
The Political Economy of Active Labor-Market Policy

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Abstract

Active labor-market policies (ALMPs) have developed significantly over the past two decades across Organization for Economic Cooperation and Development (OECD) countries, with substantial cross-national differences in terms of both extent and overall orientation. The objective of this article is to account for cross-national variation in this policy field. It starts by reviewing existing scholarship concerning political, institutional, and ideational determinants of ALMPs. It then argues that ALMP is too broad a category to be used without further specification, and it develops a typology of four different types of ALMPs: incentive reinforcement, employment assistance, occupation, and human capital investment. These are discussed and examined through ALMP expenditure profiles in selected countries. The article uses this typology to analyze ALMP trajectories in six Western European countries and shows that the role of this instrument changes dramatically over time. It concludes that there is little regularity in the political determinants of ALMPs. In contrast, it finds strong institutional and ideational effects, nested in the interaction between the changing economic context and existing labor-market policies.

Keywords

active labor-market policies, ALMP, unemployment, labor-market policy, social policy

Active labor-market policies (ALMPs) are an important area of social policy making. Over the past two decades, an active approach to labor-market policy has been promoted by international agencies and adopted in several Organization for Economic Cooperation and Development (OECD) countries. On some occasions, this “activation turn” has generated impressive levels of political controversy, as it questions postwar

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notions of citizenship-based entitlements to social benefits. These developments have also impacted on the funds that are assigned to active policies. Among OECD countries, between 1980 and 2003, the proportion of gross domestic product (GDP) invested in this field has nearly doubled, from 0.4 to 0.7 percent. While the increase in ALMP spending has been a general trend, massive cross-national differences persist. In 2003, for instance, spending ranged between 0.2 percent of GDP (USA) and 1.6 percent (Denmark). ALMPs in different countries are also very different in terms of content, as will be shown below.¹

Extreme levels of cross-national variation are not the only puzzle one encounters when studying ALMPs, though. One key question that remains unresolved concerns the political determinants of the reorientation of labor-market policy toward activation. ALMPs were pioneered in Sweden, as early as the 1950s; hence many ascribed their development to the strength of the left, the Social Democrats, and the unions.² Others, also focusing on the Swedish case, have emphasized the role employers have played.³ Finally, others have argued that left-wing parties tend to oppose investment in ALMPs, because by bringing more people to the labor market, these policies may undermine access to employment and higher wages for core workers, who constitute the left's key constituency.⁴

This article aims to clarify the question of the determinants of ALMPs by looking at actual policy developments over time in OECD countries. We argue that the lack of consensus on the issue is the result of two main problems. First, as much of the literature recognizes, the notion of ALMP encompasses some very different types of interventions; thus, it is unreasonable to expect all of them to be associated with the same configuration of political and institutional determinants. Second, the role ALMPs have played in the economy has changed over time. The Swedish 1950 pioneer scheme had different objectives than the current British, German, or even current Swedish policy.

On this basis, this article offers a more complex—and arguably more accurate—answer to the question of what are the determinants of different types of ALMPs. It begins by reviewing the relevant literature. It then puts forward a typology of ALMPs, on the basis of two dimensions: the promarket employment orientation of policy and its emphasis on human capital investment. Focusing on six European countries, it then shows that the determinants of different orientations in ALMPs must be sought in the interaction between the changing economic context and existing labor-market policies. Political and other institutional variables are found to be less relevant.

The Determinants of Active Labor-Market Policy

Political Explanations

There are many contested issues in comparative public policy, but few have generated as clear a controversy as the identification of the political determinants of ALMPs. In Esping-Andersen's account of the development of different worlds of "welfare capitalism," emphasis on ALMPs is considered to be one of the defining features of the

“social democratic” welfare regime. The power resources of the left allowed the labor movement to impose a costly and effective system of labor-market policies, capable of securing full employment in the context of a rapidly changing economic structure.⁵ This view is confirmed in quantitative analyses⁶ that find left power to be positively and significantly related to spending on ALMPs. Social democratic parties are seen as the promoters of “employment-friendly” labor-market policies. In this respect they differ from Christian democratic parties, which have intervened in the field of employment by protecting jobs and by facilitating early retirement.⁷

Partisan effects on ALMP spending are at the center of another recent study, which challenges the view that left power is associated with high ALMP spending. In it, David Rueda develops a more complex view of social democrats’ relationship with ALMPs. First, he argues, social democrats in postindustrial societies are increasingly confronted with a dilemma. Recent socioeconomic transformations have split the potential clientele of social democrats into two groups: insiders and outsiders. Insiders constitute the traditional constituency of social democracy: manual workers, low- to middle-income wage earners, public sector workers, and so forth. Outsiders are experiencing disadvantage: unemployed people, atypical workers, excluded people. Social democratic parties can theoretically cater to both clienteles, but sometimes the interests of one group clash with those of the other. Under these circumstances, social democrats will tend to defend the interest of insiders, who are better organized and more likely to respond with electoral support than outsiders.⁸

This is the case with ALMPs. Rueda argues that these policies are in the interest of outsiders, because they facilitate the reentry into employment, but they are detrimental to insiders for two reasons. First, since insiders are protected by employment protection legislation against unemployment risk, they are unlikely to see the point in cofinancing these policies as taxpayers. Second, ALMPs stimulate labor supply and may reinforce competition for (scarce) jobs or create downward pressures on wages. As a result, social democratic parties are unlikely to support these policies. Rueda writes,

ALMPs are designed to promote entry into the labour market of outsiders who will underbid insiders’ wage demands. Since insiders are the core constituency of social democratic parties, my argument implies the absence of any government partisanship effects on ALMPs.⁹

This claim is confirmed in Rueda’s statistical analyses, where left power as a predictor of ALMP spending is either not significant or even negative.¹⁰

Qualitative researchers have also challenged the view that in the Nordic countries, particularly in Sweden, powerful labor movements imposed ALMPs upon reluctant employers. They claim that the Nordic—and in particular the Swedish—version of ALMP was part of a major cross-class compromise that allowed the social democrats to pursue their political objectives without endangering the profitability of capital.¹¹ ALMPs, unlike passive income-protection policies, have what it takes to be regarded positively by employers. Having workers equipped with up-to-date skills and

promoting labor supply are objectives to which most employers can subscribe. As will be seen below, Swedish employers did not resist the development of this policy tool.¹²

The claim that ALMPs are the result of a cross-class compromise can be useful in generating hypotheses that go beyond the Nordic countries. If we accept the view that ALMPs are a form of labor-market intervention that has positive effects for both employers and employees, then the puzzle is why such win-win solutions to employment problems were not adopted more generally throughout Western Europe. Why did countries like France, Germany, or Italy in the 1970s turn to employment-protection and labor-supply-reducing policies instead of ALMPs?

Institutional Explanations

Many accounts of the development of ALMPs have focused on the extent to which preexisting policies could be combined with an active approach. Bismarckian-type social insurance schemes are considered more difficult to reorient toward ALMP. In Germany, for example, the social insurance principle—which implies the acquisition of entitlements through the payment of contributions—cannot easily be reconciled with notions of conditionality and compulsion, which are common in most of today's ALMP systems.¹³ In the same vein, constitutional rights to given or to minimum income levels can also act as an obstacle to some “demanding” forms of ALMP, or “activation.”¹⁴ In addition, since both passive and active measures are financed out of the same budget, as unemployment increases during a recession, increased “automatic” spending on passive benefits crowds out spending on any type of ALMP.¹⁵ Crowding out can also take place in relation to other policy fields, such as old-age pensions.¹⁶ In France, the social partners' involvement in the governance of unemployment insurance has also acted as an obstacle to the development of ALMPs, since the trade unions feared more state intervention in the running of the scheme.¹⁷

Diffusion of Policy Ideas

Over the past two decades, ALMPs have spread across OECD countries, which suggests that some diffusion process may be going on. Of the various diffusion mechanisms that are mentioned in the literature, learning seems the most adequate to account for the success of ALMPs.¹⁸ Countries facing mass unemployment may find a source of inspiration in promising experiences carried out elsewhere.

Qualitative studies lend support to the policy diffusion hypothesis. They have shown that governments looking for new solutions to the unemployment problem have studied and learned from experiences elsewhere. In Germany, the reorientation of unemployment policy adopted in 2002 occurred after the government commissioned studies on and organized fact-finding missions in countries like Denmark, the Netherlands, and the United Kingdom. Various elements of the new arrangement are clearly reminiscent of the UK approach to activation.¹⁹ The United Kingdom, in turn, is said to have found its inspiration from the Clinton reforms of the early 1990s in the

United States. Other studies have emphasized the role played by international agencies such as the OECD and the EU, which, since the mid-1990s, have clearly promoted a reorientation of unemployment policy in the direction of activation.²⁰

Efforts in this direction have been particularly strong within the European Employment Strategy.²¹ Interviews with policy makers suggest that in the field of employment policy, countries are learning from one another and that the process is being sped up by the European Employment Strategy.²²

Types of Active Labor-Market Policy

ALMPs have different origins and take different shapes. In Sweden, ALMPs were developed as early as the 1950s, with the objective of improving the match between demand and supply of labor in the context of a rapidly evolving economy, essentially by financing extensive vocational training programs.²³ At the opposite extreme, the term “active” can be used to describe the approach developed in various English-speaking countries, which combines placement services with stronger work incentives, time limits on reciprocity, benefit reductions, and the use of sanctions—the so-called workfare approach.²⁴ In fact, as many have pointed out, ALMP is a particularly ambiguous category of social policy.²⁵

Some authors have attempted to deal with this problem by distinguishing between two types of ALMPs or activation: those that are about improving human capital and those that use essentially negative incentives to move people from social assistance into employment. Examples of such classifications are found in Torfing,²⁶ who distinguishes between “offensive” and “defensive” workfare. “Offensive” workfare, which is the term used to describe the Danish variant of activation, relies on improving skills and empowerment rather than on sanctions and benefit reduction, which characterize the “defensive” variant found in the United States. Taylor-Gooby makes the same point, using instead the terms “positive” and “negative” activation.²⁷ In a similar vein, Barbier distinguishes between “liberal activation”—characterized by stronger work incentives, benefit conditionality, and the use of sanctions—and “universalistic activation,” which is found in the Nordic countries and continues to rely on extensive investment in human capital essentially through training. However, Barbier recognizes that a third type of activation might exist in continental Europe, one that puts more emphasis on social inclusion and less on actual labor-market participation.²⁸

Dichotomies between human investment and incentive-based approaches to activation are a useful starting point in making sense of an ambiguous concept. However, they probably constitute an oversimplification of the real world and run the risk of carrying value judgments. In fact, these distinctions make reference to two underlying dimensions, which should be examined separately.

The first dimension concerns the extent to which the objective of policy is to put people back into demand-driven market employment, provided either by private or public employers.²⁹ Many programs have this objective, but some, especially in continental and northern Europe during the 1980s and early 1990s, looked more like

alternatives to market employment. These took the shape of temporary jobs created in the public or in the nonprofit sector. They were often used to re-create an entitlement to unemployment insurance rather than to increase the chances of landing an unsubsidized job. As will be seen in the narrative accounts below, the extent to which ALMPs favor labor-market reentry varies across countries and across time. I call this dimension the “promarket employment orientation.”

The second dimension refers to the extent to which programs are based on investing in jobless people’s human capital. Investment can take the shape of vocational training or help in developing the sort of soft skills employers look for when selecting candidates. Intersecting these two dimensions allows us to identify different types of labor-market policy and to map the variety that exists under the label ALMP.

Of course, there are several dimensions of variation in ALMPs that could be used to develop alternative typologies. The two selected here are particularly important in defining the impact that ALMPs can have on the broader political economy. An ALMP that aims to provide an alternative to market employment can be seen as part of the strategy known as the “labor-reduction route,” which continental European countries followed in the 1980s. In contrast, a policy that aims to put people back into employment will have a positive impact on labor supply. But the promarket employment orientation tells us little about the type of jobs that are being promoted. This is why it is also important to consider the content of policy in terms of investment in human capital.

Of the six possible combinations between the two dimensions selected, four describe different orientations in ALMP: these can be labeled as *incentive reinforcement*, *employment assistance*, *occupation*, and *human capital investment or upskilling* (the other two, passive benefits and basic education, are not generally considered as part of ALMPs) (see Table 1).

The first type of ALMP, “incentive reinforcement,” refers to measures that aim to strengthen work incentives for benefit recipients. This objective can be achieved in various ways, for example, by curtailing passive benefits, both in terms of benefit rates and duration. Benefits can also be made conditional on participation in work schemes or other labor-market programs. Finally, incentives can be strengthened through the use of sanctions. Elements of incentive reinforcement exist everywhere, but they are particularly strong in English-speaking countries.

The second type, which I term “employment assistance,” consists of measures aimed at removing obstacles to labor-market participation. These include placement services or job-search programs that increase the likelihood of a jobless person establishing contact with a potential employer. Counseling and job subsidies may be particularly useful to beneficiaries who have been out of the labor market for a long time or have never had a job, who are often shunned by employers. For parents, an obstacle to employment may be the lack of child care; help in finding (and paying for) a suitable day care service may also be included under the employment assistance variant. These interventions may provide modest improvements in the human capital of beneficiaries, mostly in the shape of better soft skills. Above all, however, they allow

Table 1. Four Types of Active Labor-Market Policy

Promarket employment orientation	Investment in human capital		
	None	Weak	Strong
Weak	(passive benefits)	Occupation Job creation schemes in the public sector Non-employment- related training programs	(basic education)
Strong	Incentive reinforcement Tax credits, in work benefits Time limits on reciprocity Benefit reductions Benefit conditionality	Employment assistance Placement services Job subsidies Counseling Job search programs	Upskilling Job-related vocational training

beneficiaries to put their human capital to good use. This approach has been common in English-speaking countries (combined with incentive reinforcement) since the mid-to late 1990s and is also seen in Nordic and continental Europe.

A third type of ALMP can be labeled “occupation.” Its objective is not primarily to promote labor-market reentry but to keep jobless people busy, to prevent the depletion of human capital associated with an unemployment spell. This type of ALMP consists of job creation and work experience programs in the public or nonprofit sector; but in some cases, it also involves training, such as shorter courses, which do not fundamentally change the type of job a person can do. Continental European countries in the 1980s and early 1990s have been among the main users of this type of ALMP.

Finally, ALMPs can rely on “upskilling” or providing vocational training to jobless people. The idea here is to offer a second chance to people who were not able to profit from the training system or whose skills have become obsolete. The provision of vocational training to jobless people is most developed in the Nordic countries.

It would be extremely helpful to operationalize these four ideal types with measurable indicators and then map their variation across time and space. Unfortunately, available data allow only a very crude approximation of this exercise. There have been attempts to summarize with indicators the key institutional features of activation in different countries.³⁰ The results obtained, however, are not entirely convincing and do not match expectations based on more qualitative knowledge of many of the countries covered. This is due to a number of problems, among which is the fact that these data sources are based on formal regulation, which can differ significantly from actual

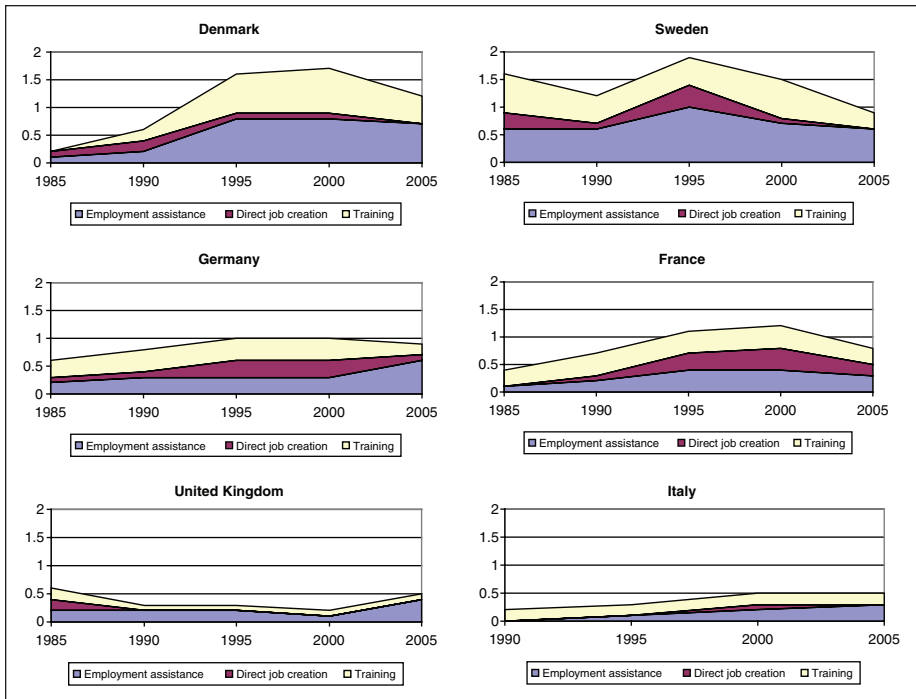


Figure 1. Active labor-market policy (ALMP) spending profiles in six OECD countries: Spending as a percentage of GDP on selected categories of ALMP, 1985–2005

Note: Graphs constructed on the basis of data obtained from OECD.Stat (available from www.oecd.org).

implementation. An alternative way to map, at least in part, cross-national variation in ALMPs on the basis of the ideal types discussed above is to use expenditure data on subprograms. The OECD has provided this information since 1985 for most of its members. Available categories include public employment services and administration, employment subsidies, job rotation schemes, start-up incentives, training, and direct job creation.

These data allow us to operationalize three of the four ideal types presented above, as shown in Table 1: employment assistance, which includes the OECD spending categories “public employment services and administration, employment subsidies, job rotation schemes, and start-up incentives”; occupation, which includes the category “direct job creation”; and upskilling, which includes the category “training.” In this way, we are able to trace the evolution over a twenty-year period of the relative effort made in the different components of ALMPs.

ALMP spending profiles presented in Figure 1 reveal a number of important observations. First, they obviously reveal a cyclical effect, shown by the decline in overall

spending between 1995 and 2005, which can be explained with the decline of unemployment (especially in Sweden, Denmark, and France). The increase in overall spending in the United Kingdom, instead, calls for a political explanation, as this took place in the context of declining numbers of jobless people. Second, if one compares trends over the twenty-year period covered, there is clearly a reduction in direct job creation, which was relatively important in France, Germany, and Sweden until the mid-1990s but then declined everywhere. Third, over the same period of time, employment assistance gained importance everywhere, except in Sweden, where spending on this function is basically stable over time. Spending on training, finally, does not show a clear trend over time (except in Denmark, where it peaks in 2000). The biggest variation in relation to training is across countries, not time, with the Nordic countries being the biggest spenders, the United Kingdom the lowest, and the continental European countries somewhere in between.

OECD spending data need to be considered with caution since the distinctions adopted by the OECD do not always match national categories, and sometimes information is missing on given categories for several years. The results presented in Figure 1, however, are broadly compatible with the expectations put forward above, and with the findings of the qualitative literature.

Active Labor-Market Policies across Time

This section looks at the development in this field of labor-market policy since the 1950s, when Sweden embraced an active approach in labor-market policy. One can identify three periods in the development of ALMPs in OECD countries, emphasizing different types of ALMPs. First, in the 1950s and the 1960s, in the context of labor-market shortages, countries developed active policies to provide appropriately skilled workers to expanding industrial economies. In this period, the key objective of policy was upskilling. The second period followed the oil shocks of 1973 to 1975. ALMPs had to face a considerably more hostile environment, characterized by persistent high unemployment. In this context, in many countries the key function of ALMPs became occupation. Finally, since the mid-1990s, labor-market policy aimed essentially at encouraging and facilitating reentry of unemployed persons and other nonworking individuals into the labor market. The tools adopted here consisted of various mixes of incentive reinforcement and employment assistance.

What precisely happened during these three periods is reviewed next. The account focuses on six countries selected to represent the various types of welfare regime that exist in western Europe: Sweden, Denmark, Germany, France, Italy, and the United Kingdom. Each period section adopts a different order in the presentation of country developments, starting each time with the “pioneers” of the relevant use of ALMPs and then moving on to other countries. This strategy needs to be seen in relation to the “policy diffusion” hypothesis presented above. For the sake of brevity, only countries where a relevant development takes place are reviewed in each period.³¹

The Postwar Years: ALMPs in the Context of Labor Shortage

Most experts agree that ALMPs were born in Sweden with the so-called Rehn-Meidner model. Put forward in 1951 by two trade-union economists, Gosta Rehn and Rudolf Meidner, this strategy had several objectives: equality in the wage distribution, sustainable full employment, and the modernization of Swedish industry. Equality and full employment were to be promoted through a solidaristic wage policy, which basically meant identical wage increases across all sectors of industry. The egalitarian wage policy had both intended and unintended effects. Among the intended effects was a strong incentive for Swedish producers to invest in productivity-enhancing technologies. If productivity lagged behind, imposed wage growth would push less competitive companies out of the market. This represented a strong push for the modernization of Swedish industry.

Of course, not every industry was able to keep up with the pace of centrally planned wage increases. Low-productivity industries were priced out of the market as collectively bargained wages increased. To deal with the workers who found themselves unemployed as a result, Rehn and Meidner conceived ALMPs. As less productive companies were pushed out of the market, the workers they made redundant were retrained and made available for expanding, high-productivity industries.³²

According to Swenson, however, the Swedish ALMPs of the 1950s also constituted a response to a recurrent problem at the time: shortage of labor. By quickly retraining workers who had lost their jobs, ALMPs ensured a steady supply of appropriately qualified labor. If the idea of setting up an ALMP came from the trade unions, it was clearly acceptable to and possibly desirable for employers as well. In fact, according to Swenson, it was probably the employers who suggested ALMPs in the first place.³³ On the basis of extensive historical research, Swenson concludes the following:

Employers warmly endorsed activist training and mobility measures even before the labor confederation included them as the centerpiece of their plan for economic stabilization and industrial development (the "Rehn-Meidner Model"). . . . Organized employers were not merely resigned to hegemonic Social Democrats and hoping to appease them for special consideration on particular details, for nicer treatment in other domains, or to avoid public disfavor. They knew what they wanted. Sometimes they liked best what they got and got what they liked best.³⁴

The Rehn-Meidner model was a unique feature of Swedish economic history that was not repeated elsewhere. However, the idea of an ALMP in a rapidly modernizing economy characterized by labor shortage was found appealing in other places as well. Sometimes, the tools used were different, because the starting point was different. This was true in Italy, where unemployment was not the result of people being laid off by declining industries but, rather, of a labor surplus in the southern part of the country.

During the 1950s and 1960s, two decades of strong growth that Italians remember as the “economic miracle,” Italy was also concerned with a labor-shortage problem. Expanding industries in the north needed adequately trained workers. The south still constituted a major reservoir of labor, but essentially unskilled. To improve the matching between skill demand and supply, the country adopted a law on apprenticeship in 1955. It made provision for on-the-job training and lower salaries for trainees. The scheme, however, did not take off. Employers were generally not allowed to select apprentices; instead labor exchange offices sent them, and the trade unions complained that the law was being used to underpay young workers.³⁵

France also moved in that direction. In 1963, the Gaullist government embarked on a reform of the unemployment compensation system that would have facilitated access to (re-)training for unemployed people. This proposal encountered strong opposition from the trade unions, which feared increased state intervention in the management of unemployment insurance (UNEDIC). In France, unemployment insurance, as the rest of social security, is run jointly by the social partners, who have traditionally resisted government intervention in what they consider a “private” institution.³⁶ The result was a watered-down version of the initial proposal. The episode highlighted the tension between an insurance-based unemployment compensations system run by social partners and a public-policy objective: the upskilling of unemployed people in the context of labor shortage. The social partners’—and particularly the trade unions’—narrow understanding of unemployment compensation as an insurance scheme severely limited the scope for injecting active and training measures into unemployment policy.³⁷

Only a few years later, Germany followed the same path with the adoption of the 1969 Employment Promotion Act (*Arbeitsförderungsgesetz*). The law was adopted by the short-lived first “grand coalition government” in Germany’s postwar history. The CDU-SPD coalition, led by the Christian democrats, lasted only three years (1966–1969) but played an important role in shaping postwar labor-market policy. Its approach to social and economic policy anticipated many of the themes that have been popularized by political leaders in the 2000s. According to Alber,

To combat the economic crisis, the new government intended to shift public expenditure from social consumption to social investment. Various transfer payments were curbed, and for the first time, educational issues were given priority. . . . As a first step towards a more active labour market policy, the competence of the unemployment insurance scheme was extended to include the promotion of vocational training.³⁸

The law was largely based on a proposal the SPD prepared in 1966, when the party was still in opposition. It emphasized a new, preventative role for labor-market policy, based on the adjustment of workforce skills to technological change. The new law instituted the Federal Institute of Labor (*Bundesanstalt für Arbeit*) responsible for unemployment compensation insurance and also for continuing education, retraining, employment services for the disabled, job-creation programs, and training.³⁹ At the

same time, Germany adopted new law on vocational training, which significantly consolidated the system that had been put in place seventy years earlier.⁴⁰

Contrary to a widespread perception among welfare-state scholars, the postwar years were not an era of passive income protection. On the contrary, several European countries took initiative to reinforce the active dimension of unemployment protection, essentially through vocational training. This made sense. In a context of rapid economic growth and labor shortage, retraining jobless people so they could provide the labor needed by expanding industries was an obvious thing to do. The developments reviewed above show little consistency in terms of political determinants, though. The idea of linking training to unemployment policy came from political parties distributed across the political spectrum: the Swedish social democrats, the French Gaullists, Italian Christian democrats, and a coalition government in Germany. These political forces had little in common, except perhaps a centrist orientation in economic and social policy matters.

Facing the Employment Crisis: ALMPs in the Context of Mass Unemployment

The economic context of labor-market policy changed dramatically after the oil shocks of 1973 to 1975 and the subsequent economic crisis. All of a sudden, labor-market policy had to deal with a new problem: mass unemployment. The idea of an ALMP was present in most countries, but the unfavorable economic context meant that labor-market policy, no matter how active, could achieve little. Against this background, we see the emergence of a different type of ALMP, the one I have labeled "occupation," which does not really aim to put jobless people back into the labor market but is designed to keep them busy and slow the deterioration of human capital associated with unemployment. This new function of ALMPs developed across countries, but through different channels that reflected previous policy.

In response to the employment crises of the 1970s, Sweden radically transformed its ALMP system. It is noteworthy that the crisis years (mid-1970s to the late 1980s) did not result in open unemployment in Sweden. This was partly the result of the expansion of public sector employment, which took place over the same period of time; but it was also a consequence of the liberal use of ALMPs. In fact, by providing occupations to otherwise jobless persons, ALMPs allowed Sweden to keep employment at prerecession levels.⁴¹ This was obviously a rather new function for ALMPs, one that was adopted by default in the context of a stagnating economy with little net job creation outside the state sector.

During these years, most training programs and relief works (temporary jobs) were arranged in the public sector. Typically, these jobs were used to renew entitlement to unemployment insurance (theoretically limited to fourteen months). This period was characterized by a relative shift away from supply-side measures toward demand-side interventions, that is, job-creation programs.⁴² Micro-level evaluations pointed out that most of these schemes were rather ineffective in terms of favoring labor-market reentry.⁴³ The original aim of ALMPs, to upskill workers so they could enter more

productive occupations, had somewhat fallen out of sight. Swedish ALMPs had clearly moved toward the “occupation” type described above. During the same period (in 1974), Sweden also adopted a relatively strict employment-protection law.⁴⁴ The 1970s can thus be characterized as a period of departure from the postwar Swedish model, with the country adopting many of the policy options that were being developed in continental Europe.

With unemployment rising, Germany turned to ALMPs in the second half of the 1970s. These measures were based on the Employment Promotion Act of 1969. In a development that is reminiscent of the Swedish story, the objective of this law shifted from the general upskilling of the workforce, to a tool aimed at reducing open unemployment, even though training continued to play an important role. The postcrisis years were characterized by a stop-and-go approach to ALMPs, partly due to the funding mechanism of these measures. Both passive and active unemployment benefits were financed out of the same fund. When unemployment was high, passive expenditure increases automatically, leaving fewer resources to finance active measures.⁴⁵ For example, after a sharp increase in the number of beneficiaries of ALMPs from 1,600 in 1970 to 648,000 in 1975, the numbers involved declined to 545,000 in 1982, under budgetary pressures.⁴⁶

ALMPs were back with the return to power of the Christian democrats. The Kohl government, elected in 1982, expanded various types of ALMPs in the context of a “qualification offensive” based on various labor-market and training programs. Between 1982 and 1987, the total number of participants in such programs rose from 555,000 to 1.4 million.⁴⁷ Most of these concerned training and employment assistance, but an increasing number of people (some 10 percent) were in job-creation schemes in the noncommercial sector *Arbeitsbeschaffungsmassnahmen* (ABM). During the second half of the 1980s, Germany had yearly expenses on ALMP of around 1 percent of GDP, which was above the OECD average. The figure was slightly up from the first half of the decade (around 0.7 percent of GDP).⁴⁸

Things were to change with unification in 1991. As former GDR companies underwent restructuring, redundant workers were given access to early-retirement and labor-market programs, which again had the objective of limiting open unemployment. Spending on ALMPs peaked in 1992 at 1.8 percent of GDP. At that time, however, the lion’s share of active spending went to job-creation programs.⁴⁹ The move was effective in reducing open unemployment. It was not, however, able to prevent a massive surge in the unemployment rate following the recession of the 1990s.

Other countries, which did not develop extensive ALMPs before the crisis, were somewhat slower in introducing active elements in their unemployment policy afterward. In France, tensions between the government and the trade unions arguably delayed the adoption of such measures.⁵⁰ However, starting from the mid-1980s, French ALMP was a rapid succession of different tools targeted to different groups. In general, the objective was “occupation,” providing an occupation to jobless people rather than labor-market reentry. Typically, much emphasis is put on the notion of “social insertion,” or the possibility of participating in society without being in paid employment.⁵¹ In practical terms, these measures consist of subsidized temporary jobs in the public or in the nonprofit private sector.

The development of French ALMP started in 1984 with the adoption of the TUC (*Travaux d'utilité publique*—public utility works) for jobless youth by the Socialist government. These were soon complemented in 1986 with the PIL (*Programmes d'insertion locale*) targeted on long-term unemployed and introduced by a Gaullist government. By 1989, these were replaced by CES (*Contrats emploi-solidarité*). In 1988, the government introduced a general means-tested benefit (RMI, *Revenu minimum d'insertion*), which theoretically included an activation component in the shape of an insertion contract signed between the beneficiary and the authorities. In fact, as extensive evaluation of this program showed, its ability to move beneficiaries into the labor market was extremely limited.⁵² The French approach to ALMP is characterized by a strong emphasis on occupation, accompanied by a strong rhetoric of social inclusion, or “*insertion*.” The Socialist government of the late 1990s (1997–2002) confirmed this trajectory. In addition to the well-known law that reduced weekly working hours to thirty-five, the government introduced new job-creation programs, aimed at the young, which subsidized jobs in noncommercial sectors for up to five years.⁵³

During the postcrisis years and well into the 1980s and early 1990s, occupation remained an important function of ALMPs. Training continued to play a key role, as shown by the spending profiles presented in Figure 1. However, in such an unfavorable labor-market context, training programs can de facto become more akin to occupation than to effective human capital investment. The evaluation literature suggests that this might have been the case throughout most of the 1980s and early 1990s. This is a result reached in one of the first meta-analyses of evaluation studies of ALMPs, where two OECD economists conclude that many labor-market programs are ineffective or even counterproductive in terms of their ability to bring jobless people back to market employment.⁵⁴ This may be the result of the predominant orientation of ALMPs (occupation) in the time span covered by the study (1980s and early 1990s).⁵⁵

ALMPs since the Mid-1990s: The “Activation Turn”

The mid-1990s signaled a new reorientation of ALMP in OECD countries. The economic context had changed. First, after the mid-1990s, labor-market conditions in most OECD countries improved. Second, since the 1990s, unemployment was essentially the result of an excess supply of low-skill labor, which, because of a lower earning potential, faced stronger work disincentives. The result was the development of a new role for ALMPs, which emphasized stronger work incentives and employment assistance. This reorientation was signaled also by a change in the language used and the increasing reference to the term “activation.” OECD countries clearly moved in this direction, but in a perhaps surprising order. The pioneers of this new phase were clearly not those who initiated ALMPs in previous periods. Arguably, the preexistence of active policies with a different objective slowed down the development of activation.

Among the first to embrace the new activation paradigm in employment policy was Denmark, a country that up to then had done relatively little in the field of ALMPs (see Figure 1). The social democratic government elected in 1993 adopted a series of

reforms that transformed the Danish system of unemployment compensation.⁵⁶ The 1994 reform removed the possibility of regaining entitlement to unemployment insurance through participation in labor-market programs. It also set a seven-year limit on unemployment benefits. This period was subdivided in two phases: first a passive period of four years and then an active period of three years. Work-availability requirements were also strengthened, and individual action plans were introduced.⁵⁷

The reform was based on the recommendations made by a tripartite outfit known as the Zeuthen Committee, which consisted mostly of representatives of trade unions and employer organizations. The social partners obtained important concessions, such as an important role in the implementation of labor-market measures. At the same time, however, they agreed to reorient unemployment policy in the direction of activation.⁵⁸

Subsequent reforms further strengthened work incentives and employment-assistance elements. The duration of the entitlement period was reduced first to five years (1996), then to four years (1998). The “passive” period was also shortened to two years and to six months for unemployed people younger than twenty-five. After this period, claimants had both a right and an obligation to a labor-market program.

The year 1998 signaled a further acceleration of the trend toward activation. First, policy for unemployed youth took a strong step toward strengthening work incentives and investment in human capital. Measures adopted included a six-month limit on standard unemployment benefit for people under twenty-five and an obligation to participate in training for eighteen months, with a benefit equal to 50 percent of the standard unemployment benefit. Second, with the adoption of a “law on active social policy,” the principle of activation was extended to social assistance claimants.⁵⁹

Other countries followed the Danish lead in reorienting their unemployment compensation systems toward activation. Under Conservative rule, the United Kingdom had developed an approach clearly based on incentive reinforcement, with a series of reductions in unemployment benefit.⁶⁰ The new Labour government elected in 1996 took a more significant step in the direction of activation, based on a centrist orientation in social and economic policy known as the Third Way. Concretely, a whole range of programs targeted to various groups of nonemployed persons has been developed since the mid-1990s. These measures consist mostly of employment assistance, and they are coupled with incentive reinforcement—for example, a tax-credit program introduced in 1998.⁶¹ This orientation was further pursued in subsequent years and is visible in the spending profile of the United Kingdom’s ALMPs, which, especially in 2005, emphasized employment assistance.

Sweden was somewhat slower to reorient its ALMPs toward activation, but since the late 1990s, that country’s labor-market policy has placed considerably more emphasis on incentive reinforcement and employment assistance than in the past. Work requirements have been strengthened, so that those who are still jobless after one hundred days of unemployment are required to accept a job anywhere in the country and a wage up to 10 percent lower than the unemployment benefit.⁶² The unemployment insurance reform of 2001 further strengthened the promarket employment orientation of active labor-market policy. This was done through a number of measures.

First, government abolished the possibility of renewing entitlement to unemployment insurance through participation in labor-market programs. Second, the reform introduced an “activity guarantee” for long-term unemployed people or people at risk of becoming long-term unemployed. This measure consisted of more individualized activities clearly geared toward reemployment.⁶³ According to Anxo and Niklasson, the reforms of the early 2000s signaled a return to the supply-side orientation of Swedish ALMPs, after an interlude when their role was to sustain demand for labor.⁶⁴

Germany is another latecomer to the activation paradigm, even though since the mid-1990s, that country’s policy has clearly adopted this overall orientation.⁶⁵ One important step in this direction was the adoption of the so-called Job Aktiv Act in 2001. The reform included several of the measures that one finds in the standard activation toolbox: stricter monitoring of job searches, profiling of jobless people, reintegration contracts, and wage subsidies.⁶⁶

The Schroeder government, however, did not regard these changes as going far enough. In fact, only a few months after the adoption of the Job Aktiv Act, a new commission was set up and given the task to make proposals for the modernization of labor-market policy. Peter Hartz, a former manager at Volkswagen, headed the commission. Its proposals included several measures, ranging from support for unemployed people who want to set up their own businesses, to the creation of a “personal service agency,” a temporary placement service for unemployed people. However, the most visible and controversial proposal was the merger of long-term unemployment benefit and social assistance (the so-called Hartz IV reform), which resulted in benefit reductions for many recipients.⁶⁷

The activation paradigm, which combines incentive reinforcement and employment assistance, has clearly gained influence over the years. Combined with an expanding economy until 2008, it has also produced more encouraging results than in previous years; thus, more recent meta-evaluations of the micro-level effects of ALMPs provide a more optimistic picture of the potential of ALMPs.⁶⁸ Their macro-level impact is more uncertain, though it may be the case that an emphasis on activation reduces the negative impact of job-protection regulations on the long-term unemployed.⁶⁹ But activation has not reached every corner of Europe. Italy, for instance, is clearly lagging behind in this respect.⁷⁰ France may have started moving in this direction in the late 2000s, with the merger of employment services and benefit agencies, and the transformation of RMI into RSA (*Revenu de solidarité active*), effective since June 1, 2009.

Discussion and Conclusion

It is clear from the evidence presented in this article, based both on country expenditure profiles and narrative accounts of policy developments, that ALMPs can encompass very different policies, with respect to their objectives, the tools they use, and the way they interact with passive unemployment compensation systems. This results in a fundamental ambiguity that may actually be partly responsible for the success of this policy idea over the past twenty years or so, since ambiguous concepts can act as focal points

of political agreement.⁷¹ However, lack of clarity makes it difficult to use the notion of ALMP as an analytical tool. This observation calls for a more fine-grained distinction between different types of ALMP, according to objectives pursued and tools used.

The typology developed in this article, however, makes it possible to track changes in the objectives and tools of ALMPs across time. A number of observations can be made on the basis of the narrative accounts.

The first striking finding is that ALMPs tend to adapt to changing economic circumstances, to a large extent regardless of welfare regime. The three periods identified above were characterized above all by very different economic and labor-market conditions. The first period, the 1950s and 1960s, was a time of rapid economic growth and labor shortage. Under these circumstances, at least four out of the six countries covered developed an ALMP system geared toward upskilling the labor force, so as to provide adequately trained workers to expanding industries. Sweden, Germany, Italy, and France took steps in this direction, though only Sweden succeeded in developing a fully fledged retraining system.

In the second period (mid-1970s to mid-1990s), sluggish growth and industrial restructuring dominated the economic context. ALMPs turned into an alternative to market employment and mostly provided occupations to jobless people. During this period, even programs labeled as training tended to fulfill this function rather than genuine upskilling, as shown by the evaluation literature. Here too, welfare regimes did not seem to matter much. Instead, the existence of a tradition in ALMPs played an important role. The turn toward occupation mainly concerned countries that had developed ALMPs during the previous period (Sweden, Germany, and France), which belonged to different welfare regimes.

Finally, in the third phase (mid-1990s to late 2000s), better economic and labor-market conditions pushed countries toward activation. This development spanned across regimes: in fact, all the countries covered (except Italy) turned to the activation paradigm in labor-market policy, putting emphasis on employment assistance and on the reinforcement of work incentives.

On the basis of the above, one cannot really identify regime-based institutional preconditions that were more or less conducive to the development of ALMPs. In contrast, developments in each period were shaped by decisions made during the previous one. After the oil shocks of the 1970s, ALMPs initially meant to upskill workers were turned into providers of alternatives to market employment. This was clearly the case in Sweden and Germany. Other countries, such as Denmark and the United Kingdom, which did not develop ALMPs to a significant extent during the postwar years, were much slower to expand this field of labor-market policy.

Rather paradoxically, the laggards of the second phase became the leaders in the third one. The first countries that turned to activation were Denmark and the United Kingdom, with high-profile reforms adopted in 1994 and 1996 to 1997, respectively. Other countries followed suit, but at a lower pace. In Sweden, the 2001 reform can be seen as a milestone in this process. For Germany, one could identify the 2002 Hartz IV reform as the tipping point. Quite clearly, countries without an extensive system of

ALMPs in place in the early 1990s had an advantage when it came to reorienting policy toward the objective of reentry into market employment. Using ALMPs as alternatives to market employment created expectations among actual and potential beneficiaries—for example, in terms of the ability to renew the entitlement to unemployment insurance. These practices, which were incompatible with the activation paradigm, were difficult to abandon.

Welfare regimes do not seem to matter much in this account, as the trends identified span across Western Europe (with the exception of Italy). However, it would be incorrect to simply argue that regimes are irrelevant. Nordic countries continue to invest considerably more in this field of policy than any other welfare state, and they continue to spend a bigger proportion on training. As a result, one cannot conclude that a convergence movement exists in ALMP. What seems to be the case, instead, is that more similarity has occurred in the direction of policy in the most recent period. From different starting points and in different ways, countries tend to favor labor-market participation more than in the past.

What about political determinants? The narrative accounts presented above show that there is little regularity across time and space in the political forces that are behind major ALMP initiatives. Even within each period, we find a mix of left-wing and centrist political parties among the initiators of ALMPs. On many occasions, Christian democrats have played a key role—in Germany with the 1969 employment promotion act and during the 1980s and early 1990s. In Italy, the law on apprenticeship was adopted under clear Christian democratic rule. Using the four ideal types presented above, it appears that social and Christian democrats share similar preferences for two types of ALMPs: human capital investment and occupation. Conservative and liberal parties have often supported incentive reinforcement instead.

Employment assistance, a type of ALMP that emerged more recently as a cornerstone of employment policy, seems to be associated with left power. The four countries that embraced this policy option since the mid-1990s (Denmark, United Kingdom, Sweden, and Germany) did so under left-of-center governments. This may be related to the fact that budgetary problems and constraints imposed by economic globalization have severely curtailed the room for maneuvering to introduce traditional left-wing labor-market policies. An emphasis on employment assistance in the 1990s and early 2000s allowed left-wing parties to propose an option that was different from what their right-wing competitors were favoring (retrenchment and the reinforcement of market incentives) and that was compatible with budgetary and international economic constraints.

Institutional factors in interaction with changes in the economic context seem to account for most of the variation we can observe in ALMPs across both time and space. The adjustment of policy to changes in the economic context can also be understood with reference to the policy diffusion hypothesis. Within each period, new variants of ALMPs are first tested in pioneer countries and then spread to other ones, where they often meet resistance; but little by little, they gain ground, supported also by international agencies. What allows us to understand who is a leader and who is a laggard, during each period, however, is the type of policy developed in the previous one.

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