

**DRAFT – NOT FOR QUOTATION**

# Current Employment Policy Paradigms in the UK, Germany and Sweden

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## **Introduction**

European labour markets are facing a series of similar pressures. Post-industrialisation has in many cases implied less stable economic growth and from the individual's point of view, often less stable work relations. As the current socio-economic environment demands more flexibility compared to the times of a Fordist mode of production, life long jobs are becoming more rare and 'atypical' jobs (part-time and temporary) more common. Shifts in the demand for skills are resulting in difficulties for vulnerable groups to attach to the labour market, and many countries are experiencing 'jobless growth' and structural unemployment. (Sarfati & Bonoli 2002b.)

As a result of these challenges but also as a result of increased economic openness, post-war models of employment policy must adjust to the changed environment. Most European countries used to rely on Keynesian demand management in securing full employment and social transfers played an essential part in maintaining sufficient levels of aggregate demand by securing a stable income in the case of lost earnings. The post-war model has become increasingly difficult to pursue, and European countries are reacting in many cases by cutting down expenditure on passive benefits, and by increasing labour market flexibility and activation measures for the unemployed (Sarfati & Bonoli 2002a). International economic organisations, such as the OECD, have issued policy recommendations aiming at flexibility through smaller amounts of regulation and increased operating space for the markets (Armingeon & Beyeler 2004).

This article fixes interest on the convergence of European employment policies by linking the question to ideas or policy paradigms. It focuses particularly on the UK, Sweden and Germany to provide coverage of as different institutional settings as possible. These three countries are typically held to represent different welfare regimes (Esping-Andersen 1990; 1999).

Several factors would lead to believe that European employment policies are converging. Post-industrialisation, economic openness, European integration, and Europeanisation render solidaristic policies increasingly difficult to maintain. Indeed, cut-backs in virtually all areas of state welfare have been carried out in Europe, and pessimists believe that the only available option is a dismantling of the post-war welfare state and a return to *laissez-faire*.

Employment policies are part of this trend. Being an interdependent area between economic and social policy, employment policy is nowadays often being dictated by economic necessities rather than visions of an equal society or social goals. Benefit levels and eligibility criteria are being cut, and states focus rather on the supply side of the economy in order to give breathing space for the markets. This dominant mode of economic thinking, according to which rigid labour market institutions do not result in optimal outcomes, is one of the reasons to believe in future convergence of employment policy.

### Employment policy paradigms

Sometimes Europe is treated as a uniform area without any reflections about convergence or past developments. Sometimes it is argued, on the other hand, that there are still many crucial differences in the policies of European countries, and that each country has to find its own way of dealing with the current pressures. If we look at some crude indicators of economic and labour market performance, we see that there are notable differences in the conditions of the three countries in our analysis.

**Table 1.** Labour Market and Economic Performance in the UK, Sweden and Germany

	UK				Sweden				Germany			
	1990	1995	2000	peak	1990	1995	2000	peak	1990	1995	2000	peak
<b>Unemployment<sup>1</sup></b>	6.9	8.5	5.4	9.9(93)	1.7	8.8	5.8	9.9(97)	4.8	8.0	7.7	9.7(97)
<b>Inactivity Rate<sup>2</sup></b>	22.2	24.1	23.4	26.2(95)	15.4	20.5	21.1	23.7(94)	31.6	29.5	27.8	31.6(90)
<b>Empl. Growth<sup>3</sup></b>	-	-2.4	6.9	-	-	-11	2.3	-	-	-2.0	1.6	-
<b>Econ. Growth<sup>4</sup></b>	.6	2.8	2.6	4.4(94)	1.4	3.9	2.4	3.9(95)	5.7	1.2	2.6	5.7(90)
<b>Budget deficit<sup>5</sup></b>	-1.5	-5.9	1.1	-8.0(93)	4.2	-7.8	3.4	-12(93)	-2.1	-3.5	-1.0	-3.5(95)
<b>Active meas.<sup>6</sup></b>	0.57*	0.53	0.36	0.57(91)	2.5*	3.0	1.4	3.0(95)	1.3*	1.3	1.2	1.7(92)
<b>Passive meas.<sup>7</sup></b>	1.4*	1.4	0.56	1.6(94)	1.7*	2.5	1.3	2.8(93)	1.8*	2.1	1.9	2.6(92)

1) Standardised Unemployment rates

2) Inactivity rates as share of working age population not in the labour force

3) Relative increase in employment rates between 1990-95 and 1995-2000

4) Annual growth rate of GDP

5) Public-sector deficit

6) Spending on active measures as percentage of GDP

7) Spending on passive measures as percentage of GDP

\* 1991

Source: OECD

Table 1 shows some indicators of economic performance and conditions of the labour markets in our three countries. All three countries experienced sluggish economic growth in the early 1990s with falling (and sometimes even negative) annual growth rates. Associated with this, the countries' budget deficits grew larger, with the highest peak being in Sweden in 1993 (more than 12% of GDP). The recessions of the 1990s had their effects on employment growth. The number of people in employment declined in all three countries between 1990-95. Government spending on unemployment benefit (active & passive) has tended to go down together with falling unemployment rates. Spending on activation measures is remarkably higher in Sweden compared to the other two countries, both measured as a share of GDP and as a share of passive measures. Of the three countries, the UK is the only one where spending on active measures as a share of passive measures has increased during the 1990s.

These similarities in table 1 can be associated with the common pressures of economic globalisation and post-industrialisation that these countries have faced. There are, however, significant differences in the current economic situation in the three countries. Sweden and the UK are among the European countries closest to full employment at the moment, while Germany is experiencing above average

unemployment rates. Inactivity rates, in which the unemployed are not included, are highest in Germany as well. This share of the working age population contains e.g. students, housewives, disabled people and early-retired people. The higher inactivity rates in the UK compared to Sweden provides an argument against the neo-liberal notion that lightly regulated labour markets result in the smallest inactivity rates. As inactivity has risen sharply in Sweden, it would be an interesting question to ask whether this figure contains any hidden unemployment. As a contrast to the other two countries, inactivity has decreased in Germany over the last decade.

It should be evident that the problems policy makers face in these three countries are rather different. Furthermore, the different institutional settings create each their unique 'playing field' resulting in different outcomes both in terms of policy and performance. From a social science point of view, there are probably more ways of characterising differences than similarities – the three countries have been said to represent different regimes (Esping-Andersen 1990), different types of governance (Lijphart 1999) and different varieties of capitalism (Hall & Soskice 2001). Instead of discussing the issue of convergence from an institutional point of view, we will, however, turn to the ideas behind the responses to labour market challenges in our three countries. The reasons for this are briefly outlined before examining the three countries in more detail.

A traditional way of looking at the scene of policy making has involved a vision of different groups pursuing the interests of those who they represent. The outcome of the political debate is seen as a result of the division of power between those interest groups (Marsh & Stoker 2002, 1-16, 42-58, 76-94). A different interpretation of policy making stressing the role of ideas in policy change has recently gained attention in the social scientific discussion. Rather than focusing on institutional path-dependency, it is argued that apart from changes in power relations, a change in ideas and perceptions can result in policy change as well. Schmidt, for instance, talks about the role of discourse in legitimising a policy programme and linking together cognitive and normative aspects (Schmidt 2002, 257-303).

Hall (1993) has highlighted the process of social learning as a deliberate attempt to adjust the goals and techniques of policy in response to past experience and new information (Hall 1993, 278). This can occur through a change of policy paradigm, which determines the worldview and, thus, the perception of problems, goals and methods used to carry out the adjustment process. Similarly to a Kuhnian scientific crisis, a series of anomalies can lead to a crisis in the policy paradigm. This was the case e.g. in late 1970s British macroeconomic policy, where Keynesian measures failed to save the country from an economic crisis, resulting ultimately in change of government and a different role for the state in the economy. Hall names this a third order paradigm change associated with disjunction and discontinuity, and with the fact that the overall terms of policy making became different compared to the previous paradigm under the labour government. (Hall 1993, 275-279, 283-287; Kuhn 1970.)

Hall's view of social learning implies that states do have the capacity to act autonomously from societal pressure such as socio-economic development. With regards to employment policy this means that there is room for manoeuvre for policy makers, and room for development of new ideas concerning the goals and methods to

carry out the process of adjustment. This room for manoeuvre can be utilised to find effective solutions to combine goals of equity and efficiency in a new economic environment. If these notions are taken into account, the question of this article takes a slightly new form. It would be expected that the common pressures of post-industrialisation and economic globalisation would lead to convergence, but ideas would have to converge before actual institutions and policies. The Kuhnian crisis is currently going on, and individual countries are trying to find solutions by questioning old ideas in search for innovations that would lead to restored equilibrium.

In order to get a grip of all this, we have developed an ideal typology of three employment policy paradigms. First, they represent an attempt to link fundamental issues of classical political economy to the problem constellations that European employment policies have to solve. Second, they serve as a tool to characterise the broad lines of development from the Second World War onwards to the challenges and the issues of today's political agendas. Third, they serve as an interpretative framework for the empirical section of this article.

**Table 2.** Three employment policy paradigms

	Market Centred	Third way	Keynesian/solidaristic
<b>Problems</b>	Disincentives, rigid labour market institutions	Structural unemployment, incapability of old benefit regime, insider-outsider divisions	Insufficient aggregate demand, under utilisation of labour force, market failures
<b>Methods</b>	Increased incentives, free operation of market forces	<i>*Flexicurity, individually tailor-made solutions*</i>	State intervention, demand management, redistribution
<b>Goals</b>	Full employment, maximised economic growth	To include peripheral groups and create conditions for economically meaningful activity for all	Full employment, decommodification, equal income distribution

It should be noted that these categories represent ideal types only, and their main purpose is to provide a framework for the understanding of current issues in labour market policy reform. Differences in labour market institutions do not either imply necessarily differences in employment policy paradigms. Similar policies may be carried out with different ideas and intentions and different policies may come from a single idea. The point is that these ideal type paradigms give indications of a specific way of perceiving problems, methods and goals in employment policy. They are to a certain extent incommensurable, so that similar concepts acquire different meanings within different paradigms.

The two paradigm types on the right and the left are rather straightforward and can be linked to classical political economy. They are both linked to a specific conception of social justice and society in general. The Keynesian/solidaristic employment policy paradigm has emerged as a result of ideas highlighting unequal outcomes when market forces are left operating alone. It is less fixed with incentives as these are behind the differences and wide income distributions of market-centred systems. Instead, the idea is that when the total of the labour force (or working aged population) is allowed to participate, not through equality of opportunities, but through measures taken by the state (job creation, demand management), economic as well as social outcomes will be optimal. The Swedish Rehn-Meidner model is a classic example of a result of Keynesian/solidaristic ideas. Some economic arguments that reflect this kind of thinking can be found in the work of Gunnar Myrdal.

The column on the left of table 2 tries to outline ideas associated with a market-centred paradigm. Central to this paradigm is the trust on market forces when economic equilibrium is concerned. State involvement should be kept to a minimum, and equality of opportunities is valued highly. A threefold evolution process can be seen when this paradigm and European labour markets are concerned. Market centred ideas dominated immediately after the industrial revolution, gave way to other ideas in between, but are back since the two oil crises in the 70s. These old ideas take a slightly new form today, a form that is influenced by notions of structural unemployment and new arguments why rigid labour market institutions result in high equilibrium unemployment.

Third way employment policy is for obvious reasons quite difficult to categorise, but nonetheless this category is a useful way of conceptualising the challenges to current employment policies. The heading ‘third way’ is chosen because it has in academic literature become shorthand for the optimal solution to the challenges of current welfare politics (Clasen 2004, 89). The search for optimal European employment policy goes still on, which is why it is slightly difficult to outline a general third way policy paradigm.

It is similarly clear, that European employment policy paradigms are changing, they are moving further away from the Keynesian/solidaristic paradigm. The goals, and to some extent the problem perceptions of third way can be recognised in some European countries, but the methods are extremely unclear (this is why third way methods are italicised in the table). It could be argued that Denmark and the Netherlands have succeeded best in finding methods in accordance with the problem perceptions and goals of third way employment policy.

Social democratic governments are in power in all of the three countries in our analysis. Therefore it might be expected that efforts to apply third way ideas could be discovered. The research question can be reformulated once more: are current employment policy paradigms in the UK, Germany and Sweden part of a single third way interpretation? A positive answer to this question would confirm a degree of convergence in ideas behind European employment policies.

Before turning to the empirical issues, a couple of notes on the methods of the analysis should be made. The data consists of 29 interviews with key policy makers in the three countries of the analysis carried out in 2003. In order to characterise the

policy paradigms, we have grouped the analysis into three sections in accordance with the components of problems, methods and goals. The different policy communities in the countries are identified, and the views of the policy makers are interpreted towards the background of this community. When looking at the view, the focus is on threads that may lead to the underlying worldview of the policy maker in question as this is the best way to see clashes between paradigms. At the end of each country section, we wish to have outlined the perceptions of problems, the proposed methods with justifications, and the overall goals of the employment policies in each of the three countries.

## UK

An important aspect of characterising a country's policy paradigm is to identify the relevant policy communities that might have contradictory and/or competing paradigms. Given the majoritarian type of governance in the UK, the most powerful and influential policy communities evolve round the government. We have therefore interviewed key actors within government including the Treasury, the Department for work and Pensions (DWP) and the Policy Unit number 10 (acting as advisor to the Prime Minister's office) as well as some select committees in the Parliament. Other interviewees include representatives from the Trade Union Congress (TUC), the Low Pay Unit and some think tanks. These can be seen as representatives of competing policy communities, providing challenges to government thinking.

Each of the country sections will be grouped under the sub-headings of problems, methods and goals. With the help of the interviews these categories are used to characterise the overall policy paradigm of each country. Perceptions of the most important social problems form a suitable starting point, as they relate to the underlying notions of social justice and citizenship. For example, if a lack of incentives is seen as the major problem, the underlying view in question is probably a variant of market liberalism. If, on the other hand, the major problem were perceived as inequality of outcome, a socialist notion of justice would be a better interpretation.

### **Problems**

The centre left government has been in power in the UK since 1997. It inherited a Conservative legacy of deregulated labour markets, a balanced budget, low unemployment but rather high levels of income inequality. New Labour has not, however resorted to traditional social democratic perceptions of problems, methods and goals. Indeed, the third way has been very strongly present in the political rhetoric, but political rhetoric often tells little about the underlying worldviews lying behind reforms. Therefore, a more thorough analysis must be carried out in order to assess whether the welfare reform initiated by the New Labour government in 1997 is a novel interpretation of the third way as defined in the beginning of this paper.

In the interviews, youth unemployment, child poverty and lack of incentives were the most commonly cited problems associated with employment policy.

*'Everybody has sympathy for people in wheelchairs or partially blind people and that is the image the disability lobby presents. The truth is very different.'*

*The vast majority of people on disability benefits have simply bad backs.*  
(Interview with government official 2003)

*'We want to convince people that to be on Incapacity Benefit is not a terminal career and we try to establish a sense of momentum towards going back to work'* (Interview with DWP official, 2003)

These quotes reflect a major concern about incentives within government. It is notable that disincentives are not associated with the benefit system – unemployment and/or poverty traps where hardly ever seen as problems, but when it comes to people choosing to leave the workforce, the main reason is perceived to be a lack of incentives. When interpreted further, these quotes reflect visions about the market as the primary mechanism for the generation of income. A larger workforce implies larger economic output. Maximised economic output is clearly seen as desirable from the point of view of this paradigm. Levels of incapacity benefit are in the UK not very high in a comparative meaning, and it is more likely that high outflows from the labour force into early retirement or incapacity schemes reflect some other problems in the labour market.

*'People can't live on £4.20 an hour'* (Interview with member of the Low Pay Commission, 2003)

There are, however, concerns of wage inequality within certain policy communities in the UK. Obviously, these have not been powerful enough to persuade the government to implement an across the board increase in benefits (for a review on New Labour welfare spending, see Hills 2001). When New Labour came into power, there was virtually no other wage setting mechanism apart from the market. It is also evident in the interviews that income inequality is not perceived as a problem big enough to reform the wage setting system or by increasing the reservation wage.

There are, however, concerns about certain groups in society - the working poor, young unemployed, lone mothers, ethnic minorities, and long-term unemployed. Often the problem is perceived as insufficient access to employment or education. Another perception of the underlying problem is lack of resources to participate in society e.g. through proper housing and consumption.

## **Methods**

New Labour has introduced several policies in order to address these problems. The National Minimum Wage (NMW) was introduced after a long debate about whether it would undermine economic growth. When it was finally introduced, it was set at a fairly low level (Daguerre & Larsen 2003), but according to independent investigations, the NMW has succeeded in increasing the income of people on the lower end of the earning scale without harmful effects on the economy. The UK tax system (not so progressive) is one of the factors contributing to an economy, where income inequality is likely to increase along with economic growth if government does nothing about it. As New Labour has promised not to increase income tax, it is obvious that income inequality is not perceived as a major issue per se.

Child poverty is related to income inequality, and in the political rhetoric this has been chosen as a major problem to be tackled.

*Blair's speech in his Beveridge lecture and the pledge to abolish child poverty has been very important to keep the momentum behind the WFTC and new tax credits. If Blair had not made this commitment, it would have been much harder.* (Interview with academic expert, 2003)

One of the innovations of the British government has become known as 'redistribution by stealth'. Social spending figures are being kept at a same level as the previous conservative government, but targeted benefits are thought to reduce overall inequalities. The tax credit is an example of redistribution by stealth. Having its origins in the family credit (means tested benefit), it now creates an impression of earning the benefit through work. On the one hand it can be seen as a job subsidy, but on the other hand it is generous enough and has a slow enough withdrawal rate in order to minimise disincentives. The important point is that it is administered by the Treasury, and that it is not accounted for as an expenditure. Its novelty is the underlying idea of the taxation system performing a function previously performed by the social security system. This innovation can certainly be interpreted as part of an effort to find a third way employment policy.

*'I don't think [there will be more emphasis on demand-side policies] and that it will be necessary if we get the supply side right. If you increase the supply of suitable labour that will in itself create more jobs. Economists can talk about this'* (Interview with DWP official, 2003)

This quotation reflects strongly the logic associated with the Market Centred paradigm. The underlying logic is that demand side policies only create inflationary pressure and the only thing governments can do is to focus on the supply side. It reveals that the goal of employment policy is to keep structural unemployment low and to maintain a lightly regulated labour market.

The New Deals that the government has introduced are supply side policies with the aim of providing opportunities for people in danger of exclusion from the labour market. Once again, these policies are consistent with a Market-Centred logic, but reflect some state involvement in the sense that participation in the New Deal schemes is often a condition for receiving benefits.

## **Goals**

In a sense it is obvious that New Labour has found a third way between laissez-faire liberalism and traditional social democracy. Neither can the 1997 welfare reform be characterised in terms of deregulation of labour markets in the same way as the conservative government, nor in terms of reforms towards an egalitarian tax-benefit system. Therefore, the goals of British labour market policy may be characterised in terms of what Pierson has called *compensated commodification* (Pierson 2001). It is highly commodifying, since the market is the primary mechanism enabling citizens to participate in society. There is a welfare state, however, which aims at compensating some adverse outcomes of the commodifying process without interfering with the operation of the market. What makes UK labour market policy a variation of a third

way approach is the way in which both rights and responsibilities of citizens are perceived. These are reflected in the political rhetoric by slogans, such as “work for those who can, and welfare for those who cannot”.

British labour market policy differs from the two traditional ideal types outlined above in two ways. First, the work-centrism aspect is different from pure market liberalism because it is not simply about providing opportunities and claiming that it is up to the individual to use them. Nor is it simply about increasing passive benefits and increasing levels of social security. One of the ideas behind Giddens’ third way is that people in today’s society have a different relationship with their futures and their social and economic involvements compared to fifty years ago (Giddens & Pierson 1998, 163). Therefore the welfare state cannot be simply about protecting people from shared social risks, as there hardly exists any ‘typical life-course’ with predictable contingencies. New Labour employment policies include this aspect in the sense that it brings forward new ideas and approaches such as the tax credits. The right balance between rights and responsibilities, or freedom and compulsion is still a slightly open question.

### **Sweden**

After having risen by more than 300 % between 1990-1993 as a consequence of a severe recession, the Swedish unemployment rate has gone down to 3.9 %, which is well below EU average. The post-industrial phenomenon of ‘jobless growth’ is, however, not unfamiliar for Sweden, and there appears to be some mismatch between supply and demand in the labour market. Employment rates are currently at an average of 72 % of the working aged population. High female participation and the Swedish dual-earner model contribute to the comparatively high employment rate. Part time employment is relatively common though (about 22 % of all contracts), and the full time equivalent employment rate is 68 % - the same as in Finland (MOL 2002).

Compared to the UK and Germany, the structure of the Swedish labour market characterised by stronger regulation (universalistic unemployment regime, Gallie & Paugam 2000, 1-25), is significantly different, making the range of alternative policies rather different as well. The tax-benefit system and other labour market institutions keep the reservation wage relatively high. There is no low wage economy, and earnings dispersion is not that wide, but the public sector is a main employer (21.2 % in 1998, OECD 1999b). Wage setting is heavily centralised and strictness of employment protection legislation is on an average OECD level (OECD 1999). Thus, while speaking of challenges of the Swedish labour market, one has to keep in mind the far developed labour market institutions and the impact on available policy options they have. It is e.g. out of the question to increase incentives by a major reduction in the reservation wage, since the benefit and the wage bargaining system depends on it.

The social democratic party has traditionally enjoyed broad support among the population, and has ruled the country for most of the post-war period. According to the constitution, the government must have a majority in the parliament. Usually the strongest party forms a coalition with another party, making the political system more consensus based than e.g. in the majoritarian UK (Lijphart 1999). This is reflected in

the formation of employment policy as well. During the recession years, cuts in benefits were avoided as far as possible, and the public deficit increased instead. The trade-off between equity and efficiency in the labour market is acknowledged in the current discussions, but the aim is not to lower structural unemployment through labour market deregulation. Removing labour market institutions on efficiency grounds is highly unlikely because of the support they enjoy among policy makers and the people.

The unemployment benefit system has recently been subject to many reforms, but the current maximum duration of the earnings-related component is 300 days. There is an 'activity guarantee' (aktivitetsgaranti) targeted at long-term unemployed which involves participation in ALMPs after the first 100 days of unemployment. Participation is compulsory in order to receive full unemployment compensation. Due to recent reforms, participation in active measures does in principle not suffice for a renewed right to earnings-related benefit. In some cases this is still possible, such as for the over 55 year olds, who are subject to special tailored measures (Timonen 2003). The work force administrators may also renew the eligibility for earnings related compensation if prospects for employment look bad enough (Hytti 2002, 336).

It has been suggested that significant numbers of hidden unemployment persist veiled by the sickness benefit system. Currently an equivalent of 13 % of the full time labour force is absent due to sickness or disability. The costs of sickness leave are mainly paid by the state, making it more attractive for workers and employers. The line between sickness and disability is also blurred, since sickness benefits can in principle last indefinitely. Some researchers have suggested that the Swedish unemployment rate is low, simply because employers are forced to hire supplementary work force to replace the absent workers (Hytti 2002, 334). This is a somewhat different view to the usual one, according to which ALMPs are successful in maintaining a low unemployment rate.

Sweden is among the highest spenders of ALMPs. There are, however, debates about the effectiveness of these measures, which has proved to be a complex task to prove. In the worst of cases, there is a significant amount of the labour force circulating between short term jobs, spells of unemployment and ALMPs. The most significant challenge for the Swedish labour market is whether it can maintain its extensive institutions and structures in a competitive global environment.

First, the goals, problem perceptions and proposed methods of the policy actors will be described. After that they will be linked to the corresponding elements of the overarching Swedish employment policy paradigm, and its relation to the ideal types presented in table 1. This will provide further opportunities for comparison between the three countries in the analysis.

## **Problems**

Initially it would have been expected that compared to the UK, disincentives are less of a concern in the Swedish discussion. Within a solidarity paradigm, the notion of the individual as rational and utility maximising is weaker, and generous benefits are thus generally interpreted as providing a 'soft cushion' against uncertainties rather than

acting as disincentives to take up work. The following quote shows, however, that the concern of disincentives is present in the Swedish discussion:

*'Everybody should have the opportunity to work, and work must always be economically more rewarding than benefits. E.g. social assistance fails to motivate to work as all income from work is offset against the assistance. The massive increase in the numbers of [sickness benefit recipients] is also a problem. Many unemployed people have moved on to become sickness benefit recipients.'* (Interview with MP (The Liberal Party), 2003).

Virtually all of the interviewed policy makers saw the increase in the number of sickness benefit recipients as the main problem in the current benefit system. If this is seen as a form of hidden unemployment, it means that it is a spillover effect of some kind of problems in the labour market. For some reason a significant amount of the work force is relying on sickness benefits. The similarity to the concerns in the UK is striking. As noted above, the number of people on incapacity benefits was a major concern among UK policy makers.

Representatives of the trade unions interviewed (LO, SACO, TCO) and the representative of the Liberal party expressed concerns of the low 'insurance ceilings' as a problem with regards to the credibility of the benefit system. The level of earnings, above which no earnings-related compensation is received, is limited in the Swedish unemployment benefit system, and this level has been decreased as a result of recent reforms. The trade unions see this as a threat to the insurance principle, as contributions are not being sufficiently rewarded.

While nearly all of the interviewed Swedish policy makers saw sickness leaves as a major problem, the person quoted above was one of the few who linked the phenomenon to unemployment. In principle, the sickness benefit recipients are in employment, but the opportunity to misuse the system is evident, which was acknowledged by many of the interviewed policy makers. The state bears the main costs of the sickness benefit, which replaces up to 80 % of previous income. Duration is in principle indefinite, if the medical conditions are fulfilled. The number of people on sickness leave for more than a year is 1.8 % of the total labour force (Hytti 2002, 338). After a reform in the sickness benefit system in 1998 making it more accessible, levels of unemployment started falling while the number of sickness benefit recipients started increasing. The representative of the employers' organisation (Svensk Näringsliv) noted that the insurance ceiling is lower for unemployment benefits than for sickness benefits. He implied that this creates an incentive for those whose earnings are above the unemployment insurance ceiling to be on sickness leave instead.

Apart from unemployment and the problems associated with sickness benefit, another problem of the Swedish labour market that was acknowledged by all camps across the political spectrum was the threat of labour shortages and an ageing population. Here again, the perception of the problem reveals something of the underlying worldview. Claiming that the ultimate problem is labour shortages implies that the most wanted solution to the problem that increased dependency ratios pose, is to increase employment rates and thus generate enough income to cover the costs of an aging population. The key question then arises, what the most favourable measures are to

decrease the numbers of people depending on welfare benefits. Throughout the Swedish discourse, the primary answer seems to be training and activation measures rather than an increase in incentives through lower levels of benefits.

*'The main future challenge is maintaining high levels of education and a highly skilled work force, and reaching full employment'* (Interview with MP (SDP), 2003)

## Methods

The Swedish Green Party proposes a Citizen's wage as a solution to the benefit misuse problems (Interview with MP, Greens). On the one hand, this could be interpreted as an indicator of the presence of a solidarity paradigm, since it fits into a worldview where people can make a choice between paid work or other, alternative lifestyles. On the other hand, the logic of a citizen's wage traces back to Milton Friedman's ideas of a negative income tax, very much associated with market centred criticism of a too bureaucratic and inefficient benefit system. The Swedish political discussion about a citizen's wage is too limited to provide evidence to decide which one of the paradigms acts as a source to the understanding of the proposed solution.

The trade unions would be happy to see an increase in the social insurance ceilings as a solution to the threat to the insurance principle. This would, however, imply increased expenditure on unemployment benefits. Out of the left-leaning politicians, no SDP representative mentioned this as neither a problem nor a solution as opposed to the representative of the Liberal Party, who claimed that there must be concrete returns on the taxes people pay.

*'People pay taxes first and foremost for selfish reasons, so that they can be sure of getting good health care for themselves and good education for their children'* (Interview with MP, Liberals, 2003)

As a solution to the problem posed by an aging population, the representative of the Confederation of Swedish Enterprise suggests increases in the employment rates by shortening time spent in education, and by increasing the average age of retirement. He claims that time spent in University education is too long, and that 60-65 year olds have much to offer for the labour market. As with the citizen's wage proposal, this suggestion is rather ambivalent in terms of the paradigm classification. On the one hand, it contains market-centred elements in terms of encouraging people to take up work. What is decisive in this case is that instead of achieving this by increased incentives (lower benefits), it is proposed in the first place as a solution to be able to maintain generous benefits. Thus, instead of stressing incentives (which was rather common in the case of the UK), the priority is to reform the education system (universities) to enhance youth participation rates, and to promote partial retirement to increase elderly participation rates.

The fact that most Swedish policy makers did not see the need to cut down the tax/benefit system can be seen as an indication of the absence of a strong market-centred paradigm. The paradigm is, however, not completely absent from the discussion, which could be seen in worries about benefit dependency and

disincentives. A strongest indication of the domination of a solidarity paradigm was, however the way policy makers saw all reforms as means to maintaining the welfare system. The Swedish labour markets are not free from challenges, which the spill over effects on the sickness benefit system demonstrates. This has not, however, resulted in concerns about productivity. Instead, the problems with the labour market are associated with concerns about lost state revenue to maintain extensive welfare arrangements.

## Goals

*‘The Nordic countries must together strive to maintain their welfare state model and ensure that it acts as an example for others. [There is a] need to enable everyone to work, [and a] need to take more account of people’s physical and psychological ability to work.’ (Interview with MP (The Social Democratic Party, 2003))*

This quote reflects an awareness of the challenges to the Nordic welfare model in the political discourse. The British government official saw labour market flexibility as an asset compared to other European countries, this MP clearly regards the Nordic welfare model with high social security and state involvement as something worth pursuing in the agenda of European integration. In terms of labour market policies, this means a commitment to maintaining high levels of social security. The policy makers are aware that in the long term this goal is only feasible with minimal dependency ratios.

There was some variation among the political left and representatives of the labour movement how they viewed the problem of unemployment. Some saw the past decrease in unemployment rates as an indicator of well functioning employment policies implying no need for major revisions. Some (especially the trade union representative) wanted to highlight that unemployment still represents a problem. All political actors representing the political left and the trade unions agreed more or less that full employment should be the goal of Swedish employment policy.

Compared to the left, the political right wanted more to highlight the goal of a dynamic labour market. This can be interpreted as a worry about global competitiveness and the ability to attract business. Nonetheless, the political right and representatives of employers’ organisations agreed on the need of state provided basic security (in the Swedish discourse meaning the current, comparatively generous arrangements), and on the goal to ensure the survival of the welfare system. At the same time they wanted to maintain the goals of freedom of choice (the liberal party) and improved prerequisites of private enterprise (the Christian Democrats).

## Germany

Compared to the UK German labour market policy has been characterised by more state involvement, higher levels of employment protection and more generous out-of-work benefits with earnings-related components. After unification, during the 1990s the German model has faced some major difficulties associated with high levels of unemployment, sluggish economic growth and large public debts. These difficulties have been followed by a major overhaul in labour market policy, with the old demand

side agenda being replaced by a new supply side orientation (Clasen, forthcoming, 101). The German political system, as contrast to the UK, involves a great deal of stickiness and reforms are often rather hard to carry out. Therefore, it is harder to identify and characterise the German employment policy paradigm as different policy communities with different ideas constantly negotiate about the best way forward.

Clasen argues that rather than a single idea being behind the recent German reforms, external challenges, such as high unemployment, low economic growth and soaring public deficits are factors that trigger reforms (Clasen forthcoming, 105). However, it is during times of discontinuity when different and new ideas become more influential (Hall 1993, Schmidt 2001). To put it crudely, supply side oriented ideas are quite strongly represented at the current German employment policy agenda. The Employment Promotion Reform Act in 1997 introduced a reorganisation of active and passive benefits with the aim to increase incentives for the unemployed (Bonker & Aust 2003). Since then, a new SPD led government has more or less continued where the previous government left – not without some major obstacles, though. Chancellor Schroder has passionately been pursuing a reform agenda involving major administrative reforms (the propositions of the Hartz committee), and plans for future reforms of policies (Agenda 2010). Without doubt, the reforms are implemented with the aim to stabilise the public budget, cut non-wage labour costs and increase incentives. More importantly, however, the German employment policy paradigm is clearly changing, and along with it are the traditional ideas about the role of the state in the market, as well as the role of the citizen in society. It is these ideas that we are going to focus on in the following.

### **Problems**

Several different policy communities compete for influence in German labour market politics. The boundaries of these communities do not necessarily follow organisational boundaries. There are some remarkable cleavages in the two major parties, the social democratic SPD and the conservative CDU. Compared to the UK, the consensus based German democracy (Lijphart), allows the party in opposition to influence policy making by e.g. important veto points. The current opposition party, CDU has a majority in the second chamber (Bundesrat), creating a channel for the influence of Christian democratic ideas and interests.

In the interviews, the perceptions of current problems in the German labour market centred understandably around notions of high unemployment and slow economic growth.

*The steady increase of unemployment in Germany represents a major problem to be solved. (Interview with BMWA official, 2003)*

The two major competing explanations that the different policy communities offer, vary from the traditional Keynesian view of lack of aggregate demand to neo-liberal notions about structural unemployment and rigid labour market institutions. The ‘modernist’ wing of the SPD tend to lean towards the latter explanation with the ‘traditionalist’ wing and the ‘socialist’ wing of the CDU favouring explanations with different assumptions. The trade unions worked closely with the government until

recently, when the latter has started introducing reforms with the intention to expand employment through the low-wage sector.

Another associated problem with the existing policies that was frequently mentioned in the interviews concerned state involvement in the labour market. In the beginning of the 1990s, especially in the east, public work schemes were created to the extent that many people started talking about a 'second labour market' alongside with the first labour market of private enterprises. Policy makers nowadays prioritise the first labour market and some are even sceptical towards increasing spending on activation measures such as employment training.

In general, it seems as if the explanations associated with the supply side agenda, i.e. explanations that see rigid labour market structure and heavy state involvement in the economy as the major cause of unemployment, are more often represented in the perceptions of the different policy communities. Trade unions were usually against the creation of a low wage economy, but did not, however, express strong opinions for public work schemes.

### **Methods**

*'The CDU proposes a deregulation of dismissal rules and a legal framework to allow for 'alliances for jobs' at the level of enterprises which depart from collective agreements between social partners.'* (Interview, CDU, 2003)

The proposition of the CDU interviewee is very much in line with the notions of rigid labour market structures as the cause of high and persistent unemployment. It is also compatible with neo-liberal notions that the free operation of markets results in the most efficient economic outcome. Since the late 1990s, benefits have been reduced both in terms of generosity and coverage. 'Mini-jobs', that are exempted from some regulations have been introduced in order to enhance job growth.

The Hartz acts, which are currently being implemented in four phases, are about administrative reforms (Bonker & Aust 2004). In addition to this, the so-called agenda 2010 is associated with a realignment of the goals of employment policy. The general line of this agenda is to give more operating space to the markets through e.g. reforms in the tax-benefit system. Given the reform-resistant German political system, the changes so far have not been that radical, but the items listed in agenda 2010 can be seen as indicators of both the perceptions of methods and goals in current German employment policy paradigm.

*'Passive transfers of financial resources are no longer the appropriate way to deal with the problem of long-term unemployment. There is a need for strengthening the obligations of recipients.'* (Interview with MP, CDU, 2003)

There seem to be elements within the CDU that stress the idea of activation. Within the Keynesian/solidaristic paradigm (as outlined in the introduction), benefit duration was less of an issue as it was assumed that all jobseekers would eventually find work some way or another. During times of structural unemployment, benefit duration becomes a political issue, as it is often assumed that unlimited passive benefits create disincentives to take up work. In the UK, there has never really been an insurance

element or any kind of income replacement in the benefits for the unemployed. But in Germany replacement rates have especially for some social groups been quite generous. There is little evidence in the interview material that Germany is going to abandon completely the ideas related with passive transfers, and introduce a UK style means-tested system for the unemployed. Nonetheless, benefit levels have been reduced, and eligibility criteria have been tightened.

### **Goals**

The German case could provide a good textbook example of why Keynesian demand management is not a very popular policy option in an increasingly open economic environment. [Siegel has shown... Germany and EMU – constraints] Logically speaking, one alternative is to allow more space for the markets and hope for economic equilibrium and stability. In a sense, this is what has been done in Germany. But in addition to this, the old ideas behind employment policy have been contested as well. The rhetoric has to a certain extent been quite similar to British third way rhetoric, which is exemplified by a joint paper by the leaders of the two countries (Blair & Schroder 1999). In Germany as in Britain, there have been efforts to find the right balance between rights and responsibilities of workers or jobseekers. The rhetoric has evolved around the concepts of *fordern und fordern* ('promote and oblige', Clasen, forthcoming, 102).

Claus Offe's notion of administrative recommodification (Offe 1976) provides elements by which the goals of German employment policy paradigm can be understood. Offe saw the fundamental tension between the commodifying and decommodifying elements of the welfare state resulting in a solution in which the state focuses on the supply side of the economy, the infrastructure and so on instead of intervening with the market. Compared to the UK, the crucial initial difference is of course, that German labour market institutions have traditionally provided many alternative means of subsistence outside the market. It can hardly be questioned that they still continue to do so, but nevertheless, the interviews indicate that the aim is to reduce the responsibilities of the state and increase operating space for the markets.

Administrative recommodification as a goal of the German employment policy paradigm should be kept distinct from the British goal of compensated commodification. Although both paradigms are associated with and influenced by new economic thinking which departs from traditional Keynesianism, the frames of references of the concepts between the two paradigms are different, and to a certain extent incommensurable. This is quite evident in the interviews – German policy makers simply mean different things when they talk about incentives than British policy makers. Moreover, the conceptions of social justice and perceptions of the division of responsibilities between the market, state and the family are still different in the two countries.

It is evident that the German employment policy paradigm cannot be characterised very well by the perceptions of problems, methods and goals associated with the Keynesian/solidaristic paradigm. Instead, the interview data give an impression of a variation of a third-way employment policy paradigm that has much in common with the UK variation.

Does the third way imply necessary recommodification? In the German case to a certain extent yes, but the key question is whether policymakers are able to find ways for the excluded to be economically productive instead of relying on passive benefits. Therefore, even if the role of traditional labour market institutions is being reduced, there is still some room for manoeuvre for policy makers to mediate and have an impact on the outcomes of the market.

### **Conclusions**

The overarching question of this article has been to find some clarity in the issue whether European employment policies are converging as a response to pressures related to post-industrialism, economic globalisation and European integration. A widely quoted notion pictures a ‘race to the bottom’ of European welfare states – downward convergence towards the lowest common denominator in the name of economic competitiveness. We have looked at the issue of convergence by focusing on ideas, which arguably become increasingly important during times of discontinuity, disequilibria and crises of traditional models of employment policy. By reviewing and analysing interview material with key policy makers in the UK, Sweden and Germany, we have sought to establish the current employment policy paradigms in the three countries and thus assess the extent to which ideas are converging.

It was noted in the introduction that institutional differences as well as differences in economic performance are still notable in the three countries of our analysis. A third way policy paradigm was formulated in addition to two classic, ideal type policy paradigms, in order to grasp the current challenges in European labour markets and the set of ideas that might lie behind the responses policy makers are trying to generate. Thus, the issue of convergence took the form of seeing whether the current ideas in the UK, Sweden and Germany are all part of a third way response to similar pressures. Convergence would imply a positive answer to this question. The results of the analysis can be summarised in the following table.

Table 3. Current employment policy paradigms in the UK, Sweden and Germany

	<b>Sweden</b>	<b>Germany</b>	<b>UK</b>
<b>Problems</b>	Sickness leaves, incapacity benefits, spillover effects from overloaded system	High/persistent unemployment, high non-wage labour costs	Insider/outsider divisions, lack of incentives
<b>Methods</b>	Adaptation, cost-containment, recalibration (Pierson 2001)	‘Fördern und fordern’, increased incentives, more responsibility to markets	Welfare to work, tax credits, redistribution by stealth, selective universalism
<b>Goals</b>	Wage equality, preservation of welfare state, solidarity	Economic stability, administrative recommodification	High economic output, compensated commodification

If the results of the analysis of the interview material are compared to the ideal types presented in table 2, it can be concluded that all of the three countries have moved closer to a third way employment policy paradigm. In the cases of Sweden and Germany this implies a move further away from the Keynesian/solidaristic paradigm (towards the left in table 2 if a horizontal continuum between the paradigms is imagined). In the case of the UK, there is still heavy reliance on the markets, but the state has adopted new means in order to influence market outcomes. These efforts have resulted in a unique (though US influenced) division of functions between the taxation and the benefit system in the form of tax credits. Ideas and perceptions of policy makers centre still to a large extent around incentives and the logic of the market forces.

These changes in employment policy paradigms do indeed imply a certain degree of convergence between the three countries in our analysis. This does not, however, mean that the three paradigms outlined in the three countries would have a single set of ideas as a source of their inspiration. Lines of thinking belonging to the third way paradigm can be identified in all of the three countries – hardly any of the interviewed policy makers aspired back to a system with extensive provision of passive benefits. Instead, the concern was to find meaningful activities for the people excluded from the labour markets, and if possible, find ways to include them in the regular labour market.

Still, it can be concluded that clear borders between national employment policy paradigms still exist. The views of the policy makers were interpreted taking into account the specific policy community they belonged to. Whilst there were some clear differences between the policy communities within a specific country, the differences between the countries were even bigger. Thus, e.g. the social democrats and conservatives in Sweden share more or less the same perceptions of problems, and although they may disagree on the methods and goals of employment policy, their ideas are still more similar to each other than to the German social democrats and conservatives correspondingly. Therefore, although countries are moving closer to a third way policy paradigm, it might be said that each of them represent different interpretations of this paradigm. The policy paradigms of each country are still linked to distinct notions of social justice and citizenship (cf. Dean 2004). The degree of convergence found between the three countries can probably be linked to the influences of new economic thinking, according to which the market is the most suitable mechanism in order to reach equilibrium. The fact that responses to current pressures has not yet resulted in the abandoning of most solidaristic goals shows that some new ideas and innovations are present in current policy making.

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