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Employment policy from different angles



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Activating Germany

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Germany – from ‘inactivity’ to hyper-activation?

The changes in German labour market policies during the past three years certainly count among the most amazing developments in social policies that occurred in the Western world during that time. Social policy experts had predicted that the 1998 change to a ‘red-green’ government would completely bring to a halt or even reverse the tendencies towards change, slight as they had been, of the previous decade (Wood 2001; Kitschelt 2001). Yet in contrast to such predictions labour market policies in Germany gained momentum from the year 2002 onwards which resulted in rather drastic change. Indeed, while the red-green government, under the heading of ‘Agenda 2010’, proposed to completely modernise social policies to create a ‘sustainable’ system of social protection there were only moderate changes in a number of fields such as old-age pensions or health insurance. In contrast, the shift in labour market policies from a system that was accused of encouraging the ‘passivity’ of the unemployed towards a system that aims to increase their ‘activation’ was quite remarkable.²

However, the precise nature of the changes and their effects defy quick and easy evaluation. If the wave of demonstrations in a number of German cities in summer 2004 is an indication of what (parts of) the public consider most important, one might judge that it is the cuts in benefits for the long-term unemployed that are at the core of the reform. Important as they are, they are just one piece of a much larger puzzle, however. Indeed, if the reforms have anything to recommend them it is the fact that they do not attempt to change just a circumscribed number of features of the old system. Rather, a complete overhaul of the system of labour market poli-

¹ I wish to express my gratitude to the editors of this book and to Uta Liebeskind, whose critical comments on a first version of this text prompted me to rethink and, hopefully, to improve my argument. Thanks also to Manuela Thurner for correcting several instances of unkind treatment of the English language. Of course, none of them is responsible for the final outcome.

² For this reason, this chapter will focus exclusively on labour market policies in the narrow sense of policies directed at the unemployed, even though I am fully aware that activation generally can (and should) have a much broader meaning (see Barbier 2004; Barbier & Ludwig-Mayerhofer 2004). I also have to qualify some of the views put forward in an earlier paper (Ludwig-Mayerhofer & Wroblewski 2004) in which I expressed doubts about the range of the reforms. As the final round of negotiations about the reforms had not been completed when this earlier paper was written, the degree of change eventually to result could not be foreseen entirely.

cies was initiated (even though some might argue that the reform was not far-reaching enough as it focused on labour market policies only and did not provide more flexibility for the labour market as a whole). One important piece most dear to the federal government, is the re-design of the Public Employment Service (PES), i.e. what was previously called the Federal Employment Office (*Bundesanstalt für Arbeit*) and has been re-named the Federal Employment Agency (*Bundesagentur für Arbeit*). The cuts in benefits mentioned above are related to one aspect of this re-design, the merging of two types of benefits: unemployment assistance (*Arbeitslosenhilfe*), available until the end of 2004 to the long-term unemployed, and basic social assistance (*Sozialhilfe*), securing a minimum standard for those with insufficient or no financial means. This merging of benefits into the new *Arbeitslosengeld II* ('unemployment benefit II') was a corollary of the attempt to create a 'single gateway' for the long-term unemployed (Clasen et al 2001) (see section 3 below). Moreover, reconstruction of the PES does not only concern its internal fabric, it is also related to the types of services offered to the unemployed and to employers and the ways services are delivered and allocated. As a consequence, the reform cannot be described in simple terms like 'more flexibility', 'better services' or 'increasing incentives for the unemployed'.

The history of the reform does not provide much of a clue to understanding its consequences. As the following sections will make clear, many of its elements are in line with trends that can be observed elsewhere: the increasing pressure on the unemployed to seek jobs and the provision of more 'positive' incentives such as better services. But the way these changes have been proposed and implemented makes it difficult to judge whether this is an act of 'policy learning' (see Kemmerling & Bruttel 2005)³ Much of the basic design of the reform comes from the report of the 'Hartz Commission', a group of 15 'experts' from very different backgrounds, which was established in February 2002 after a media campaign about the problems of the Public Employment Service (PES). The Hartz Commission report only occasionally alludes to developments observed elsewhere or to external influences – such as, for example, the Amsterdam Treaty and the Lisbon Summit – and generally refrains from any specific references to the experiences made in other countries or to scientific evaluations of such experiences.⁴ A possible explanation is that it makes the propositions of the commission look more ingenious and original, an impression that certainly did not displease Chancellor Gerhard Schröder and Federal Minister for Economics and Labour Wolfgang Clement who claimed

implement the commission's propositions exactly as stated in the report.⁵ Likewise, the reforms cannot be explained in terms of 'welfare state retrenchment'. Even though it is now consensus omnium (or nearly so) that the welfare state has to be cut back and even though the Hartz reforms are justified by some with the urgent need to reduce spending on unemployment (Zimmermann 2005), it is simply impossible to make any statements about the ultimate fiscal outcome of the reforms.⁶

In fact, in early spring 2005 newspaper reports claimed that the reform would entail much higher costs than originally anticipated and Federal Minister Clement was hard-pressed to declare that he had not deliberately miscalculated the costs of the reforms, arguing that cost containment, after all, had not been at their core. Possibly the best perspective from which to explain the coming into being of the reforms is a 'symbolic politics' framework, as – at least in my opinion – many measures, and in particular their sheer number, are designed to impress the public and to demonstrate that the government is willing and able to fight unemployment and to 'modernize' the system of social security. 'Bring much and you'll bring this or that to everyone' – the words spoken by the manager in the prologue to Goethe's *Faust* – might have been the secret motto of the reforms.⁷

Yet, this is not meant to say that it is 'just' symbolic politics and nothing else; on the contrary, the changes will have thorough and far-reaching consequences. I am not so much, however, referring to the official label of the reform in terms of '*fördern und fordern*' ('promoting and demanding'), which implies that the welfare state and more specifically labour market policies of the past had been too soft and too generous towards the unemployed and therefore had rendered them 'passive'. But the consequences of the reforms in terms of reduction of the level of benefits as such should not be overestimated; while certainly new hardships will arise for

³ The first and to my knowledge only study of the proceedings of the commission (Weimar 2004, pp. 100-7) shows that the commission by and large did *not* first try to obtain a coherent picture of the problems of the labour market and the PES and then to develop a set of measures to tackle these problems. Given the heterogeneous backgrounds of the commission members such a procedure indeed would have been very unlikely. The basic content of the commission report was developed by its head, Peter Hartz, Volkswagen's personnel director, after the commission had reached a deadlock, and was presented in a commission session in June 2002 to the surprise of its members. It met with approval, however, as each commission member found some of his or her ideas represented in the report. In the words of Anne-Marie Weimar (assistant to one of the commission members and participant of many commission meetings): "*All commission members rode their hobbyhorses, so to speak, which were more or less taken into consideration in the thirteen modules [of the report, WL-M] or at least in the conceptual and strategic statements*" (Weimar 2004: 178, my translation).

⁴ The reason for this is to be seen in the complicated fabric of the new services for the unemployed that combines federal and municipal institutions. The creation of these services involved complex negotiations and financial transactions between both levels without any precise figures on which to base calculations. A full discussion of the details is beyond the scope of this chapter.

⁷ That is, even though I have expressed sympathy for attempting to completely overhaul the system of labour market policies, I would be more convinced if there actually had been a *coherent* reform. The following sections – and particularly section 4 – will outline in more detail what I see as basic ambiguities and inconsistencies which make me arrive at a more negative assessment.

³ The article by Kemmerling and Bruttel can serve as an additional brief 'guide' to the reform in Germany for an English-speaking public.

⁴ This is not meant to deny that most likely there *has been* a certain amount of 'policy learning', i.e. importing measures from abroad, such as the idea of the 'JobCenter' (despite its 'American English' spelling). But 'policy learning' was not used to justify the proposed measures, and it is therefore difficult to assess the degree to which it took place.

some, a change for better will occur for others, and at any rate the accusations that poverty is likely to increase only mirror the claims that the unemployed had been too well off and therefore had been lacking incentives to seek work.⁸ The significant effects of the reforms are more general and concern three different, but related, levels:

First, the (implicit) fundamental 'contract' governing the 'give and take' between the state and the unemployed has been altered. The earlier contract had been based on the notion that social security was granted as a reward for the previous contributions of the unemployed person to the collective wealth, and hence the benefits an unemployed person could receive were related to previous status and income (this is one important aspect of Esping-Andersen's [1990] concept of 'stratification'). The new contract implied by the recent reforms, especially those in effect since January 2005, makes benefits (except for an initial period) contingent on the unemployed person's future prospects, i.e. his or her 'employability' – or rather, his or her continuous *demonstration* of the 'willingness to work' – at the neglect of past contributions and merits.⁹ On the contrary, the long-term unemployed will be subject to the principle of 'subsidiarity' (meaning that public support will be subsidiary to self-help), which implies that they have to exhaust nearly all of their means before they can receive help from the state. It should be added that the earlier contract had, in practice, increasingly been violated during the past two decades, as growing numbers of long-term unemployed had to resort to second-rate *Arbeitslosenhilfe* and possibly to *Sozialhilfe*; but much had been done to keep up appearances, and in fact earlier measures by municipalities and the PES alike had helped many long-term unemployed to re-acquire entitlements to ('first-rate') benefits of the *Arbeitslosengeld* type. However, under the new regime these roads 'back to *Arbeitslosengeld*' have been blocked almost completely.

Therefore, *second*, this change of contract, even though primarily endowed with symbolic force that signals a re-arrangement of the relationship between the individual and the collective, reaches beyond the symbolic level. What now appears more clearly and will most likely become even stronger in the future is a *social-administrative-economic cleavage* between two types of unemployed, namely the 'good' and the 'bad risks', defined primarily by the duration of unemployment. The

⁸ In the light of recent research about poverty rates among the unemployed and especially the long-term unemployed in Germany, such claims are hardly justified; see Esping-Andersen et al (2002: 42); Hauser & Nolan (2000: 43); Nolan et al (2000: 93).

⁹ One recent eulogy of the reforms, claiming that they represent the turn of an era ('*Zeitenwende*'), puts it as follows: "*Society's solidary support in the case of unemployment and social need of those able to work is linked to the obligation to work, if possible, in exchange for this help*" (Zimmermann 2005: 5, my translation). This is true inasmuch as anybody offered a 'work opportunity' (see below) is obliged to comply on penalty of reduction of payments. First, however, these work opportunities are not meant as a *quid pro quo* for unemployment compensation but rather as a 'therapeutic' device to help maintain or foster the work morale, and second, there are far too few of them to reach even a substantive share of the unemployed. The only obligation that seems to be put into practice on a larger scale is that of *seeking work*.

former will be entitled, albeit for a short period, to the traditional more generous type of compensation (i.e. *Arbeitslosengeld*, related to previous income) and may be the subject of much effort of the PES to bring them back to work. The rights and benefits of the 'bad risks', i.e. the long-term unemployed, will be reduced, which is justified at the level of public discourse by accusations (often implicit, but sometimes quite overt) that they have deserved their fate because of their 'idleness' or by derogations such as 'sick', 'disabled', etc.

Third, the changes do not simply imply surrender to the forces of the market, as some accuse the government of being influenced too much by neo-liberal ideas. It is true that a number of changes have introduced a more market-oriented approach, but at the same time the role of the state will continue to be paramount, at least as long as the level of unemployment in Germany will remain high. In fact, the role of the state is likely to increase, but at the same time it will change its nature in profound ways.

In what follows, I will try to make sense of these remarks by outlining in more detail the basic features of German labour market policies, contrasting old and new policies. It should be kept in mind that important elements of the reforms are still underway, and therefore parts of this assessment must be considered preliminary. Yet, all of the reforms that have been planned since 2002 have been implemented by late summer of the year 2004, at least on the legal level. Thus, we now have a clearer picture of the basic features of the reforms in theory, though not always on the level of day-to-day routine on the shop-floor. The latter of course still leaves room for developments; the outcomes of which cannot yet be assessed with certainty.

Labour market policies and public employment service until 2002: the growth of a benevolent dinosaur

Social policy experts during the 1990s and the early 2000s used to depict German labour market policies and the situation of the German welfare state and its prospects for reform more generally, in rather negative terms (e.g., Esping-Andersen et al 2002). Such judgments, however, necessarily depend on the standpoint of those who make them; the negative image of German labour market policies has surfaced only recently. For instance, an earlier in-depth comparison of active labour market policies in the United States and the Federal Republic of Germany voiced much praise for the wide range of measures available in Germany and used it as a background against which to make the failures of US labour market policies stand out more graphically (Janoski 1991). Indeed, if we take into consideration the amount of money spent for active labour market policies and the large number of people participating in training measures and in job creation schemes, Germany always was to be found in the middle range of the OECD countries (Ludwig-Mayerhofer & Wroblewski 2004). Though perhaps not with regard to the amount of money spent, and certainly not with regard to the inclusion of women in the labour market, the

basic 'philosophy' of German active labour market policies during the 1970s and 1980s was very close to that of Sweden (cf. the outline in Hort 2001: 249).¹⁰ In other words, labour market policies were based on a 'human capital' or 'man-power' approach the basic aim of which was to upgrade the labour force. In the early days of 'late-*Wirtschaftswunder*' labour market policies, as expressed in the *Arbeitsförderungsgesetz* ('Federal Employment Promotion Act') of 1969, not only the unemployed but also persons with insufficient training were entitled to long-range training measures, receiving generous support during these measures and even for six months afterwards if they did not immediately find a job. Thus, active labour market policies offered possibilities of upgrading the labour force, both to the benefit of the individual (upwards mobility) and the collective (maintaining a well-trained labour force).

While the right to training was related to the future career of the individual worker, the Bismarckian principle of social insurance expressed the same idea with respect to unemployment compensation, albeit looking backwards to take into account the individual's past contribution to the 'wealth of the nation'. A person becoming unemployed was entitled to *Arbeitslosengeld* ('unemployment benefit') for a certain period if s/he had an employment record of at least one year during the past few years. This benefit initially amounted to more than two thirds of the previous income (with an in-built ceiling)¹¹ and thus rewarded (in the eyes of the recipients) previous diligence and effort; the higher an individual's achievements during his or her employment career, the higher the benefits. When unemployment benefits were exhausted after 6 to 12 months,¹² the unemployed could apply for *Arbeitslosenhilfe* ('unemployment assistance') which was still related to previous earnings, but on a lower level of initially about 60 percent. This 'equivalence principle' according to which unemployment compensation was paid in proportion to earlier income was complemented by the principle of 'occupational protection' that defined the 'suitable job' an unemployed person had to accept as more or less adequate to the position s/he held before becoming unemployed.

Recent discussions of the failures of German labour market policies and its allegedly 'passivating' mechanisms focused largely on two features: First, economists claimed that unemployment compensation was too generous, thus providing

¹⁰ It is also interesting to note the resemblance between the Swedish and the German system in another respect, namely the division of responsibility between the national level (labour market policies, social insurance) and the level of municipalities (social assistance to those unable to participate in paid work; see again Hort 2001). Parallels can also be seen in the developments of these systems; for instance, Sweden abandoned the idea of 'poor relief' in favour of that of social assistance in the mid-1950s, and Germany did so a few years later, in 1961. This is not meant to deny the considerable differences between both countries concerning much detail.

¹¹ All contributions to social insurance, and therefore all benefits, are subject to an upper limit ('*Einkommensgrenze*'); persons with an income above this limit had to pay contributions only in proportion to their income up to this limit.

¹² For the 'elderly' (i.e. persons aged 45 or more!) this period was extended to 18 to 36 months on a sliding scale depending on their age in the mid-1980s.

too few incentives to seek work. Second, the PES was accused of being quite ineffective, with its staff spending most of their time on administrative routine, thus being unable to deliver efficient services to both job-seekers and employers. At the same time, PES staff was said to be too 'soft' on job-seekers; even though precise numbers were lacking, it was suspected that sanctions were frequently evaded by PES staff on account of being considered too harsh.

Even though some of these claims have a ring of truth, in current discourse they have a strong touch of 'blaming the victim'. They neglect the fact that most of the unemployed did seek jobs (estimates are that 80 to 90 percent did so, see Miegel & Wahl 2002; Brixey et al 2002), and that there was much turnover among the unemployed. For instance, in 2003 and 2004, 4.1 and 4.2 million people respectively became unemployed, but in the same years 3.6 and 3.3 million persons respectively left unemployment to take up a regular job, with others entering training or labour market measures. These figures, almost equalling those of the average yearly stock of unemployment, make it clear that there cannot be much truth to the picture of the 'social hammock' that was often used to characterise the safety net provided for the unemployed.¹³ The public demonstrations in summer 2004, mostly in East German cities, against the cut-backs of unemployment compensation (to be outlined in more detail below) were basically due to the indignation of unemployed East Germans who instead of being offered employment opportunities were faced with accusations of being too lazy (and too well supported) to look for jobs and therefore needing more 'incentives' to do so. Indeed, not least after several cut-backs in benefits during the 1980s and 1990s, and after many years of growing long-term unemployment, it is difficult to maintain that unemployment compensation – especially *Arbeitslosenhilfe* – had been too high; many of its recipients had to claim additional support from *Sozialhilfe*, i.e. basic social assistance, because payments from the

¹³ It is not true that the German system of unemployment benefits did (or does) work against activation, as has been claimed by authors who suppose that the unemployed in Germany can receive benefits without any obligations (Bonoli & Sarfati 2002: 478-479). This claim is based on the assumption that the principle of social insurance endows those who have contributed to the system with unrestricted 'property rights' or entitlements towards social insurance. Yet, unemployment benefits have never been available unconditionally. Those who had quit their job on their own initiative suffered complete withdrawal of benefits for three months, as did those who rejected jobs offered by the PES; repeated refusal to accept a job resulted in complete loss of entitlement. Refusal to co-operate with the PES or to engage in job-seeking was to be punished as well. That these rules were not much applied in practice first and foremost has to do with the fact that most of the unemployed did actively seek work and were happy to receive job offers; as there were even not enough jobs for the 'willing and able', why punish the minority not looking for work? In addition, it is not clear whether generous entitlements actually make people more passive, as is implied by such an argument as well as by the designation of benefit payments as 'passive' labour market policies. As these entitlements are acquired through a history of continuous paid work over a period of several years, they can be considered an incentive to take up work. See Sinfield (2001) for a critical discussion of the notion of 'passive' labour market policies.

PES were even below the *Sozialhilfe* level which defines the German poverty level.¹⁴

Likewise, whereas it is certainly true that the PES was not very effective concerning job placement, it is less clear to which extent this caused serious problems on the labour market. Obviously employers and job-seekers were by and large able to manage without much effort on part of the PES. It is estimated that not more than a third of all vacancies were reported to the PES whereas the majority of job placements was effected via networks, direct applications of job-seekers with prospective employers, newspaper ads, and similar channels. While more effective job placement strategies on part of the PES were, and are, certainly desirable, it would be wrong to say that they were at the core of Germany's labour market problems.

A bigger yet much more rarely discussed problem was the demise of active labour market policies. Indeed, soon after the first labour market crisis in the mid-1970s, the entitlement of individuals to training measures – and to the accompanying payments – was severely curtailed. Job-creation schemes that had become popular among some during the 1980s and especially in East Germany during the 1990s always were under attack as subsidies that undermined the appropriate functioning of market and thus were not considered a serious way of coping with unemployment;¹⁵ wage subsidies for firms offering jobs to the 'hard-to-place' likewise were too few and far between to alleviate the situation. As far as training measures were concerned, one major problem was the corporatist nature of their implementation at the local and regional levels. Many of the enterprises offering training measures were run either by employers' associations or by trade unions, and representatives of both groups were also (co-)managing the PES both on the federal and local levels. Thus unemployed persons were sent to training measures not only in accordance with their own needs or the requirements of the labour market, but also in ways that supported the established system of training institutions.

Thus, there is more than a grain of truth in the views of those who see the malfunctioning of (traditional) German labour market policies in masking unemployment (Wood 2001), especially in East Germany. But I would like to go even further and claim that these labour market policies helped to create and maintain the illusion that the 'implicit contract' of rewarding the previous contributions of the unemployed to the German economy – through benefits and labour market measures – was still intact. In fact, this contract had been undermined to a considerable degree for an increasing number of long-term unemployed who, in addition to the often meagre *Arbeitslosenhilfe*, had to rely on *Sozialhilfe* payments, thus receiving financial support that was only related to 'need' and not to their previous labour

market career. Likewise, the principle of occupational protection had been eroded to a considerable degree in 1997, when it was decided that after six months of unemployment any job had to be accepted that paid at least the amount of unemployment compensation. Given the replacement rates of *Arbeitslosengeld* and *Arbeitslosenhilfe*, this could result in downward career trajectories. But these developments were counteracted by deploying both training measures and job-creation schemes as means to either prolong or help re-acquire entitlements to *Arbeitslosengeld*. It is true that the unemployed would have preferred employment over such 'labour market measure careers' and from this perspective the measures were ineffective; but given the absence of jobs such measures at least served to create the illusion that one was still attached to the labour market, if only indirectly, and still entitled to receive unemployment benefits on account both of one's job history and one's participation in whatever measures the PES had to offer.¹⁶ It should be added that the measures of early retirement, employed to a considerable extent during the 1990s to 'free' the labour market for the cohorts of young entrants (Manow & Seils 2000), likewise fit into this picture of 'keeping up appearances'; even though early retirement measures conveyed a message of their recipients being ready for the scrap-heap, they also implied respect for their recipients' life-time achievements.

Changes since 2002

The changes that have been brought into effect since 2002, most of them as a result of the Hartz Commission report, are complex and multifarious. They concern the organisational fabric of the PES and a number of related institutions, the rights and obligations of job-seekers and unemployed (and their families) including further changes in the notion of 'suitable job', and finally a large number of measures that are to ease the transition into employment.

As already mentioned above, the first and foremost task of the Hartz Commission was to design a new fabric for the Federal Labour Office and its individual branches on the regional and local levels, which was to improve 'customer orientation' (both towards job-seekers and employers). These changes (like creating separate staffs for benefit payment and for services in order to free the latter from the tedious task of benefit administration) are supplemented by changes in management and controlling; means are allocated to individual branches of the Agency (i.e. the local or regional offices, or *Agenturen für Arbeit* ['Job Agencies']) according to their effectiveness, with 'management by objectives' as the new philosophy

¹⁴ It should be added that research on *Sozialhilfe* recipients who, some claimed, were in an even better position as their payments were not conditional on seeking work, likewise demonstrated that most of them exhibited rather short spells of benefit receipt, particularly those who had held a job prior to receiving *Sozialhilfe* (Leisering & Leibfried 1999; Andreß 1994; Gebauer et al 2002).

¹⁵ This is not least due to the influence of employers' organisations on the Federal Employment Office; it was maintained that job-creation schemes were substituting for jobs in the regular labour market.

¹⁶ The illusion that the old system was still working was also not very much dampened by the new rules concerning the 'suitable job' mentioned above. Most likely these rules were applied only in rare cases. As the largest share of the jobless consists of people with little training, why 'downgrade' a person with good skills (and therefore previous high income) if there is a large pool of unemployed who will be happy to accept almost any job? Rather, these rules must be considered part of the 'blaming the victim' policies that became more common in the second half of the 1990s.

regulating the relations between the various (federal, regional and local) levels of the PES.

A second drawback of the former system to be removed was the bifurcation of services (including payments) for the long-term unemployed. As noted above, a sizable number of the unemployed, especially those entitled to no more than *Arbeitslosenhilfe*, had had to turn to local authorities (i.e. municipalities) to apply for additional support through *Sozialhilfe*, but often also for services such as counselling. The municipalities in turn had started to develop labour market policies of their own, sometimes to assist the unemployed, sometimes as a 'work test', and finally – and perhaps most importantly – to help the unemployed to (re-)acquire rights to social insurance payments (i.e. unemployment benefit, paid out of the unemployment insurance budget), thus easing the fiscal pressures on the municipalities. This bifurcation often had resulted in inconsistencies between measures adopted by the PES and by the local authorities, and in unnecessary burdens for the unemployed who were confronted with two different administrations to claim money and other types of assistance.

Therefore the merging of federal (PES) and municipal services was another central aim of the organisational reform. The solution finally approved of met with harsh public protest, however, because the merging of both services and the new 'integrated' payment – *Arbeitslosengeld II* ('unemployment benefit II') – implies a much clearer divide between the short-term unemployed, i.e. the recipients of *Arbeitslosengeld*, and the long-term unemployed who receive the new type of payment.¹⁷ The former *Arbeitslosenhilfe* available for many long-term unemployed had been based on a mixture of the principles of 'social insurance' and 'social welfare'; the former insofar as entitlements were related to contributions and thus to previous income, the latter insofar as it was means-tested. The new *Arbeitslosengeld II* is not related to previous income anymore, but rather (according to the 'welfare principle') to 'need', with the result being that the amount of financial support is only slightly above the level of *Sozialhilfe*.¹⁸ In addition, the means test associated with the new *Arbeitslosengeld II* is much more rigorous than that of the former *Arbeitslosenhilfe* which implies that the long-term unemployed have to exhaust nearly all of their – and their family's – savings before they are entitled to payments. On top of this, the recipients of *Arbeitslosengeld II* have to accept virtually any job that is offered to them as long as it is not illegal, whereas earlier they were entitled to reject job offers that paid less than *Arbeitslosenhilfe*. In sum, *Arbeitslosenhilfe* often had resulted in drastic deterioration of income and status, but it had been tied to what an individual had achieved during his or her earlier job career; *Arbeitslosengeld II* entails a complete cancellation of one's job career, an annihilation of what one has achieved during one's life, including the assets accumulated by

spouse or partner and younger children, and the threat to have to start one's life anew.

While such prospects may be pretty common in countries like the United States, they signify a complete reversal of received notions of the German social model which strongly rests on what could be called 'social security citizenship' (Ludwig-Mayerhofer 2002), i.e. the entitlement to maintaining one's status (and social recognition) through social security. It is true that *Arbeitslosenhilfe* did not help much to actually *maintain* previous status, as the payments often amounted to no more than 50 or 55 percent of the former income from paid work and in addition were means-tested. But the means test had been much less comprehensive, and the payments had been *proportional* to previous income, thus honouring what one had achieved while in employment. In addition, in the past there had been the possibility of returning, at least for a short period, to *Arbeitslosengeld* through participation in a job-creation measure. But the new rules make it clear that job-creation measures not only will be diminished, but above all will not be backed up by contributions to social insurance, with the consequence being that the new *Arbeitslosengeld II* recipients find themselves deadlocked. Finally, whereas for *Arbeitslosenhilfe* recipients contributions to the old-age pension fund were proportional to their unemployment compensation – and thus again to their earlier achievements –, now a flat rate is paid for *Arbeitslosengeld II* recipients that corresponds to an income of 400 €. Thus, again, those who had achieved high earnings during their 'working life' face the danger of severely reduced old-age pensions.¹⁹

Still, in the view of many these changes are necessary in order to provide more 'incentives', especially for the long-term unemployed, to more actively engage in seeking work and accepting job-offers. I have tried to explain above why there is reason to doubt that a lack of 'activation' is at the core of the German unemployment problem. Yet, from a 'jobs first' perspective which is one of the central messages of the Hartz report and at the core of the current social-democratic labour market policies, lowering unemployment compensation may be a meaningful strategy, not least if accompanied by more incentives to create new jobs especially in the low-wage sector. This, indeed, is another pillar of the recent reforms. Numerous incentives make careers in a 'flexible' labour market more attractive. Some of these incentives pave the way into self-employment; unemployed persons who plan to become self-employed can receive either most of their unemployment benefits by way of a subsidy (*Überbrückungsgeld*, i.e. 'bridging money'); or they can receive subsidies on a decreasing scale for three years if they found a small business, i.e. a

¹⁹ From a different angle, this divide between short-term and long-term unemployed implies that the latter, even if they can look back on a 'respectable' (i.e. steady and upwardly mobile) job history, are put on a par with those who have only irregular and discontinuous employment careers, including many women, and with handicapped and other 'less able-bodied' (the latter now also being entitled to *Arbeitslosengeld II* and the accompanying services as long as they are able to work at least three hours a day). All these groups are now treated in exactly the same way. It remains to be seen whether this may in the long run reduce the current devaluation of such irregular careers on account of their being not a marginal phenomenon anymore but rather a common feature of many employment situations.

¹⁷ It also entailed a worsening of payments for some long-term unemployed – to be more precise, for some of those who earlier on had received *Arbeitslosenhilfe*, whereas those who had to rely solely on *Sozialhilfe* may even experience an increase in payments.

¹⁸ To ease the burdens of the transition to the new system, supplements are paid during the first two years for those who receive *Arbeitslosengeld II* after a period of receiving *Arbeitslosengeld*.

business without any employees that earns no more than 25,000 Euro per year (*Ich-AG* – ‘*Me Inc.*’ – or *Familien-AG* – ‘Family Inc.’ – in the case of a couple embarking on such a business).²⁰ Likewise, low-pay jobs are to be rendered more attractive. Petty jobs, or *Mini Jobs*, with a wage of no more than 400 Euro per month, are completely exempt from social insurance payments on the part of the employee, and employers pay a percentage that is lower than the usual share of their contributions to social insurance. Those holding a *Midi Job*, that is, a job within the range of 400 to 800 Euro per month, pay a lower percentage of social insurance contributions on a sliding scale (with no relief for the employer in this case). In addition to supposedly creating new jobs – for instance, in the private service sector, which is supported by tax deductions for those households who employ household help – these rules were also designed with the aim of reducing shadow work.

In a way, all these measures provide more market-oriented elements that may be recognised in a number of other new features as well. First, in spite – or on top – of the alleged revamping of the PES, the unemployed after a few months are entitled to vouchers (whose value increases with unemployment duration), which they can turn in with a private job placement service. Likewise, the unemployed are not referred to training measures by the PES, but rather receive vouchers which they can turn in with a training institution of their own choice. Furthermore, in each district the PES has to establish links with a temporary work agency – called ‘*Personnel Service Agency*’ (PSA) – which is to contract suitable unemployed job-seekers. As frequently people employed with a temporary work agency eventually stick with one of the firms that have hired their services, it is hoped that the same will happen with those unemployed who have a contract with a PSA (‘temp to perm’).

Yet, it would be quite misleading to see these developments only as a shift towards a more market-oriented approach (or, in Pierson’s [2001] terms, towards re-commodification). It is true that the trend towards self-employment and low-wage jobs implies a higher degree of de-regulation. At the same time, many of the new jobs or measures involve heavy subsidies from the state. This not only concerns certain problem groups in the labour market, such as the ‘elderly’ unemployed or those with ‘severe obstacles to integration’.²¹ Rather, many other measures receive tremendous subsidies, such as the PSA (up to 1,000 € per person and month!) or the ‘1 Euro jobs’, i.e. job opportunities for recipients of *Arbeitslosengeld II* (300 € per person an month as a subsidy to the organisations who offer such jobs). Together with those subsidies that are supposed to pave the way into self-employment (a person starting an *Ich-AG* can receive subsidies of more than 14,000 Euro over a period of three years) or the low-wage sector, the number of jobs subsidised or

even created and nearly fully financed by federal or local authorities is considerable. All those subsidised jobs, however, reduce unemployment figures, even those that are paid more or less completely from the public budget like the ‘1 Euro jobs’. Thus, what we find here may be called a ‘political economy’ in a very straightforward sense – a sector of the economy largely or completely created or influenced by the state not least with the purpose of ‘managing’ unemployment figures.

Subsidising work, however, may be regarded as exactly what a ‘typical’ social-democratic government would be expected to do, even though there are certainly several ‘not-so-social-democratic’ elements concerning the types of subsidised jobs. But involvement of ‘the state’ – or, to be more precise, the PES administration – goes much further, taking on elements of an authoritarian workfare state as described in Peck (1991). Elements of this are found even in the treatment of the short-term unemployed (i.e. *Arbeitslosengeld* recipients). Indeed, the tighter grip starts when a person receives notice of being dismissed; he or she has to register with the PES immediately on penalty of considerable reduction of payments; the notion of ‘suitable jobs’ (jobs an unemployed person has to accept on penalty of benefit withdrawal) has been extended such that single persons are expected to be geographically mobile throughout the entire country; and sanctions for refusal of job offers or lack of co-operation with the PES have been made more flexible in order to ensure wider applicability. Moreover, whereas formerly it was the PES who had to prove that an unemployed person had refused a ‘suitable’ job offer or had not complied with the demands of the PES, the burden of proof is now with the unemployed person.

The authoritarian features of PES administration have become even stronger for the long term-unemployed, as can be seen in the case of the hotly debated ‘1 Euro jobs’, publicly organised and subsidised work (officially termed *Arbeitsgelegenheiten*, i.e. ‘work opportunities’) for which the long-term unemployed can receive a supplement of one Euro per hour on top of their *Arbeitslosengeld II* payments.²² These ‘1 Euro jobs’ are advertised as a road to re-integration into the labour market through preventing decline of human capital, providing self-esteem or simply helping the unemployed to get accustomed to pursuing regular activity; but they resemble very closely earlier ‘workfare’ measures that mainly were used as a work-test (Voges et al 2000) and at the same time help to embellish unemployment figures as those holding a ‘1 Euro job’ do not show up in the unemployment statistics. Even where the administration tries to be (or appear) benevolent, such as in establishing a ‘case management’ system for the allegedly ‘hard-to-place’, this – together with its more authoritarian features – creates a ‘blaming the victim’ message: Unemployment is not a problem of a labour market that offers too few jobs, but rather is a result of insufficient efforts on the part of the unemployed, their unwillingness to search for and accept job offers, or their lack of skills. This is not meant to deny

²⁰ The *Ich-AG* subsidies soon were criticised as they are paid unconditionally to anybody claiming to found whatever small business; the rules governing its allocation are currently under revision.

²¹ Firms who employ an unemployed of age 50 or more or a person with ‘obstacles to integration’ as defined by the PES can receive considerable subsidies; an unemployed 55 or older is exempted from unemployment insurance contributions when taking up a new job; and if an unemployed of age 50 or older accepts a job that pays less than the one they held previously, s/he will receive half of the difference in earnings from the PES.

²² It is often argued that an unemployed person thus can earn up to 200 Euro additionally per month. Yet, in major German cities, the cost for public transport to commute to work is about 3 to 4 Euros per day, not to mention other expenses that might arise.

that some unemployed people indeed are in need of counselling and support; but with respect to actually fulfilling such needs, implementation of the reforms is lagging considerably behind their self-proclaimed aims. In fact, most of the promises on the part of the state about 'promoting' (that is, services rendered) are quite abstract and vague, whereas demands on the unemployed are much clearer: apply for jobs, show up regularly at the PES, and accept whatever we have to offer you.

Such elements of an authoritarian 'workfare state' nowadays are a common feature of labour market policies. What is particularly interesting is the way this is backed up by elements of (*pseudo*-)expertocracy that may even further increase the administration's power over the unemployed. This comes into play at least in two different ways: First, in approaches to classification and standardisation of the unemployed and the way they are treated, and second, in the new management structures of the PES.

Processes of classification and 'standardised' treatment start when the unemployed are allocated to one of the segments of 'market customers' (*Marktkunden*; unemployed who most likely will find a job without assistance of the PES), 'customers in need of counselling' (*Beratungskunden*; those who need some help but do not exhibit serious problems) and 'customers in need of care' (*Betreuungskunden*; those who need more intensive supervision and care as they exhibit serious obstacles that have to be removed before re-integration into the labour market can be attempted). Such classification or segmentation (as official terminology has it) currently is achieved by application of a software tool that takes into consideration qualities of the unemployed; this classification can be revised (or confirmed) by PES staff via 'profiling' the unemployed to assess different areas concerning possible 'need for action' (such as 'work experience', 'expertise', 'communication skills', 'perseverance and ambition', but also the local, regional and national demand for the type of occupation the unemployed is qualified for). On the basis of this, an 'integration agreement' (*Eingliederungsvereinbarung* or 'activation plan') is signed, compliance with which has to be checked periodically. While the 'activation agreement' also states the obligations of the PES towards the unemployed, no sanctions are provided in case of non-compliance by the PES – in contrast to the reductions of payments a non-compliant unemployed will experience. From summer 2005 onwards, this 'integration agreement' is supposed to be based on so-called 'action programmes' (*Handlungsprogramme*) that is currently being tested; these 'action programmes' consist of pre-defined recommendations that are supposed to lead to a standardised treatment of the unemployed.²³ This mix of 'tools', 'profiling' and 'action programme' presumes an existing body of knowledge which permits to categorise job-seekers according to their strengths and weaknesses, their skills and problems; but it is entirely unclear on what foundations such categorisations rest. Yet, they may give the PES enormous power to decide about the types of

services the unemployed may receive. It may be suspected that depending on the circumstances, PES staff will be open for negotiation of such categorizations by the unemployed, thus providing opportunities for the latter to participate in decision-making; but the degree to which this will happen may depend largely on the discretion of PES staff.

Other elements of the reform work against much influence of the unemployed on the type of services they may receive, however. First, future measures of vocational training and similar services are supposed to be subject to 'quality assessments' by the PES; it is planned that only measures with a proven re-integration rate of 70 percent or more will be approved. In the long run this must result in a predominance of 'actuarial' decision-making that will not take into account individual needs and perspectives of the unemployed. Similar developments will be associated with 'management by objectives'. For instance, means are supposed to be allocated to the individual PES agencies according to their success concerning labour market re-integration; thus the services an individual job-seeker may receive will partly depend on the overall efficacy of his or her PES agency and the means allocated to it accordingly.

Conclusion

The recent literature about welfare state change tends to assess the 'degree' of change according to a typology developed by Hall (1993; as an example to apply this typology to the field of social policy see Lewis 2002). First-order change occurs when, within the normal workings of a policy field, the 'settings' of instruments are adapted to current developments (such as when a federal bank raises or lowers interest rates). Second-order change occurs when, within a constant range of goals, the instruments to attain these are modified as well; and third-order change implies also a change in the hierarchy of goals behind policy. According to Hall, the latter type of change resembles the notion of a 'paradigm shift' as developed by Thomas S. Kuhn (1962) to analyse 'non-cumulative' developments in science; an example from the field of Hall's original analysis would be the shift from a Keynesian to a Monetarist economy that implies a completely different 'world view' not only about the means, but above all the aims of economic policy.

Can the changes I have described and tried to analyse in this chapter be equated to this type of 'third-order change'? Dramatic as they are, the answer may be 'no' – but of course, this may depend on the weight given to different elements of the change. According to the Hartz Commission report and the government, the changes are quite far-reaching, as after decades of PES 'malaise' that had resulted in inertia both on part of the administration and the unemployed, a complete overhaul of both the administration and its philosophy is expected to lead to activation of the PES and of the unemployed. But according to the view proposed here the most important change is to be seen not so much in the 'overt' workings of the PES and in the new demands it makes on the unemployed. The philosophy of 'promot-

²³ At the same time, the story of the 'action programmes' makes clear that the reforms meet considerable resistance within the PES administration and staff. Their introduction in all local branches of the PES had been planned for the period from spring to autumn 2005, but immediately before the start of this process it was decided that the 'trial period' will be extended.

ing and demanding' is not new, after all; it was a long-standing feature of German labour market policies to offer services, integration measures and unemployment compensation, but only for those unemployed who were actually interested in getting back to work. Thus, one might at best talk about a 'second-order change', as it could be argued that the respective weights of 'promoting' and 'demanding' have shifted towards the latter, that new instruments to achieve the aims of 'promoting' of 'demanding' have been introduced, and that the administrative changes may lead to more accountability on part of the PES without changing its fundamental goal – which, after all, has always consisted in benefit payment, job placement, and referral of certain problem groups to the appropriate measures.

It may further be doubted that the new measures represent an example of 'social learning' – a notion that is important to Hall's typology, as 'third-order change' is supposed to occur specifically when disturbing developments cannot be dealt with within the current set of policies (corresponding to Kuhn's anomalies, i.e. phenomena that cannot be explained within the established framework); the new paradigm is supposed to provide a solution to the problems that could not be solved within the older framework. However, there is no clear and coherent set of ideas behind German labour market policies (such as, in the case of Hall's example, the frameworks of Keynesianism and Monetarism); and it is difficult to believe that even Peter Hartz and his commission were so naïve as to believe that their proposed measures would reduce unemployment by 50 percent.

First, as employers frequently search for employees (and vice versa) without any help of the PES (see also Kaltenborn et al 2004: 61-67), it is unclear to what extent the labour market will profit from better services. Second, while the parallel systems of unemployment assistance and of general social assistance caused much unnecessary trouble for those concerned, the new system has created a new divide, now diachronically instead of synchronically, between the PES for the 'normal' unemployed (i.e. the recipients of *Arbeitslosengeld*) and the new administrative units that combine PES for the long-term unemployed (i.e. the recipients of *Arbeitslosengeld II*) with the municipal services. In addition, the administrative and legal problems of these new units are tremendous, which should have come as no surprise given fifty years of ongoing problems with German federalism. Third, there is good reason to suspect that the considerable number of measures described above actually will not do much to alleviate Germany's unemployment problem.

The PSAs were considered a cornerstone of labour market policy reform by the Hartz Commission, as it was assumed that they might reduce unemployment figures by 500,000; but in the meantime the hopes have been reduced considerably, with the current goal of employing 50,000 (!) persons still out of reach. Vouchers for private job placement agencies or wage subsidies for the elderly have only very small effects in terms of take-up rates (Kaltenborn et al 2004). *Mini Jobs*, *Mid Jobs* and *Ich-AGs* are replacing 'regular' jobs (Meyer-Timpe 2005); thus, the fiscal problems of social insurance continue to increase whereas it becomes more and more unlikely that these types of jobs serve as 'bridges' into the regular labour market. Measures to re-integrate the 'elderly' seem either to be too little known to

employers or too complicated, with the result of an almost negligible take-up rate that has led politicians to propose to discard unemployed aged 55 or more in East Germany – highly trained workers for whose skills there is no demand, however – as 'hopeless cases'.

Profound changes, however, can be found on the level of the (implicit) 'contract' between the state and its citizens. The new rules of the game, while most likely not effective with respect to reducing unemployment, make it clear that employment is fragile, and is going to be so even more in the future – and that the state, in contrast to earlier times, will less and less counteract such tendencies. On the contrary, through increasing insecurity on its own part, the state conveys the message that individuals had better adapt to the rules of the market as they have little support to expect if they fail to do so. Even the short period of *Arbeitslosengeld* during which the unemployed can still receive their traditional status-related benefits is overshadowed not only by the stricter 'rules of conduct', but above all by the menace of *Arbeitslosengeld II* – that is, the menace of either not being entitled to benefits at all or of a compensation level barely above the poverty line. In addition, through its strict emphasis on 'demanding' the state declares its distrust towards the unemployed, conveying the image that much unemployment is due to welfare scroungers unwilling to engage in job-seeking. All in all, then, the new rules and obligations signal a shift from a 'benevolent' to a 'suspicious' and even (at least partly) 'authoritarian' state. This shift indeed might be considered a 'third order change'. However, it is a shift the nature of which cannot be assessed in terms of 'goals' and 'learning', as it takes place at a more fundamental, implicit level and therefore is not a topic of public discourse – rather, it is the foundation on which public discourse rests. But this is precisely the reason why this shift is so powerful.

Epilogue

The road taken by the German government obviously is contradictory, but not all the blame should be put on the government. First, the German situation is a difficult one, making an easy solution of its labour market problems impossible to achieve; and second, parts of the reforms could be initiated only with support from the *Bundesrat* (the 'second chamber', an assembly of members of the *Länder* [i.e. the federal states] governments), which led to several compromises during the legislation process. Moreover, Germany's multi-level system, consisting not only of the federal, the *Länder* and the municipal level of government and administration, but also of a number of semi-autonomous corporatist bodies among which the different branches of the social insurance system are the most important, makes it nearly impossible to successfully initiate and complete reforms that have such broad ramifications as the one analysed in this chapter – unless there is broad political consensus and a time frame that allows for careful planning and diligent implementation. Both features have been lacking in the recent reform of labour market policies. The current situation of a red-green federal government opposed by a

conservative *Bundesrat* majority does not permit consensus but only compromise; above all, to solve the complex legal and administrative problems of merging the (federal) PES and the (local) systems of social assistance and other types of help would need more time than the German four-year election cycle permits.

On the other hand, it is doubtful whether such a consensual and carefully planned reform might have taken an entirely different direction. Indeed, the current reforms mirror the mixed feelings both of the German population and of politicians of whatever affiliation (except on the extreme left or extreme right) towards unemployment and labour market policies. It is difficult to imagine that a German government, whatever its political orientation, would have the courage to go either the way of Scandinavian countries with their still rather generous benefit systems and their high share of active labour market policies of the 'human capital' type, or the way of the United States with their strong notion of workfare. In other words, a Christian Democratic government might introduce a few more market elements or further reduce unemployment benefits, but it would most likely also retain a strong government influence on labour market policies.²⁴ A 'radical cure' of the German labour market problems seems unlikely, but it is also unlikely that this would do much to ameliorate the labour market problems. Perhaps the recent reforms are the best thing Germans could do for the time being. This is not meant as praise, however; it rather demonstrates the problems Germany faces.

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²⁴ Indeed, during the past few days, in the current turmoil caused by Schröder's announcement of early elections, voices could be heard from Christian Democratic politicians that the 'mistake' of granting (via *Arbeitslosengeld II* regulations) persons with a long employment record the same money as others with no or little employment history at all should be corrected after a Christian Democratic victory. Of course, whether these voices have any weight remains to be seen.

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Active Labour Market Policy in Denmark as an example of Transitional Labour Market and Flexicurity arrangements – What can be Learnt? ¹

Flemming Larsen

Introduction

The last decade has seen sweeping changes in labour market policies across Europe, usually in an attempt to secure competitiveness and catalyse economic growth. However, it seems certain that many of the challenges facing economic development today will not disappear in coming years but, quite the contrary, are likely to become exacerbated in the future. Although changes to the European labour market have consistently been influenced by strong demands for 'flexibilisation', the focus in both academic and political contexts has usually been on how to combine these demands with social protection (Wilthagen 1998; Schmid 1998). Hence, there has been a great deal of discussion regarding the potential of creating a special 'European Way' that combines economic growth and competitiveness with social protection. As a result of these debates, political expectations have emerged based on the belief that it is possible to develop a unique European policy strategy as an alternative to the 'American Way' (c.f. the Wim Kok reports).

With this goal in mind, many experts have suggested that the concept of 'Transitional Labour Markets' (TLMs) offers a broad theoretical and policy framework for developing a qualitative growth strategy (Schmid 1998). Furthermore, the introduction of the notion of 'flexicurity' (Wilthagen 1998, Wilthagen et al 2002) as a possible policy strategy and analytical perspective for bridging flexibility and security has made this issue a top priority. However, while these concepts have been propelled to the forefront of debates in both academic and legislative circles, under-

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