especially strong between Australian and British policy-makers shared detailed policy proposals to activate long-term unemployed people (the Restart model) and sole parents (the JET scheme) (Kalisch, 1991; Pierson & Castles, 2001). This was part of a wider network of collaboration in labour market policy among Anglophone countries that included (up until the 1990s) regular meetings of PES executives. This reinforced differences in labour market policies between the major English-speaking nations (with their more economically liberal orientation) and continental Europe (Crouch, 1997; Freeman, 1998).

The first of the four to adopt the activation paradigm was the conservative government of the United Kingdom in the late 1980s (Price, 2000; Wells, 2001). This is contrary to the view that activation began as a social-democratic project.

The new emphasis on personal responsibility in unemployment was consistent with long-standing liberal ideological views of the conservatives (King, 1993). The challenge for the government was to convince the public that this was key to reducing unemployment when it was still high at 9% in 1988 (OECD, various years-c). The structural unemployment paradigm, together with rhetorical attacks on welfare ‘fraud’ (avoidance of work), were used for this purpose:

‘New jobs may not be in the same area as the unemployed, unemployed people may not have the skills to fill the new jobs, they may be demotivated and discouraged by their unsuccessful

280 In contrast, while Australia and the Netherlands both expanded public wage subsidies for long-term unemployed people as the centrepiece for their activation policies in the first phase, there was no evidence of direct policy transfer between them at that time.

281 ‘During the August silly season, [Employment Minister Fowler] would capture the headlines with announcements about the success of fraud drives, while his tirades against the fiddlers in the dole queues helped him win standing ovations at the [conservative] party conference.’ (Price, 2000, p260).
search for work, or they may not see much incentive to go back to work.’ (Secretary of State for Employment, 1988, p10)

In Australia and the United Kingdom, the challenge for social democratic-oriented parties adopting activation policies lay at a deeper ideological level. They traditionally regarded mass unemployment as a public rather than a personal responsibility and believed its main cause was a shortage of jobs (Brown, 1990; Mitchell & Bassanese, 2003). They also found it more difficult to justify compulsory participation in programs to their constituencies, including unions:

‘It was just an increasing unease, I think, across the trade union movement of …the increased mandation, you know, it was when Restart was coming in.’ (Non-government service provider, United Kingdom)

The apparent failure of Keynesian macro-economic policies to reduce unemployment in a sustained way in the 1980s and 1990s, and their need to rebuild their political reputations as responsible economic managers, prompted a paradigm shift among social democratic parties in Australia and the United Kingdom towards a ‘supply side policy for the Left’, including adoption of the structural unemployment paradigm (Blair & Schroeder, 1998, p6; Committee on employment opportunities, 1993; Secretary of State for Social Security, 1998).

The British, Dutch and German social democrats collaborated over the political framing of policies to reduce structural unemployment, consistent with the idea of a ‘third way’ between social democracy and liberalism, but less so over detailed activation policies (Blair & Schroeder, 1998; Dolowitz et al., 1999; Kok, 2004).

This was linked with the ‘active society’ idea promoted by the OECD which revived and strengthened the long-standing obligation of unemployed people to take steps (guided by the PES) to secure employment, which had been loosened during the period of high unemployment (Cass, 1988; Secretary of State for Social Security, 1998; Wells, 2001):

‘The essence of the change is from a negative passive system for unemployment to one which is entirely positive, actively encouraging employment. The program [Newstart in Australia] will encompass new training opportunities as well as a tougher assessment of the individual’s willingness to work.’ (Keating, P (1990) Economic Statement, cited in Stretton & Chapman, 1990, p30.)

This paradigm shift, and need for social democratic-oriented parties to develop a strong narrative to justify activation policies to their constituents, help explain why activation policies are often associated internationally with social democratic parties that adopted ‘third way’ or economically liberal policies.
In Denmark, adoption of the activation paradigm was less of an ideological leap for the social democrats and unions, as it was consistent with the traditional Nordic emphasis on the ‘rights and duties’ of unemployed people and high labour force participation (Dolvik et al., 2015; Halvorsen & Jensen, 2004):

‘I think it’s important to bear in mind that also at this time, the participation rate among both men and women is so high that it’s common knowledge, or commonly accepted, that a decent grown-up had to have a job.’ (Official, Employment Ministry Denmark)

A significant difference between Danish version of the activation paradigm and that of the United Kingdom and Australia was the former’s explicit acknowledgment of a ‘right to activation’ (guaranteed access to capacity-building programs) as well as a duty to participate in them, at least for insured unemployed workers (Goul Andersen & Pedersen, 2007).

‘We [researchers advising the Australian government on long-term unemployment] didn’t go to Sweden. Maybe we did talk to people about that but it was never going to be as radical as that.’ (Academic 1, Australia)

Danish activation policies were also underpinned by an early consensus in favour of the structural unemployment paradigm, hammered out through the Zeuthen Commission (Halvorsen & Jensen, 2004; Kvist et al., 2008):

‘The overall direction for all activation measures is to reduce structural unemployment through ongoing skilling of the workforce.’ (Zeuthen, 1992, p5)

Dutch policy-makers adopted the activation and structural unemployment paradigms later, and more hesitantly. In the early 1990s they first had to confront the unfinished business of chronically-low workforce participation, especially among women and social security recipients (Hemerijck & Marx, 2010; van Kersbergen & Becker, 1988):282

‘The low participation rate is the Achilles heel of the Dutch socio-economic system.’ (Netherlands Scientific Council for Government Policy, 1990, p1)

‘When you have a benefit you have to work for it which was the dominant culture from let’s say 2005/06 with the more liberal approach in Holland. In the ’80s it was totally the other way around. You could stay on benefits for your whole life.’ (Government service provider, Netherlands)

The main vehicle for early activation policies in the Netherlands was compulsory participation in permanently-subsidised public sector jobs (Melkert jobs). This was a traditional job creation

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282 This was one of the reasons Esping Andersen classified the Netherlands as, at least in part, a Conservative welfare regime (Esping Andersen, 1999).
scheme, in contrast to the Australian Job Compact whose explicit purpose was to strengthen work capacity (Committee on employment opportunities, 1993; Sol & Westerveld, 2008):

‘the creation of work for people not immediately able on their own to find a place in the regular labour market is an unmistakable political priority.’ (Interdepartmental working group on the future of labour market policy, 2001, p63).

Despite these different trajectories, by the end of the first phase the structural unemployment and activation paradigms were entrenched as the guiding frameworks for policies to reduce long-term unemployment in all four countries. There was broad agreement over a common core of ideas including a supply-side emphasis in employment policies, a ‘rights and duties’ framework, increased workforce participation, and personalisation of employment assistance (Serrano Pascual & Magnusson, 2007). In this sense at least, there was policy convergence among the four countries.

This consensus was facilitated by international policy transfer, including through the work of the OECD and European Commission. However, detailed policy development was influenced more by bilateral engagement, for example among major English-speaking countries. Although a common activation paradigm was adopted by the four countries, this left considerable space for the adoption of different activation policies.

(2) The second phase: program evaluations and New Public Management

By the early 2000s, activation policies were informed by sophisticated evaluations of employment programs which measured their ‘net impact’ rather than simply the number of unemployed people that obtained a job after leaving a program (Martin & Grubb, 2001). Negative findings regarding large-scale public wage subsidy schemes had a significant impact on activation policies, especially in Australia and the Netherlands where those programs were wound back (Department of Employment Education Training and Youth Affairs, 1997; Interdepartmental working group on the future of labour market policy, 2001).

Despite common evaluation findings at this time favouring low-cost job search assistance over longer training and work experience programs, these evaluations did not lead to general policy

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283 A few years after the introduction of the Melkert jobs and following a decade-long rise in the employment rate, another report from the Netherlands Scientific Council for Government Policy explicitly endorsed the structural unemployment and activation paradigms (Netherlands Scientific Council for Government Policy, 1997; Visser & Hemerijck, 1997).
convergence among the four countries. Denmark in particular persisted with large-scale investment in training programs and also public wage subsidies linked with training, for insured long-term unemployed workers (Goul Andersen & Pedersen, 2007; Jespersen, Munch, & Skipper, 2008).

During the second phase there was a hardening of policy-maker and public views on unemployment in all four countries, due partly to the perception that people could obtain jobs more easily, and partly to the fresh emphasis which activation policies placed on the responsibilities of unemployed people (Albrekt Larsen, 2006; Taylor-Gooby, 2004; van Oorschot, 2006). This contributed to the intensification of activity requirements and their extension to new groups during the second phase:

‘I think that also this political shift that happened, and also a shift in the activation policy, .. and now it’s not the society’s problem you can’t find a job, you have to make an effort yourself.’

(Municipal service provider, Denmark).

New Public Management (NPM) ideas, especially the separation of policy development and implementation, decentralisation of services, and performance-based contracting, were adopted by policy makers in all four countries, within the contours of different national configurations of benefits and employment services.

In Australia, NPM ideas found expression in the Job Network, through the full privatisation of the PES (Considine, 2005). Privatisation of employment services was not pursued on a large scale in the United Kingdom until the end of the study period as governments believed a ‘one-stop-shop’ combining benefit administration and employment services in the publicly-controlled PES was needed to properly supervise activity requirements (Freud, 2007).

As discussed later, the Netherlands and Denmark experimented with privatisation, but later pursued the decentralisation of employment services to municipal governments (Larsen & Wright, 2014; Sol & Westerveld, 2008).

A common thread in these policies was a shift from direct administrative control by central government towards financial incentives for private or local government services to achieve outcomes such as reduced reliance on benefits. These new systems of performance-based contracting drew inspiration from the American welfare reform of 1996 which shifted

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284 Later evaluations that measured longer-term employment impacts were more favourable towards training programs and public wage subsidies for long-term unemployed people (Bivand, 2006; Card et al., 2009).
responsibility for income support payments for sole parents to state governments, with financial incentives to conform to national activation policies (Loprest, 2005):

‘There were huge batches of people working with municipalities who went on study tours to Wisconsin’ (Official 2, Employment Ministry Netherlands)

While these new governance systems were consistent with liberal economic principles (favouring a reduction in direct administrative control of services by governments), for reasons discussed later the adoption of the NPM paradigm across the four countries did not result in a convergence towards market-based governance of employment services.

9.3 The influence of surrounding institutions:
politics, the labour market, and family workforce participation and care arrangements

(1) Political institutions

Table 12 shows the political orientation of the leading party in government in each country in the two phases of activation policy.

Table 12: Political orientation of leading parties in government (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading party in</td>
<td>social democratic</td>
<td>liberal</td>
<td>social democratic-l</td>
<td>social democratic</td>
</tr>
<tr>
<td>first phase</td>
<td></td>
<td></td>
<td>liberal</td>
<td></td>
</tr>
<tr>
<td>Leading party in</td>
<td>liberal</td>
<td>social</td>
<td>conservative-l</td>
<td>liberal</td>
</tr>
<tr>
<td>second phase</td>
<td></td>
<td>democratic</td>
<td>liberal</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Country chapters; Esping Andersen (1990)

If we map the leading party in government against the spending trends shown in Figure 21, we find that governments led by social democratic-oriented parties raised overall spending on employment assistance (typically doubling or trebling annual expenditures) while those led by liberal or conservative-oriented parties reduced it (by half in Australia and to a lesser extent in
Denmark and the Netherlands). On the face of it, this supports the view that social democratic-oriented governments favoured more investment in labour market assistance and liberal or conservative-oriented governments favoured less (Iversen & Stephens, 2008).

Political party preferences do not, however, explain the consistently higher spending in Denmark and the Netherlands compared with Australia and the United Kingdom. Rather, this supports the view of Nelson (2013) that welfare regimes are better predictors of spending on labour market programs than the political colour of the party in power, (Nelson, 2013).

Social-democratic led governments on the one hand, and liberal or conservative-led governments on the other, had distinct and consistent preferences for different types of employment programs. Social democrat-led governments favoured combinations of job search assistance and either training or public wage subsidies (which had a capacity-building or income-protection character), while liberal and conservative-led governments favoured job search assistance on its own, or (as in Australia) in combination with work-for-benefits schemes (which were more likely to have an incentive-strengthening character).

Party-political policy preferences were decisive in Australia, where the change of government in 1996 triggered a shift from capacity-building to incentive-strengthening approaches. In the United Kingdom, the change of government led to a more modest shift in the opposite direction (Finn, 2001; Finn & Schulte, 2007).

While similar party-political preferences existed in Denmark and the Netherlands, they had less direct impact on the character of employment assistance than in the other two countries.

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285 However, as discussed the British Labour government halved spending on employment assistance at the end of the second phase.

286 This is similar to the conclusions reached by Bonoli (2010) except that he found that social democrats favoured job search assistance once their traditional preference for income protection or capacity building became too expensive (Bonoli, 2010). Our analysis suggests that by the second phase, job search assistance was widely used as a basic building block of activation but that spending on this relatively inexpensive form of assistance was overshadowed by income protection or capacity-building in countries with social democratic governments. The exception, which conforms to Bonoli’s thesis, was the United Kingdom where the labour government maintained the emphasis on job search assistance inherited from conservatives and first expanded, and then retrenched capacity-building programs.
The Netherlands broadly maintained its mix of modest capacity-building and income protection-oriented programs for long-term unemployed people in the second phase despite the change of government.\textsuperscript{287}

While the liberal-led Danish government was sceptical of training programs, wage subsidies (often combined with training) remained a prominent part of the program mix for unemployment insurance recipients (Goul Andersen & Pedersen, 2007):

‘But now the shift came, now the [Liberal] government told us that the best way of getting people into jobs was giving them on the job training or subsidised salaries. Those were the best without any question. But all kind of education was something that was, well it was social democratic heritage which was not good.’ (Municipal service provider, Denmark)

These policy trajectories are consistent with the view that changes of government are more likely to lead to major policy change in countries lacking multiple political veto points such as corporatist decision-making, a major role for sub-national governments, and consensual parliamentary systems (Bonoli & Palier, 2000). Table 13 compares these political institutions in the four countries.

Table 13: Comparison of political institutions (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electoral system (1998)\textsuperscript{1}.</strong></td>
<td>Majoritarian</td>
<td>Majoritarian</td>
<td>Consensual</td>
<td>Consensual</td>
</tr>
<tr>
<td><strong>Role of subnational Governments (1990-2007)\textsuperscript{2}.</strong></td>
<td>Limited</td>
<td>Limited</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td><strong>Corporatism (1990-2007)\textsuperscript{3}.</strong></td>
<td>Moderate: 1 - 0</td>
<td>Limited 0 – 0</td>
<td>Substantial 2 - 2</td>
<td>Substantial 2 - 2</td>
</tr>
</tbody>
</table>

\textsuperscript{287} The change of government sealed the fate of the Melkert jobs (which required a large public subsidy), but this arose as much from the new fiscal incentives faced by the municipalities as an explicit policy decision by central government (Blommesteijn et al., 2012; Interdepartmental working group on the future of labour market policy, 2001).
Sources:
Lijphart (2012); Visser (2016)\textsuperscript{288}

Notes:
Orange shading indicates strong veto points, purple shading indicates weak veto points, green shading is an intermediate category

1. The majoritarian model the party with a bare majority usually determines policies unilaterally, while in the consensual model policies are usually negotiated among a range of parties.

2. Author’s classification derived from analysis in country chapters:
‘Limited’ = No formal responsibility for administration of unemployment payments and employment services but may provide ancillary services.
‘Substantial’ = Formal responsibility for unemployment payments or employment services for a substantial group of unemployed people.

3. This index measures the degree of ‘routine involvement of unions and employers in government decisions on social and economic policy’, with scores from 0-2 where 0 = ‘involvement is rare or absent’, 1 = ‘irregular and infrequent involvement’, 2 = ‘regular and frequent involvement’.

A key contrast here is between Australia and the United Kingdom – with majoritarian parliamentary systems, low to moderate corporatism in the labour market and a limited role for sub-national governments in assistance for unemployed people – and the Netherlands and Denmark with consensual parliamentary systems, strong corporatism and a major role for sub-national governments.\textsuperscript{289}

Consistent with this institutional heritage, there was a tradition of consensual policy development in the latter two countries, evidenced by the unusual coalition of Labour and Liberal parties in the first phase in the Netherlands, and formal political agreements involving the Social Democratic and Liberal parties in Denmark over major changes in activation policy (Kuipers, 2006; Mailand, 2008a).

This helps explain the greater sensitivity of employment assistance policies in Australia and the United Kingdom to the views of the leading party in government, but as we have seen, it


\textsuperscript{289} Policy changes faced more veto points in Australia than the United Kingdom. The Australian Senate was a more powerful house of review than the British House of Lords, and governing parties in Australia often lacked a majority there due to a preferential voting system (Mayer & Nelson, 1980; Wright et al., 2013). Further, as Australia’s higher score on corporatism indicates, unions exercised more influence over industrial relations and wider economic policies in the first phase though the Accord (Quiggin, 1998; Wright & Lansbury, 2014). Sub-national governments played a significant though incidental role in employment assistance (for example, providing training for unemployed people in Australia and social services in the United Kingdom) but did not have formal responsibility for employment services.
does not necessarily follow that consensual political systems yield greater policy stability than majoritarian ones.

With the exception of Denmark, the adoption of activation policies was associated with transformational or systemic change in the political governance of the labour market. A common theme was the weakening (in the Netherlands) or dismantling (in the United Kingdom and Australia) of corporatist governance. A detailed account of these changes in surrounding institutions is beyond the scope of this study, but the following transformations were relevant to the development of activation policies.

In the United Kingdom at the start of the activation turn, the conservative government stripped away industrial relations regulation such as wages boards and removed corporatist governance from employment services and training by abolishing the MSC (Wood, 2001). It is noteworthy that the subsequent Labour government did not restore the MSC in the second phase.

In Australia, the Job Compact was introduced against the backdrop of an ambitious experiment in corporatist governance in the labour market and economic policy advice to government, the Prices and Incomes Accord (Gerritsen, 1986). As with the MSC in the United Kingdom, the Accord lacked the deeper institutional roots that enabled corporatism in labour market and economic policy to endure (Castles, 2001). As a partnership between the unions and a labor government, the Accord ended when the government changed (Wright & Lansbury, 2014).

The transformation of politics and retreat from corporatism was more complex in the Netherlands. Here a crisis in the corporatist governance of the proximate institutions was associated with a realignment in the political sphere. In 1994 the christian democrats shed their pivotal role in politics when an unusual labour-liberal coalition government was formed.

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290 This was associated with declines in union density in the four countries shown in Table 14. As with the weakening of corporatism, the reduction in union coverage was uneven. The decline in union coverage was much sharper in Australia and the United Kingdom than the Netherlands (which had low union density to begin with) and Denmark (where union coverage remained high). Across the OECD, these differences in union density and its decline were associated with different welfare regimes (Schmitt & Mitukiewicz, 2011).

291 A likely explanation is that when labour gained power after 13 years, it was hemmed in by the policy paradigms and institutional framework entrenched by the conservatives and chose to work within them rather than challenge them directly (Crouch, 1997).

292 During the 2000s, populist anti-immigration parties moved into the political gap left by this unusual Right-Left alliance. This in turn contributed to the tougher approach taken towards new social
This political shift was accompanied by the removal of the social partners from the governance of benefits and employment services, following the disability benefit ‘crisis’ which sharply eroded voter support for both labour and the christian democrats (Kuipers, 2006). Along with the promotion of employment participation among women (discussed later), these changes marked a significant break with the Conservative welfare regime.

No equivalent rupture in the political system or labour market governance occurred in Denmark, apart from the emergence of a populist anti-immigration party which weakened the social democratic party’s political base and pressed for benefit cuts for new migrants (Goul Andersen, 2006; Hedetoft, 2006). Here, consensual government and corporatism in labour market policy were more well entrenched, consistent with the Social Democratic welfare regime. Instead, in the second phase the liberal-led government attempted to weaken corporatist governance in employment through a progressive transfer of responsibility for employment services to municipalities. (Andersen, 2011).

(2) The labour market

In international comparative research, the relationship between activation policies and labour market structure is often neglected, yet the success of these policies depends on the employment opportunities available to unemployed people, who are mostly low-skilled (Clasen & Clegg, 2011a; Eichhorst & Konle-Seidl, 2016):

‘It also sends a signal to the lower end of the labour market. So if you’re running an agenda that is not just about ‘Welfare to Work’ but also ‘Work Choices’ or tightening the screws at the lower end of the labour market, then these things have to talk to each other.’ (Academic 2, Australia)

Labour market structure and dynamics

In Table 14 (below) we compare aspects of labour market structure and regulation that are relevant to activation policy:

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**assistance claimants (many of whom were non-European migrants) during the second phase** (Pellikaan et al., 2007).

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**293** As Table 14 indicates, broader corporatist governance arrangements in industrial relations and economic policy remained in place, but union membership was already low (24% in 1990).
Table 14: Labour market structure, dynamics and regulation (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
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<tbody>
<tr>
<td><strong>Labour market structure and dynamics</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Average monthly job-finding rates for unemployed 1992-2005 (per cent)</td>
<td>8.5</td>
<td>5.6</td>
<td>2.3</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Share of low-skilled workers and low skilled jobs 2</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Low skilled workers 1999 (per cent)</td>
<td>43</td>
<td>38</td>
<td>35</td>
<td>20</td>
</tr>
<tr>
<td>Low skilled workers 2006 (per cent)</td>
<td>33</td>
<td>31</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>Change in share of low-skilled workers (percentage points)</td>
<td>-10</td>
<td>-7</td>
<td>-7</td>
<td>-2</td>
</tr>
<tr>
<td>Change in share of low-skilled jobs (percentage points) 1993-2006 3.</td>
<td>-3.4</td>
<td>+5.8</td>
<td>+2.3</td>
<td>-1.0</td>
</tr>
<tr>
<td><strong>Labour market regulation</strong></td>
<td></td>
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<tr>
<td>Employment protection index 4.</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>1980s</td>
<td>1.0</td>
<td>0.9</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>2003</td>
<td>1.5</td>
<td>1.1</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>1990</td>
<td>1.7</td>
<td>1.0</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>2000</td>
<td>1.5</td>
<td>1.0</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Year</td>
<td>1990 (per cent)</td>
<td>2007 (per cent)</td>
<td></td>
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<tr>
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<tr>
<td><strong>Union density</strong> 6.</td>
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<tr>
<td></td>
<td>45</td>
<td>19</td>
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<td>40</td>
<td>27</td>
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<td></td>
<td>24</td>
<td>19</td>
<td></td>
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<tr>
<td></td>
<td>75</td>
<td>68</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>1990 (per cent)</th>
<th>2007 (per cent)</th>
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<tbody>
<tr>
<td><strong>Minimum wage (1990-2007)</strong> 7</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>64</td>
<td>54</td>
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<td>42</td>
<td>47</td>
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<td></td>
<td>55</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>59</td>
<td>n.a. 7</td>
</tr>
</tbody>
</table>

Notes and sources:

A ‘medium’ score (green) indicates that the statistic falls within a 10% range (not percentage point) above or below the OECD average value; ‘high’ (orange) indicates higher and ‘low’ (blue) indicates lower.

1. Monthly probability of moving from unemployment to employment (OECD average was 5.7% excluding US as an outlier at 28.2%). Average values for 1992-2004 (Hobijn & Sahin, 2007).

2. Share of people of working age lacking Year 12 qualifications in 1999 (2000 in the Netherlands) and 2006 (OECD, 2001a, 2007d). The OECD average was 38%-32%.

3. Change in share of low-skilled jobs (as distinct from workers) from 1993-06 (1993-13 in Australia) (Goos, Manning, & Salomans, 2010; Wilkins & Wooden, 2014).

4. OECD indicator of strictness of employment protection laws from late 1980s to 2003. Values from 1-5 with the strictest at 5. OECD average was 2.2 in both years (OECD, various years-c).

5. Nickell’s index of coordination of wage bargaining (values from 1-5 with the highest level of coordination at 5) in 1990 and 2000. OECD average was 2.0-1.9 (1.95 overall) (Nickell, 2003a).

6. Union members as a percentage of all employees. OECD averages were 41% and 27% respectively (Amsterdam Institute for Advanced Labour Studies; Wright & Lansbury, 2014).

7. Legislated minimum wage for a full-time adult as a percentage of gross median full-time wage. There was no single legislated minimum in Denmark and a benchmark industrial agreement is used instead. Values are for 1990 and 2007 (1999-2007 for UK, 2000-2007 for OECD). The OECD average was 44% in 1990 and 46% in 2007. No data were available for Denmark in 2007 (OECD, various years-a).
In regard to skills structure and job-finding rates, the countries divided into three groups: Australia and the United Kingdom with medium-to-high job-finding rates and a medium-to-high share of low-skilled jobs; Denmark with a below-average job-finding rate and a low share of low-skilled jobs; and the Netherlands with a very low job-finding rate (half that of Denmark) and a medium-to-low share of low-skilled jobs.

The remaining variables in Table 14 are indicators of labour market regulation. Of these, high job-turnover is generally associated in the literature with weak employment protection legislation; while low minimum wages and less-coordinated wage bargaining are associated with a high share of low-skilled workers (Nickell, 2003a).

The four countries mostly conform to these expectations. Australia and the United Kingdom had weak employment protection legislation and high labour turnover. They also had weak coordination of wage bargaining, the United Kingdom had minimum wages close to the OECD average level, and both had a high share of low-skilled workers. In contrast, Denmark and the Netherlands had strong coordination of wage bargaining and high minimum wages, and a moderate-to-low share of low-skilled workers. The Netherlands had the strictest employment protection laws and the lowest job turnover.

Key trends in the labour market during the study period included a fall in unemployment and higher female workforce participation (discussed below) and changes in the skills profile of employment. The latter included a reduction in the share of low-skilled jobs in Denmark and Australia; growth in the shares of both high and low skilled jobs in the United Kingdom and Netherlands; and the emergence of a dual labour market in the Netherlands comprising higher-skilled permanent jobs and lower-skilled temporary jobs intermediated by labour hire firms (Campbell & Brosnan, 1999; Goos et al., 2010; Oesch, 2015; Schmid, 2010; Wilkins & Wooden, 2014).

Despite these changes, the rankings of the four countries on the indicators in Table 14 remained largely the same, anchoring our comparison of activation policies in broadly

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294 There are two key exceptions. First, Australia had a high minimum wage which prima-facie was inconsistent with its high share of low-skilled workers and low unemployment rate at the end of the study period (Nickell, 2003a). One explanation is that Australian employers responded to high minimum hourly wages by increasing the flexibility of working hours to raise the productivity of low-skilled workers. For example, Australia had a high rate of casual (hourly hire) employment, which rose from 16% to 22% between 1990 and 1998 (Campbell & Brosnan, 2005). Second, Denmark had relatively liberal employment protection laws despite strong coordinated wage bargaining, consistent with its ‘flexicurity’ model discussed below.
consistent differences among national labour market regulatory arrangements and structures during the study period.295

The relative ease of access to low-skilled jobs in the United Kingdom and Australia meant that supervised job search assistance was more likely to be sufficient to assist long-term unemployed people into employment – albeit with a greater risk of ‘churn’ back onto benefits (Fok, Scutella, & Wilkins, 2013; Peck & Theodore, 2000b):296

‘the entry points in both - to work, in both the Netherlands and Denmark to some extent are more formal than they are in the UK….There's much more unionisation. There's much more tripartism. There is a segmented labour market. So if you want to undertake better jobs and do training for better jobs those better jobs are all in …the sort of standard labour market. ….That sometimes means that they need to get to a higher level possibly in order to get into this more formal element. ….Whereas in the UK… there’s big advantages of having lots of opportunities but it isn’t half wasteful in terms of information. You just need (a) to know what the opportunities are and (b) you just need someone kicking you to keep on looking for them.’

(Official, Employment Ministry, United Kingdom)

In Australia, the job finding rate was higher than in the United Kingdom, but the overall share of low skilled jobs declined.297 As noted in the country chapter, this is one possible explanation for the rise in the long-term share of unemployment payments recipients in Australia over the study period (Attachment 5). While workforce education levels rose, unemployed people with only senior high school qualifications or less faced diminishing job prospects in the absence of capacity-building support (especially vocational training).

The combination of relatively high-skilled jobs and slow labour turnover in the Netherlands posed a special challenge for activation policies, as it reduced the likelihood of quick employment outcomes for low-skilled unemployed people (Konigs, 2017).298 In the decade

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295 One exception is the value of minimum wages, which was lower in the United Kingdom than the Netherlands at the start of the study period but higher at the end. This change in rankings was associated with the introduction of a national minimum wage in the United Kingdom (OECD, 1998a).

296 ‘Churn’ refers to frequent movements between unemployment and insecure jobs (Carpenter, 2006; Fok et al., 2013; Wilkins & Wooden, 2014).

297 The impact of the decline in the share of low skilled jobs on reliance on unemployment payments was magnified by the large share of these jobs that were part time (54% of the lowest skilled jobs in 2007, of which 64% were casual or daily hire jobs), since under Australian benefit rules many low skilled employees qualified for partial unemployment payments (21% of recipients in 2007) (Abhayaratna, Andrews, Nuch, & Podbury, 2008; Department of Employment and Workplace Relations, various years-a) The lowest skill group comprised elementary clerical and service workers and labourers and related workers.

298 On average from 1999 to 2005, the probability of exit from benefits to employment within the next month was 2.8% for unemployment insurance recipients unemployed for 12 months and 0.7% for social assistance recipients unemployed for 12 months (Groot et al., 2008, p5).
before the activation turn, this reinforced an income protection approach to unemployment in which low-skilled workers were diverted to disability payments as the skill requirements for employment became more stringent (Hartog, 1999). At the same time, policy makers pursued demand side policies to expand low-skilled employment including more liberal regulation of working hours and lower minimum wages, resulting in a dualisation of the labour market (Hartog, 1999; Netherlands Scientific Council for Government Policy, 1997; Visser & Hemerijck, 1997).

The use of wage and tax subsidies for long-term unemployed people after the activation turn was a natural extension of this approach: their purpose was to ‘create’ low-skilled jobs rather than strengthen individual work capacity (Schampheleire & Van Berkel, 2001): 299

‘By selectively opening up the bottom end of the labour market, room can be created for individuals with low labour productivity, especially in sectors where there are unfulfilled social needs.’ (Netherlands Scientific Council for Government Policy, 1997, p20)

The high skills threshold for entry to the Danish labour market privileged capacity-building employment assistance which formed one side of a ‘flexicurity triangle’ comprising high benefits and minimum wages, weak job protection (to facilitate labour market dynamism through higher turnover of jobs), and high investment in employment assistance (Madsen, 2002).

‘And I think it was also a period [the 1990s] where it was sort of more a modernisation of the Danish economy from the type of jobs where you could just accept people from the street making simple work, to a more advanced economy where you just couldn’t use people without some sort of more engagement. So this old type of public employment service were gradually brought down’ (Official, Employment Ministry Denmark)

(3) Family workforce participation and care arrangements

In many social security systems, sole parents had a special status as both primary carers and breadwinners for children. This status was highly gendered since the vast majority of sole parents were women (over 80% in the four countries in this study). The treatment of sole parents in activation policies is a litmus test for the way in which those policies balanced paid work and care.

Prior to activation policies and were often exempted from activity requirements (Knijn et al., 2007). As activation policies matured, they were increasingly treated as unemployed workers

299 As noted, the share of low-skilled jobs grew in the Netherlands during the study period, which is consistent with these policies.
with activity requirements and employment assistance, adjusted to varying degrees to account for their caring role. Table 15 (below) compares national models of family workforce participation, access to formal child care, and activity requirements for sole parents in the social assistance systems of each country.300

Table 15: Family workforce participation and care and activation of sole parents (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Model of family workforce participation ¹.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>One and a half earner:</td>
<td>One and a half earner:</td>
<td>Male breadwinner:</td>
<td>Dual earner:</td>
</tr>
<tr>
<td></td>
<td>55% of mothers employed; (58% part-time)</td>
<td>58% of mothers employed; (53% part-time)</td>
<td>45% of mothers employed; (87% part time)</td>
<td>77% of mothers employed; (34%part time)</td>
</tr>
<tr>
<td>2006</td>
<td>One and a half earner:</td>
<td>One and a half earner:</td>
<td>One and a half earner:</td>
<td>Dual earner:</td>
</tr>
<tr>
<td></td>
<td>61% of mothers employed; (61% part-time)</td>
<td>64% of mothers employed; (53% part-time)</td>
<td>74% of mothers employed; (76% part time)</td>
<td>76% of mothers employed; (30% part time)</td>
</tr>
<tr>
<td>Participation in formal child care (0-2years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998 (percent of children)</td>
<td>15</td>
<td>34</td>
<td>6</td>
<td>64</td>
</tr>
<tr>
<td>2006 (percent of children)</td>
<td>25</td>
<td>40</td>
<td>54</td>
<td>63</td>
</tr>
</tbody>
</table>

300 This discussion focusses on social assistance benefits since many sole parents lacked the paid employment history required to qualify for unemployment insurance. A comprehensive comparison of workforce participation and care policies affecting maternal employment (beyond the scope of this study) would include conditions of employment, parental leave, informal care arrangements, and tax-transfer polices (Daly & Lewis, 2000; Pocock, 2005).
## Average cost of fulltime day care for a two year-old

<table>
<thead>
<tr>
<th></th>
<th>2004 (percent of average wage)</th>
<th>2005 (percent) (percent female-headed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22</td>
<td>16 (87)</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>26 (87)</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>16 (85)</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>18 (85)</td>
</tr>
</tbody>
</table>

## Share of sole parent families among all families with children

<table>
<thead>
<tr>
<th></th>
<th>1999 (percent)</th>
<th>2005 (percent)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>n.a.</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>n.a.</td>
</tr>
</tbody>
</table>

## Employment rate of sole parents

<table>
<thead>
<tr>
<th></th>
<th>1990 (percent)</th>
<th>2007 (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>44</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>42</td>
<td>51</td>
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<tr>
<td></td>
<td>34</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>81</td>
<td>82</td>
</tr>
</tbody>
</table>

## Age-of-child thresholds for activity requirements for sole parents

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youngest child</td>
<td>&gt;15yrs</td>
<td>&gt;5yrs</td>
</tr>
<tr>
<td>Youngest child</td>
<td>&gt;15yrs</td>
<td>&gt;11yrs</td>
</tr>
<tr>
<td>Youngest child</td>
<td>&gt;4yrs</td>
<td>(part-time job requirements)</td>
</tr>
<tr>
<td>Youngest child</td>
<td>&gt;1yr, with local discretion</td>
<td>From local discretion to youngest child &gt;4yrs</td>
</tr>
<tr>
<td>Youngest child</td>
<td>&gt;1yr, with local discretion</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
Classification scheme:
For models of family workforce participation: blue = male breadwinner; green = one-and-a-half-earner: orange = dual earner.
For other variables: green = ‘medium’ scores within 10 percentage points above or below the (OECD or EU) average value for the relevant statistic; blue = scores above or below these levels, indicating ‘low’ workforce participation and support; orange = scores above or below these levels, indicating ‘high’ workforce participation and support.
n.a. = not available

1. ‘Male breadwinner’ = most mothers not employed; ‘one-and-a-half earner’ = most mothers employed but over half of these part time; ‘dual-earner’ = most mothers employed and half or more employed full time.

2. Age of youngest child at which activity requirements (including active job search and participation in employment programs) commenced for recipients of Social Assistance.

Consistent with the Social Democratic welfare regime, Denmark stands out as the only country in this group with a dual income-earner family employment and care model, where most mothers were engaged in fulltime paid employment (Esping Andersen, 1999; Lewis et al., 2008). It offered the strongest support for workforce participation for mothers including widespread access to relatively affordable child care, which municipal governments were required to offer as a universal entitlement (Bonoli, 2013; OECD, 2007b). Consistent with these patterns of workforce participation and care, sole parents caring for children aged one year or over had the same activity requirements as other unemployed people and were expected to seek full-time employment.

The other three countries (aside from the Netherlands in the first phase) had a one-and-a-half-earner model of family workforce participation with heavy reliance on part-time employment to enable mothers to combine paid work and care.301 Consistent with this, their activation policies for sole parents were more ambivalent.

The United Kingdom and Australia maintained a one-and-a-half earner model throughout the study period. Mothers were generally expected to adjust their paid working hours to enable them to care for children at least part-time within normal paid working hours (Knijn et al., 2007; Pocock, 2005).302 A distinctive feature of part-time employment in these countries was its relatively insecure and low-paid nature (in terms of hourly as well as weekly pay rates)

Sources:
The sources and derivation of the statistics in this table are detailed in Attachment 7.

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301 In their more detailed comparison of policies to promote maternal employment in 14 OECD countries in the late 1980s, Gornick et al (1997) ranked Denmark the 2-4th most supportive country (with the rank varying according to age of youngest child), the Netherlands 10-11th, the United Kingdom 3-12th and Australia 13-14th (Gornick, Meyers, & Ross, 1997)

302 Average weekly working hours for mothers in 2004 were 15 in Australia and 20 in the UK (Flynn, 2017).
compared with full-time jobs, which underscored the primacy of the caring role (Campbell & Brosnan, 2005; Roeters & Craig, 2014).\footnote{In Australia, most part time jobs were casual positions and working hours often varied at the discretion of the employer (Campbell & Brosnan, 2005).}

Unlike in Denmark, formal child care was treated as mainly a private responsibility, with income-tested public subsidies available to parents as family entitlements (OECD, 2007b). These subsidies contributed to the expansion of places over the study period shown in table 15, but places were mostly part-time and relatively expensive (OECD, 2007b; Pocock, 2005).

Under these circumstances, sole parents receiving social assistance were not expected to undertake paid work until their youngest child reached 16 years, a policy that only changed in both countries at the end of the study period. One barrier to change was the categorical benefit system, in which sole parents with school age children received non activity-tested payments distinct from unemployment benefits, so that activation required major, and controversial, legislative change (Australian Council of Social Service, 2005; Harker, 2006; O’Connor, 2009). In both countries at the end of the study period, they were diverted to unemployment payments and expected to seek part-time employment. At that time, this employment requirement was consistent with prevailing employment patterns for mothers and public opinion, which was tested by governments undertaking the reforms (Casebourne, 2008; Saunders, 2002).

The low-paid and insecure nature of employment for many sole parents in these countries reinforced the need for relatively costly in-work benefits (tax credits or family payments) to improve work incentives and prevent poverty (Casebourne, 2008; Immervoll & Barber, 2006; Pocock, 2005). High rates of churn between benefits and low-paid jobs also raised concerns about the effectiveness of activation policies for sole parents.\footnote{In the United Kingdom in the early 2000s, 29% of those leaving the New Deal for Lone Parents received social security payments again within a year (Harker, 2006). In Australia, 69% of new claimants for Parenting Payment (the majority being sole parents) in 1998 had received income support within the last 12 months (Gregory & Klug, 2003).} These factors reduce the attractiveness of the one-and-a-half earner model in these countries to parents and governments and are a potential source of instability for the model.

The Netherlands moved during the study period from a male-breadwinner model to a one-and-a-half-earner model, as female part-time employment grew rapidly following the removal of restrictions on part-time employment in the 1980s (Visser, 2002a):
The drive on the part of women and young people towards economic independence and emancipation, has placed the traditional family and breadwinner-based philosophy under pressure (Netherlands Scientific Council for Government Policy, 1990, p8).

During the first phase, Dutch policy makers still regarded child care as mainly a private responsibility and advocated combinations of part-time employment and care as the best way to reconcile care and paid workforce participation (Kremer, 2001; Netherlands Scientific Council for Government Policy, 1997). Given these expectations, child care services were slow to develop and most places were part-time. Child care expanded near the end of the second phase after direct funding of services was replaced with family entitlements to child care subsidies in 2005 (Gautier & van der Klaauw, 2009).

While restrictions on part time employment were removed, hourly pay and working conditions in part time jobs in the Netherlands were more tightly regulated than in Australia and the United Kingdom under ‘flexicurity’ legislation, to ensure that hourly rates of pay, employment security and regularity of working hours were not inferior to fulltime positions (Roeters & Craig, 2014; Visser, 2002a; Yerkes & Visser, 2006). This lent greater stability to the Dutch one-and-a-half earner model because mothers in part time jobs had more stable hours and incomes and career development opportunities than in Australia or the United Kingdom.

Under these influences, Dutch activation policies for sole parents were ambivalent (Knijn & van Wel, 2001). In 1996, those receiving social assistance were legislatively required to seek employment once their youngest child reached primary school age. The exemption for those with preschool-age children was removed in 2004 but restored by another government three years later. In any event, municipalities had discretion to offer individual exemptions and did so in most cases, while generally referring sole parents to part-time jobs where exemptions were not applied.

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305 Most part time jobs had to be offered as permanent positions with the same hourly wage rate and other entitlements as equivalent fulltime jobs, and workers with caring responsibilities had a right to reduced working hours unless it seriously disrupted the workplace, putting the onus on employers to demonstrate that this would occur (Roeters & Craig, 2014). In contrast, in the United Kingdom such workers had only a ‘right to request’ shorter working hours and no such right existed in Australia.

306 In 2001, only 19% of sole parents receiving social assistance had job search requirements (OECD, 2007b).
9.4 The influence of proximate institutions: benefits and employment services

(1) Benefit structure: unemployment insurance and social assistance

A key difference between unemployment payments in Australia on the one hand and the Netherlands and Denmark on the other was that the former essentially had a single tier of social assistance benefits while the latter had two: social insurance and social assistance. The United Kingdom had an unemployment insurance benefit as well as social assistance but its role diminished, especially after 1996 when they were merged into Jobseeker Allowance (Clasen, 2000, 2007).

The dominance of social assistance in the United Kingdom and Australia removed a potential barrier to an incentives-based approach to activation:

‘The fact that we don’t have a social insurance system anymore, does give – the social insurance makes the benefits feel like rights and entitlements to the recipients, that it’s their money. Which means that the activational stuff is more naturally applied to social assistance.’

(Academic 2, United Kingdom)

In these two countries, the critical boundary between payments for activation purposes was that between unemployment and related allowances (including student payments) with activity requirements, and those (including pensions in Australia and Income Support in the United Kingdom) without them. A central government agency sorted working age income support recipients into these two payment classes based on legislated definitions of work-readiness (disabilities and caring roles).

As activation policies matured, there was a trend in Australia and the United Kingdom towards homogenised income support. A range of payments without activity requirements were absorbed into the main unemployment payment, and the boundaries between payments were shifted to extend activity requirements to ‘new groups’ such as sole parents and people with disabilities who were re-classified as unemployed (Clasen & Clegg, 2006; Davidson & Whiteford, 2012; Gregg, 2008).

The political challenges confronting the legislative transfer of large numbers of people from non-activity tested to activity-tested payments meant that this was only attempted at the end

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307 Detailed information on eligibility requirements and generosity of unemployment payments, and trends in the number of recipients, is provided in Attachment 5.
of the study period, but once enacted, it had a rapid impact on activation rates (Casebourne, 2008; Department of Education Employment and Workplace Relations, 2009).

The two-tier structure of unemployment insurance and social assistance benefits remained in place in Denmark and the Netherlands and activity requirements were gradually extended to each tier (Clasen & Clegg, 2006; Kvist et al., 2008; Sol & Westerveld, 2008). In the second phase the Danish government sought to homogenise employment assistance for the two payment groups (Bredgaard, 2010). No such attempt was made in the Netherlands, where decentralised governance of employment services was a higher priority (de Koning, 2007b).

Table 10 showed that social assistance clients in these two countries were more likely to be exempted from activation and to receive employment assistance with an income protection character.

While a higher proportion of social assistance clients faced labour market disadvantage, assessment of their work capacity was overlaid with cultural assumptions that varied from one municipality or time period to another (Employment Directorate, 2005; Interdepartmental working group on the future of labour market policy, 2001; Larsen, 2012; Spies & van de Vrie, 2014).

These inconsistencies suggest that it was the combination of the two-tier benefit structure, municipal governance of social assistance, and labour market disadvantage of its recipients (rather than labour market disadvantage alone) that gave rise to the different treatment of social assistance recipients in these two countries.

Before the activation turn in Denmark and the Netherlands, there was a presumption that insured unemployed people would participate in the labour market and register with the PES. Social assistance was regarded as a safety net for people more distant from the labour market whose employment capacity must be individually assessed:

‘It is well known that the [municipal] social service treat people as clients instead of people who just need a job, and so instead of solving the social problem on their home basis, we try to solve the problem on the labour market.’ (Official, Employment Ministry Denmark)

With the advent of activation policies, active job search or participation in employment programs gradually became the default activity for social assistance clients and profiling systems were developed to formalise exemptions. This led to tensions (discussed later)

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308 The reduction in maximum duration of Danish unemployment insurance to four years shifted the boundaries between these payments.
between municipal discretion and the central government’s desire to broaden the scope of activation.

One reason for a bias towards capacity-building for unemployment insurance recipients was a perceived need to offer either wage subsidy or training ‘guarantees’ to insured workers whose benefits were about to expire (either to protect their incomes directly or hasten their transition to employment), an issue that did not arise in countries that relied mainly on social assistance:

‘It [employment programs such as wage subsidies and training] grew out of that kind of logic which firmly put a work backstop or a work [and] training backstop at the end of your [unemployment insurance benefit] period, and the [job] search part of it was very much the bit that you added on. Whereas our stuff was this pure social assistance model.’ (Academic 2, United Kingdom)

Both Dutch and Danish experience with activation policies suggests another reason for a capacity-building bias in employment assistance for insured workers: their higher status as recently-employed workers who have contributed to an insurance scheme (van Oorschot, 2006):

“When you’re in the WWB [social assistance] you’re dependent on the municipality and you have to accept everything. When you have a benefit with us [UWV] you are still a worker but currently unemployed. This difference in culture meant that we didn’t implement this ‘work first’, no. So it’s subtle but it’s quite a different culture with the municipalities than with us.” (Government service provider, Netherlands)

“Ordinary unemployed, they are part of us and social assistance claimants a little more ‘those people.’” (Academic 1, Denmark)

Table 11 indicated that employment assistance for insured workers in the Netherlands retained its modest capacity-building character after the social partners were removed from the governance of benefits and employment services (Sol & Westerveld, 2008). The reason for this was the widespread offer of IROs to insured unemployed workers, who often chose training courses. This suggests that even where insured workers were not represented by unions within the employment services system, there was a presumption that they should exercise greater choice over their employment services, and have more access to training, than their uninsured counterparts.

The lower status of social assistance clients in both countries was reinforced by the growing share of non-European migrants among recipients, and growing political hostility towards that group (Hedetoft, 2006; Zorlu, 2011). By 2005, 30% of social assistance clients in Denmark
were from ‘non-European’ migrant backgrounds (up from 17% in 1995) along with 38% in the Netherlands (van Geuns & van Gent, 2007). Hostility towards non-European migrants explains the selective reductions in social assistance benefit rates in Denmark in the second phase, despite its tradition of universal income protection (Hedetoft, 2006; Jorgensen, 2009).309

(2) Governance of benefits and employment services

Table 16 compares governance arrangements in the proximate institutions (as distinct from the labour market) during the study period.

Table 16: Governance of benefits and employment assistance

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>First phase</td>
<td></td>
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</tr>
<tr>
<td>Benefits</td>
<td>Central</td>
<td>Central</td>
<td>Corporatist and Municipal</td>
<td>Corporatist and Municipal</td>
</tr>
<tr>
<td>Employment services</td>
<td>Central and Market</td>
<td>Central</td>
<td>Central and Municipal</td>
<td>Corporatist</td>
</tr>
<tr>
<td>Second phase</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>Central</td>
<td>Central</td>
<td>Central and Municipal</td>
<td>Corporatist and Municipal</td>
</tr>
<tr>
<td>Employment services</td>
<td>Market</td>
<td>Central and Market</td>
<td>Central, Municipal and Market</td>
<td>Central, Municipal and Market</td>
</tr>
</tbody>
</table>

Notes:
The derivation of these categories and their application to each country are detailed in Attachment 5. Central (green) = administered by central government or statutory authority; Corporatist (orange) = jointly administered by government, unions and employers; Market (blue) = services are purchased by governments from competing non-government providers; Municipal (white) = administered by municipal government.

309 The extent to which the ‘uniform’ character of benefits in the Social Democratic welfare regime extends beyond citizens to recent migrants is debated in the literature (Andersen et al., 2007; Morissens & Sainsbury, 2005). While in theory a broadly-based benefit system aids the integration of new migrants, there were major differences in access to social security for migrants among the Nordic countries, with Denmark adopting a more stringent approach than Sweden.
Consistent with the NPM paradigm (which favours institutional separation between policy and service delivery and the use of market mechanisms) there was a shift across the four countries, to varying degrees, from central or corporatist governance towards decentralised arrangements, mainly municipal or market governance.

**Corporatist governance**

In the interviews, corporatist governance of benefits and employment services was described as a vehicle for unions to influence employment assistance. Before the activation turn, unions generally supported employment programs with an income protection character such as the British community program and use of wage subsidies to re-qualify unemployed workers for social insurance in Denmark (Goul Andersen & Pedersen, 2007; Price, 2000). Subsequently, they prioritised vocational training programs (with or without associated wage subsidies).

From the outset, corporatist governance of the proximate institutions was absent in Australia. While early activation policies emerged in the shadow of corporatist governance of the labour market (through the Accord), benefits and employment services remained under the direct funding and control of central government and unions played a limited role in the development of the Working Nation policies, focussing on wage rates for unemployed trainees:

Interviewer: ‘Did the unions have much to do with …the job compact itself?’
Interviewee: ‘Not that I remember. Particularly the training wage because they were worried about it being high enough, they didn’t want them competing with existing employees.’
(Official 2, Department of Prime Minister and Cabinet, Australia)

As a result, the labor government’s capacity-building employment programs lacked strong institutional champions and were easily dismantled by the liberal-led government:

‘It [spending on labour market programs] fell away as soon as the Liberals formed government. It was such a soft target.’ (Official, Department of Prime Minister and Cabinet Australia)

In the other countries, corporatist governance was weakened over the study period.

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310 While there was little mention of the role of employers in the governance of activation, it does not follow that they exercised no control. Employers played an active role in the development of ‘manpower planning’ programs to ensure a ready supply of labour when labour markets were tight (Iversen & Soskice, 2015). In corporatist governance systems, their express or implied consent remained critical.
The United Kingdom and the Netherlands undertook systemic change of corporatist governance structures, moving from corporatist governance to direct central government control of employment services in the first phase. The Netherlands moved from corporatist governance of both benefits and employment services for insured workers towards central and market governance in the second phase (Finn & Schulte, 2007; Sol & Westerveld, 2008).

The abandonment of corporatist governance in the first phase in the United Kingdom created space for the conservative government to transition employment assistance from an income protection role (public wage subsidies) towards incentive-strengthening through Restart interviews. This aggravated political conflict between government and the unions, leading the government to deprive the MSC of control of the PES and then to abolish it (Price, 2000):

‘this is the point at which they break up the Manpower Services Commission, so ended corporatism, helped by the trade union movement, which fell on its sword at that point in time, and decided to boycott everything.’ (Academic 1, United Kingdom)

The PES was returned to direct government control while vocational training was governed separately by business-led training councils, weakening the links between training and employment services (King, 1993). Significantly, the labour government did not restore corporatist governance, leaving the capacity-building elements of the New Deals under direct government control and lacking an institutional champion to protect them from budget cuts.

In the Netherlands, the ‘disability crisis’ of the early 1990s triggered decade-long systemic change in the proximate institutions. The Netherlands lacked a strong tradition of training for long-term unemployed people. Instead, from the 1970s to the 1990s the social partners used their control of the benefit system, especially disability pensions, to provide an alternative to employment for less productive workers pushed out of the labour force by the up-skilling of jobs (Hartog, 1999; Kuipers, 2006). This was supplemented by wage subsidy schemes to create more low-skilled jobs for those unemployed long-term:

‘In 80s, and beginning of the 90s, there was this tripartite Public Employment Service, with a lot of influence by the trade unions and the employer associations and of course, they were very eager to defend, in my words, the insiders. As a way of window dressing, they also wanted to do something for outsiders. They had an arrangement whereby these type of work experience programs came into being, but they were very restricted.’ (Academic 1, Netherlands)

Consequently, corporatist governance was viewed by Dutch governments as a barrier to activation. The social democrat - liberal government bypassed the social partners and turned
to municipalities to run its flagship activation program for social assistance clients: the Melkert jobs (de Koning, 2010). At the same time, corporatist governance of employment services was displaced by market governance (discussed below):

‘We had a government of politicians who were strong believers in the private market which was a leading thought when they had to seek an alternative for the existing format. Because they had to remove the social partners from their responsibility which was, in Holland, quite a move and everyone felt strongly that it was necessary but everyone felt that it was a painful move.’

(Government service provider, Netherlands)

In Denmark, the unions essentially administered unemployment insurance which was voluntary but mainly financed by central government through general taxation. This ‘Ghent system’ of social insurance greatly strengthened the union movement, contributing to Denmark’s high union density (Goul Andersen, 2011). This made it a site of political contest between the social democrats, (connected with the unions) and the parties of the Right (who had a political interest in loosening union control of social insurance).

Their role in administering unemployment insurance meant the unions were well placed to play a key role in the development of activation policies for insured unemployed workers (Madsen, 2007). The activation policy emerging from the Zuethen Commission was a bargain negotiated between the social democrat-led government and the unions:

‘Well you could also say that the activation for the insured was part of an agreement between the government and mostly the trade unions that okay, we’re lowering the time you can get the insurance benefits but on the other hand we from the government would do more for these people. We will give them job training, we will give them education, etcetera, etcetera.’

(Municipal service provider 1, Denmark)

Consistent with Tepe and Vanhuysse’s (2013) findings, once activation policies were developed and income-protection approaches to employment assistance were discredited, Danish unions favoured capacity-building programs to keep their members competitive in the labour market (Larsen & Mailand, 2007; Tepe & Vanhuysse, 2013). To enforce the above ‘bargain’, unions and employers were represented on the regional employment boards that controlled employment assistance for insured workers (Larsen & Mailand, 2007).

Corporatism thus pulled Danish activation policies in a capacity-building direction, but only for insured workers. Later in the second phase, the liberal-led government attempted systemic
change of the governance of employment services to weaken the role of unions by shifting control of the PES to the municipalities, but this was only partly successful.\textsuperscript{311}

In three of the four countries, corporatist governance or its dismantling had a major impact on activation policies. The persistence of corporatism (in Denmark) was associated with a capacity-building approach to employment assistance, but for insured workers only. Its abandonment (in the United Kingdom and Netherlands) was associated with either more modest investment in capacity-building for insured workers (Netherlands), or where social insurance itself played a marginal role (United Kingdom) a tilt towards incentive-strengthening programs such as Restart.

**Municipal governance**

Along with the long-standing division between unemployment insurance and social assistance, municipal governance of social assistance shaped activation policies in Denmark and the Netherlands, though this occurred in the shadow of central government funding, so that control was shared between the two levels of government. That influence became more pronounced in the second phase as liberal or conservative-led governments shifted more responsibilities to municipalities.

Municipal governance of benefits and employment assistance contributed to the higher rate of exemptions from activity requirements among municipal social assistance clients together with greater use of employment programs with an income protection character (Tables 6 to 9).

Municipal case-worker’s perceptions of labour market disadvantage among their clients were underpinned by the institutional separation of municipal social services (whose purpose was to provide ongoing income protection and social support) from unemployment insurance and employment services (whose purpose was to provide temporary income protection and employment) (Damgaard, 2005; de Koning, 2004):

‘There was a ‘granite core’ of difficult to place clients, as they [municipalities] called them. ..It was estimated by the municipalities themselves to consist of between 70% and 80% of their whole books of beneficiaries..whereas here in The Hague [Employment Ministry] people tended to have a slightly more optimistic view . They said, ‘you just have to try harder’” (Official 2, Employment Ministry Netherlands)

\textsuperscript{311} Mailand (2008a) identified ‘a trend that has been seen since the mid-1990s towards a weaker social partner role in policy formulation, but still strong influence in agenda-setting and policy implementation’ (Mailand, 2008a, p1).
Effective implementation of activation policies required cultural change in local social service departments. Ideally, employment assistance for insured and uninsured workers should have been homogenous, so that services were offered on the basis of individual circumstances rather than benefit type (Bredgaard, 2010; Clasen & Clegg, 2006). Stronger financial incentives for municipalities to find jobs for their clients were also required, since the cost of benefits was largely met by central government (Hoff et al., 2003; van Berkel, 2006).

During the second phase, the Dutch and Danish Governments used different strategies to achieve these goals.

The Dutch Government was reluctant to tighten central control of municipal employment services as this conflicted with the Dutch subsidiarity principle (Goodin & Smitsman, 2000; van Kersbergen & Becker, 1988):

Interviewer: ‘So [the Employment Ministry’s view was that] those who were paying the benefits in each case should be also responsible for activation?’

Interviewee: ‘Absolutely, yes. And also government at central level being responsible for the system and not for all the details on the ground.’ (Official 2, Employment Ministry Netherlands)

Instead, central controls over municipal employment programs were eased and more responsibility for financing of benefits was shifted to municipalities (Council for Work and Income, 2008; Sol & Westerveld, 2008):

These fiscal incentives, together with the sharper distinction made by Dutch municipalities between the job prospects of new claimants and existing clients, led them to target incentive-strengthening ‘work first’ policies to the former group to discourage the pursuit of benefit claims (van Geuns & van Gent, 2007):

At the same time, municipalities reduced their investment in programs for long-term recipients since the comprehensive approach (a universal service requirement) was abandoned, and they could reduce their benefit rolls more readily by activating new applicants (Council for Work and Income, 2008):

‘I think it was too easy for municipalities to break even in their budget, by simply focusing on the easier to serve clients.’ (Official 2, Employment Ministry Netherlands)

The decentralisation of governance of employment assistance in the Netherlands, and the absence of close monitoring and evaluation by central government, also had a political effect. It weakened central government support for employment programs since politicians were far
removed from responsibility for service delivery. This set the scene for a decision in 2012 to halve the budget for employment assistance (European Union Network of Independent Experts on Social Inclusion, 2013):

In Denmark, the liberal-led government took a different tack. It sought to homogenise employment assistance for insured and uninsured unemployed workers by closely supervising municipal activation through ‘centralised decentralisation’ (Bredgaard, 2010). This required municipalities to enrol those not assessed as job-ready in activation programs and introduced financial incentives for them to make more use of internships in private companies rather than programs with an income protection character such as special projects. (Ministry for Integration, 2005; Ministry of Employment, 2002a):

‘The common thread in the [‘More People in Work’] plan is an absolute harmonisation of the regulatory framework for insured unemployed and social assistance recipients.’ (Ministry of Employment, 2002a, p7)

“So the government also launched a special program called ‘A New Chance for All’ for the uninsured to get jobs. And they had more focus especially late in the period of this government, ..on activation on a job [internships] and not these programs [special projects].” (Municipal service provider, Denmark)

Path dependency within municipal social service agencies (including in the assessment of labour market disadvantage), together with the labour market disadvantage actually faced by many social assistance clients and weaknesses in fiscal incentives, preserved the income protection character of municipal employment assistance.312

Interviewee 2: ‘So I think okay it’s changed but [municipal employment assistance] is not changed that much. I think it’s almost the same picture. And there are some kind of historical traditions.’

Interviewee 1: ‘Yes but also because a lot of the persons in the uninsured, they have other problems than unemployment and you have to work with them, you can’t just send them out into a company. You have to do something else with them.’ (Municipal service providers, Denmark) 313

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312 Municipal case workers and managers did adopt a stricter approach to activation of social assistance clients in the second phase, but the new funding system unintentionally reinforced the use of special projects as they were quicker and less costly to set up than work experience in private companies (Beer et al., 2008; Rosholm & Svarer, 2010).

313 These two service providers were interviewed together.
Despite the different strategies used in the two countries to reform municipal activation, the outcomes were similar. At the end of the study period almost half were still exempted and employment assistance for long-term recipients retained its income protection character.\textsuperscript{314}

**Market governance**

‘Market governance’ refers to the use of ‘quasi-markets’, in which non-government service providers were contracted by government agencies to deliver employment services (Considine & O’Sullivan, 2014; Le Grand, 1991; van Berkel & van der Aa, 2005). Consistent with the NPM paradigm, this was associated with performance-based purchasing where non-government providers were paid to achieve short-term employment outcomes to encourage quick transitions to employment and more flexible responses to individual needs, and to shift the risk of investment in employment services to private providers.

With the exception of the Dutch Individual Reintegration Agreements (IROs), performance-based contracting yielded standardised models of employment assistance centred on low-cost job search assistance rather than capacity-building (Bredgaard & Larsen, 2008a; Considine, 2001; Council for Work and Income, 2008; Larsen & Wright, 2014):

> ‘When probed on the services they offered to Intensive Assistance Clients [in Australia], most service providers described job search services. Very few service providers reported that they were offering services which would address underlying barriers to employment such as language classes, counselling or assistance with vocational training’ (Department of Employment Workplace Relations and Small Business, 2000a, p80).

Since market governance of employment services was adopted in many countries during the 2000s, and had consistent impacts on the type of employment assistance provided, it is tempting to regard it as a major influence in its own right pulling activation policies in the direction of incentive-strengthening approaches (Moreira & Lødemel, 2014; Shutes & Taylor, 2014). However, market governance was adopted unevenly across the four countries, reflecting different policy objectives and institutional contexts.

\textsuperscript{314} More intensive activation of long-term social assistance recipients after the ‘New Chance for All’ reforms in Denmark showed some promise in improving employment outcomes, with transitions to employment for long-term social assistance recipients almost doubling from a low base (rising by 6.5 percentage points) from 2006 to 2008 (Rosholm, 2011). However, Rosholm (2011) argues that the over-reliance on ‘special projects’ undermined these efforts.

Capacity-building approaches to activation for people deeply disadvantaged in the labour market can succeed, but successful programs are costly as they combine mentoring and social support with work experience or training (Bortland, 2014; Hasluck & Green, 2007). The British StepUp program and the more recent Norwegian ‘Qualification Program’ are examples of effective but relatively costly programs (Bivand, 2006; Markusson & Roed, 2014).
The two countries that shifted away from capacity building approaches by the end of the second phase, Australia and the United Kingdom, did so by replacing national programs of work experience and training (the Job Compact and New Deal Options) with performance-based contracting (the Job Network and Flexible New Deal).

The most comprehensive shift to market governance came in Australia, where the PES was privatised and most national employment programs were abolished (OECD, 2001b). The liberal-led government used performance-based contracting, first to minimise blame for spending reductions in employment assistance, and later to fulfil its policy preference for incentives-based employment assistance through supervised job search (Department of Education Employment and Workplace Relations, 2007; OECD, 2001b; Productivity Commission, 2002):

‘Working them [unemployed people] hard through the administrative system gets them ready and gives them incentives to get into work.’ (Academic 2, Australia)

The labour government in the United Kingdom also adopted performance-based contracting for long-term unemployed people (through the Flexible New Deal) as part of a shift towards incentive-strengthening approaches, but it did not pursue full privatisation of the PES. It kept the PES at the centre of employment assistance for long-term unemployed people because it believed a 'one stop shop' reinforced the link between job search and benefit eligibility, reminding us that incentive-strengthening approaches could also be pursued without privatisation (Freud, 2007; OECD, 2001c).

In contrast, the Dutch IROs were a novel use of performance-based contracting to deliver capacity-building employment assistance. They had a capacity-building character because they gave insured long-term unemployed people more power to negotiate the assistance they would receive before signing up with a provider, and many chose vocational training (Lindsay & McQuaid, 2009; Struyven & Steurs, 2002; Tergeist & Grubb, 2006). This reflected the status of insured unemployed workers in the Netherlands rather than an intrinsic feature of performance-based contracting.

Policy makers in the Netherlands and Denmark were more ambivalent towards market governance. At the end of the first phase in the Netherlands, the labour-liberal government, searching for a replacement for corporatist governance, turned to market governance through the SUWI Act, which mandated the use of private providers (Sol & Westerveld, 2008). Two years later, the conservative-liberal government changed course from privatisation to
municipalisation through the WWB Act. While the unemployment insurance authority still contracted out much of its employment assistance for insured workers (mainly using IROs), the Dutch municipalities preferred to deliver services in-house (Council for Work and Income, 2008):\textsuperscript{315}

\[\textit{So immediately after its birth, it [the SUWI Act] became a little bit of an orphan. The new government had a model in its head of decentralisation of policies to municipalities.' (Official 2, Employment Ministry Netherlands)}\]

In Denmark at the beginning of the second phase, the liberal-led government offered municipalities fiscal incentives to purchase employment assistance from private providers (Bredgaard et al., 2005). This was ultimately unsuccessful because like their Dutch counterparts, municipalities preferred to offer employment services in-house where they could control them directly and integrate them with other services. By the end of the study period, private employment services were largely quarantined to specialised target groups such as professional workers (Deloitte consulting, 2008; Larsen & Wright, 2014; Lindsay & McQuaid, 2009).

\textbf{9.5 Response to Research Question 2:}

\textbf{Key influences on the character of employment assistance for long term unemployed people}

In Chapter 4, Research Question 2 was outlined as follows:

RQ2. What were the main reasons for convergence or persistent diversity in the purpose and character of the main employment assistance programs for long term unemployed people in the four countries during the study period, including the influence of:

(a) changes of government;

(b) prevailing policy paradigms (activation, structural unemployment, new public management);

(c) policy transfer through the OECD and European Commission and among individual countries;

\textsuperscript{315} The UWV also shifted some services for insured workers in-house through its own 'reintegration coaches' (Veldhuis & Verveen, 2011).
(d) the findings of official program evaluations;

(e) labour market structure and conditions (especially the workforce skills profile and job turnover);

(f) family workforce participation and care patterns (as they impacted activation of sole parents);

(g) the structure of unemployment payments;

(h) systems of governance, funding and control of benefits and employment services for unemployed people?

**Changes of government**

In employment assistance for long-term unemployed people, the policy preferences of the major political parties in the four countries regarding followed a consistent pattern. Broadly speaking, the social democratic-oriented parties preferred income protection or capacity-building approaches (at least for insured workers) while liberal and conservative-oriented parties preferred incentive-strengthening approaches.\(^{316}\) This is consistent with the conclusions of quantitative studies comparing larger groups of countries by Iversen and Stephens (2008) and Bonoli (2010), but contrary to those of Reuda (Bonoli, 2010; Iversen & Stephens, 2008; Rueda, 2007).

Activation policies did shift in the expected directions when governments changed, but less so in Denmark and the Netherlands than in Australia and the United Kingdom. This supports the view that major policy change is constrained by veto points embedded in consensual political systems and corporatist labour market governance (Lijphart, 2012; Pierson, 1998).

However, this does not explain the policy turbulence observed in the Netherlands, nor the return to an incentive-strengthening approach to employment assistance in the United Kingdom at the end of the study period when a labour government was still in power.

Moreover, neither the political colour of the party in power nor the presence or absence of political veto points explain the large and enduring differences in the character of employment assistance.

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\(^{316}\) There were differences in the preferences of the social democratic parties in government in the four countries. The Dutch labour party favoured income protection in the first phase while its Australian and Danish counterparts favoured capacity building; as did the United Kingdom’s labour party for most of the second phase after which it adopted an incentive-strengthening approach. Labour’s policy trajectory in the United Kingdom was consistent with Bonoli’s (2010) view that social democratic parties favour job search assistance at times of fiscal austerity.
assistance, and public investment in it, that persisted between Denmark and the Netherlands on the one hand, and Australia and the United Kingdom on the other. This is more consistent with the finding of Nelson (2013) that differences in welfare regimes rather than the party in power were decisive influences on investment in labour market programs (Nelson, 2013).

We need to examine the other factors shaping the character of activation policies to explain this and other policy differences among the four countries.

Policy paradigms

The development of the structural unemployment and activation paradigms in the four countries followed the path described by Hall (1993) where governments repeatedly confronted problems which could not be solved within the existing paradigm and eventually adopted a new one following a period of experimentation (Hall, 1993). The main problem identified was high levels of unemployment (especially long-term unemployment) and its social and fiscal costs.

During the first phase, the activation paradigm emerged in the four countries as an offshoot of the structural unemployment paradigm which posited a ‘supply side’ solution to unemployment in place of the previous emphasis on demand management and ‘job creation’ to temporarily absorb unemployed workers after recessions (Layard, 1995).

This connection between activation policies and structural unemployment was less explicit at first in the Netherlands than in the other countries, since activation was framed at first as a response to a wider problem of low workforce participation, including among women (Netherlands Scientific Council for Government Policy, 1990). This problem, characteristic of the Conservative welfare regime, had to be confronted as part of the paradigm shift towards activation policies. The delayed emphasis on supply side policies to reduce structural unemployment was one reason for the heavy reliance on public wage subsidies (traditionally a demand-side policy tool) in that country during the first phase (Netherlands Scientific Council for Government Policy, 1997).

The other key element of the activation paradigm was a rights and duties framework for assistance to unemployed people (Crouch, 1997; Nelson, 2013). This shifted the terrain of political debate on unemployment between the Right and Left from payment levels and rights to income support to policies to reduce the number of recipients by strengthening duties, employment incentives and supports.
Both the purpose and form of activation were politically contested (Bonoli, 2013). The Left viewed activation policies as an alternative to the reductions in benefits and minimum wages traditionally pursued by the Right and (at least initially) emphasised its capacity-building aspects. The Right viewed it as reinforcement for its long-standing advocacy of stronger work incentives.

In the United Kingdom, the first of the four countries to adopt activation policies, the incentive-strengthening purpose of the Restart interviews was a natural fit with the conservative party’s ideological emphasis on individual self-reliance. However, the new rights and duties framework required a paradigm shift in the labour party’s thinking. This was part of a broader paradigm shift among some social democratic parties towards economically liberal ‘third way’ policies or a ‘supply side policy of the Left’ (Blair & Schroeder, 1998, p6).

The adoption of activation policies by the social democrats and unions in Denmark did not require a major paradigm shift, as it was in keeping with the Nordic tradition of high workforce participation and the ‘rights and duties’ of workers (Dolvik et al., 2015).

During the second phase there was a hardening of policy-maker and public views on unemployment in all four countries, due partly to lower unemployment (and an assumption that it was easier to secure a job) and partly to the renewed emphasis activation policies placed on the responsibilities of unemployed people (Albrekt Larsen, 2006; Taylor-Gooby, 2004; van Oorschot, 2006). This reinforced the intensification of activity requirements and their extension to new groups.

New Public Management (NPM) ideas, especially the separation of policy development from implementation, and performance-based contracting, were adopted in an uneven manner in the four countries, but unevenly. Along with ‘market governance’ (discussed later), NPM ideas were adopted in line with the institutional parameters and policy challenges in each country rather than as a logical extension of the activation paradigm itself (Lødemel & Moreira, 2014).

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317 The need for social democratic parties at this time to refresh their economic policy credentials while maintaining the support of their constituents required them to develop a new narrative to modernise the traditional social democratic commitments to full employment and income security. Prime Minister Blair called for ‘a welfare state in which there is work for those who can, security for those that can’t, and opportunity for those denied it.’ (Bevins, 1998)

318 A distinctive feature of the activation paradigm in the first phase in Denmark was its clear articulation of the ‘right to activation’, meaning capacity-building employment assistance (Torfing, 2001).

319 The British, Danish and Dutch cases show that it was possible to implement activation policies without fully privatising employment services.
International policy transfer

As activation ‘pioneers’, the four countries experimented with different activation policies in the first phase based on their own institutions, historical traditions and resources. The main impact of international policy transfer and international institutions at that stage was to hasten the development and legitimation of the activation and structural unemployment paradigms as high-level narratives to frame national policies (Graziano, 2012; Mailand, 2008b).320

In the first phase, there were two competing international policy narratives on unemployment, broadly represented by the OECD and European Commission. These mirrored the debate between the market-oriented English-speaking countries (including Australia and the United Kingdom) and corporatist approach favoured in much of continental Europe (including Denmark and the Netherlands) towards economic and social policy (European Commission, 2002; OECD, 1996a; Weishaupt, 2011). By the second phase, there was a convergence of views between the two institutions (Weishaupt, 2011).

In the second phase, the OECD and European Commission reinforced policy directions already under way by lending international prestige to policies they deemed successful such as the Danish ‘flexicurity’ approach, the Dutch ‘comprehensive approach’, performance-based employment service contracting in Australia and British policies to ‘make work pay’ (European Commission, 2007; OECD, 2001b, 2005b; Zijl, 2002).

International policy transfer contributed to the widespread adoption (including in the four countries) of high-level ideas, goals, and language associated with activation policies such as ‘converting the safety net into a trampoline’ but did not lead to a generalised convergence in the form taken by those policies in each country (Cox, 1998; Mailand, 2008b). Instead, policies were either developed locally or adapted from those of countries with whom a country had a strong policy connection at either the political or bureaucratic level. An example of the latter was the regular policy interchange at both levels between Australia and the United Kingdom (Pierson & Castles, 2001).

Employment program evaluations

When activation policies were first introduced in the first phase, little was known about the impacts of different employment programs as policy makers experimented with new

320 Detailed policies were mainly shared using less formal international policy networks, especially those among the English-speaking nations, and the political networks of social democratic parties (Blair & Schroeder, 1998; Pierson & Castles, 2001). This reinforced differences between the activation policies of the English-speaking countries on the one hand and the Netherlands and Denmark on the other.
approaches. In the second phase, more sophisticated evaluations of employment programs (especially net impact studies) influenced policy-makers to rely less on public wage subsidies, shorten training courses, and rely more on job search assistance (Martin & Grubb, 2001).

Despite common evaluation findings on the relative effectiveness of different programs, as indicated major differences persisted in the profile and character of employment assistance for different client groups among the four countries. Denmark persisted with substantial investments in public wage subsidies in the second phase, while Australia and the United Kingdom invested little in capacity-building support despite the more disadvantaged profile of unemployed people. These enduring policy differences revealed the subordination of evaluation findings to the policy biases of the government of the day, and the effects of institutional path dependency as discussed below.

**Labour market structure and the unemployment rate**

In the four countries, we found an association between different labour market structures and dynamics - the skills profile of the workforce and job turnover - and different activation strategies.

The high job turnover and high share of low-skilled jobs in Australia and the United Kingdom predisposed those countries towards incentive-strengthening approaches to activation since low-skilled unemployed people had better prospects of moving into employment without the aid of substantial work experience or training programs (Crouch, 1999; Hobijn & Sahin, 2007; Peck & Theodore, 2000b).322

The Netherlands, with much lower job turnover and a high skills threshold for employment, concentrated on 'job creation' for low-skilled workers, which took the form of public wage subsidies with an income protection character in the first phase.323 For long-term social assistance clients, it persisted with an income protection approach in the second phase in the form of exemptions from activity requirements and social activation programs.

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321 The evaluations also left some room for different conclusions, for example regarding the benefits of public wage subsidies for unemployed people facing severe labour market disadvantage (Bivand, 2006).

322 Throughout the study period tensions grew between the profile of employment growth (a decline in the low-skilled share of jobs) and the (incentive-strengthening) character of employment assistance in Australia, consistent with the rise in the share of long-term unemployment payments recipients in that country.

323 At the same time, growth in low-skilled private sector employment was stimulated by easing employment protection laws, reducing minimum wages and tax subsidies for private employers (Gerritsen & Hoj, 2013).
Denmark, with high job turnover but a low share of low-skilled jobs, relied more on capacity-building to improve the competitiveness of insured long-term unemployed people in the labour market, but adopted an income protection approach to long-term social assistance recipients (Oesch, 2015).

The persistence of these international differences in labour market structure and dynamics, and their significance for the design and effectiveness of employment assistance for unemployed workers, made them a key source of path dependency in activation policy (Eichhorst & Konle-Seidl, 2016).324

Family workforce participation and care arrangements

As suggested in the literature, activation policies affecting women, especially mothers, were influenced by different national models of family workforce participation and care in ways that cut across the standard categories of welfare regime theory (Lewis, 1997; Pfau-Effinger, 2005). The impact of these arrangements on activation policies is revealed when we compare approaches to activation for sole parents in the four countries (Annesley, 2003; Knijn et al., 2007).

Expectations and supports for sole parents receiving social assistance in Denmark aligned with its dual-earner model of family workforce participation. Once the youngest child reached one year, requirements were similar to those for other unemployed workers and backed by inexpensive and widely available child care support to facilitate fulltime paid employment.

The other three countries, with one-and-a-half earner models of family workforce participation, had more ambiguous approaches to activation among sole parents (Knijn et al., 2007). Under the categorical social assistance systems in Australia and the United Kingdom they received non activity-tested payments until their children reached 16 years until the end of the study period, when it was announced that those with school age children would be required to seek part-time employment (Department for Work and Pensions, 2007b). In the Netherlands, municipalities usually exercised their discretion over activity requirements to exempt sole parents with preschool-age children from activation, and a formal exemption for those with a preschool age child was reinstated at the end of the study period.

324 This does not imply that the labour market structure did not substantially change, rather that there were persistent differences across the four countries. In all four countries the education level of the workforce increased and the employment rate among women increased (aside from Denmark where the latter was already high).
In these three countries, activity requirements were generally linked to participation in part time rather than fulltime employment. This was based on an expectation that sole parents receiving social assistance would combine part-time employment and care during normal working hours. Child care was more expensive than in Denmark, and more likely to be used on a part time basis (OECD, 2007c).

Despite rapid growth in employment among mothers, there was no indication during the study period that these three countries were moving towards the dual-earner model. However, the one-and-a-half earner model was less stable in Australia and the United Kingdom than in the Netherlands because part-time employment was poorly-paid and insecure. As a result, substantial in-work benefits (tax credits and family payments) were required to support the one-and-a-half-earner model in those countries (Immervoll & Barber, 2006). Moreover, the insecure nature of part-time jobs undermined the effectiveness of activation policies for sole parents, who often cycled between low-paid work and unemployment payments.

In contrast, the Dutch one-and-a-half-earner model was underpinned by rapid growth in relatively secure and well-paid part-time jobs since the pay and conditions attached to part time jobs were more tightly regulated to ensure they were not inferior to fulltime jobs (Visser, 2002a).

**Benefit structure**

A striking finding of this study is that once activation policies matured in the second phase, the predominant character of employment assistance in Denmark and the Netherlands was associated with the type of payment unemployed people received: capacity-building for insured workers and income protection or work-incentive strengthening for social assistance clients. This implies that either the characteristics of these two groups, or the design and governance of benefit systems, predisposed governments to offer them very different forms of employment assistance.\(^3\)

The role of municipal governance and fiscal incentives in privileging income protection for social assistance recipients is discussed later. At a more fundamental level, the division between unemployment insurance and social assistance meant that insured workers were traditionally treated as labour market participants by default, whereas social assistance

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\(^3\) The greater emphasis on income protection for long-term social assistance clients in Denmark and the Netherlands can be partly explained by their relative labour market disadvantage. Yet, a capacity-building approach to overcome disadvantage would be more consistent with the activation paradigm, especially in the second phase when unemployment was low and opportunities to bring disadvantaged job-seekers into paid employment improved. This was not widely pursued.
recipients had to be sorted by a discretionary assessment process into those ‘able to work’ and ‘unable to work’. These assessments resulted in high exemption rates.  

In contrast, the categorical social assistance systems in Australia and the United Kingdom assumed that recipients of unemployment payments were labour market participants and the dividing line between those payments and non activity-tested benefits was drawn by legislation. While this system exempted entire categories of people (such as sole parents with school-age children) from activation, as activation policies matured it led to increased pressure to limit discretionary exemptions for those receiving unemployment payments and divert more people to unemployment payments.

The reasons for the bias towards capacity-building for insured long-term unemployed people in Denmark and the Netherlands included corporatist governance (discussed below), the historical role of employment programs in maintaining the incomes of long-term unemployed people whose benefits were about to expire (especially in Denmark), and the higher status attached to recipients of unemployment insurance due to their social insurance contributions and recent employment history.

In contrast, long-term social assistance recipients in Australia and the United Kingdom were more likely to receive assistance with an incentive-strengthening character. The dominance of social assistance benefits in the United Kingdom and Australia removed a potential barrier to an incentives-based approach to activation in those countries, the higher status and interest-group representation of insured workers. This is consistent with power resources theory: social assistance clients had a lower social status than insured workers and lacked institutional champions (Albrekt Larsen, 2006; Esping Andersen, 1990; van Oorschot, 2000).

The lower status of social assistance clients in Denmark and the Netherlands (compared with unemployment insurance recipients) was reinforced by the growing share of non-European migrants on their social assistance rolls and growing political hostility towards that group. This

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326 In Denmark in the first phase, this was reinforced by an assessment tool that formally distinguished between those whose ‘main problem was unemployment’ and those with ‘other problems’, though this was later refined (Kvist et al., 2008).

327 This also applied to short-term recipients in the Netherlands in the second phase. The different forms of assistance for short and long-term recipients reflected a sharper distinction drawn by policy makers (in a country with slow labour market turnover) between new entrants (assumed to have good employment prospects) and long-standing recipients (assumed to have poor prospects).

328 Since incentive-strengthening programs played a labour market disciplining role, they were more likely to be rejected by unions representing insured workers.
explains the selective reductions in social assistance benefit rates in Denmark in the second phase, despite its tradition of universal income protection (Hedetoft, 2006).

**Governance, funding and control of benefits and employment services**

Consistent with the literature on the application of the NPM paradigm to activation policies, there was a shift across the four countries, to varying degrees, from central government control or corporatist governance of benefits and employment services towards less centralised forms of municipal or market governance (van Berkel & Borghi, 2008). These changes impacted on the character of employment assistance for long-term unemployed people.

Corporatist governance was associated with trade union influence over the provision of benefits and employment assistance policies and one motive for systemic change in this area was to reduce union influence. In the countries where corporatist governance applied to the proximate institutions, the unions at first preferred income protection approaches to employment assistance, and subsequently favoured capacity-building approaches once activation policies were introduced and job creation approaches were discredited (Tepe & Vanhuysse, 2013).

In Australia, which lacked corporatist governance of benefits or employment services, the labor government’s attempt to bring a capacity-building approach to employment assistance lacked solid institutional foundations and powerful champions and was easily dismantled by the liberal government.

Systemic change away from corporatist governance occurred in the United Kingdom and the Netherlands.

In the United Kingdom, the abandonment of the MSC created space for the conservative government to rebalance employment assistance from income protection towards incentive-strengthening through the Restart interviews.

In the Netherlands, where corporatism in the proximate institutions was perceived to be a barrier to activation (due to the disability benefit crisis), corporatist governance was displaced, first by a combination of central government control and market governance and later by municipal governance of employment services for social assistance clients. The abandonment of corporatism did not fundamentally alter the capacity-building character of employment assistance for insured workers, but this was already weaker than in Denmark before the activation turn.
Corporatist governance only applied to the proximate institutions in both phases in Denmark, where it was restricted to unemployment insurance recipients and reinforced capacity-building employment assistance for insured workers. In the second phase, it remained in place for benefits but was weakened in employment services.

Municipal governance was associated with social assistance in Denmark and the Netherlands, so some of the conclusions here parallel the above discussion of benefit structures. Nevertheless, it had an impact on activation policies in its own right, reinforcing the income protection character of most employment programs.

A key reason for this was a tendency for municipal social services to emphasise social barriers to employment. Their perception of labour market disadvantage was framed by the historical separation of municipal social services (whose purpose was to provide ongoing income protection and social support) from unemployment insurance and employment services (whose purpose was to provide temporary income protection and employment) (Damgaard, 2005).

In the second phase, the Dutch and Danish governments using different strategies to change the service culture of local social services to strengthen municipal activation. The Danish government sought to homogenise employment assistance for insured and uninsured workers and exercised tighter control over municipal activation through employment service funding arrangements. The Dutch government relied on fiscal incentives, shifting more of the costs of social assistance benefits to the local level.329

In both countries, almost half of social assistance clients were still exempted at the end of the second phase and employment assistance for long-term unemployed clients retained its income protection character (Rosholm & Svarer, 2010; van Geuns & van Gent, 2007). Path dependency in municipal social services contributed to this outcome. The mechanisms for path dependency included cultural norms in municipal social services, the high cost of the capacity-building programs likely to be needed by the most disadvantaged, and fiscal incentives (including an incentive for Dutch municipalities to cross-subsidise their sheltered work agencies for people with disabilities). While there was a cultural shift in municipal social services in both countries from privileging income protection to employment, the fiscal barriers to activation of long-term social assistance recipients were more difficult to overcome.

In part, this was due to the poor design of the new municipal funding arrangements (Rosholm & Svarer, 2010; van Geuns & van Gent, 2007). The Dutch municipalities found that they could

329 This was consistent with the Dutch tradition of subsidiarity (van Kersbergen & Becker, 1988)
reduce their benefit rolls at low cost by deterring new claims (using work first programs), and this left them with little incentive to activate long-term recipients or invest in the more expensive capacity-building assistance they were likely to need. The Danish government’s funding of municipal employment assistance emphasised timely referrals to compulsory activation programs, but the simplest way for municipalities to comply was to expand the relatively ineffective ‘local projects’.

When market governance was used in the four countries it privileged job search assistance and discouraged major investments in capacity-building (Bredgaard & Larsen, 2008a). Despite government attempts to strengthen incentives to assist the most disadvantaged, providers were generally reluctant to risk substantial investments in those groups.

The exception was the Dutch Individual Reintegration Agreements (IROs) which privileged investment in vocational training for insured unemployed workers. The main reason for this was that IROs empowered insured unemployed people to negotiate the form of assistance they would receive.

Rather than driving convergence towards incentives-based activation, market governance was adopted unevenly across the four countries. The PES was fully privatised in Australia, part of the continuum of services for long-term unemployed people was contracted out in the United Kingdom, while the Netherlands and Denmark embraced the use of private providers at the start of the second phase but later retreated from this. In employment services for Dutch and Danish social assistance recipients, market governance was displaced by municipal governance, as municipalities had a financial interest and traditional preference to provide services in-house.

At the end of the study period, the countries that made greatest use of market governance of employment assistance for long-term unemployed people (Australia and the United Kingdom) were those that most favoured incentive-strengthening approaches to activation. This suggests that national activation policy preferences shaped the use of market governance rather than the reverse.330

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330 It is nonetheless possible that prolonged use of market governance could create its own form of path dependency, especially where contracts are of long duration or the quasi-market is dominated by large providers who are able to exert political pressure on governments.
Chapter 10: Conclusions

A common core, and beyond that persistent diversity

The four countries converged towards a ‘common core’ of activation policies as these policies matured in the second phase, comprising regular interviews with employment services, job search requirements, and compulsory participation in employment programs drawn together in personal employment agreements or plans. As unemployment fell the profile of recipients became more disadvantaged, yet there was no major ‘retreat’ from activation policies.

Beyond this common core of activation policies, employment programs for long-term unemployed people followed ‘parallel but diverse’ paths in the four countries (Kautto & Kvist, 2002). Activation policies were neither a cause or symptom of a general convergence towards ‘neo-liberal’ employment policies or ‘workfare’ (Gilbert & Van Voorhis, 2001; Lødemel & Moreira, 2014).

A reported in Chapter 9, aside from the short-lived Working Nation programs in the first phase and modest investment in capacity-building in the early British New Deals in the second, Australia and the United Kingdom prioritised work incentive-strengthening through supervised job search or work-for-benefits schemes.

In contrast, Denmark and the Netherlands privileged work capacity-building for insured long-term unemployed workers (through training and paid work experience) while employment assistance for long-term social assistance clients had a predominant income-protection character (through Melkert jobs, social activation and special projects). The main differences between them were the greater intensity of capacity-building programs for insured workers in Denmark compared with the Netherlands, which lacked a strong tradition of training programs for long-term unemployed people.

The main causes of persistent diversity in activation policies

We now draw together our findings regarding the various influences on activation policies to assess the main causes of persistent diversity: how ideas and institutions interacted to pull these countries in different directions.

A paradigm-shift towards activation and structural unemployment in the four countries was a necessary condition for activation policies (Cox, 2001). Although these paradigms had a common ‘core’, one of the reasons the activation paradigm could be adopted by different
political parties and welfare regimes was its flexibility. Specifically, activation could be pursued through capacity-building or incentive-strengthening strategies.

The best explanation for the parallel paths taken by activation policies in the four countries is that governments were constrained by path dependency within the institutions that shaped activation policy (Pierson, 2000). We have identified four key institutions that kept these countries on distinctive paths: the political structure (including the role of social partners and sub-national governments), the structure and regulation of the labour market including family employment and care arrangements, the structure of unemployment payments, and systems of governance, funding and control of benefits and employment services (Bonoli & Palier, 2000; Clasen & Clegg, 2006; Peck & Theodore, 2000b). These institutions were not simply a brake on change in the sense that they threw up barriers to reform such as political ‘veto points’. Rather, they shaped its path (Bonoli, 2013; Kvist, 2000).

The challenge here is to distinguish between those institutional features that had an enduring impact (consistent with path dependency or systemic change) and those whose impact was more superficial or transitory.

The experience of the two countries in which the development of activation policies was more turbulent, Australia and the Netherlands, sheds light on this question.

One reason for the rapid demise of the Job Compact as an experiment in capacity building for long term unemployed people in Australia was that the employment program infrastructure (work experience and training programs) required to make it work effectively did not exist at scale. In contrast, when a capacity building approach to activation was pursued in the first phase in Denmark, that infrastructure was already in place (Jobtraining and similar programs) and was converted to a capacity building purpose.

Yet the weakness of the Australian employment program infrastructure (and that countries low public investment in employment programs) was more than a technical problem that could be solved through more investment or better program design and evaluation. The Job Compact was not a good ‘fit’ with prevailing Australian institutions including the benefits system, the labour market, and political system. It fell victim to a combination of a change of government in a majoritarian political system, the weakness of corporatist decision-making structures in the labour market that might otherwise have sustained it, and a labour market structure that privileged quick transitions to low-skilled jobs. In Denmark the opposite conditions applied.

Despite major changes in the governance of benefits and employment services in the Netherlands, including a radical shift towards market governance (the SUWI Act) and later a
shift in fiscal responsibilities for social assistance to municipalities; employment assistance for insured workers retained its modest capacity-building character while that for long-term social assistance recipients retained its income protection character. Again, this was not simply due to the technical strengths or weaknesses of policy design (for example, poorly designed fiscal incentives for municipalities). Well-entrenched features of the proximate and surrounding institutions, including the different status of insured and uninsured workers, a labour market with low turnover and a relatively limited supply of low-skilled jobs (which encouraged municipalities to focus their activation efforts on new applicants), and a decentralised system of political governance (subsidiarity), combined to pull employment assistance in different directions for insured and uninsured unemployed workers.

In contrast, through a much less disruptive process of ‘layering’, the labour government in the United Kingdom added capacity-building elements (such as the New Deal Options) to the incentive-strengthening ‘core’ of the conservatives’ Restart model of employment assistance and later removed them, restoring its predominant incentive-strengthening character. As in Australia, the greater availability and high turnover of low-skilled jobs contributed to this outcome.

On balance, over the study period the institutions that contributed most to path dependency in activation policy were those least susceptible to direct government influence: the labour market structure (including the skills structure and models of family workforce participation), and the benefit structure (where systemic change is politically challenging) (Pierson, 1994). The labour market and benefit structure were guardrails that helped steer activation policies along divergent paths.

The institutional changes that had the greatest path-shifting impact were the demise of corporatist governance (both in the labour market and in benefits and employment services) and the municipalisation of benefits and employment services. In some cases, including the abandonment of corporatist governance in the United Kingdom under the conservatives and in the Netherlands under the labour-liberal government, these systemic changes were part of a deeper rupture in the political system (Crouch, 1997; Kuipers, 2006). In others, such as the municipalisation of employment services in Denmark under the liberal government, the change was more evolutionary, yet potentially transformative (Goul Andersen & Pedersen, 2007; Streeck & Thelen, 2005).

The persistence of different activation policies in the four countries (despite a common core set of ideas underpinning them) indicates that the emergence and development of activation policies cannot simply be explained as part of wider trend of ‘neoliberal convergence’. To understand how a complex mix of institutions and forces for change interacted to bring about
persistent diversity, we need a theory that recognises and explains enduring diversity among welfare states.

Implications for comparative analysis of welfare states

The factors influencing activation policy did not operate independently. Rather, as historical institutionalists recognise, they interacted through time, often in mutually-reinforcing ways (Steinmo, 2008). For example, high benefits and minimum wages reinforced the high skills threshold required to secure employment in Denmark, and were reinforced in turn by the corporatist system of labour market regulation.331 As Pierson (2001) argued:

‘Path dependent processes are very likely to be prevalent in contexts where a set of organizations and institutions develop together over extended periods of time, reinforcing each other through processes of mutual adaptation and competitive selection.’ (Pierson, 2001a, p385)

Esping Andersen’s welfare regime theory remains influential because it provides insight into the distinct patterns formed by these and other interlocking institutions:

‘To talk of a regime is to denote the fact that, in the relation between State and economy a complex of legal and organisational features are systematically interwoven.’ (Esping Andersen, 1990, p2)

Welfare regime theory also offers explanations for the dynamics of policy change, using ‘power resources theory’ to take account of the often conflicting roles and interests of different political actors with those systems:

‘Power centred theories rest on a particular view of the nexus between politics and society. ..They assume government is no neutral arbiter, nor is it inherently responsive to emerging social needs…the balance of power in a society is decisive for what a welfare state will look like.’ (Esping Andersen, 1990, p105)

The changes in institutional structures that were most transformative - the weakening of corporatism and the strengthening of municipal governance of activation - were significant because unemployed people generally find themselves in a politically weak position and require the support of more powerful stakeholders (Albrekt Larsen, 2006). From this perspective, it matters whether unions represent labour market insiders only or seek to represent unemployed people as well, and whether unemployed people have advocates within municipal social services (Jensen, Arndt, Lee, & Wenzelburger, 2018; Rueda, 2007).

331 Similarly, low benefits, minimum wages and a larger share of low-skilled workers were mutually reinforcing in the United Kingdom (Nickell, 2001).
In Denmark, the Ghent system of social insurance strengthened both union membership and the unions’ influence over benefits and employment services for insured unemployed workers. Social assistance clients, especially non-European migrants, were ‘outsiders’ in this system (Goul Andersen, 1997). In the Netherlands, the unions were much weaker but their interests, and to a lesser degree those of unemployed people through the client councils, were represented at different levels of the Dutch system of consensual decision-making or ‘polder model’ (Lijphart, 2012). In both countries, the weakening of corporatist governance of benefits and employment services and the increasing role of municipalities altered the way in which unemployed workers were represented in the benefit and employment services systems.

On the face of it, there is a tension between the emergence of activation policies and one of the main building blocks of Esping-Andersen’s welfare regime theory: the use of ‘de-commodification’ as a measure to distinguish between regimes (Esping Andersen, 1990; Huo & Nelson, 2008). By ‘re-commodifying’ the labour of unemployed people through labour market participation requirements, activation potentially blurs the distinctions between regimes. On one interpretation, activation policies signified convergence towards the Liberal regime (Gilbert & Van Voorhis, 2001). Yet the Nordic ‘work line’ pre-dated activation policies as a guiding principle of Social Democratic regimes (Weishaupt, 2011). This apparent tension within welfare regime theory is resolved once we recognise that ‘de-commodification’ was conditional for unemployed people well before activation. Different regimes can be distinguished, not by the presence or absence of activation, but by the distinct forms that benefit conditionality and employment assistance take.

The parallel paths pursued by activation policies in the four countries can be explained using welfare regime theory, aside from certain gaps and inconsistencies discussed below. Broadly speaking, we find that welfare regimes in the four countries were each associated with employment assistance of a certain (predominant) character for long-term unemployed people: the Liberal regime with incentive-strengthening programs, the Social Democratic regime with capacity-building (for insured workers only), and the Conservative regime (associated with the Netherlands, at least in the first phase) with income protection.332 The similarities between activation and employment assistance policies in Australia and the United Kingdom are consistent with their association with the Liberal welfare regime. Their greater emphasis on work incentives was consistent with the residual character of

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332 A fruitful path for further research would be to establish whether these patterns hold across a larger number of wealthy nations. This could be explored using quantitative methods such as multivariate analysis, but would require greater precision in the classification of different labour market programs and activity requirements, and better international data (Clasen et al., 2016).
unemployment payments in the Liberal regime and the ‘less eligibility’ principle (Esping Andersen, 1990). It is also consistent with the higher share of low-skilled jobs and rapid job turnover in these countries and their relatively liberal employment protection laws. Under these conditions, the main purpose of activation policies was to strengthen incentives for unemployed people to take up these jobs (Peck & Theodore, 2000b). This was facilitated by low unemployment payments and the use of in-work benefits and tax credits to make work pay.

The one-and-a-half-earner family employment model was not exclusive to Liberal welfare regimes but it was reinforced in these two countries by two characteristics of that regime: light regulation of working hours and reliance on a combination of maternal care and the private market for the care of children, which locked many mothers into jobs with short working hours (Harker, 2006; Pocock, 2005). Consequently, activation policies for sole parents were ambiguous and (part-time) job search requirements were only extended to those with school-age children at the end of the study period.

The development of activation policies in the Netherlands was consistent with a hybrid welfare regime in transition. At first, the treatment of unemployed people was consistent with the Conservative regime. The welfare system discouraged employment participation among mothers and made little effort to improve the skills of unemployed people or press them to search for jobs. Labour market regulation was stricter than in the other three countries, job turnover was slower, and corporatist governance of the labour market and benefit and employment services systems privileged income protection for unemployed people (van Kersbergen & Becker, 1988). In the absence of a strong tradition of training for unemployed people or supervised job search, activation at first took the form of public wage subsidies. The male breadwinner model and an ambivalent approach towards the activation of sole parents was also consistent with the Conservative regime.

The forces for change, which gathered pace from the 1980s, included partial deregulation of the labour market to facilitate growth in part-time jobs for women and a secondary labour market of low-skilled jobs mediated by labour hire firms (Visser & Hemerijck, 1997). At the political level, the king-making role of the christian democrats was challenged and anti-immigration protest parties grew more powerful. The crisis in, and swift abandonment of, other countries, showed that this was not the end of the story.

333 A major departure from the Liberal regime model in Australia was the high minimum wage, which could have suppressed growth in low-skilled jobs (Dawkins, 2000). During the study period, this tension was partly resolved through growth in part-time and casual low-skilled jobs, which raised the productivity and work intensity of low-skilled workers (Campbell & Brosnan, 2005).
corporatist governance of benefits and employment services, was a break from the Conservative regime, with implications for activation policies.

Activation policies were shaped by this institutional turbulence, and the long-standing ‘pillarisation’ of Dutch institutions in which different interests and worldviews cohabited within governments (including the ‘purple coalition’), the labour market, and the proximate institutions (van Kersbergen & Becker, 1988).

The outcome for employment services has some similarities to the Social Democratic regime archetype. A modest capacity-building approach was pursued for insured unemployed workers, even in the absence of corporatist governance of employment services. Unemployment payments remained relatively high. A key difference, due in part to the decentralisation of responsibility in the Dutch benefits and employment services system, was the work incentive-strengthening approach taken towards new social assistance clients.

The Dutch preference for decentralised governance based on the subsidiarity principle helps explain the hybrid character of the Dutch welfare regime as well as its activation policies. Subsidiarity allowed activation policy to move in different directions at once, at different levels of government.

The Danish flexicurity model combined the high universal benefits and investment in employment assistance, corporatist governance arrangements, skilled workforce, and the dual-earner model of family workforce participation found in the Social Democratic regime with relatively light labour market regulation (Madsen, 2002). Together, these factors privileged a capacity-building approach to employment assistance for long-term unemployment insurance recipients and relatively demanding paid workforce participation requirements for mothers, including sole parents.

The main discrepancy between the idealised Social Democratic regime and Danish activation policies lay in the treatment of social assistance clients (Esping-Andersen, 1999). The long-standing separation between benefits for insured and uninsured workers and their different governance arrangements meant that the capacity-building approach was not extended to them despite attempts to homogenise employment services for the two groups. If this discrepancy exists in other countries associated with the Social Democratic regime, it points to a gap in welfare regime theory, which does not adequately explain the different treatment of insured and uninsured unemployed workers.

Another discrepancy between the Social Democratic welfare regime and Danish welfare policies was the lower benefits paid to many non-European migrants. This can be explained
using power resources theory. Non-European migrants were treated as outsiders by the political system and welfare institutions, lacking political influence and institutional champions (Hedetoft, 2006).

Aside from the treatment of social assistance clients in Denmark and the Netherlands, the different shape of activation policies in the four countries was consistent with their characterisation within welfare regime theory (Esping Andersen, 1999). However, as the Dutch and Australian experience shows, it does not follow that the character of activation policies (or welfare regimes) is inherently stable.

**Implications for future activation policies and welfare regimes**

We finish by identifying major sources of instability in activation policies and welfare regimes in the four countries that could give rise to systemic change, whether through a crisis or gradual transformation (Hall & Thelen, 2009).

According to welfare regime and power resources theories, corporatist governance diffuses power among governments, unions and employers in Social Democratic and Conservative regimes (Esping Andersen, 1990). Danish unions used corporatist governance to influence employment services for insured unemployed workers, while Dutch unions and employers collaborated to shift the costs of economic restructuring to government through disability benefits. The weakening of corporatist governance observed in this study could systematically alter the power balance between employers, unions, and the political parties, altering the character of activation policies and possibly welfare regimes (Kuipers, 2006; Mailand, 2008a; Wood, 2001).

Another source of path dependency – the benefit structure – was more stable in the four countries, given political resistance to major change that could leave people financially disadvantaged (Pierson, 2001a). Systemic change here is more likely to occur through ‘drift’ or ‘displacement’ (Streeck & Thelen, 2005). The gradual change in the balance between unemployment insurance and social assistance payments in Denmark and the Netherlands as unemployment fell and the maximum duration of insurance payments was reduced could, if it persists, undermine the Social Democratic (universalism) or Conservative (status-based)

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334 The municipalisation of Danish employment services at the end of the study period was an attempt by the Liberal Government to achieve systemic change but the implications for the welfare regime in Denmark were not clear by the end of the study period (Jorgensen, 2009; Larsen & Mailand, 2007). Corporatist governance was withdrawn from the proximate institutions much earlier in the Netherlands but activation policies continued to treat insured unemployed workers differently to social assistance clients.
foundations of the benefit systems in those countries (Goul Andersen, 2011; Streeck & Thelen, 2005).

The changes in benefit structures in the four countries, while gradual, were consistent with the homogenisation thesis of Clasen & Clegg (2006). After the study period, the United Kingdom took this further than the other countries when it replaced existing working-age social assistance benefits and tax credits with a single ‘Universal Credit’ (Clasen & Clegg, 2013). While the unemployment insurance-social assistance divide is likely to remain in countries with Social Democratic or Conservative welfare regimes, any major shift in this direction has significant implications for the way activity requirements are structured, recipients are classified and perceived, and interest groups such as unions represent their constituencies.

A key tension within the Liberal welfare regime in the United Kingdom and Australia was the need to sustain growth in low-skilled jobs while avoiding the fiscal costs associated with high levels of churn between benefits and insecure jobs on the one hand, and in-work benefits on the other (Borland & Johnston, 2010; Finn & Schulte, 2007; Stewart, 2007). Australia was less successful than the United Kingdom in reducing long-term reliance on unemployment payments. Relatively weak growth in low-skilled jobs over the study period, combined with a lack of capacity-building investment in long-term unemployed people, probably contributed to this (Davidson & Whiteford, 2012; Wilkins & Wooden, 2014). The United Kingdom was confronted with the growing cost of the working tax credits which subsidised its low minimum wage (Finn & Schulte, 2007).

The high incidence of insecure and low paid part-time employment among women in both countries, together with high child care costs, undermines both the one-and-a-half-earner family model and activation policies for sole parents, either pushing mothers towards full-time jobs or governments to lift in-work benefits and child care subsidies (Lewis & Campbell, 2007; Pocock, 2005).

In the Netherlands, there are long-standing tensions between its decentralised benefit and employment services system and the policy and administrative coordination required for effective activation policies (de Koning, 2010). In the absence of closer coordination between central and municipal governments, further tightening of fiscal incentives for municipalities to cut their benefit rolls could jeopardise income security for unemployed people.335 The lack of political ‘ownership’ of municipal employment assistance at central government level also raised the risk of fiscal retrenchment. This was realised beyond the study period in 2012, when

335 This was the outcome of the decentralised activation model for sole parents in the United States (Blank, 2007; Loprest, 2005).
central government employment assistance funding was halved (European Union Network of Independent Experts on Social Inclusion, 2013).

Up to the end of the study period in 2007, activation policy in the four countries continued down parallel paths. The recession in the following year brought new pressures and changes in policy direction. While these are beyond the scope of this study, an extension of this analysis to the recession and its aftermath would reveal how activation policies adapted to a different labour market context and whether the ‘parallel paths’ conclusion holds (Bentolila & Jansen, 2016; Clegg, 2010; Goul Andersen, 2011; OECD, 2012; Spies & van de Vrie, 2014).

Absent major disruption in the labour market, this study of the first two decades of activation policy in four ‘pioneering’ countries with different welfare regimes suggests that a paradigm shift away from activation, or a fundamental change in the form that it takes in these countries, is unlikely without systemic change in the institutions that underpin it. Policy-makers with ambitions to radically alter the structure of activation and employment assistance for unemployed people must pay attention to the institutional foundations of those policies in politics, the labour market and the social security system.
Attachment 1: Information statement and consent form

PARTICIPANT INFORMATION STATEMENT AND CONSENT FORM

Active, willing and able: A comparison of employment participation policies in four countries

Invitation to participate in a study

You are invited to participate in a PhD study of activation policies for long-term unemployed people in Australia, Denmark, Netherlands and the United Kingdom. I hope to learn the key similarities and differences in activation programs for long term unemployed people in these countries and the main reasons for them. You were selected as a possible participant because of your expert knowledge of policy development or its implementation in this field.

Nature of involvement sought and risks

Participation in this study is voluntary. If you decide to participate, I will interview you for approximately one hour at your place of work or other agreed location to discuss the development of the above policies in your country between 1990 to 2007. The interview will broadly follow the interview schedule attached. In the event that you agree to the interview but we are unable to meet in person, I will seek an interview of similar duration by telephone.

If you consent to the interview and agree to having it recorded, I propose to record it electronically and take brief written notes. These files will be kept in a secure location at the university for at least seven years. If you indicate before the interview that you would prefer that it is not recorded electronically, then I shall not do so.

Confidentiality and disclosure of information

Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission, except as required by law. I may publish information from the interview (including quotes) in my PhD thesis and in scholarly articles. However, in any publication, information will be provided in such a way that you cannot be identified, unless you expressly agree to be identified.

Feedback to you
I propose to send you a summary of research findings on completion of the study, if you indicate an interest in receiving this.

Your consent

If you agree to participate in the study on the basis outlined above, please complete the attached form. You will be given a copy of this form to keep. Your decision whether or not to participate will not prejudice your future relations with the University of New South Wales. If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time without prejudice and for this purpose a ‘revocation of consent’ form is also attached.

Complaints

This study has been reviewed and approved by the Human Research Ethics Advisory Panel Social/Health Research. If you have any concerns or complaints about the study you can contact the Ethics Secretariat, The University of New South Wales, SYDNEY 2052 AUSTRALIA (phone 9385 4234, fax 9385 6648, email ethics.sec@unsw.edu.au). Any complaint will be investigated promptly and you will be informed of the outcome.

If you have any questions, please feel free to ask me. If you have any additional questions later, I will be happy to answer them and can be contacted at peter.davidson@student.unsw.edu.au or on +61 1234567800.

Yours sincerely

Peter Davidson
PhD candidate
Social Policy Research Centre, University of New South Wales
Sydney, Australia
THE UNIVERSITY OF NEW SOUTH WALES

PARTICIPANT INFORMATION STATEMENT AND CONSENT FORM (continued)

Active, willing and able: A comparison of employment participation policies in four countries

1. You are making a decision whether or not to participate. Your signature indicates that, having read the information provided above, you have decided to participate.

..............................................................
..............................................................
Signature of Research Participant
Witness

..............................................................
..............................................................
(Please PRINT name)
(Please PRINT name)

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..............................................................
Date
Nature of Witness

REVOCATION OF CONSENT

Active, willing and able: A comparison of employment participation policies in four countries

I hereby wish to WITHDRAW my consent to participate in the research proposal described above and understand that such withdrawal WILL NOT jeopardise any treatment or my relationship with The University of New South Wales, (other participating organisation[s] or other professionals).

..............................................................
..............................................................
Signature
Date

..............................................................
Please PRINT Name

The section for Revocation of Consent should be forwarded to Peter Davidson at the Social Policy Research Centre, University of New South Wales, Australia 2052.
## Attachment 2: Schedule of interviews

### Denmark (5)
- **Official 1: Employment services administration (AMS):**
  - Date: 14 March
  - Place: Aalborg

- **Joint interview with Service providers 1 and 2: Job Centre, Aalborg Municipality:**
  - Date: 14 March
  - Place: Aalborg

- **Academic 1: Aalborg University:**
  - Date: 15 March
  - Place: Aalborg

- **Joint interview with Academics 2 and 3, Aalborg University:**
  - Date: 15 March
  - Place: Aalborg

- **Official 2: Employment Ministry (BM):**
  - Date: 18 March
  - Place: Copenhagen

### Netherlands (6)
- **Service provider 1: Breda Municipality:**
  - Date: 21 March
  - Place: Utrecht

- **Academic 1: University of Amsterdam:**
  - Date: 22 March
  - Place: Amsterdam

- **Official 1: Employment Ministry (SZW):**
  - Date: 22 March
  - Place: Amsterdam

- **Service provider 2: Social insurance agency (UWW):**
  - Date: 25 March
  - Place: Amsterdam

- **Official 2: Employment Ministry, The Hague (SZW):**
  - Date: 25 March
  - Place: The Hague

- **Academic 2: Erasmus University, Rotterdam:**
  - Date: 27 March
  - Place: Rotterdam

### United Kingdom (6)
- **Service provider 1: Peak employment services organisation, London:**
  - Date: 4 April
  - Place: London

- **Service provider 2: Employment Centres Plus:**
  - Date: 9 April
  - Place: London

- **Academic 1: University of Portsmouth:**
  - Date: 9 April
  - Place: London
<table>
<thead>
<tr>
<th>Official 1: Employment Ministry</th>
<th>10 April</th>
<th>London</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official 2: Employment Ministry</td>
<td>11 April</td>
<td>London</td>
</tr>
<tr>
<td>Academic 2: University of Bath</td>
<td>12 April</td>
<td>Bristol</td>
</tr>
</tbody>
</table>

**Australia (7)**  
September 13  
2013 – February 14, 2014

<table>
<thead>
<tr>
<th>Official 1: Prime Minister and Cabinet Ministry</th>
<th>Canberra</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official 2: Employment Ministry</td>
<td>Canberra</td>
</tr>
<tr>
<td>Academic 1: Australian National University</td>
<td>Canberra</td>
</tr>
<tr>
<td>Academic 2: University of Melbourne</td>
<td>Melbourne</td>
</tr>
<tr>
<td>Service provider 1:</td>
<td>Sydney</td>
</tr>
<tr>
<td>Peak employment services organisation</td>
<td></td>
</tr>
<tr>
<td>Service provider 2:</td>
<td>Sydney</td>
</tr>
<tr>
<td>Employment services organisation</td>
<td></td>
</tr>
<tr>
<td>Official 3: Prime Minister and Cabinet Ministry</td>
<td>Sydney</td>
</tr>
</tbody>
</table>

Note: (G) = Government official; (A) = Academic; (S) = Service provider
Attachment 3: Ethics approval

HREA PANEL (SOCIAL/HEALTH)

7 January 2013

Professor Peter Saunders & Mr Peter Davison
Social Policy Research Centre
Level 2 Goodsell Building, UNSW

Dear Professor Saunders and Mr Davidson,

9_12_033 Active, willing and able: A comparison of employment participation policies in four countries

At its meeting of 12 December 2012 the Human Research Ethics Advisory Panel Social/Health Research was satisfied that this project is of minimal ethical impact and meets the requirements as set out in the National Statement on Ethical Conduct in Human Research*. Having taken into account the advice of the Panel, the Deputy Vice-Chancellor (Research) has approved the project to proceed.

Your Head of School/Unit/Centre will need to be informed of this decision. This approval is valid for 12 months from the date of the meeting.

Yours sincerely

[Signature]

Dr Henrike Körner
Convenor
Human Research Ethics Advisory Panel Social/Health Research

Cc: Head, Social Policy Research Centre

* http://www.nhmrc.gov.au
Attachment 4: Interview schedule

Interview schedule

**Active, willing and able: A comparison of employment participation policies in 4 countries**

This interview is about employment assistance programs for long term unemployed people in [country], specifically work experience programs (including paid or unpaid public or community jobs, wage subsidy schemes, and voluntary work), and how they changed between 1990 and 2007.

**Your background:**

1. What was your connection with employment assistance programs or their evaluation during this period? [Note: If an interviewee did not have a connection with these programs throughout the entire period, questions will focus on the period of their involvement]

**Long term unemployment:**

2. Unemployment fell over the period of this study (1990 to 2007). Some argue that as unemployment fell, the profile of recipients of unemployment payments [insert names of payments] became more disadvantaged in the labour market. Do you think this is accurate?

**Major work experience programs from ... to ...** [Note: this broadly refers to the 1990s but will vary between countries as the period is based on the duration of national Governments]:

The following questions refer to major work experience programs for long term unemployed people including paid or unpaid public or community jobs, private sector wage subsidy schemes, and voluntary work.¹

3. During this period, some of these programs were greatly expanded [Note: this does not apply to the UK, where the programs played a limited role in this period]. What do you think were the main reasons for this, and why were these particular programs targeted to long term unemployed people?

4. How were these decisions received by stakeholders (within and outside Government) at the time?

**Evaluations of work experience programs**

5. Were you aware (in general terms) of the findings of official evaluations of these programs in the late 1990s and early 2000s?

---

¹ The relevant programs include: [brief text added here for each country].
6. If so, can you recall the main findings regarding their impact on the employment outcomes for participants? Was this consistent with your own views at the time? What was their impact on stakeholder views about these programs at the time?

Effect of international institutions on policy

7. Are you aware of the OECD Jobs Strategy? Do you think this influenced the development of employment assistance programs in your country?

8. Are you aware of the European Employment Strategy? Do you think this influenced the development of employment assistance programs in your country?

9. Did policy learning from other countries have a major impact on employment assistance policies in your country from 1990 to 2007 (and if so, which were the two most influential countries)?

Major changes to work experience programs from .... to .... [note: this broadly refers to the 2000s but will vary between countries as the period is based on the duration of national Governments]:

The following questions relate to changes to the content, funding or delivery of major work experience programs for long term unemployed people during this period²:

10. What do you think were the main reasons for these changes?

11. How were these decisions received by stakeholders (within and outside Government) at the time?

12. To what extent were they influenced by, or consistent with, the findings of official evaluations and the views of the OECD and European Commission? [note: the latter does not apply to Australia]

13. What were the most important changes in the way the programs operated on the ground? Did institutional changes (such as financing or contracting arrangements) affect the extent to which different work experience programs were used with long term unemployed people, or the character of these programs?

14. In your view, were work experience programs more or less effectively targeted and delivered in 2007 than in the previous period (during the 1990s), to improve the employment prospects of long term unemployed people?

15. These programs are sometimes referred to as ‘workfare’. Do you think their main role was to improve people’s skills and experience of employment or to encourage people to move off benefits? Did this change fundamentally from 1990 to 2007?

² These changes include:... [brief text added here for each country] .....
Attachment 5: Comparative information and data on unemployment payments

5.1 Unemployment payments in the four countries

Key features of unemployment payments in the four countries, and the number of recipients at the start and end of the study period, are summarised in Table 17.

Table 17: Unemployment payments in the four countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Social insurance</th>
<th>Social assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia (1990 and 2007)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>N.A.</td>
<td>In 1990:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unemployment benefit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jobsearch Allowance (for young people).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>In 2007:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Newstart Allowance, Youth Allowance, Parenting Payment.</td>
<td></td>
</tr>
<tr>
<td>Administering authority</td>
<td>N.A.</td>
<td>In 1990 and 2007:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central government</td>
<td></td>
</tr>
<tr>
<td>Rates of payment</td>
<td>N.A.</td>
<td>In 1990:</td>
<td></td>
</tr>
<tr>
<td>(Ecu per month, current values)</td>
<td></td>
<td>Ecu320 p.m. for singles over 20 years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu252 p.m. for singles 18-20 years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu352 p.m. for sole parents;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu584 p.m. for couples.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced by 50 cents in the dollar for income from Ecu18 to Ecu42 p.w. (combined income of Ecu30 to Ecu42 p.w. for couples) and dollar for dollar thereafter.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>In 2007:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu540 p.m. for singles over 20 years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu428 p.m. for singles 18-20 years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu556 p.m. for sole parents;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecu932 p.m. for couples.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced by 50 cents in the dollar for income from Ecu19 to Ecu75 p.w. and 60 cents in the dollar thereafter (50 cents per dollar for sole parents)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partner’s income ignored until it reaches the ‘cut out point’ for the recipient’s payment.</td>
<td></td>
</tr>
</tbody>
</table>
| Eligibility conditions | N.A. | In 1990:  
Unemployed person aged 16-64 years (60 years for women)  
Available for and seeking employment, unless exempted  
Unlimited duration  
In 2007 (changes only):  
As above |
|------------------------|------|---------------------------------|
| Number of recipients   | N.A. | In 1990:  
406,000  
(4.9% of labour force)  
In 2007:  
492,000  
(4.6% of labour force) |
United Kingdom (1996 and 2007)

<table>
<thead>
<tr>
<th>Payments 1.</th>
<th>Jobseekers Allowance (contributions-based)</th>
<th>Jobseekers Allowance (income-based)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administering authority</td>
<td>Central government</td>
<td>Central government</td>
</tr>
<tr>
<td>Rates of payment (Ecu per month, current values)</td>
<td>In 1996: Ecu264 p.m. for singles over 24 years; Ecu212 p.m. for singles 16-24 years</td>
<td>In 1996: Ecu264 p.m. for singles over 24 years; Ecu212 p.m. for singles 16-24 years</td>
</tr>
<tr>
<td></td>
<td>No extra allowance for sole parents or couples</td>
<td>Ecu356 p.m. for sole parents; Ecu416 for couples</td>
</tr>
<tr>
<td></td>
<td>No income test but payments reduced proportionately for each day that earnings exceed Ecu3 p.w.</td>
<td>Private income reduces the benefit pound for pound above Ecu6 p.w. for singles, Ecu12 p.w. for couples and Ecu25 p.w. for sole parents</td>
</tr>
<tr>
<td></td>
<td>In 2007: Ecu304 p.m. for singles over 24 years; Ecu240 p.m. for those aged 18-24 years; No extra allowance for sole parents or couples</td>
<td>In 2007: Ecu304 p.m. for singles over 24 years; Ecu240 p.m. for those aged 18-24 years; Ecu304 p.m. for sole parents; Ecu476 p.m. for couples</td>
</tr>
<tr>
<td></td>
<td>No income test but payments reduced proportionately for each day that client earns more than Ecu5 p.w.</td>
<td>Private income reduces the benefit on a pound-for-pound basis above Ecu6 p.w. for singles, Ecu12 p.w. for couples and Ecu24 p.w. for sole parents</td>
</tr>
<tr>
<td></td>
<td>In 2007 (changes only): Unemployed person aged 16-64 years (60 years for women), with contributions of at least 25 times the minimum contribution paid in one year and 50 times the minimum paid in the last 2 years</td>
<td>In 2007 (changes only): Unemployed person aged 16-64 years, not entitled to contributions-based JSA</td>
</tr>
<tr>
<td></td>
<td>Financed by employer and employee contributions to a National Insurance Fund</td>
<td>Available for and seeking employment, unless exempted</td>
</tr>
<tr>
<td></td>
<td>Available for and seeking employment, unless exempted</td>
<td>Cannot be employed for more than 16 hours per week; partners cannot be employed for more than 16 hours a week</td>
</tr>
<tr>
<td></td>
<td>Cannot be employed for more than 16 hours per week; partners cannot be employed for more than 16 hours a week</td>
<td>Maximum duration of 6 months</td>
</tr>
<tr>
<td></td>
<td>Maximum duration of 6 months</td>
<td>In 2007 (changes only):</td>
</tr>
</tbody>
</table>

1. [Page 10]
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>25 times the minimum contribution paid in one year and 50 times the minimum paid in the last 2 years</td>
<td>Unemployed person aged 16-64 years, not entitled to contributions-based JSA</td>
<td>Cannot be employed for more than 16 hours per week; partners cannot be employed for more than 24 hours a week</td>
</tr>
<tr>
<td>Cannot be employed for more than 16 hours per week; partners cannot be employed for more than 24 hours a week</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of recipients | In 1996: 288,000 (1.0% of labour force) | In 1996: 1,504,000 (4.6% of labour force) | In 1996: 1,802,000 (5.6% of labour force) |
| In 2007: 104,000 (0.4% of labour force) | In 2007: 637,000 (2.2% of labour force) | In 2007: 741,000 (2.6% of labour force) |
## Netherlands (1990 and 2007)

<table>
<thead>
<tr>
<th>Payments</th>
<th>Werkloosheidswet (WW) [unemployment insurance]</th>
<th>Wet Werk en Bijstand (WWB) [work and welfare assistance]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administering authority</td>
<td>In 1990 Employers, unions &amp; government</td>
<td>Municipal government</td>
</tr>
<tr>
<td></td>
<td>In 2007: Central government</td>
<td></td>
</tr>
<tr>
<td>Rates of payment (Ecu per month, current values)</td>
<td>In 1990: Extended benefit: 70% of last gross wage, up to a wage of Ecu1,920 p.m. (70% of minimum wage for follow up benefit) Short term benefit: Up to 70% of minimum wage (Ecu688 p.m.) Income test: Payments reduced pro-rata per hour worked</td>
<td>In 1990: Ecu688 p.m. (70% of minimum wage) Income test: Reduced Euro for Euro</td>
</tr>
<tr>
<td></td>
<td>In 2007 (changes only): Extended benefit: 70% of last gross wage, up to a wage of Ecu5,400 p.m. Short term benefit: Up to 70% of minimum wage (Ecu846 p.m.)</td>
<td>In 2007 (changes only): Ecu846 p.m. (70% of minimum wage) Supplement of Ecu331 p.m. if unemployed 5 yrs+ Income test: Reduced Euro for Euro except for first 6 months of earnings (75% of earnings up to Ecu183 p.m., then Euro for Euro)</td>
</tr>
<tr>
<td>Eligibility conditions</td>
<td>In 1990: Extended benefit: If employed for 4 of last 5 years, eligible for up to 4 years, plus 1 year’s follow up benefit (up to 4 years if over 57 years) Short-term benefit: If employed over 26 weeks of the last 52 weeks, eligible for up to 6 months Unemployed or part-employed and seeking fulltime employment (exempt if under 57 years)</td>
<td>In 1990: No or low private household income Default requirement to seek fulltime employment (exempt if over 57 years or carer of youngest child under 5 years)</td>
</tr>
<tr>
<td></td>
<td>In 2007 (changes only): Extended benefit: If employed over 52 days p.a. for 4 of the last 5 years, eligible for up to 3 years Short-term benefit: If employed over 26 weeks of the</td>
<td>In 2007 (changes only): Seek fulltime employment unless exempted (at local discretion)</td>
</tr>
<tr>
<td>Number of recipients</td>
<td>In 1990</td>
<td>In 1990:</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td></td>
<td>205,000-</td>
<td>522,000</td>
</tr>
<tr>
<td></td>
<td>(3.0% of labour force)</td>
<td>(7.6% of labour force)</td>
</tr>
<tr>
<td></td>
<td>In 2007:</td>
<td>In 2007:</td>
</tr>
<tr>
<td></td>
<td>215,000</td>
<td>317,000</td>
</tr>
<tr>
<td></td>
<td>(2.5% of labour force)</td>
<td>(3.7% of labour force)</td>
</tr>
<tr>
<td></td>
<td>In 1990:</td>
<td>In 1990:</td>
</tr>
<tr>
<td></td>
<td>727,000</td>
<td>727,000</td>
</tr>
<tr>
<td></td>
<td>(10.6% of labour force)</td>
<td>(10.6% of labour force)</td>
</tr>
<tr>
<td></td>
<td>In 2007:</td>
<td>In 2007:</td>
</tr>
<tr>
<td></td>
<td>532,000</td>
<td>532,000</td>
</tr>
<tr>
<td></td>
<td>(6.2% of labour force)</td>
<td>(6.2% of labour force)</td>
</tr>
</tbody>
</table>
### Denmark (1990 to 2007)

<table>
<thead>
<tr>
<th>Payments</th>
<th>Arbejdsløshedsdagpenge [unemployment benefit]</th>
<th>Kontanthjælp* [cash assistance]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administering authority</td>
<td>Union-controlled funds</td>
<td>Municipal government</td>
</tr>
<tr>
<td>Rates of payment (Ecu per month, current values)</td>
<td>In 1990: 90% of previous wage up to maximum benefit of Ecu1,644 p.m., reduced in proportion to any hours worked. 50% of the above rate for young people under 18 years</td>
<td>In 1990: 60% of maximum Dagpenge (E986) or 80% if there is a dependent child (E1,315 p.m.) Maximum of Ecu274 p.m. if under 25 years and not living with parents Payments reduced Kronor for Kronor for earnings over Ecu264 p.m.</td>
</tr>
<tr>
<td></td>
<td>In 2007: 90% of previous wage up to maximum benefit of Ecu1,980 p.m., reduced in proportion to any hours worked. 50% of the above for young people under 25 years with limited qualifications (80% if participating in approved training).</td>
<td>In 2007: 60% of maximum Dagpenge (Ecu1,203 p.m.) or 80% if there is a dependent child (Ecu1,598 p.m.) Maximum of Ecu775 p.m. if under 30 years and not living with parents. Starthelp is 35-50% less than standard payment Payments reduced Kronor for Kronor for earnings over E295 p.m.</td>
</tr>
<tr>
<td>Eligibility conditions</td>
<td>In 1990: Unemployment insurance fund member aged 17-66 years, with contributions paid for 52 weeks of the last 3 years. Available for and seeking employment, unless exempted. Maximum duration is 30 months but can be renewed 3 times by 6 months’ participation in activation programs, so effective maximum duration is 9 years</td>
<td>In 1990: Inadequate income due to unemployment or other ‘social event’ (e.g. illness). Available for and seeking employment, exempted if assessed with ‘other problems’ than unemployment (e.g. illness). Strictly means tested based on household assets and income</td>
</tr>
<tr>
<td></td>
<td>In 2007 (changes only): Age 21-64 years. Maximum duration is 4 years, but former recipients can requalify if employed for 6 months in the last 3 years. Participation in activation programs no longer counts for this purpose.</td>
<td>In 2007 (changes only): New migrants for first 7 years receive a lower ‘Starthelp’ payment. Couples must obtain over 300 hours’ work a year to qualify for more than single rate of payment.</td>
</tr>
<tr>
<td>Number of recipients ².</td>
<td>In 1990: 210,000 (7.4% of labour force)</td>
<td>In 1990: 115,000 (4.1% of labour force)</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td></td>
<td>In 2007: 61,000 (2.1% of labour force)</td>
<td>In 2007: 58,000 (2.0% of labour force)</td>
</tr>
</tbody>
</table>

Sources:
Australia:
Davidson and Whiteford (2012); Department of Families, Housing Community Services and Indigenous Affairs (various years); Department of Social Services (2014); Department of Social Security (1990); Centrelink (2007); Department of Families, Housing Community Services and Indigenous Affairs (2008); Department of Family and Community Services (2001).
United Kingdom:
Office of National Statistics (various years); OECD (1998a)
Netherlands:
Stigter (1997); Benefit recipient data supplied by Department of Employment and Social Affairs (SZW) in September 2011.
Denmark:
Kvist et al. (2008); Danish National Statistical Office (various years); Dahl et al. (2002).
All:
OECD (various years-a); Eurostat (various years-a); Eardley et al (1996).

Notes:
This is a simplified account of benefit systems.
N.A. = not applicable
Benefit recipient data for 2007 only are sourced from statistics recently included in the OECD Benefits and Taxes data base.
Not all unemployment payment recipients had work availability and job search requirements though this was the default setting. As indicated in Chapter 9, many recipients were exempted from these requirements.
p.w. = per week; p.m. = per month; p.a. = per annum; Ecu = European currency units (Euros)
1 Euro = 1.7 Australian dollars, 0.75 British pounds, 2.2 Dutch Guilders (before 2001), and 7.45 Danish Kronors.
1. Data for UK are from the introduction of Jobseeker’s Allowance in 1996, which had both an insurance component (‘contributory’) and a social assistance component (‘income-based’).
2. Full year equivalents


5.2 Generosity of unemployment payments

Table 18 compares maximum rates of unemployment payments using the OECD ‘summary measure’ of benefit replacement rates. It also compares average effective tax rates for recipients moving into fulltime employment (the impact of income tax and social security income tests), using the relevant OECD summary measure.

Table 18: Unemployment benefit replacement rates and average effective tax rates

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
<th>OECD average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net benefit replacement rate (OECD summary measure: per cent)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>53</td>
<td>58</td>
<td>70</td>
<td>79</td>
<td>59</td>
</tr>
<tr>
<td>2007</td>
<td>49</td>
<td>59</td>
<td>73</td>
<td>77</td>
<td>54</td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td>-4</td>
<td>+1</td>
<td>+3</td>
<td>-2</td>
<td>-5</td>
</tr>
<tr>
<td><strong>Effective average tax rate from unemployment to two-thirds of an average fulltime wage (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>55</td>
<td>68</td>
<td>83</td>
<td>90</td>
<td>75</td>
</tr>
</tbody>
</table>

Sources:
OECD (various years-a)

Notes:
A ‘medium’ score (green) indicates that the statistic falls within a 10% range (not percentage point) above or below the OECD average value; ‘high’ (orange) indicates higher and ‘low’ (blue) indicates lower.

1. The net replacement rate is the income of unemployed people on maximum rates of social insurance or social assistance payments (after tax) as a proportion of a fulltime production worker’s wage (after tax). The OECD summary measure is average of replacement rates for two earnings levels, three family situations and three durations of unemployment. These estimates include housing benefits.

2. Overall impact of income tax and social security income tests on disposable income of a single adult moving from unemployment payments to a fulltime job at two thirds of average fulltime earnings, expressed as a proportion of the gross wage.

Benefit replacement rates were consistently higher in Denmark and the Netherlands than in Australia and the United Kingdom, which were close to or below the average OECD level.338 Higher benefit rates in Denmark and the Netherlands were associated with

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338 As discussed in Chapter 9, unemployment payments in the United Kingdom were lower than in Australia, but its overall benefit replacement rates shown here were inflated by its relatively generous Housing Benefit (Clasen, 2007; OECD, various years-a).
higher effective tax rates for unemployed people seeking fulltime employment (71% and 62%). Effective tax rates were lower in Australia (54%) and the United Kingdom (56%).

For a given level of unemployment payments, financial work incentives can be increased by raising minimum wages or extending in-work benefits to low paid workers, (Immervoll & Pearson, 2009; OECD, 1999a). However, higher minimum wages are often associated with higher benefits (offsetting their impact on replacement rates) and in-work benefits are more costly for governments in countries with high benefits and compressed wage distributions such as Denmark and the Netherlands (OECD, 1999a). As a result, the country chapters indicate that those two countries took more modest steps to 'make work pay' than Australia and the United Kingdom, even though financial work incentives were already stronger in the latter two countries.

5.3 Trends in unemployment and receipt of unemployment payments

For the purpose of statistical comparisons of economic and labour market parameters and the incidence of unemployment payments, the study period begins and ends with unemployment at a low point in the business cycles of the four countries, and on average across the OECD. The start year (1990) is close to the ‘trough’ in unemployment at the end of the economic boom of the 1980s, and the end year (2007) is close to the trough in unemployment at the end of the next business cycle.

Where we compare economic and labour market statistics across the four countries at different points in time (as in Table 19 below), as far as possible 1990 and 2007 are used at the years for comparison, since they represent a similar point in the business cycle. This is highly relevant to labour market policies such as activation and employment assistance, since as discussed in the country chapters, those polices are sensitive to changes in the rate of unemployment.

Figure 22 shows that, with a few exceptions (for example, in the Netherlands the initial low point for unemployment was in 1992 and there was a short spike in unemployment in the mid 2000s), this period was characterised by a sharp rise in unemployment following a recession in the early 1990s, followed by a long decline in unemployment afterwards.
In 1990, all four countries had unemployment rates above the OECD average (Figure 22 and Table 19 below) but by the end of the study period all had below-average unemployment, a result that has been partly attributed to activation policies (Grubb, 2000b; Knijn et al., 2007); OECD (2007a). Unemployment rose sharply in the recession of the early 1990s and declined in all countries through the study period, apart from modest increases in the Netherlands and Denmark in the early 2000s (Chapter 3).

The share of unemployment that was long-term (12 months or over) also fell, though at 42% the share of long-term unemployed in the Netherlands remained above the OECD average at the end of the period.

Table 19 also shows trends in unemployment payment recipients as a share of the labour force. In all four countries recipient rates fell, declining by 8% in Australia (which had the lowest rate in 1990) and between one-third and one-half in the other three countries.

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Figure 22: Trends in unemployment in the four countries (1988-2007)

In 1990, all four countries had unemployment rates above the OECD average (Figure 22 and Table 19 below) but by the end of the study period all had below-average unemployment, a result that has been partly attributed to activation policies (Grubb, 2000b; Knijn et al., 2007); OECD (2007a). Unemployment rose sharply in the recession of the early 1990s and declined in all countries through the study period, apart from modest increases in the Netherlands and Denmark in the early 2000s (Chapter 3).

The share of unemployment that was long-term (12 months or over) also fell, though at 42% the share of long-term unemployed in the Netherlands remained above the OECD average at the end of the period.

Table 19 also shows trends in unemployment payment recipients as a share of the labour force. In all four countries recipient rates fell, declining by 8% in Australia (which had the lowest rate in 1990) and between one-third and one-half in the other three countries.

---

As discussed in Chapter 3, recipient statistics are affected by benefit eligibility and activity requirements and shifts between different payments, as well as the unemployment rate.
While the number of long-term recipients also fell, trends in the long-term share differed among the four countries, rising substantially in Australia (from 25% to 60%) and falling in the other three countries.340

Table 19: Trends in unemployment and receipt of unemployment payments (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment (percentage of labour force)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1990)¹</td>
<td>7.0</td>
<td>6.8</td>
<td>7.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2007)¹</td>
<td>4.4</td>
<td>5.3</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(percentage points)</td>
<td>-2.6</td>
<td>-1.5</td>
<td>-3.9</td>
<td>-4.9</td>
</tr>
<tr>
<td><strong>Structural unemployment (percentage of labour force)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OECD estimate of NAIRU</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990²</td>
<td>8.0%</td>
<td>8.8%</td>
<td>6.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>OECD estimate of NAIRU</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007²</td>
<td>5.2%</td>
<td>5.3%</td>
<td>3.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(percentage points)</td>
<td>-2.8%</td>
<td>-3.5%</td>
<td>-2.7%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

340 In Chapter 5, we hypothesised that one reason for the growing long-term share in Australia was an increasing mismatch between the skills and education levels required by employers and those of unemployment payment recipients (Department of Employment and Workplace Relations, various years-b; Wilkins & Wooden, 2014). Another explanation is that a growing share of long-term recipients either had part time jobs or were temporarily out of the paid workforce. This would explain why the share of long-term recipients rose while the share of long term unemployed in the labour force statistics fell. By contrast, Chapter 6 we hypothesised that two of the reasons for the sharp decline in the long-term share of recipients in the United Kingdom were shifts from unemployment payments to tax credits and disability payments respectively (Brewer, 2003; Petrongolo, 2008).
### Share of long-term unemployed (percentage of all unemployed)

| Share of long-term unemployed (1990) | 21 | 34 | 49 | 30 |
| Share of long-term unemployed (2007) | 15 | 25 | 42 | 18 |
| Change (percentage points) | -6 | -9 | -7 | -12 |

### Unemployment payment recipients (percentage of labour force)

| Unemployment insurance (1990) | 1.0 | 3.0 | 7.4 |
| Unemployment insurance (2007) | 0.4 | 2.5 | 2.1 |
| Change (percentage points) | -0.6 | -0.8 | -5.3 |
| Social Assistance (1990) | 4.9 | 4.6 | 7.6 | 4.1 |
| Social Assistance (2007) | 4.6 | 2.2 | 3.7 | 2.0 |
| Change (percentage points) | -0.3 | -2.0 | -3.9 | -2.1 |
| All (1990) | 4.9 | 5.6 | 10.6 | 11.5 |
| All (2007) | 4.6 | 2.6 | 6.3 | 4.1 |
| Change (percentage points) | -0.3 | -3.0 | -4.3 | -7.4 |
### Share of long-term recipients (percentage of all recipients)

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All (1990)</td>
<td>25</td>
<td>60</td>
<td>+35</td>
</tr>
<tr>
<td>All (2007)</td>
<td>24</td>
<td>17</td>
<td>-7</td>
</tr>
<tr>
<td>Change (percentage points)</td>
<td>73²</td>
<td>68²</td>
<td>-5</td>
</tr>
<tr>
<td></td>
<td>47²</td>
<td>38²</td>
<td>-9</td>
</tr>
</tbody>
</table>

Sources:
Central Bureau of Statistics, various years; Danish Ministry of Employment, 2010; Department of Family and Community Services, various years; Groot et al. (2008); Kvist, Pedersen, & Kohler, 2008; Office of National Statistics, various years; OECD (various years-a) OECD (various years-c); Gianella et al (2009).

Notes:
1. Unemployment as a share of the labour force and long-term unemployed as a share of unemployed (from labour force data, not benefit recipients). OECD average values fell from 6.3% to 5.7% for unemployment and 31% to 29% for the share of long-term unemployed.
2. Non-Accelerating Inflation Rate of Unemployment.
3. Data for long-term recipients in the Netherlands are from 1999-2005 only; and for Denmark from 1995-2007 only.

Table 19 also shows that Australia and the United Kingdom had fewer recipients than unemployed people (as defined by the ILO), while the reverse applied in the Netherlands and Denmark.³⁴¹

Figure 23 graphs trends in receipt of unemployment payments.

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³⁴¹ This was due in large part to high exemption rates from job search requirements among social assistance recipients in the latter two countries, discussed further below.
Figure 223: Unemployment payment recipients as a percentage of the labour force: 1990-2007

Sources: Central Bureau of Statistics (2009); Department of Families Housing Community Services and Indigenous Affairs (various years); Finn and Schulte (2008); Kvist et al. (2008)

Notes: ‘Unemployment payments’ refers to unemployment insurance and social assistance payments, excluding those without default job search requirements. Data are sourced directly from national sources and do not correspond exactly with the OECD benefits data used (for 2007 only) in Table 19 above. There is a break in the Australian data in 2000.

Trends in the long-term share of unemployment payment recipients are shown in Figure 24. As discussed, these varied, rising substantially in Australia (from 25% to 60%), and falling in Denmark (from 47% to 38% from the mid-1990s), the United Kingdom (from 24% to 17%) and the Netherlands, (from 73-68% over the early 2000s).
Figure 234: Long-term share of unemployment payment recipients (1990-2007)

Sources:
Central Bureau of Statistics, 2009; Department of Families Housing Community Services and Indigenous Affairs, various years; Finn & Schulte, 2008; Groot et al., 2008; Kvist et al., 2008; Ministry of Employment, 2010; Warburton, Okopu, & Vuong, 1999.

Notes:
Share of unemployment payment recipients (unemployment insurance and social assistance combined) receiving those payments continuously for 12 months or more.
Data on long-term recipients for the Netherlands and Denmark are incomplete.
There is a break in the Australian data in 2000.

International comparisons of reliance on unemployment payments are complicated by the permeability of boundaries between unemployment payments and non-activity tested benefits for people of working age including payments for people with disabilities, sole parents, mature-age people, and carers (Immervol, 2009). These boundaries between payments were often adjusted by activation policies to extend activity requirements to groups previously exempted, increasing the number of unemployment payment recipients (Carcillo & Grubb, 2006).

Figure 25 compares the incidence of major working-age social security payments in 16 OECD countries in 1999.
Figure 245: Incidence of social security payments (percentage of people of working age in 1999)


Notes:
‘Other benefits’ refers mainly to Parenting Payment in Australia, Income Support in the United Kingdom, and the main social assistance payments in the other two countries: Awb (the precursor to WWB) in the Netherlands, and Kontanthjælp in Denmark.

Figure 25 shows that in 1999 only a minority of working-age benefit recipients received unemployment benefits in the four countries, and across the OECD. More people received sickness and disability benefits, especially in the Netherlands and Denmark. While those benefits are beyond the scope of the present study, a thorough evaluation of the effectiveness of activation policies should take account of flows between payments. For example, the high incidence of disability benefits in the Netherlands led some labour economists to question that country’s success in reducing unemployment during the 1980s and 1990s (Gautier & van der Klaauw, 2009).

5.4 The activation rate

Table 20 compares the rate of activation of recipients of relevant working-age social security payments in the four countries in 2008, near the end of the study period.

The rate of activation is the share of benefit recipients with either a job search requirement or compulsory participation in an employment program. This is a cross-sectional measure calculated by subtracting the share of recipients formally exempted from those requirements.

The first row shows the activation rate for unemployment payment recipients (including social assistance benefits in Denmark and the Netherlands), while the second row also
includes income support payments for parents (excluding child benefits) and people of mature age below the national age pension age (generally in their fifties and early sixties).

Table 20: Activation rates in 2008

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of activation (percentage of recipients activated in 2008)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment payment recipients</td>
<td>85</td>
<td>90</td>
<td>72</td>
<td>67</td>
</tr>
<tr>
<td>Unemployment, parenting and mature-age payment recipients</td>
<td>61</td>
<td>44</td>
<td>72</td>
<td>34</td>
</tr>
</tbody>
</table>

Sources: OECD (2009), Social benefit recipients database (2008); Danish Employer's Federation (2005); Department of Employment and Workplace Relations (various years-a); Skipper (2010); van Geuns and van Gent (2007); OECD (2007a, 2014a); Rayner et al. (2000); Central Bureau of Statistics (2009); Groot et al. (2008) Kvist et al. (2008); Department of Family and Community Services (various years).

Notes:

Australia:
Among unemployment payment recipients, 9% were fully exempted due to a disability, temporary illness, or other reasons and 6% exempted from labour market participation requirements while they participated in the Personal Support Program.

Extending the analysis to include other working-age payments, 464,000 people received Newstart or Youth Allowance (unemployed), of whom 15% were exempted (9% plus 6% as noted above); 360,600 received Parenting Payment of whom 50% were exempted; and 111,000 received various mature age payments of whom 100% were exempted.

These data follow the 2006 Welfare to Work policy which extended activity requirements to sole parents whose youngest child was of school-age (Australian Government, 2005). Consequently, activity requirements were extended to 180,000 Parenting Payment recipients in 2008 (Department of Education Employment and Workplace Relations, 2009; Department of Families Housing Community Services and Indigenous Affairs, various years).

United Kingdom:
Data on activity test exemptions for unemployment payment recipients in the late 2000s are not available as these are not published by the Department for Work and Pensions (OECD, 2014a). The exemption rate for 2008 is assumed to remain at its 1998 level of 10% (Rayner et al., 2000).

Disability payments are not included, as variations in national definitions of disability for benefit purposes make this comparison less meaningful.

An OECD report in 2013 noted that: ‘counsellors and programme evaluations describe some jobseekers on active benefits as ‘not job ready’, but these assessments are not recorded administratively.’ (OECD, 2013a, p161). It is likely that stricter activity requirements and closer
Extending the analysis to include other working-age payments, in 2008, 788,000 received Jobseeker’s Allowance, and 745,000 sole parents received Income Support (which had no activity requirements). These data preceded the progressive roll-out of activity requirements for sole parents with school-age children from October 2008, so that the activation rate for sole parents was likely to be significantly higher the following year (Department for Work and Pensions, 2007b).

Netherlands:
In 2008, when we subtract those with exemptions, an estimated 91% of Dutch unemployment insurance recipients and 59% of social assistance recipients had activity requirements (the latter estimate is for 2005). Of all unemployment payment recipients in 2008, 39% received unemployment insurance and 61% received social assistance.

There were no other relevant (non-activity-tested) payments to include in this analysis.

Denmark:
In 2005, an estimated 84% of Danish unemployment insurance clients were activated (data for 2008 were not available). In 2008, 57% of social assistance clients were activated. This includes participants in activation programs and other unemployed people with job search requirements.

Among an estimated 174,000 unemployment payment recipients in 2008, 38% received unemployment insurance and 62% received social assistance.

Extending the analysis to include other working-age payments, an additional 142,000 individuals received the ‘Efterlon’ early retirement payment, which had no activity requirements.

5.5 Governance of benefits and employment services

Table 21 (below, also included in Chapter 9) compares the governance arrangements for unemployment payments and employment services in the four countries. The notes explain in more detail the derivation of these classifications for each country.

monitoring of compliance since the introduction of Jobseeker’s Allowance in 1996 kept the share of exemptions from work related requirements at or below their 1998 level.

A comparison between Jobseeker’s Allowance (and Unemployment Benefit) claimant count and national unemployment statistics indicates that the number of claimants fell below the number of unemployed people for the first time in over 20 years in 1994 and that the gap between these two statistics grew after the introduction of JSA in 1996 to 2008 (OECD, 2014a). This is consistent with a fall in the share of JSA recipients not actively seeking employment, though other factors including reduced access to contribution-based benefits may have contributed.
Table 21: Governance of benefits and employment assistance

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>Central</td>
<td>Central</td>
<td>Corporatist and Municipal</td>
<td>Corporatist and Municipal</td>
</tr>
<tr>
<td>Employment services</td>
<td>Central and Market</td>
<td>Central</td>
<td>Central and Municipal</td>
<td>Corporatist</td>
</tr>
<tr>
<td><strong>Second phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>Central</td>
<td>Central</td>
<td>Central and Municipal</td>
<td>Corporatist and Municipal</td>
</tr>
<tr>
<td>Employment services</td>
<td>Market</td>
<td>Central and Market</td>
<td>Central, Municipal and Market</td>
<td>Central, Municipal and Market</td>
</tr>
</tbody>
</table>

Notes:
Central = administered by central government or statutory authority (shown in green); Corporatist = jointly administered by government, unions and employers (shown in orange); Municipal = administered by municipal government (shown in white); Market = services purchased by government from competing non-government providers (shown in blue).

1. Australia:
In the first phase a hybrid system of governance applied, with the PES servicing short-term unemployed and competing with non-government providers (‘contracted case managers’) servicing long-term unemployed (OECD, 2001b). In the second phase, the government commissioned employment services from competing non-government providers and the PES was wound up.

2. United Kingdom:
Corporatist governance of employment services (through the MSC) applied immediately before the first phase – not shown here (Clasen, 2007).

In the second phase, the PES provided job search assistance to short-term unemployed and most long-term unemployed (apart from those in the Employment Zone program) and purchased specific employment services such as training from competing non-government providers (so there was a combination of central and market governance).

At the end of the second phase, the Department for Work and Pensions commissioned all employment services for long-term unemployed (during their second year of unemployment) from competing non-government providers pursuant to the Flexible New Deal.

3. Netherlands:
Unemployment insurance was administered by government, unions and employers in the first phase and by a statutory authority in the second (Sol & Westerveld, 2008). Social assistance was administered by municipalities.
In the first phase, the PES serviced unemployment insurance recipients and the PES together with municipalities serviced social assistance clients.

In the second phase, employment assistance for insured workers was administered by a statutory authority (UWV), which also commissioned services from competing non-government providers. Separate statutory authorities, the CWIs, provided job search assistance for less disadvantaged unemployed people. These were merged with the UWV beyond the study period.

Employment assistance for social assistance clients was administered by municipalities, which also commissioned services from competing non-government providers. A requirement for them to 'contract out' was waived in the WWB Act in 2004.

4. Denmark:
In both phases, unemployment insurance was administered by insurance funds linked to the unions, and social assistance by municipalities (Kvist et al., 2008).

In the first phase, employment assistance was administered by government, unions and employers. In the second phase, employment assistance for insured workers was split between a system still administered by government, unions and employers and one administered by municipalities; both of which also commissioned services from competing non-government providers.

Employment assistance for social assistance clients was administered by municipalities, which also commissioned services from competing non-government providers.
Attachment 6: Employment assistance program expenditure, character, and evaluations

6.1 Assessing the predominant character of employment assistance

Table 11 in Chapter 9 compared the predominant character of employment assistance for long-term unemployment payment recipients in each phase in the four countries, as assessed in the country chapters. This assessment is based on the share of places (rather than program expenditure), assigned to different programs to avoid the bias in expenditure-based measures in favour of more costly programs.344

As discussed in Chapter 3, the predominant character of employment assistance is determined in this study by the number of places filled in programs whose character is assessed as income protection, capacity-building or incentive-strengthening respectively. Unless their main purpose is incentive-strengthening (for example, to discourage continued benefit claims), interviews with employment service providers and job search assistance are not classified into any of these categories.345

Where a majority of places are in programs with a certain character (for example, capacity-building), that is described as the ‘predominant character’ of employment assistance in each country in each phase. Where no such majority exists, the predominant character is still that of the programs with the largest number of places, but this is described as ‘modest’. Where the main program for long-term unemployed people (for example the British New Deals) was generic in character and included a combination of capacity-building, incentive-strengthening, and/or income protection components, the character of each component (for example, each of the New Deal Options) is assessed.

In the country chapters, a number of challenges were identified in assembling robust administrative data to compare the number of places offered in different employment

344 Income protection programs (such as public wage subsidies) and capacity-building programs (such as vocational training courses) tend to be more expensive than incentive-strengthening programs (such as work-for-benefits schemes) (Grubb, 2005).

345 The classification of job search assistance programs is challenging since they may have different purposes (for example, the use of the ‘threat effect’ of referral to strengthen work incentives and assistance with job search techniques) according to their context. This is assessed according to their relationship with benefit compliance systems and with other programs (such as work for benefits schemes).
programs and the character of each program. These challenges are well known and documented in international comparative literature (Grubb & Puymoyen, 2008).

As discussed in depth later, neither the OECD nor Eurostat data series were sufficiently fine-grained for the purposes of this study. National administrative data were used for the most part, supplemented where practicable with data from Eurostat or the OECD. Most of the administrative data came from program evaluation reports and national data bases maintained by employment ministries or the national statistics authority. These data were rarely available in a consistent time series, so for each phase in each country, a ‘representative’ year (or two) were chosen, in which the administrative data were sufficiently comprehensive and captured the impact of major reforms (such as Australia’s Job Compact).

Detailed program information in official publications (and those of the OECD and Eurostat) was used to better understand the true content of each program and sub-program (such as Customised Assistance within the Australian Job Network).

As far as possible, administrative data were used that separately identified programs targeted to long-term recipients (such as Australia’s Job Compact), or the share of places in more broadly targeted schemes taken up by long-term recipients. Where this information was not available, judgements were made about the share of long-term recipients in a program based on descriptions of the program and data for similar programs.

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346 These included problems of timing (the lack of comparable data for every year and the need to choose a single year to compare the profile of programs in each phase based on data availability), data gaps for particular countries or programs (such as the very limited administrative data available for the Netherlands in the first phase, and lack of a detailed breakdown of the assistance offered within large ‘hybrid’ schemes such as ‘regular trajectories’ in the Netherlands in the second phase), program classification problems (such as the lack of clarity over the content of ‘guidance and clarification’ programs in Denmark in the second phase), and difficulties in distinguishing places for long-term unemployed people from those for short-term recipients.

347 Where the administrative data on program participation by payment duration were available, it was not always broken down according to the standard definition of ‘long-term’ (12 months continuous receipt of payments). For example, the Australian Job Compact targeted recipients on unemployment payments for 18 months or more. In some cases (for example the New Deal for Young People), a program targeted the cohort of individuals who reached a certain point in the unemployment spell, while in other cases all long-term recipients were required to participate continuously or periodically (for example, Australia’s Work for the Dole scheme). A further complication is the difference between flows data (‘through the year’) and stocks data (‘point in time’). Where feasible, flows data (which better capture the full extent of program participation and generally yield higher estimates of program participation) were used.
While these challenges were substantial, the national administrative data were sufficiently fine grained to compare, within each country, the character of major national programs in which long-term recipients participated. Other outputs such as the unit cost of programs were incidental to this main purpose of employment program data analysis.

6.2 Derivation of the employment assistance statistics in the country chapters:

The key sources and processes used to convert these data into assessments of the predominant character of employment assistance in each country are outlined below. They should be read in conjunction with the relevant tables in each country chapter.

(1) Australia

First phase (Table 2):

The first phase had two different activation strategies: the Newstart Strategy in 1990-93 and Working Nation (including the Job Compact) in 1994-96.

Sources:

(1) Newstart strategy (1991):

These data refer to the 40,000 program places to which long-term unemployed people were referred at Newstart interviews in 1991. They comprised short vocational training courses (JOBTRAIN and SkillShare) with a capacity-building character and 30% of places, job search assistance and job matching (unclassified) with 25% of places (unclassified), and JOBSTART private wage subsidies (capacity building) with 10% (Kalisch, 1991).

Since 40% of places had a capacity-building character, the Newstart strategy was classified as a modest capacity-building scheme.

The Newstart strategy’s average annual cost was estimated in the 1990 government budget at a modest Ecu30m (millions of Euros), which includes the Newstart interviews (Stretton & Chapman, 1990).

(2) Job compact (1995-96):

These data are for Job Compact places for people unemployed for 18 months or more.

In 1995-96, the main Job Compact programs had 145,000 places, including vocational training (JOBTRAIN and SkillShare) with 48% of places (capacity building), public wage subsidies (New Work Opportunities) with 25% of places (income protection), public wage subsidies with training (Jobskills) with 8% of places (capacity building), and private wage subsidies (JOBSTART) with 18% of places (capacity building).

Given the nature of the six months of work experience typically received by JOBSTART participants (paid jobs in a regular employment setting) and the high probability (then 50%) of moving into unsubsidised employment three months after placement, this program had a work capacity-building character (Department of Employment Education and Youth Affairs, 1996):
Jobskills combined 12 months of paid work experience and related vocational training (Department of Employment Education and Training, 1995). Although only 30% of participants were in unsubsidised jobs three months after participation, the program’s emphasis on skills acquisition indicates it also had a capacity-building character (Department of Employment Education and Youth Affairs, 1997).

The JOBTRAIN and SkillShare programs mainly comprised vocational training and had a capacity-building character (Department of Employment Education and Training, 1995).

As with many large-scale public wage subsidy schemes, few NWO participants transitioned to unsubsidised jobs (only 22% were in unsubsidised employment three months after the program) as the quality of the work experience was generally poor, formal training was not often provided, and the public and community organisations hosting the placement lacked the resources to continue them in jobs once the subsidy ended.

The JET scheme, which was not targeted to long-term unemployment payment recipients but is included here to compare investment on the main employment program for sole parents, combined job search assistance and training and had a modest capacity-building character. Although 61,000 people participated in JET in 1999, the program was far from universal and investment in capacity-building for sole parents was relatively modest compared.

The total cost of the Job Compact programs in 1995-96 was Ecu550m including contracted case management.

Since 72% of places had a capacity-building character, the Job Compact had a predominant capacity-building character.

**Second phase (Table 3)**

Sources:

Department of Employment and Workplace Relations (2007a); Department of Employment and Workplace Relations (2006); Department of Education, Employment and Workplace Relations (2009); Department of Education, Employment and Workplace Relations (2010); Australian Bureau of Statistics (various years); Australian Bureau of Statistics (2010).

**Job Network (2006-07):**

The main programs targeting long-term unemployed were Customised Assistance, Wage subsidies, Work for the Dole, and the Personal Support Program.

*Job Network Customised Assistance* had 240,000 participants, of whom 66% were long-term recipients (Department of Employment and Workplace Relations, various years-b). This was an incentive-strengthening program since the emphasis on intensive supervised job search in the first six weeks of the program overshadowed the fact that 18% of participants received vocational training and 10% received private wage subsidies (up to 28% altogether – Table 22 below).

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348 In 1995, a minority of participants (25%) received capacity-building assistance in the form of vocational training (McHugh & Millar, 1996).

349 The 61,000 participants represented 16% of the 385,000 recipients of Parenting Payment Single at a point in time (a lower share if annual flows onto benefits are included). At Ecu6 million in 1999, its cost was well below that of the other programs, mainly because investment in training was modest, although this does not include the cost of state government-funded VET programs to which parents were referred (McHugh & Millar, 1996).

350 As indicated, the Job Compact also had a significant income protection component in the NWO program, with 25% of places.
Under the APM model, supervised job search assistance including fortnightly interviews with providers during the first three months of Customised Assistance, had a work incentive-strengthening character:

‘The servicing model of single provider, continuous contact or assistance and faster referral processes was associated with increased job search activity and participation rates.’ (Department of Education Employment and Workplace Relations, 2007, p140)

During the second three months unemployed people were required to participate in work-related activity which providers purchased using the Jobseeker Account. Table 22 (below) indicates that the Account was mainly used to purchase quick, low-cost interventions. For example, the average cost of training courses purchased using the account was Ecu210.351

‘There was enough to do small things like refer people to TAFE courses in the days when there were lots of cheap courses around and the account covered the gap fee, and the spit and polish things that are often important like new clothes, transport costs, and childcare while you attend an interview. I think that’s what it was designed to do and it was calibrated for that. But this was never going to be the solution for the group we were talking about earlier, those who were seriously distant from the labour market.’ (Academic 2, Australia)

Table 22: Assistance funded using the Jobseeker's Account (2003-06)

<table>
<thead>
<tr>
<th></th>
<th>% of jobseekers receiving assistance ¹</th>
<th>Average unit cost² (in 2006 Ecu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>18</td>
<td>210</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>10</td>
<td>1,550</td>
</tr>
<tr>
<td>Clothing and equipment</td>
<td>25</td>
<td>70</td>
</tr>
<tr>
<td>Transport assistance</td>
<td>32</td>
<td>140</td>
</tr>
<tr>
<td>Relocation</td>
<td>2</td>
<td>220</td>
</tr>
</tbody>
</table>

Source: Department of Employment and Workplace Relations (2006b)

Notes:
1. Assistance reported in jobseeker surveys, mainly comprising assistance during the Intensive Support phase (for people unemployed for over six months). Job search training courses not included. Major categories of assistance only; individuals may receive more than one form of help. Assistance provided did not vary substantially by duration of unemployment.

2. For comparative purposes, in July 2006 AUD1 = Ecu0.6

The Account had two limitations as a capacity-building tool. The first was limited resources. An amount of Ecu560 was credited to it for each individual unemployed for 12 months, plus half that amount at 24 months. No further credits were made for longer durations (Department of Education

351 This would have purchased, for example, a two-week forklift driver or barista course.
Employment and Workplace Relations, 2007). The second constraint on provider investment was that both the outcome fees and ‘star ratings’ rewarded quick employment outcomes (Considine, 2005). The official evaluation of the APM model repeated previous concerns that few long-term unemployed people received assistance with barriers to employment such as disabilities or low skills:

‘Less than a third (27%) of job seekers, however, believed that their Job Network agency did anything to help them overcome these barriers.’ (Department of Education Employment and Workplace Relations, 2007, p83)

Work for the Dole (with 23% of places) had 93,000 participants, of whom 67% were long-term recipients (Department of Employment and Workplace Relations, various years-b). It was the default program for long-term unemployed people during annual mutual obligation periods. It had a predominant incentive-strengthening character, mainly through the threat effect of referral.

The Welfare to Work policy bolstered the program's incentive-strengthening role by introducing a ‘fulltime’ variant (Department of Education, Employment and Workplace Relations, 2009). This was a compliance measure designed to reinforce work incentives among people considered to be ‘job avoiders’:

‘The telling thing was that in the 2005 Budget, Ministers announced measures for very long-term unemployed people – 18-24 months unemployed. Those judged by their Job Network provider to be ‘genuine’ jobseekers would attract a wage subsidy for 6 months, which was capped at 15,000 over 3 years. Those judged to be ‘job avoiders’ (capped at 49,500 places over 3 years – it always mystified me how they got those numbers) would be sent onto ‘Fulltime Work for the Dole’. ...That was designed as the mega-punishment.’

(Service provider 1, Australia)

The Personal Support Program had 42,000 participants, of whom 69% were long-term recipients (Department of Employment and Workplace Relations, various years-b). It had an income protection character.

Altogether, since 65% of places had an incentive-strengthening character this was the predominant character of assistance in the second phase.

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352 Although these funds were not tied to individual jobseekers and providers could pool them to offer more intensive assistance for a minority of clients, this was well below the typical cost of Working Nation programs.

353 In 2006, among 163,000 Mutual Obligation participants 57% or 93,000 participants joined Work for the Dole (Davidson & Whiteford, 2012). The cost estimate for Work for the Dole in Table 3 (Ecu170m) is the average annual cost for 2002-05 indexed to 2006-07 values using the Consumer Price Index (X109%) (Australian Bureau of Statistics, various years; Department of Education Employment and Workplace Relations, 2007).

354 An official evaluation in 2000 found that on average, the program raised the probability of leaving unemployment payments by ten percentage points, half of which was due to the threat effect of referral (Department of Employment Workplace Relations and Small Business, 2000b).

355 The program mainly provided practical and social support, for example referral to housing providers for homeless people (Perkins, 2007). A net employment impact evaluation found that participation in PSP reduced the probability of employment 12 months later (Department of Education Employment and Workplace Relations, 2010a).
(2) United Kingdom:

First phase (Table 4):

Sources:

Robinson P (1997); Rayner E et al (2000); Office for National Statistics (various years b), accessed September 2011; OECD (various years d).

Restart strategy (1995):

In addition to the Restart interviews (which had an incentive-strengthening character, encouraging exits from the benefit rolls), the main programs targeting long-term unemployed (to which long-term unemployed people were referred at Restart interviews) were Restart courses, 1-2-1, Job Clubs, Training for Work, Community Action, and Workstart.

**Restart courses**, with 107,000 places, 1-2-1 with 94,000 places, and **Job Clubs** with 243,000 places, were designed to enforce benefit requirements and move people quickly off benefits and had an incentive-strengthening character.

**Training for Work**, with 214,000 places, offered up to 12 months’ vocational training, often provided on-the-job, and had a capacity-building character.

**Community Action**, with 29,000 places, offered up to 12 months’ work experience on community projects and (as with its precursor, the Community Program) had an income protection character.

**Workstart**, with 1,000 places, was a private wage subsidy scheme with a capacity-building character.

Since 65% of places had an incentive-strengthening character, this was the predominant character of employment assistance in the first phase.

Second phase (Table 5):

The second phase had two different activation strategies: the ‘**original New Deals**’ in 1997-08 and the **Flexible New Deal** (announced in 2007 and implemented in 2009-11).

Sources:


(1) **The original New Deals (1999-2001):**

The main programs targeting long-term unemployed at this time were New Deal for Young People (with 33% of places), New Deal for Long-term Unemployed (23%), New Deal for Lone Parents (16%), New Deal for Disabled People (1%), Work Based Learning for Adults (19%), Employment Zones (7%), and StepUp (0.3%).
The program participation data cover different periods from 1999 to 2002, usually extending beyond one year, so participant data were annualised, yielding an annual average of 577,000 program places. The annual cost estimate of Ecu1,200m is for 2001.\textsuperscript{356}

To take account of hybrid schemes such as NDYP which had components with different characters (such as the Gateway and Education Option), the share of places in each component is identified. When calculating the predominant character of employment assistance across all programs, the character of each component is considered.

*New Deal for Young People* had 190,000 places in 1999-00, with participants distributed at a point in time as follows: 60% received job search assistance through the Gateway and the remaining 40% were in Options places. Of the latter, 41% received Education and Training (capacity building), 24% received subsidised jobs in the Employment Option (capacity building), 16% were in the Voluntary Work option (income protection) and another 16% were in the Environmental Task Force option (a work-for-benefits scheme with an incentive-strengthening character) (Millar, 2000).

The Gateway was the dominant component of NDYP. It was supervised job search. While this may have had an incentive-strengthening character if offered on its own, its character was affected by its connection with the Options (Dorsett, 2004):\textsuperscript{357}

> ‘the New Deal was this whole process of skimming layers off so you know Gateway always had the biggest impact and then you had the employer subsidy [for] almost by definition, the best qualified, most employable... Then you had the further education option, which was training. That tended to be a bit of a dumping ground for those who were in between. ...There was quite a lot of criticism about the level and nature and extent of training ...for a lot of the time, the training was limited to 13 weeks. Then you had the environmental task force or the voluntary sector option, which was primarily... for those people that couldn’t get an employer subsidy because they couldn’t find an employer and wouldn’t sit in a classroom.’ (Non-government service provider, United Kingdom)

Since 60% received job search assistance (which we have not classified), 26% received capacity-building assistance and 6% received assistance with an income protection or incentive strengthening character respectively, the NDYP had a modest capacity-building character.\textsuperscript{358}

*New Deal for Long-term Unemployed adults* had 135,000 places through 1999-00, with participants distributed at a point in time as follows: 81% received job search assistance and 14% received assistance with a capacity-building character (5% private wage subsidies and 9% vocational training) (McQuaid & Lindsay, 2002; Millar, 2000).\textsuperscript{359} The program had a modest capacity-building character.

*New Deal for Lone Parents* had 92,000 places through 1999-00. Among NDLP participants in January 2000, 64% received assistance (mainly with job search) from Personal Advisers, 11% received vocational training (capacity-building), and 25% were employed but continuing to receive

\textsuperscript{356} This does not include related PES administrative expenses (but equivalent expenses are included in Employment Zone costs).

\textsuperscript{357} The widespread availability of capacity-building assistance for those who chose it diluted the work incentive-strengthening character of intensive job search assistance during the Gateway period. For this reason, job search assistance during the Gateway is not classified.

\textsuperscript{358} However, when calculating its contribution to the overall character of the New Deals, each of its components is considered separately.

\textsuperscript{359} Table 5 does not take account of its restructure into ND21+ in 2001-02, due to a lack of detailed data on assistance offered by that program. In 2001, 80,000 jobseekers participated at a cost of Ecu220m so the unit cost was Ecu2,730 (Webb, 2003). This cost increase was mainly due to greater reliance on the WBLA program to upgrade vocational skills, giving it more of a capacity-building character. However, WBLA is accounted for separately in Table 5.
job-retention support from an adviser (capacity building) (Millar, 2000). The program had a modest capacity-building character, with 36% of assistance comprising training and job retention support.

New Deal for Disabled People had only 8,000 participants from 1998 to 2000. There is no detailed breakdown of the assistance provided to people with disabilities in the NDDP, so this program is not classified (Beale, 2005; Millar, 2000).

Work based Learning for Adults had 108,000 places through 1999-00 and offered vocational training with a capacity-building character.

Employment Zones had 42,100 places through 2000-01 and was not classified in the absence of detailed data on the assistance provided (which was mainly job search assistance).

StepUp had 1,500 places from 2002 to 2004 and provided public wage subsidies and training which is assessed as capacity-building.

Overall, 37% of places in this part of the second phase had a capacity-building character (greater than the share of places with other characters but less than half of all places), so the early New Deals had a modest capacity-building character.

(2) The Flexible New Deal (2009):

Flexible New Deal was announced in 2007 and partially implemented in 2009, with adjustments to take account of the recession the previous year. (Department for Work and Pensions, 2012a). These inflated its cost by increasing the share of provider payments received on commencement from 20% to 40% and extending each FND episode to one year. It was replaced with the Work Program after the government changed in 2010.

Like Employment Zones, it was a hybrid program (but mainly offered job search assistance) in which providers were contracted by government and paid mainly according to employment outcomes achieved. Consequently (as with Customised Assistance in Australia), there is limited detailed information on the range and distribution of assistance received.

Table 23 (below) shows that 79% of FND participants reported receiving job search assistance, 34% received ‘motivational support’, 38% received ‘advice on tax credits’, 43% undertook four weeks of work-for-benefits (a mandatory requirement), 26% received vocational training (mostly delivered in-house by providers), and 24% received basic skills training (Vegeris et al., 2010). No data were collected on use of wage subsidies, which suggests they were rarely used.
Table 23: Assistance reported by FND participants (2009)

<table>
<thead>
<tr>
<th>Form of assistance</th>
<th>Incidence (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job search assistance</td>
<td>79</td>
</tr>
<tr>
<td>Motivational support</td>
<td>34</td>
</tr>
<tr>
<td>Advice on tax credits</td>
<td>38</td>
</tr>
<tr>
<td>Four weeks of work experience</td>
<td>43</td>
</tr>
<tr>
<td>Shorter work trials</td>
<td>11</td>
</tr>
<tr>
<td>Vocational training</td>
<td>26</td>
</tr>
<tr>
<td>Basic skills training (e.g. literacy)</td>
<td>24</td>
</tr>
<tr>
<td>Small business support</td>
<td>14</td>
</tr>
<tr>
<td>Voluntary work</td>
<td>20</td>
</tr>
<tr>
<td>Help with a health condition</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Vegeris et al. (2010, p39)

Notes:
1. Not mutually exclusive.
2. ‘Referrals to externally-delivered training were rare among the sample’ (Vegeris 2010, p52).

Unfortunately, the categories in Table 23 are not mutually exclusive as individuals often received more than one form of assistance. Nevertheless, job search assistance and work-incentive strengthening activities (‘four weeks of work experience’, ‘motivational support’ and ‘advice on tax credits’, with 81% in total) clearly outweighed capacity-building assistance (vocational or basic skills training and possibly the ‘shorter work trials’ and ‘small business support’, with 64%).

The design of FND and the content of the services provided (an emphasis on supervised job search together with compulsory work for benefits) indicate that its predominant character was work incentive-strengthening.

Total expenditure on FND over two-and-a-half years (2009-11) is adjusted to an average annual value, and to 2000 values using Consumer Price Index (X 0.8)\(^\text{360}\). Note that program adjustments in response to the 2008 recession significantly increased its unit cost compared with the original budget estimates (Department for Work and Pensions, 2012a). This should be considered when comparing FND costs with those of the original New Deals and Employment Zones.

(3) The Netherlands:

First phase (Table 6):

The challenge in obtaining valid data on program participation was greatest in the Netherlands, especially in the first phase, where there were significant gaps in the data.\(^{361}\)

The available data did not distinguish between places for short and long-term unemployed people. Nevertheless, programs that offered more than job search assistance - including wage subsidies, vocational training and social activation - generally targeted long-term unemployed recipients (Eurostat, various years-a, Netherlands, 1998.; OECD, 1998b).\(^{362}\)

Sources:
Hoff S, et al (2003); Eurostat (2000); Spies & Van Berkel (2001); Eurofound (2002); Interdepartmental working group on the future of labour market policy (2001); Hartog (1999); Benefit recipient data supplied by Netherlands Department of Employment and Social Affairs (SZW) in September 2011.

(1) Unemployment insurance recipients (WW)

In this phase, the main programs for long-term unemployment insurance recipients were regular reintegration trajectories and vocational training.

Regular trajectories were a hybrid program implemented by the PES or non-government providers (with performance-based contracting similar to the Job Network and Employment Zones). They comprised job search assistance, often combined with short vocational training courses, usually of less than three months’ duration (Struyven & Steurs, 2002). In 1998 there were 98,000 places in this program. While this is not broken down between insured and uninsured workers, it is likely that the vast majority of participants were unemployment insurance recipients.\(^{363}\) Their character has not been classified since they mainly comprised job search assistance and data regarding the training component were not available. Their total annual cost was Ecu257m.

Vocational training comprised courses (usually over 3 months’ duration) in Centres for Vocational Training run by the PES. We assumed that only unemployment insurance recipients participated in these courses as the PES mainly serviced insured workers at this time. Since this statistic was not available for 1998 in the Eurostat data, a program expenditure estimate for 2000 was used (Interdepartmental working group on the future of labour market policy, 2001). This was converted into program places using the unit cost estimate for vocational training.

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361 These data were not assembled in one place (such as a public data base or evaluation report) in a consistent fashion. Participation data was in the form of stocks for some programs and flows for others. An official report noted that: ‘Little is known about the timing of the comprehensive approach, the proposed duration of [programs] and the cost-benefit expectations [of programs].’ (Interdepartmental working group on the future of labour market policy, 2001, p32)

362 The comprehensive approach targeted young people under 25 years unemployed for 6 months and adults unemployed for 12 months (Kok et al., 2004). A government report found that in 1994, just 12% of social assistance clients were under 25 years (van Leuvensteijn & Koning, 2000). Given that at least six months’ previous employment was required to qualify for unemployment insurance, it is likely that the share of young people unemployment insurance recipients was small (Eurostat, various years-b).

363 These places were not disaggregated in the Eurostat data between unemployment insurance (WW) and social assistance (Abw) clients but it is likely that the vast majority were for WW rather than Abw recipients since Abw recipients were more likely to be exempted from activity requirements (42% were exempted in 1998) or referred instead to a wage subsidy scheme (Eurostat, 2000; Hoff et al., 2003; Struyven & Steurs, 2002).
within the WIW Act for social assistance recipients (below), yielding an estimate of 16,000 places. Their total annual cost was Ecu117m.

Since the majority of places for unemployment insurance recipients were regular trajectories which mainly comprised job search assistance, the character of employment assistance for long-term unemployment insurance recipients was modest capacity-building.

(2) Social assistance recipients (Abw)

The main programs for long-term social assistance recipients were public wage subsidies (Merkert 1 jobs and WIW jobs), private wage subsidies (Merkert 2 jobs), vocational training, and social activation.

Merkert 1 jobs were public wage subsidies intended to be permanent positions, and were generally subsidised for at least two years. The stock of these subsidies in 1998 was 34,300. Since few left these jobs in a given year, this is likely to be close to the flow of subsidies received through the year. Since they were, in effect, alternatives to open employment, the Merkert 1 jobs had an income protection character.

Public wage subsidies pursuant to the WIW Act were not permanent but expected to last 1-2 years. Through 1998 there were 41,000 places in this program (on a flows basis). These wage subsidies had a formal objective to improve future employment prospects but were poorly designed for that purpose and had no formal training component, and therefore had an income protection character (de Koning, 2010; Interdepartmental working group on the future of labour market policy, 2001; OECD, 1998b):

‘So you could say well if they work their employability will increase and then also employers in the private sector might be interested in employing these people. But it didn’t work like that.’
(Academic 2, Netherlands)

Merkert 2 jobs were private wage subsidies lasting from 1-2 years, of which there were 7,000 places (on a flows basis). Among participants, 50-70% transitioned to unsubsidised jobs. (Gravesteijn-Lighthelm et al., 1999). The program had a capacity-building character.

Vocational training pursuant to the WIW Act comprised training that was often provided in conjunction with a subsidised job, and had a capacity-building character. Data for 1998 were not available but the average stock of places in 1995 was 23,000 (Eurostat, 2000).

Social activation programs did not have transition to unsubsidised employment as a formal goal. They had an income protection character, to improve social skills and keep people occupied rather than boost their employment prospects (Sol & Westerveld, 2008; van Oorschot, 1998). The stock of places in 1998 was 5,700 (Eurostat, 2000).

Since the majority of places were in public wage subsidy schemes with an income protection character, this was the predominant character of employment assistance for long-term social assistance recipients.

364 In 2000, just 6% participants in ‘ID jobs’ (formerly Merkert 1 jobs) and 19% of WIW public wage subsidy program participants were in unsubsidised jobs one year after placement in these programs (Interdepartmental working group on the future of labour market policy, 2001, p. 38 & 39, Appendix 4)

365 The Eurostat data did not break down program participation by benefit type. Since there was a separate training program category for the PES Centres for Vocational Training (discussed above) in the Eurostat data, we assume that these training places targeted social assistance recipients.
All recipients

Since the number of social assistance recipients (412,000) substantially exceeded that of unemployment insurance recipients (287,000), and the number of program places with an income protection character exceeded the number with a capacity-building character, the predominant character of employment assistance for long-term unemployed people overall in the first phase was income protection.

Second phase (Table 7):

More detailed program participation data are available for the second phase (for 2008), but they do not generally distinguish between places for short and long-term unemployed people. It is likely that most individuals referred to employment programs were long-term recipients, given the duration profile of unemployment payments and the targeting of long-term recipients under the comprehensive approach. In 2007, 84% of WWB recipients and 47% of WW recipients were long-term recipients (Ministry of Social Affairs and Employment, 2007).

Data regarding the rate of referral of social assistance recipients to different programs by payment duration provide insight into the likely distribution of places in different programs among short and long-term recipients. These data indicate that job search assistance and training programs were not strongly targeted according to payment duration, while social activation and wage subsidies targeted long-term recipients. Evidence from evaluation reports and the interviews indicates that ‘work first’ programs were targeted to new entrants to social assistance (Sol, 2007).

Sources:
Tempelman, Burden & Kok (2010); van Geuns & van Gent (2014); Auditor general (2008); Unemployment Insurance Authority (2008); Eurostat (2008); Eurostat. (2009); Groot I et al (2008); Benefit recipient data supplied by Netherlands Department of Employment and Social Affairs (SZW) in September 2011.

Unemployment insurance recipients (WW)

In this phase the main programs for long-term unemployment insurance recipients were job search assistance, regular reintegration trajectories, Individual Reintegration Agreements (IROs), and vocational training.

Job search assistance, with 61,500 places in 2008 (48%), was provided by reintegration coaches employed by the UWV. Its character is not classified.

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366 Data for 2008 are used rather than 2007, due to better data availability for that year.
367 Most referrals of WW recipients to employment programs between 2002 and 2005 occurred between 6 months and 18 months after entry to benefits (Groot et al., 2008). In 2007, the UWV had a target to refer at least 90% of WW recipients to an employment program by the time they reached 12 months’ unemployment, and it also targeted recipients on benefits for two or more years for a second round of activation (Ministry of Employment and Social Affairs, 2007).
368 For WWB recipients from 2002 to 2005, the average monthly rate of referral for job search assistance programs was similar for short-term (under 12 months), long-term (1-3 years) and very long-term unemployed people (more than 3 years), at 9%, 11% and 9% respectively (Groot et al., 2008). Education and training programs targeted long-term recipients (with referral rates of 9%, 12% and 6% respectively), while social activation and voluntary work targeted very long-term (over two years) unemployed people (10%, 12% and 20%) and wage subsidies targeted long-term unemployed (with referrals peaking at 12 months’ unemployment).
**Regular reintegration trajectories**, with 23,700 places in 2008 (19%), included assessment, job search assistance and referrals, and in a small minority of cases, vocational training (Struyven & Steurs, 2002). An interviewee suggested that the incidence of vocational training diminished during the second phase:

‘So in the first years, in 2002 and 2003, you see some more training activities like IT or skills … and basically you don’t see them anymore in the types of activities. So ...more like mediation.’ (Official 1, Employment Ministry Netherlands)

As in the first phase, regular trajectories are not classified as there was insufficient evidence to show they had a capacity-building or incentive strengthening character.

**Individual Reintegration Agreements**, with 30,600 places (24%), had a capacity-building character, as evidence from the interviews indicated that work-based vocational training was widely offered.

According to an interviewee involved in purchasing IROs, they typically offered:

‘A mix of these three things always, assessment, sometimes training on the job, group activities and then individual search for a job.’ (Government service provider, Netherlands)

This interviewee also suggested that WW recipients using IROs were relatively highly educated and likely to choose vocational training (Tergeist & Grubb, 2006):

‘vocational training because the IRO was almost always chosen for people who had a higher background of training. So people who have a higher background in training always choose more training.’ (Government service provider, Netherlands)

**Vocational training**, with 9,400 places (7%), comprised longer vocational training courses (over one year) and had a capacity-building character.

Since 31% of places for unemployment insurance recipients had a capacity-building character, the predominant character of employment assistance for long-term unemployment insurance recipients was modest capacity-building.

(2) **Social assistance recipients (WWB)**

In this phase the main programs for long-term social assistance recipients were public wage subsidies (mainly ‘legacy’ Melkert 1, ID and WIW jobs established before 2004 but still subsidised), private wage subsidies (Melkert 2 jobs), vocational training, social activation, and other unspecified support services. A substantial proportion of places (36%) could not be allocated from the data to specific programs from the data.

‘Work first’ programs comprising combinations of job search assistance and work-for-benefits schemes, were the main program for new entrants to social assistance and had an incentive-strengthening character, but were less likely to be offered to long-term recipients and are not included in this assessment of the character of programs for the latter group.

The **former Melkert 1/ID jobs**, with 19,400 places (14%), were being phased out but many positions remained as they were originally offered as permanent jobs and some municipalities

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369 A survey by the UWV found that, among clients in regular trajectories in 2002-03, 35% received assessment services, 45% received motivational or job search training, 58% received job search assistance and referral, and 5% received vocational training (Unemployment Insurance Authority (UWV), 2006).
opted to retain them. By this stage, their average duration was 9 years. They retained their income protection character.

Among long-term recipients, wage subsidies were being displaced by social activation, which rose from 5,700 places in 2001 to 32,200 in 2008 (23% of places, Tables 6,7). Social activation comprised group-based activities incorporating voluntary work and social support, with limited vocational content (Council for Work and Income, 2008; Van der Aa & van Berkel, 1998). Their connection with paid employment was weak and they had an income protection character.

The former WIW wage subsidies, with 19,900 places (14%), were also being phased out. This category includes both public and private wage subsidies. They are not disaggregated in the data. Since the majority were likely to be public wage subsidies, their predominant character was income protection. New wage subsidies were still offered, but rarely:

‘The chance to receive a subsidised job or a wage subsidy is small, many times smaller than the chance of a regular trajectory.’ (Groot et al., 2008, p28)

Vocational training, with 13,400 places (10%), had a capacity-building character.

Social activation, which had grown to 32,200 places (23%), retained its income protection character.

Since 51% of places were in programs with an income protection character, this was the predominant character of employment assistance for long-term social assistance recipients. The share of places with an income protection character was likely to be significantly higher than this, if the 36% of places not allocated to a program were included.

(3) All recipients

The predominant character of employment assistance for long-term unemployment payment recipients overall was modest income protection, since the largest share of places (27%) had an income protection character.

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370 The number of public and private wage subsidies fell from over 80,000 in 1998 to just under 40,000 a decade later, most of which were from legacy schemes such as ID jobs which were difficult to close as many were permanent positions (Ministry of Employment and Social Affairs, 2007).

371 In the first phase, 15% of these places were private wage subsidies.
(4) Denmark:

First phase (Table 8):

The Danish data are not disaggregated according to duration of unemployment. It is likely that
the majority of program participants were unemployed for more than 12 months as participation
was only compulsory after at least one years’ unemployment for adults, or three to six months in
the case of young people up to 25 years (Dahl et al., 2002). The age and benefit duration profiles
of unemployment insurance and social assistance clients differed. Insured unemployed people
were more likely to be over 25 years old and in receipt of benefits long-term than social assistance
clients, who were younger.372

Data were available for two periods: early in the first phase (1995-98) and at the end of the phase
(2001). The average of all values for the distribution of program places for long-term unemployed
people in these two periods were used.

Sources:
Denmark Statistics (various years); Ministry of Employment (2003c); Ministry of Employment
(2004a); Graversen & Weiss (2001); Danish Finance Ministry (1997); Jespersen et al. (2004).

(1) Unemployment insurance recipients (Dagpenge)

In this phase the main programs for long-term unemployment insurance recipients were education
or vocational training courses, and public and private wage subsidy schemes combined with
vocational training called ‘Jobtraining’.

Education and vocational training courses, with 54% of places, included short courses run by the
AMU (training colleges run by the PES) and longer courses (up to 18 months) run by adult
education providers, and had a capacity-building character.

Public jobtraining, with 31% of places, combined 6-12 months of wage subsidies with vocational
training. Given its emphasis on training, this had a capacity-building character.

Private jobtraining, with 9% of places, had a similar format but was offered with private employers.
It also had a capacity-building character.

Since 94% of places had a capacity-building character, this was the predominant character of
assistance for insured unemployed workers in this phase.

(2) Social assistance recipients (Kontanthjaelp)

In this phase the main programs for long-term social assistance recipients were individual
jobtraining, special activation projects, education and vocational training courses, and public and
private jobtraining.

Individual Job Training, with 36% of places, targeted those assessed as able to work but with
poor employment prospects and comprised up to 18 months’ work experience on a training wage
equivalent to unemployment insurance plus Ecu1 per hour. This program had an income
protection character as its connection to regular employment was weak.373

372 In 1999, the share of unemployment insurance recipients over 25 years was 91% and 28%
of unemployment insurance recipients were in the active period. For adults, this meant they
were unemployed for two years or more (Danish National Statistics Office, 2000). In 1998, the
share of social assistance recipients over 25 years was 78% and 41% of social assistance
clients received social assistance for more than 12 months (Filges, 2000).

373 An evaluation found that Individual Jobtraining had ‘low power’ compared with public and
private Jobtraining, as it was less ‘business oriented’ (Ministry of Employment, 2004). Work
experience could be offered in public institutions or special municipal projects (discussed below)
so these categories were to some degree interchangeable (Brogaard & Weise, 1997, p23).
Special activation projects, with 29% of places, targeted those with ‘problems other than unemployment’, and comprised combinations of up to 18 months of unpaid work experience and social support in a group setting. Since they placed little emphasis on transitions to employment they had an income-protection character.

Graversen (2004) noted that: ‘very often the welfare recipients carry out work that would otherwise not be done’…which could include: ‘snow clearing for senior citizens, nature preservation and assistance of the permanent staff in municipal institutions’ (Graversen, 2004, p26).

Education and vocational training courses, with 20% of places, were similar to those offered to insured unemployed workers, and had a capacity-building character.

Public jobtraining, with 5% of places, was similar to that offered to insured unemployed workers, and had a capacity-building character.

Private jobtraining, with 8% of places, was similar to the program for insured unemployed workers, and also had a capacity-building character.

Since 65% of places had an income protection character, this was the predominant character of assistance for social assistance recipients in this phase.

(3) All recipients

Since the number of unemployment insurance recipients (176,000) easily exceeded that of social assistance recipients (97,000), and the overall share of capacity-building places was 62%, the predominant character of employment assistance overall was capacity-building.

Second phase (Table 9):  

As in the first phase, breakdowns of participation in different employment programs by long-term recipients were not available.\textsuperscript{374} Further, the categories of employment assistance programs used in official statistics (and by Eurostat) in this phase revealed little about their content. For example, ‘guidance and upgrading’ could refer to vocational training or a ‘municipal project’.

An evaluation in 2009 found little difference in the programs offered to short and long-term social assistance recipients, with most referred to special projects.\textsuperscript{375} The same report found that long-term unemployment insurance recipients were more likely than short-term recipients to receive public jobtraining but less likely to receive education and training courses, however both are classified as capacity-building programs so this does not affect our classification of the programs for insured workers.\textsuperscript{376}

Data on program participation for two periods are used (with values averaged between the two years): the start of the phase in 2001 and the end in 2007.

Sources:
Denmark Statistics (various years); Ministry of Employment (2003c); Ministry of Employment (2004a); Ministry of Employment (2010); Rosdahl & Petersen (2006); Skipper (2010); Danish Employers Federation (2005), Jespersen (2008).

\textsuperscript{374} Administrative data indicate that in 2007, 20% of insured unemployed people and 50% of social assistance clients received a program offer within three months of commencement of their payment spell. (Rosholm, 2011)

\textsuperscript{375} “Social assistance benefit recipients are activated almost identically regardless of whether they are prepared for employment or not. By far the most frequently-used activation of social assistance recipients is ‘guidance and upgrading’. This is given mainly in the form of local projects.” (Ministry of Employment, 2010, p24)]

\textsuperscript{376} In 2009, 59% of short-term unemployment insurance recipients and 45% of long-term recipients received ‘guidance and upgrading’ (mainly in the form of education and training courses), while 21% of short-term and 42% of long-term recipients received public Jobtraining (Danish Ministry of Employment, 2010, p22).
(1) Unemployment insurance recipients (Dagpenge)

The main programs for unemployment insurance recipients 2007 were the same as in the first phase. There were 76,000 places, on average in 2001 and 2007.

*Education and vocational training courses*, with 54% of places, had a capacity-building character although the average duration of courses was shorter than in the first phase (Deloitte consulting, 2006).³⁷⁷

*Public jobtraining*, with 28% of places, had a capacity-building character.

*Private jobtraining*, with 10% of places, had a capacity-building character.

Since 92% of places had a capacity-building character, this remained the predominant character of employment assistance for unemployment insurance recipients.

(2) Social assistance recipients (Kontanthjaelp)

The main programs for unemployment insurance recipients 2007 were the same as in the first phase. There were 44,000 places on average in 2001 and 2007.

*Individual Job Training*, with 32% of places, had an income protection character.

*Special activation projects*, with 31% of places, had an income-protection character.

*Education and vocational training courses*, with 17% of places, had a capacity-building character. In this phase, Danish language courses played a more prominent role.

*Public jobtraining*, with 4.5% of places, were similar to those offered insured unemployed workers, and had a capacity-building character.

*Private jobtraining*, with 5.5% of places, were similar to those offered insured unemployed workers, and had a capacity-building character.

Since 63% of places had an income protection character, this remained the predominant character of assistance for social assistance recipients in this phase.

(3) All recipients

While the share of unemployment payment recipients receiving insurance payments (91,000 unemployment insurance compared to 84,000 social assistance recipients) was now much lower than the first phase, the increased share of capacity-building places for social assistance recipients (now 27%), meant that the overall share of capacity-building places rose to 68%. The predominant character of employment assistance overall was still capacity-building.

³⁷⁷ By the end of the study period, the majority of education and training courses were of less than three months’ duration, though some still lasted for 12 months (Rosholm, 2011).
6.3 A comparison of employment assistance data used in this study and the OECD social expenditure data set

The data used in this study to assess the predominant character of employment assistance (Table 11) is mainly derived from administrative sources in each country. Two alternative sources of data for this purpose are the data sets on labour market program expenditure and participants compiled by the OECD and Eurostat (Eurostat, 2000; Grubb & Puymoyen, 2008).

As discussed in Chapter 3, many quantitative researchers have compared expenditures on employment programs using the OECD social expenditure data base (Clasen et al., 2016).

The following analysis compares results derived from the OECD labour market program expenditure data base with the findings in the country chapters summarised in Chapter 9. 378

This reveals significant drawbacks in the use of this international data set for the present study. They include a lack of fine-grained data on program participation, so that program expenditure data would have to be used, which biases the results towards the most expensive programs. 379 Further, there is no breakdown of the share of program expenditures or places assigned to long-term recipients, and key programs are classified in ways that alter their meaning substantially for the purposes of the classification scheme used in this study. For example, the Australian Work for the Dole program (an incentive-strengthening program) is classified in the OECD social expenditure data as a ‘job creation’ scheme and the Danish special municipal projects (an income protection program) are classified as training schemes. 380

In a study of this kind, there is often a trade-off between data availability (stronger in the national data sources) and standardisation (stronger in the international comparative

378 We have not included the Eurostat data in this comparison because Australia is excluded from that data set. While reasonably comprehensive data on program participation is currently available from Eurostat, data on program participation (as distinct from expenditures) were much more limited during the study period (Eurostat, 2009).

379 Further, as discussed below some of the OECD expenditure data is misclassified due to weakness in the national administrative data from which they are derived. For example, the cost of income support for trainees is included in Danish expenditure data for the Jobtraining program.

380 Many of these concerns also apply (in addition to the omission of Australian data) to the Eurostat data base of employment assistance expenditure in European countries, although Eurostat data were used in this study to fill gaps in the national data (Eurostat, 2000).
data published by the OECD). For the above reasons we have prioritised data availability.

(1) The major differences between the OECD labour market program data base and national data used in this study

The OECD data base relies on the same sources used in this study: national administrative data. However, it differs from the national data used in this study in the following respects.

Timing:

- The OECD data is available for each year of the study period, but with very limited breakdowns by program type before 1998 in most of the four countries.
- The national data is restricted to specific years within each phase of activation policy, since the data sources used (including program evaluations) are irregular.

Expenditure or participant data:

- The OECD data regarding participation in programs has very limited breakdowns by program type, while the expenditure data is more comprehensive.
- However, for the above reasons program participation is more relevant for the purposes of this study.

Target groups:

- The OECD data are not disaggregated by unemployment duration. In some cases, the national data are not broken down in this way, but reasonably reliable estimates of the number of long-term program participants can be made using related national sources to estimate the share of places in each major program going to long-term unemployed people.
- Similarly, the OECD data are not disaggregated according to payment status (unemployment insurance or social assistance benefits).

Program classifications:

- In the OECD data, four categories of employment assistance are relevant to this study: placement and related services, training (apart from apprenticeships), employment incentives, and direct job creation. These correspond broadly with the following categories in the present study: job search assistance, training, private wage subsidies, and public wage subsidies, respectively.
However, there are some major inconsistencies. For example, there is no separate OECD category for work-for-benefits schemes and they are included in the job creation category. Similarly, there is no social activation and support category, so for example the Danish special projects are included in the OECD training category.

It is difficult to locate some major programs, such as the job search assistance and hybrid schemes contracted out to non-government providers (including the Australian Job Network and British New Deals) within the OECD data set, and to divide the large hybrid programs into their key components (such as job search assistance, training and wage subsidies).381

Some items in the OECD data base appear to be wrongly classified. These include benefit administration (which was often wrongly classified in statistical returns to the OECD as placement and related services) and benefits paid during training (which were sometimes classified as training expenditure by national authorities, including for the Danish Jobraining program) (Grubb & Puymoyen, 2008). These problems also arise in the national data.

The challenges in correctly classifying programs (together with problems with missing data) are illustrated by the large share of program expenditure listed in the ‘other’ (unclassified) category in Table 24 below (especially for the first phase in Australia and the Netherlands).

(2) A comparison of the predominant character of employment assistance based on OECD labour market program expenditure data and national administrative data.

Table 24 uses OECD data (supplemented where appropriate by Eurostat data) to calculate average annual employment assistance expenditures during each phase of activation policy in each country, and the average shares of expenditure devoted to four different types of assistance: job search assistance, training, private wage subsidies, and public wage subsidies.382

381 More detailed program information is available in the Eurostat labour market program data base (including its ‘qualitative data’ describing various programs), but not to the level of specification available in the national data sources (Eurostat, 2000).

382 These data do not commence in 1990, as the activation turn occurred in different years in each country and our purpose here is to compare expenditures related to the development of activation policy in each country.
The final three rows compare assessments of the predominant character of employment assistance for long-term unemployed people based on these OECD data with the conclusions reached using national data in the country chapters (summarised in Chapter 9). Since the character of job search assistance could not be assessed using the OECD data alone, this (along with the ‘other’ category) is excluded from the count except for the purpose of assessing whether the character of income protection, capacity-building or incentive strengthening was ‘modest’ (where less than half of all expenditure had a particular character).

Table 24: Public expenditures on, and predominant character of, employment assistance (based on OECD data)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average expenditure on employment assistance in each phase (per cent)¹</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First phase (1991-1996) per cent of GDP per capita/unemployed</td>
<td>4.8</td>
<td>3.7</td>
<td>22</td>
<td>24.2</td>
</tr>
<tr>
<td>Second phase (1996-2007) per cent of GDP per capita/unemployed</td>
<td>4.7</td>
<td>5.8</td>
<td>19.1</td>
<td>24.2</td>
</tr>
<tr>
<td>Change (percentage points)</td>
<td>-0.1</td>
<td>+2.1</td>
<td>-2.9</td>
<td>0</td>
</tr>
<tr>
<td>Share of expenditure devoted to different program types in each phase (per cent) (with change in brackets, in percentage points)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job search assistance (‘Placement &amp; related services’)</td>
<td>n.a. – 42², (+3)</td>
<td>54 – 57³, (+3)</td>
<td>n.a. - 31³, (+3)</td>
<td>n.a. - 3²</td>
</tr>
<tr>
<td>Training (excluding apprenticeships)</td>
<td>24 - 5 (-19)</td>
<td>35 - 10 (-25)</td>
<td>13 - 15 (+2)</td>
<td>52 - 48⁶, (-4)</td>
</tr>
<tr>
<td>Public wage subsidies (‘Direct job creation’)</td>
<td>22 - 24⁵, (+2)</td>
<td>2 - 2 (0)</td>
<td>28 - 26⁷, (-2)</td>
<td>5 - 0 (-5)</td>
</tr>
<tr>
<td>Private wage subsidies ('Employment incentives')</td>
<td>n.a. - 2 ²</td>
<td>n.a. - 5 ²</td>
<td>7 - 3</td>
<td>30 - 25 ⁸</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Other ²</td>
<td>54 – 27 (-27)</td>
<td>9 - 26 (+17)</td>
<td>52 - 25 (-27)</td>
<td>13 - 24 (+11)</td>
</tr>
</tbody>
</table>

**Predominant character of employment assistance in each phase (derived from the OECD data base)**

<table>
<thead>
<tr>
<th>Predominant character in each phase, based on expenditure on employment assistance ²</th>
<th>From modest capacity-building to income protection</th>
<th>From capacity-building to modest capacity-building</th>
<th>From modest income protection to modest income protection or incentive-strengthening</th>
<th>From capacity-building to capacity-building</th>
</tr>
</thead>
</table>

**Predominant character of employment assistance in each phase (derived from national data in the country chapters)**

<table>
<thead>
<tr>
<th>Predominant character in each phase, based on program places for long-term unemployment insurance recipients</th>
<th>n.a.</th>
<th>n.a.</th>
<th>From modest capacity-building to modest capacity-building</th>
<th>From capacity-building to capacity-building</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominant character in each phase, based on program places for long-term social assistance recipients</td>
<td>From modest capacity-building and then capacity-building to incentive-strengthening</td>
<td>From incentive-strengthening to modest capacity building (and then modest incentive-strengthening)</td>
<td>From income protection to modest income protection</td>
<td>From income protection to income protection</td>
</tr>
</tbody>
</table>

Sources:
OECD social expenditure data base; Country chapters; Eurostat (2007), op cit.

Notes:
n.a. = not applicable or not available

1. Equivalent to data in Figure 21 (excludes disability-specific programs). Note that due to data limitations, statistics for the United Kingdom in the first phase only cover the period from 1990-1997.

2. Reliable data were not available for the first phase for job search assistance (usually provided by the PES) in Australia, Netherlands and Denmark; or private wage subsidies in Australia. Due to these and other data limitations, only 48% of overall spending in that phase is detailed for Australia and only 47% for the Netherlands. These and other un-allocated expenditures in both phases (much of which relate to benefit administration and social security payments) are listed in the ‘other’ category. As indicated, this gives rise to considerable uncertainty regarding the predominant character of employment assistance.
3. For the United Kingdom in 2005, 45% of this amount was devoted to administrative expenses including benefit administration (Eurostat, 2000).

4. For the Netherlands in 2005, only 21% of this amount was for ‘case management’ of unemployed people. Of the remainder, 49% was devoted to unemployment benefit administration and 31% to ‘flexible reintegration budgets’ for municipalities (Eurostat, 2000).

5. For Australia in the first phase this comprised paid work experience (mainly JOBSTART and NWO), while in the second it mainly comprised ‘Work for the Dole’, a work-for-benefits scheme (OECD, 2001b).

6. For Denmark in 2005, 21% of these ‘training’ expenses were for ‘special municipal projects’, which in the present study were categorised as income-protection (Eurostat, 2000). Estimates for Denmark were inflated to an unknown extent by inclusion of benefit payments for trainees.

7. For Denmark in 2005, 95% of these expenses were for municipal wage subsidies (Eurostat, 2000).

8. For Denmark, this category appears to include internships and Individual Job Training as well as the more substantial wage subsidies available through the Private Job Training program.

There are major differences between the predominant character of employment assistance derived from the OECD and national data sets. For Australia in the second phase, the OECD data implies that an income protection was predominant, whereas our assessment based on the national data was that incentive-strengthening predominated. For the United Kingdom, the OECD data suggests that a capacity-building approach was dominant in the first phase (incentive-strengthening from the national data). This discrepancy is due to the higher unit cost of training programs (captured in the OECD data but not the national data, which is based on program places). For the Netherlands and Denmark, the OECD data does not discriminate between assistance for insured and uninsured workers (based on the national data, capacity-building predominated for long-term insured workers in both countries whereas income protection predominated for social assistance recipients).

These differences partly reflect judgements made in this study when interpreting the national data in the country chapters, but also the limited granularity of the OECD data (and, importantly for this study, the much more limited data available in the early 1990s), a common problem with standardised international data sets.

Much progress has been made in standardising international data on benefits and employment services, but the ‘dependent variable problem’ continues to loom large in this area of comparative welfare analysis, especially for research dealing with periods more than a decade ago (Clasen et al., 2016; Vlandas, 2011).
6.4 Employment assistance program evaluation findings

The following summarises the findings of quantitative evaluations of employment assistance programs internationally, especially the ‘net impact studies’ described in Chapter 3.383

In most of these evaluations, the dependent variable was the impact of the program on the probability of being employed or off income support within a fixed period after referral or commencement in the program (Kluve, 2006). This could be measured at a point in time (such as six months after commencement), or as the cumulative transition probability or ‘hazard’. Three program impacts were identified (Meager, 1997). The first was the referral or ‘threat’ effect which was the impact of referral to the program. The second, called the ‘lock-in effect’, was the reduction in the probability of employment caused by suspension of job search while participating in a program. The third, called the ‘program’ or ‘treatment’ effect, was the impact of participation in the program on employment, for example through the acquisition of new skills or work experience. The referral effect typically raised the probability of employment, the lock-in effect typically reduced it, and the program effect typically either increased employment or had no significant impact (Blundell & Costa-Dias, 2008).384

Notwithstanding variations in program impacts for different target groups (for example women, men, and young people), Card, Kluve and Weber (2015) found in their meta-analysis of program evaluations that the effectiveness ‘ranking’ of major program types was consistent across national studies (Card et al., 2015).385

383 Rather than simply measure the probability of transitions to employment or off benefits after joining a program, these studies attempted to measure ‘value-added’ (Kluve, 2006; Meager, 1997, 2009). They did so by comparing outcomes for program participants with a control group with similar characteristics (Blundell & Costa-Dias, 2008).

384 A measure often used to assess the costs and benefits of a program was ‘deadweight cost’, equal to one minus the net impact of the program or the extent to which an unemployed person would have found a job without the program (Meager, 1997). Macroeconomic evaluations also measured the ‘substitution effect’ (the extent to which an employer substituted a program participant for an existing or other prospective employee) and the ‘displacement effect’ (the extent to which employment of an unemployed person in one organisation led reduced employment elsewhere) (Boone & Van Ours, 2004). Substitution and displacement effects were especially important for private wage subsidy schemes since they subsidised employment in the regular labour market, where competitive pressures could trigger those effects, but were not often measured due to the greater methodological challenges involved.

385 Their findings were also broadly consistent with those of Martin and Grubb (2001) and an earlier study by Kluve (2006), which suggests that they are robust.
Table 25 (below) summarises the results from Card, Kluve and Webber (2015). It compares five program types according to their main characteristics, average impacts on the employment of participants from commencement measured over the short, medium and long term (with the ‘high impact’ schemes at the top of the table) and shows the target groups for which each program type was relatively effective.

The programs with the highest average impacts (shaded in blue) were private wage subsidies. ‘Sanctions and referral effects’ and vocational training had moderately positive impacts on average (green shading) while job search assistance and public wage subsidies (orange shading) had small and negative average impacts respectively.

Table 25: Employment program evaluation results (late 1980s to late 2000s)

<table>
<thead>
<tr>
<th>Program type</th>
<th>Main features</th>
<th>Average net employment impacts (percent)</th>
<th>More effective for 2.</th>
<th>Less effective for 2.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private wage subsidies</td>
<td>6-12 months’ partly-subsidised employment in regular jobs</td>
<td>21.2, comprising:</td>
<td>Long-term unemployed; young people; men</td>
<td>Short-term unemployed; older people; women</td>
</tr>
<tr>
<td></td>
<td></td>
<td>short-term: 3.2</td>
<td></td>
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<td></td>
<td></td>
<td>medium-term: 11.7</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>long-term: 5.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanctions and ‘threat’ of referral to programs such as work-for-benefits programs</td>
<td>Referral to programs to test compliance; sanctions for non-compliance</td>
<td>13.7, comprising:</td>
<td>Short-term unemployed; men</td>
<td>Long-term unemployed; women</td>
</tr>
<tr>
<td></td>
<td></td>
<td>short-term: 17.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>medium-term: 14.6</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>long-term: 3.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vocational training</td>
<td>3-24 months’ training in a college and/or work setting</td>
<td>9.7, comprising:</td>
<td>Long-term unemployed; women</td>
<td>Short-term unemployed; young people; men</td>
</tr>
<tr>
<td></td>
<td></td>
<td>short-term: 3.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>medium-term: 14.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job search assistance</td>
<td>3.8, comprising:</td>
<td>Short-term unemployed; older people</td>
<td></td>
<td></td>
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<tr>
<td>------------------------</td>
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<td></td>
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<tr>
<td></td>
<td>short-term: 4.1</td>
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<tr>
<td></td>
<td>medium-term: 4.4</td>
<td></td>
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<tr>
<td></td>
<td>long-term: 2.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public wage subsidies</td>
<td>-2.2, comprising:</td>
<td>Long-term unemployed; older people</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>short-term: -4.2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>medium-term: -2.2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>long-term: 2.5</td>
<td>Short-term unemployed; young people</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources:
Average employment impacts: (Card et al., 2015, tables 3A and 8)
Effectiveness for different target groups: (Martin & Grubb, 2001)

Notes:
Card et al (2015) constructed estimates of the average net employment impacts for different program types over different periods, expressed as the net impact on the employment rate of the treatment group divided by the standard deviation of the employment rate of the control group. The study measured average net impacts for different program types over the short-term (less than 12 months after commencement in a program), medium-term (1-2 years) and long-term (over 2 years).

1. Estimated average increase in probability of employment after program commencement. The average net employment impact of all programs in the studies included in this meta-analysis was +9.2%.

To rank program types according to net employment impact, we describe programs whose average impacts were at least 50% greater than 9.2% as ‘high impact’ (blue), those with an average impact at least 50% less (including negative results) as ‘low impact’ (orange), and the remainder are described as having ‘moderate impact’ (green).

2. These conclusions are derived from Card et al (2015) and Martin & Grubb (2001).
(1) Job search assistance

On average, job search assistance had a relatively small positive impact on the probability of employment that diminished over time. Its modest impact reflected the low intensity of assistance provided. Martin and Grubb (2001) nevertheless regarded it as cost effective due to its low cost (Martin & Grubb, 2001). Job search assistance had a relatively weak impact on the employment prospects of long-term unemployed people since it was insufficient on its own to overcome their barriers to employment (Hasluck & Green, 2007).

(2) Compliance-oriented programs, including work-for-benefits

After the activation turn, job search assistance was closely connected to employment assistance classified by Card et al (2015) as ‘sanctions and threat effects of assignment to a program’. Strictly speaking, this was not a form of employment assistance in its own right, but a by-product of benefit compliance systems and referrals to employment programs. ‘Sanctions and referrals’ had a relatively high impact on employment though this declined sharply over time. They were less effective for long-term unemployed people because the latter usually needed more than better incentives alone to improve their employment prospects (Borland & Tseng, 2007; Clement & Goul Andersen, 2006; Rosholm & Svarer, 2004).

Work-for-benefit schemes belong in the ‘sanctions and referrals’ category since they were typically designed to maximise threat effects on referral. Card et al (2015) do not separately identify the average effects of these programs, so we need to turn to national program evaluations to assess their effectiveness. The British ‘Mandatory Work Activity’ and ‘Community Action Program’ substantially reduced benefit reliance at the point of referral but their impact diminished sharply over time as former recipients returned to the benefit rolls (Department for Work and Pensions, 2012b, 2013). The low employment impacts of participation in these programs was consistent with the low-productivity nature of the work offered, and the participants’ lack of formal employment status (Brock et al., 1993; Gravesteijn-Lighthelm et al., 1999; Johri, 2004).

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386 The ‘Restart’ interviews in the United Kingdom are a good example of a program which combined a threat effect (of referral to an interview with the PES to discuss their efforts to find employment) job search assistance, and referrals to other programs for those assessed as relatively disadvantaged (Wells, 2001).
(3) Private wage subsidies

Private wage subsidies had relatively high employment impacts, which increased over time. Likely reasons included the opportunity given to unemployed people to demonstrate their ability to employers and skills gained during work experience, and the use of these programs by employers to trial employment of more disadvantaged unemployed people without having to commit to employing them permanently (Martin & Grubb 2001). Private wage subsidies had relatively high impacts for long-term unemployed people, though not the most disadvantaged among them (Ehlert, Kluve, & Schaffner, 2012; Graversen & Jensen, 2006; Martin & Grubb, 2001).

(4) Public wage subsidies

Public wage subsidies had a negative employment impact on average due to ‘lock-in effects’ and the poor quality of the work experience typically offered (Martin & Grubb, 2001). Since these programs fully subsidised a wage, they were among the most expensive. ‘Transitional job schemes’ achieved better outcomes than earlier forms of public wage subsidies, due to their targeting to most disadvantaged and greater emphasis on progression to unsubsidised jobs (Bivand, 2006; Bloom, 2010; Finn & Simmonds, 2003).

(5) Training

Vocational training programs were moderately effective, and their average employment impact increased strongly over time. They typically reduced employment during participation in the program due to lock-in effects and increased it over the long-term to the extent that trainees became more competitive in the labour market, although the quality of training offered was variable especially in large-scale programs (Card et al., 2009; Meager, 2009). They were relatively effective for long-term unemployed people, especially for women refreshing their skills after a period of fulltime care for children (Martin & Grubb, 2001).

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387 On the other hand, the net impact of these programs can be exaggerated in evaluations due to selection bias, where employment service providers and employers chose the ‘best’ candidates for placement (Graversen & Jensen, 2006). Displacement and substitution effects were also relatively high, though harder to measure (Boone & Van Ours, 2004).

388 The poor quality of the work experience was due in part to ‘additionality’ requirements, designed to ensure that subsidised jobs added to the overall stock of jobs. This meant in practice that they were low productivity jobs that failed to prepare people for mainstream employment and had little connection with it.
Combining training with paid work experience in a regular job increased its impact since additional skills were gained on the job and (in the case of private wage subsidies) employers often retained trainees after completion (Meager, 2009; Vikstrom, 2015).

(6) Social activation and support

Social activation and support programs were not specifically identified in Card et al (2015) and have not been as well evaluated as other program types. As with training, one challenge in measuring their net employment impact is that any positive impact may take years to emerge, given the high labour market disadvantage of participants (OECD, 2012). Nevertheless, national evaluations of these programs have identified substantial lock-in effects from program participation without finding that they increased employment later. Consequently, they found that the programs had a negative impact on employment (Department of Education Employment and Workplace Relations, 2010a; Graversen & Weise, 2001; OECD, 2012; Rosholm, 2011; Work and Income Inspectorate, 2006).389

(7) Performance-based purchasing of employment services

Since performance-based purchasing of employment services (including the Job Network and Flexible New Deal) was equivalent to job search assistance combined with benefit compliance management, its employment impacts would ordinarily lie between those for job search assistance and sanctions and referrals in Card et al’s schema.390

389 There is some evidence to suggest that programs which combined social support and mentoring of deeply disadvantaged unemployed people (such as released prisoners or people with a psychotic illness) with early placement in a regular job together with mentoring to help them keep it, were more effective than those offering a sequence of social support followed by placement in open or subsidised employment, though the former approach was rarely used during the study period (Bowman & Taylor, 2010; Maynard, 1979).

390 These outsourced services often provided assistance previously offered by the PES. Where evaluators had the opportunity to compare their net employment impacts with those of the PES they often found little difference (Council for Work and Income, 2008; Griffiths & Durkin, 2007; Koning, 2009; Rehwald, Rosholm, & Svarer, 2015).
Attachment 7: Indicators of family workforce participation and care

The derivation and sources of the data in Table 15 on family workforce participation (shown again below as Table 26) are detailed below. 391

Table 26: Family workforce participation and care (1990-2007)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model of family workforce participation 1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>One and a half earner: 55% of mothers employed; (58% part-time)</td>
<td>One and a half earner: 58% of mothers employed; (53% part-time)</td>
<td>Male breadwinner: 45% of mothers employed; (87% part time)</td>
<td>Dual earner: 77% of mothers employed; (34%part time)</td>
</tr>
<tr>
<td>2006</td>
<td>One and a half earner: 61% of mothers employed; (61% part-time)</td>
<td>One and a half earner: 64% of mothers employed; (53% part-time)</td>
<td>One and a half earner: 74% of mothers employed; (76% part time)</td>
<td>Dual earner: 76% of mothers employed; (30% part time)</td>
</tr>
<tr>
<td>Participation in formal child care (0-2years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998 (percent of children)</td>
<td>15</td>
<td>34</td>
<td>6</td>
<td>64</td>
</tr>
<tr>
<td>2006 (percent of children)</td>
<td>25</td>
<td>40</td>
<td>54</td>
<td>63</td>
</tr>
</tbody>
</table>

391 Due the challenges of locating comparable data on this topic over a long time period, the data below do not consistently relate to the same year in every country, and parents with children of the same age.
<table>
<thead>
<tr>
<th>Average cost of fulltime day care for a two year-old</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 (percent of average wage)</td>
</tr>
<tr>
<td>22</td>
</tr>
<tr>
<td>25</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>8</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of sole parent families among all families with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 (percent)</td>
</tr>
<tr>
<td>n.a.</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>n.a.</td>
</tr>
<tr>
<td>2005 (percent)</td>
</tr>
<tr>
<td>16 (87)</td>
</tr>
<tr>
<td>26 (87)</td>
</tr>
<tr>
<td>16 (85)</td>
</tr>
<tr>
<td>18 (85)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment rate of sole parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 (percent)</td>
</tr>
<tr>
<td>44</td>
</tr>
<tr>
<td>42</td>
</tr>
<tr>
<td>34</td>
</tr>
<tr>
<td>81</td>
</tr>
<tr>
<td>2007 (percent)</td>
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<tr>
<td>54</td>
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<tr>
<td>51</td>
</tr>
<tr>
<td>63</td>
</tr>
<tr>
<td>82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age-of-youngest-child thresholds for activity requirements for sole parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
</tr>
<tr>
<td>Youngest child &gt;15yrs</td>
</tr>
<tr>
<td>Youngest child &gt;15yrs</td>
</tr>
<tr>
<td>Youngest child &gt;4yrs</td>
</tr>
<tr>
<td>Youngest child &gt;1yr, with local discretion</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>Youngest child &gt;5yrs (part-time job requirements)</td>
</tr>
<tr>
<td>Youngest child &gt;11yrs (part-time job requirements)</td>
</tr>
<tr>
<td>From local discretion to youngest child &gt;4yrs</td>
</tr>
<tr>
<td>Youngest child &gt;1yr, with local discretion</td>
</tr>
</tbody>
</table>

Notes:
Classification scheme:
For models of family workforce participation: blue = male-breadwinner; green = one-and-a-half-earner; orange = dual-earner.
For other variables: green = ‘medium’ scores within 10 percentage points above or below the (OECD or EU) average value for the relevant statistic; blue = scores above or below these.
levels, indicating 'low' workforce participation and support; orange = scores above or below these levels, indicating 'high' workforce participation and support.

n.a. = not available

1. ‘Male breadwinner’ = most mothers not employed; ‘one-and-a-half earner’ = most mothers employed but over half of these part time; ‘dual-earner’ = most mothers employed and half or more employed full time.

2. Age of youngest child at which activity requirements (including active job search and participation in employment programs) commenced for recipients of Social Assistance. Part time requirements = only required to search for and accept part time employment. Activity requirements for sole parents changed in 2007 in the Netherlands, from a default requirement to search for jobs and join employment programs (with local discretion to exempt) to a general exemption for those with pre-school-age children.

The sources for Table 26, and a description of the data used, are detailed below.

7.1 Maternal employment

Maternal employment in 1990:

In Netherlands and United Kingdom, these statistics refer to mothers whose youngest child was under 14 years; For Australia and Denmark, the youngest child was under 16 years. The EU-average maternal employment rate (youngest child <14 years) was 55%.

Sources: Le Feuvre, N (1996); OECD (2004a).

Part-time share of maternal employment in the 1990s:

Data for Netherlands, UK and Denmark are for 1993, for mothers aged 20-39 with youngest child <12 years; Data for Australia are for 1990 (all mothers with youngest child <16 years). Average (of 12 OECD countries in 2000) was 18% (with youngest child <15 years).

Sources: Rubery J, et al (1998); Australian Council of Social Service (2003); OECD (various years b).

Maternal employment in 2007:

The statistic for Denmark is for 2003-05 for mothers 20-49 years old with youngest child <12 years. In the other countries, data refer to 2006 and the youngest child is <15 years. The OECD average in 2006 was 67% (with youngest child <15 years).

Sources: Lewis J, et al (2008); OECD (various years b).

Part-time share of maternal employment in the 2000s:

Data for Denmark are for 2003-05 for mothers 20-49 years with youngest child <12 years; data for other countries are for mothers with youngest child <15 years in 2006; OECD average in 2006 was 18% (with youngest child <15 years)

Sources: Lewis, J, et al (2008); OECD (various years b).
7.2 Participation in, and cost of, formal child care services

Share of children 0-2 years in formal child care: OECD average was 25% in 1998 and 28% in 2006.\(^\text{392}\)

Average cost for a 2 year-old in fulltime care in 2004, as a % of average fulltime wage. OECD average was 16%

Sources: OECD (2001a); OECD (2007b); OECD (various years b).

7.3 Sole parents and employment

Share of families that were sole parent families, and gender of parent

Of all families with children <15 years. OECD average was 20% in 2006. n.a. = not available.

Sources: OECD (2001a); OECD (various years b).

Sole parent employment rates


Sources: OECD (various years b); OECD (2004a); OECD (2007b).

7.4 Activity requirements for sole parents receiving benefits

‘Part time jobs’ refers to requirements to seek part-time employment only. Variations in standard requirements in 1990 to 2007 are shown for Australia, United Kingdom and Netherlands. National policy settings remained the same in Denmark.

In Australia, those with children over 15 years were activated in 1990, extending to those with children 5-15 years in 2007.

In the United Kingdom, those with children over 15 years were activated in 1990. This was extended to those with children over 12-15 years in October 2008, and 7-11 years in 2010.

In the Netherlands, those with children over 4 years were activated in 1996; extending to all in 2004 (with municipal discretion to exempt), but the national exemption for those with a child under 5 years was restored in 2007.

In Denmark, those with children 1 year+ were activated, with municipal discretion to exempt.

Exemptions from requirements for municipal social assistance clients were widespread in Denmark (43% in 2008) and the Netherlands (40% in 2008), but this includes recipients other than sole parents. In the Netherlands in 2007, 27% of social assistance recipients were sole parents and 11% of all social assistance recipients were exempted on child care grounds Ministry for Social Affairs and Employment (2007).


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\(^{392}\) Child care services for infant children were chosen as the benchmark, since there was much greater international variation in use of those services, than services for older children.
Attachment 8: Sweden and the United States - activation pioneers

Sweden (an archetypal Social Democratic welfare regime) and the United States (an archetypal Liberal welfare regime) were prominent early adopters of activation policies, and as such had a major influence on activation policies adopted elsewhere. During the 1980s and 1990s, these countries occupied two poles in international policy debate over solutions to unemployment (Freeman, 1998; Weishaupt, 2011).

There were significant similarities and differences between Swedish and American activation policies. The policies converged around more stringent and widely applied activity requirements and a shared emphasis on job search assistance and transitions to employment. They diverged between the higher and more widely available social security payments and investment in capacity-building employment assistance for unemployed people in Sweden, and the more limited income protection afforded to unemployed people in the United States, together with a stronger focus in that country on financial incentives and in-work payments.

8.1 The ‘work line’ in Sweden

Sweden was among the first countries to adopt policies resembling the ‘mature’ (post 1990) activation systems discussed in this thesis. These formed part of the broader ‘Swedish model’ of economic and social policy developed in the 1950s and 1960s that prioritised high employment and low income inequality (Bonoli, 2013). A key element of this model was ‘manpower planning’ to sustain low unemployment, raise workforce skills and productivity, and curb inflation in the face of labour shortages (Hort, 2001; Meidner, 1993; OECD, 1991; Weishaupt, 2011) Swedish manpower planning was especially influential in the Nordic countries and played a central role in the emerging Social Democratic welfare regime (Esping Andersen, 1990; Halvorsen & Jensen, 2004):

‘Denmark was inspired by Sweden. It did not copy the Swedish [activation] program but they were inspired when they introduced this active labour market policy.’ (Academic 1, Denmark)

The ideological well-spring of Swedish manpower planning policies was the ‘work line’ (Esping Andersen, 2003). This referred to a concerted effort to mobilise active participation in the workforce, especially among groups neglected (or deliberately excluded) by employment policy in other countries such as women, mature age workers, and people unemployed long-term (Esping Andersen, 1999). While the state embraced a responsibility to shield unemployed people from poverty with generous and widely-
available benefits, it expected recipients to ‘do their duty’ by participating in the labour market and in ‘labour market programs’ to improve their skills (Dolvik et al., 2015; Johansson & Hvinden, 2007).\(^{393}\)

The persistence of high unemployment after a severe recession in 1992, and doubts about the effectiveness of large-scale public wage subsidies in improving employability later tarnished Sweden’s reputation for successful labour market policies (Aberg, 2001; Forslund & Kreuger, 2008; Meidner, 1997).

### 8.2 ‘Work first’ in the United States

Just as Sweden was an early reference point for activation policies within the Social Democratic welfare regime, the United States was an early reference point for the Liberal regime (Casey, 2009).

The twin ideological pillars of the American welfare state were the desirability of paid work in its own right (as in Sweden) and a strong tradition of ‘self-help’ (in contrast to Sweden) (Ellwood, 2000; Mead, 1997). Social security for Americans of working age offered much weaker income protection than in most OECD countries (Haveman, 2001).\(^{394}\)

The United States’ main contribution to activation policies was its early emphasis on financial work incentives.\(^{395}\) Work incentives were strengthened in three ways: by restricting access to public income support, introducing and expanding tax credits for low-paid workers (especially the Earned Income Tax Credit), and strict job search requirements (Ashenfelter, Ashmore, & Deschênes, 2005; Blank, 2000; Katz & Meyer, 1988; Ventry, 2000).\(^{396}\)

\(^{393}\) In 1990 Swedish public expenditures on these programs were the highest in the OECD at 1.6% of GDP compared with an OECD average figure of 0.5% (OECD, 2013b).

\(^{394}\) Unemployment insurance expired after 6 months and cash benefits for long-term jobless people of working age were largely confined to a national scheme for people with disabilities and the Assistance for Families with Dependent Children (AFDC) program for sole parents.

\(^{395}\) In contrast to Sweden, the United States lagged other OECD countries in its investment in employment assistance (Wilenski, 1992).

\(^{396}\) As declining minimum wages threatened incentives to leave income support, in-work payments expanded at the expense of traditional social assistance benefits. Social assistance payments for sole parents were reduced in many States through lack of indexation, and the Earned Income Tax Credit (EITC) introduced in the early 1970s (which was restricted to families in paid employment) was boosted (Immervoll & Pearson, 2009).
In the mid-1990s, its ‘work first’ approach to employment assistance attracted international interest (Blank, 2000). This was part of the Clinton administration’s 1996 ‘Welfare to Work’ policy which promised to ‘end welfare as we know it’ (Ellwood, 2000). Legal entitlements to income support were removed and replaced them with a system of block funding to States for income support and employment assistance subject to a requirement that they impose work-oriented activity requirements on a minimum proportion of recipients.

The work first approach prioritised quick transitions to low-skilled employment over investment in longer training programs (badged ‘human capital development’) to prepare people for higher-skilled jobs (Bloom & Michalopoulou, 2001). Both the language and policy of work first were later adopted to varying degrees by other countries including the Netherlands and Australia (Australian Government, 2005; Sol, 2007).

In contrast to Sweden, the American Welfare to Work policy was not accompanied by major new investment in employment assistance. Instead, the Earned Income Tax Credit was increased substantially to boost work incentives (Blank, 2000).

The United States was also one of the first countries to apply NPM principles systematically to employment assistance, through performance-based contracting of employment assistance to private providers (Finn, 2007; Heckman, Smith, & Taber, 1996).

[397 At less than 0.2% of GDP from 1990 to 2005, expenditure on employment assistance remained among the lowest in the OECD (OECD, 2006, 2013b).]
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