

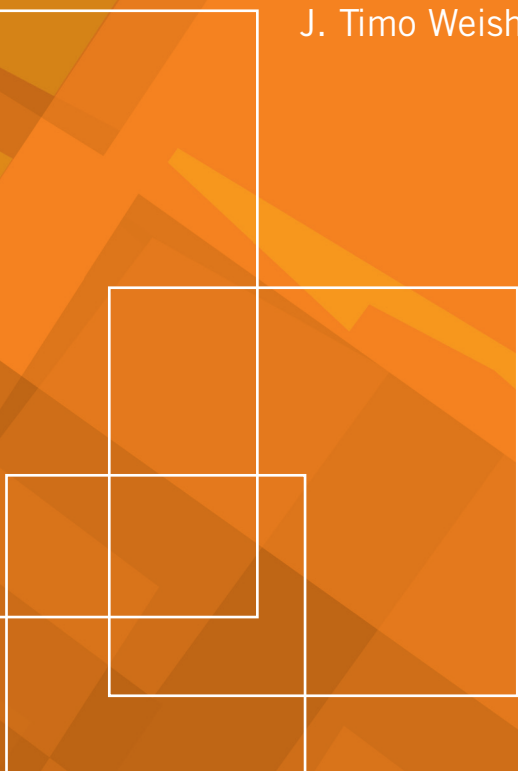


International  
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# LAB/ADMIN

## Social Partners and the Governance of Public Employment Services: Trends and Experiences from Western Europe

J. Timo Weishaupt, Ph. D.



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Public Employment Services:  
Trends and Experiences from Western Europe**

**J. Timo Weishaupt, Ph. D.**

**International Labour Organization – Geneva**

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## Preface

As part of the research and studies carried out under the Labour Administration and Inspection Programme (LAB/ADMIN), the aspect of the role of social partners play in the governance of the Public Employment Services in selected countries of the European Union is not new. The debate around this topic is becoming even more important in the light of the current effects of the economic crisis. Moreover, such a debate has to do with the wider debate on the role that labour administration, understood in its widest meaning, plays in making sure that public employment services function in an efficient manner.

Dr. Timo Weishaupt analyses the various experiences and looks more specifically at the recent trends and challenges in this area. Indeed, in an effort to respond to changing labour market conditions, many public employment services undertook a restructuring of the operations, taking advantage of new technologies, empirical evidence and policy perspectives in order to enhance their performance. In this regard, the social partners play a key role with a view to better accompanying the current transformations and making sure that public employment services, full components of any labour administration, achieve a better coherence when implementing employment policies.

The hope is that this paper would inspire further reflection on this subject and would be helpful for government, workers and employers as well as academics and researchers.

Many thanks go to Ms. Caroline Augé for her assistance in formatting this document.

Giuseppe Casale  
Director  
Labour Administration and  
Inspection Programme  
(LAB/ADMIN)



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## Abstract

Public Employment Services (PESs) are important actors in the fight against unemployment and social exclusion. They differ, however, greatly in their governance forms, also and especially when it comes to the involvement of the social partners, i.e. representatives from employers' associations and labour unions.

This paper offers in-depth insights to the ways in which PESs are governed in four European countries: Austria, Denmark, Germany and the United Kingdom. Special attention is placed on recent changes in governance, the role of the social partners, and the response to the crisis of 2008.

The paper shows that Austria has retained a *modus operandi* of strong social partnership and mutual trust, while the German and especially Danish systems have seen a gradual decline of social partners' influence on PES governance, partially as governments' of the political right and left increasingly seek to advance their direct steering capacity. The British case remains driven by a market-oriented, public-private partnership model, without any institutionalised role for the social partners.





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## 1. Introduction

The global economic and financial crisis that has haunted most of the industrialized world since 2008 has – once more – made painfully apparent the crucial importance of effective Public Employment Services (PESs) in minimizing social hardship and getting economies back on a track of recovery. PESs not only provide financial assistance to workers without jobs, but are also critical players in matching vacancies with jobseekers, equipping workers with the skills they need to succeed in rapidly changing labour markets, and often also function as the “employer of the last resort” through the organization of a “second labour market” (direct job-creation schemes), the facilitation of short-time work schemes (*Kurzarbeit*), or the provision of employment subsidies to firms willing to train or hire disadvantaged workers. Tackling labour market problems is a concern not only for governments, but also for employers (who need affordable and skilled labour) and labour unions (who seek to protect their members and the “working class” more generally). Not surprisingly, the so-called social partners, organised in peak-level employers/business and workers’ organisations, are – in one way or another – involved in PESs’ decision-making and policy implementation procedures. The paper asks the question, how does the social partners’ involvement look like in a variety of countries and how has it changed, also and especially in the context of the crisis? Answering this question requires taking the following steps: first, a historic overview establishes the context by succinctly reviewing the origins of PESs and briefly describing the main steps in their evolution; and second, an in-depth analyses of four country cases follows, covering the developments of roughly the past decade. The focus of these sections lies in the description of the PESs’ governance systems, the depiction of the role of the social partner, a review of the most important institutional changes, and a brief review of the country’s reaction to the financial crisis. The paper concludes with a short summary of the findings.

## 2. Historic Origins: From Labour Exchanges to PESs

The history of public employment services is closely linked to both “class conflict” and “social partnership”. When unemployment was first recognized as a “phenomenon” in the mid-1800s, the newly organised trade unions quickly became critical actors assisting “their” workers with job searches, and even providing relief during spells without work (through union-run unemployment insurance programmes). Toward the end of the 19<sup>th</sup> century, many businesses also began to set up “labour exchanges”, not only to fill vacancies, but also as an instrument in the on-going class warfare (as strikes could be broken, wage pressures alleviated, etc.) (Niess, 1982, p. 93ff). At this point in time, *national* governments rarely addressed unemployment in any systematic way. However, local authorities were pioneers in the organization of “labour exchanges”, thus establishing the first “public” employment services (PESs). Among the first were the German cities of Dresden and Leipzig that established such offices as early as 1840 and 1844 respectively (Schmid, Wiebe, & Oschmiansky, 2005, p. 269). Interestingly, many of the “public” local exchanges that were set up during the latter half of the 19<sup>th</sup> century in (mainly southern) Germany – and subsequently also Austria and Sweden – were organized in a *tripartite* fashion, i.e., they included the formalized and systematic influence of both workers and employers representatives (Niess, 1982, p. 119).

In Belgium, where the union movement was well established by the end of the 19<sup>th</sup> century, a new “mixed” form of “public” and “union-run” systems was first advanced. In 1901, the public authorities in the Belgian city of Ghent decided to financially support – rather than run – the unions’ *voluntary* unemployment insurance (UI) schemes (Vandaele, 2006, p. 649). It was at this time that the “Ghent system” of workers’ protection – i.e., a

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voluntary insurance system, administered by labour unions and subsidised by the state – was established. Ghent’s novel approach quickly spread across Europe to cities such as Milan, Amsterdam and Strasbourg over a period of a few years (Heclo, 1974, p. 70). France was the first country to establish a *nation-wide*, Ghent-like system in 1905, while Norway (1906), Denmark (1907), the Netherlands (1916), Finland (1917), Belgium (1920), Luxembourg (1921), Switzerland (1924), and Sweden<sup>1</sup> (1934) followed suit (Alber, 1982, p. 28).

In Great Britain – and thus Ireland, which was yet to become independent – the central government set up its own purely *state-run* labour exchanges after in-depth visits to Germany (especially Berlin) (cf., Price, 2000). While the social partners did not play a formal role in the organisation of these labour offices, the labour unions operated offices in addition to, and separate from, the state-run offices and were allowed to offer supplementary unemployment insurance packages to their members.

Over time, especially during World War I and the immediate post-war era, a cross country consensus gradually emerged that *national* labour market administrations were needed (to mobilize workers during the war years and to reintegrate returning soldiers), and that cooperation with the *social partners* was welcomed (to “internalise” class conflict). This consensus was then formalised with the issuance of the International Labour Organization’s (ILO) second Convention conclusions of 1919, where Member States committed to establish “a system of free public employment agencies under the control of a central authority. Committees, which shall include representatives of employers and of workers, shall be appointed to advise on matters concerning the carrying on of these agencies” (ILO, 1919, p. Article 2).

During the first decades of the 20<sup>th</sup> century, most countries not only established national PESs, but also ministries for labour and/or social affairs with a remit to device labour market policies and to monitor and guide the operations of PESs were created. After the devastation of WWII, most of Europe experienced a period of rapid economic growth and technological innovation throughout the 1950s, an era, which is often dubbed the “golden age” of the welfare state (Huber & Stephens, 2001). During this time, welfare state policies and unemployment insurance were expanded in both coverage and levels of compensation. Moreover, full employment, as envisioned in ILO Convention 88 of 1948 – and reaffirmed in ILO Convention 122 of 1964 – became not only a rhetorical ambition, but also an immediately attainable goal for most countries. The expansion of active labour market policy (ALMP) then reached a new climax during the 1960s, when the OECD effectively spread Swedish ideas about “active manpower policies” throughout the western world, policies that would be delivered by empowered and modernised public employment services (Rothstein, 1985, p. 153). By the 1970s, the use of ALMP was formally introduced through legal acts across all industrialised nations, while fully functioning, well-resourced, tripartite PESs were the norm in all of democratic Europe, including for instance Denmark, where national *Arbejdsformidlingen* replaced the union-run offices in 1969, Ireland, where the National Manpower Service was established in 1971, or Britain, where the government created the Manpower Services Commission in 1973 (Weishaupt, 2011).

By the mid-1980s, when information and communication technology was radically advanced, computers introduced, and skills demands on workers began to change, not only through the emergence of service sector jobs, but also through an increasingly global division of labour, PESs began a new phase of modernization, largely driven by the

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<sup>1</sup> Sweden’s late introduction is based on the Conservative government’s reluctance to introduce such a scheme on the national level. The establishment of a national UI system, however, followed quickly after the Social Democrats assumed power in 1932 (Wadensjö, 2009).

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philosophy of New Public Management (NPM). On the one hand, the 1990s were characterized by PESs shifting from systems based on “management by regulation” to “management by objectives” (cf., Larsson, 2001). This move was often accompanied by attempts to *decentralize* PES governance and thus improve local flexibility, and by efforts to reorient PES staff toward embracing a new “customer orientation” and private business management mentality (Weishaupt, 2010b). On the other hand, many governments also sought to increase external competition in the provision of services, especially with regard to skills training. Another important step toward more “competition” included the abandonment of long-held placement monopolies for state agencies, which allowed new private sector actors to enter the market and thus “forced” PESs to modernise. In 1997, the ILO then adopted the Employment Agencies Convention 181 (ILO, 1997), which formalised the end of the PES monopoly for placement services (Phan-Thuy, Hansen, & Price, 2001, p. 152). In some countries – most prominently Australia – the government entirely contracted private (profit and non-profit) agencies to provide all labour market services and to pay out benefits (Tergeist & Grubb, 2006, p. 43).

Given the rapid developments of PES modernisation, the question arises, what role is there left to play for the social partners? Are the social partners an asset in the fight against unemployment and social exclusion, or are they seen as a hindrance to the effective operation of market mechanisms? This question will be assessed by offering careful insights – based on an analysis of primary and secondary sources as well as about 20 expert interviews – into four Western PESs including Austria and Britain, i.e. two countries with opposite trajectories (the establishment of the social partnership norm in Austria during the 1990s and the abolition of social partnership in Britain in the late 1980s), and Denmark and Germany, i.e., two countries that have undergone a massive restructuring of the PESs, reforms driven by a centre-right coalition government in Denmark and by centre-left coalition government in Germany.

### 3. Four Country Cases

#### 3.1. Austria: The Basics<sup>2</sup>

Shortly after the end of WWI, the Austrian PES was created as a network of bipartite, social partner-run local offices that operated under the supervision of the Ministry for Social Support (cf., Wilk, 1991). However, in 1935, the new authoritarian government ended the social partnership approach by replacing the social partners with public officials, while the National Socialists (Nazis) subsequently fully “streamlined” – or *gleichgeschaltet* – all offices when they annexed Austria into the Third Reich. After the end of World War II, this *state-run* structure – i.e., a PES fully integrated into a ministry for employment affairs – remained relatively unchanged for many decades, even though the government included the social partners in governance issues through advisory committees (cf., Lechner, Reiter, & Wilk, 1993). The AMS operated as a “one-stop centre”, responsible for the administration of unemployment insurance (but not social assistance pay-outs), job placement and counselling, and the referral to active labour market policies for all jobseekers. Only in 1994, the Austrian PES (*Arbeitsmarktservice*, AMS) was separated from the ministry and “re-launched” as a public service enterprise, created under the Public Employment Service Act (AMSG). With the creation of the AMS, the entire governance structure of the Austrian PES changed and a deep “culture of social partnership” was established.

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<sup>2</sup> This section draws in part on interviews conducted on the phone with the BMASK, AMS, WKÖ, IV and AK.

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### 3.1.1. Labour Market Policy Governance Structures: Social Partnership “all the way down”

Austria is a federal country. For that reason, the *AMS* is comprised of a three-tier governance structure including national headquarters (located in Vienna), nine regional offices (one in each of the nine federal states or *Länder*), and 99 local PES offices. At the national level, the *AMS* is headed by a two-member **Board of Directors** (*Vorstand*).<sup>3</sup> The *Vorstand* acts as an “executive body” and runs the daily operations of the *AMS*. The *Vorstand* serves, however, two “principals”, including (a) the *BMASK*, which has the legal oversight over the PES,<sup>4</sup> and (b) the **Administrative Board** (*Verwaltungsrat*), which is the *AMS*’s “legislative body”. The Administrative Board consists of nine full members (plus deputies and substitutes) at the national level, three representatives from the federal ministry (one from the finance ministry and two from the *BMASK*, the so-called *Regierungskurie*), and three employee and employer representatives each. Thus, the social partners – the trade unions (*Österreichischer Gewerkschaftsbund*, *ÖGB*) and the workers’ chambers (*Arbeiterkammer*, *AK*), as well as the Austrian Federal Economic Chamber (*Wirtschaftskammer*, *WKÖ*) and the Federation of Austrian Industry (*Industriellenvereinigung*, *IV*) – are not only represented in equal parts within the Administrative Board, but effectively hold a majority. Almost all of the Board’s decisions are taken, however, unanimously. This may result – at times – in a long, deliberative process as compromises and common positions have to be found, but in the end, the decisions are supported by all sides, which enables their smooth implementation.

The **BMASK Minister**, in turn, formulates the government’s broad ambitions and thus “predefines” the direction of labour market policy. The *AMS*, i.e., the Board of Directors and the Administrative Board, then translate these broad guidelines into annual, specific targets.<sup>5</sup> Occasionally, the Minister may give more detailed instructions to the *AMS*. This occurred, for instance, in 2006 when the government asked the *AMS* to train an additional 10,000 metal workers as part of its “qualifications offensive” (*Qualifizierungsoffensive*).<sup>6</sup> These specific requests remain, however, the exception and the programme was fully supported – after some deliberations – by the social partners and the *AMS* Directors.

The Administrative Board is the *AMS*’s central decision-making body with real policy making power. The Administrative Board translates the Minister’s guidelines into operational targets; advises the *BMASK* on all important decisions; approves and dismisses the Board of Directors and all sub-national managers; and distributes the budget (which, however, is set by the Ministry of Finance). The Administrative Board is also consulted before the Minister announces his “broad” goals for the Austrian labour market, even though the minister is not obliged to do so (cf., also Konle-Seidl, 2002). The social partners are also represented in all permanent committees within the *AMS* dealing with

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<sup>3</sup> The Board of Directors are selected by the Administrative Board and confirmed in office by the federal Ministry for Labour, Social and Consumers’ Affairs (*BMASK*).

<sup>4</sup> The Austrian constitution distinguishes between „*Wirkungsrecht in hoheitlichen Bereichen*“, or a direct legal authority, in the area of unemployment insurance, and „*Aufsichtsrecht*“, or supervisory rights, in all areas of active labour market policies.

<sup>5</sup> For a list of the goals, see <http://www.bmsk.gv.at/cms/site/liste.html?channel=CH0765>, last retrieved on 4 November 2010.

<sup>6</sup> For a press article on this initiative, please see <http://www.bmwfj.gv.at/Presse/Archiv/Archiv2007/Seiten/c0030008-5d10-4c0f-abca-e61296639179.aspx>, last retrieved on 4 November 2010.

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specific questions, including for instance, the “strategy committee” (*Strategieausschuss*) or the “labour market promotion committee” (*Föderausschuss*).

While the national headquarters develop the strategic goals for Austria as a whole, the re-launch of the PES in 1994 also resulted in more responsibilities and more “room for manoeuvre” for the **regional PES offices**. At the *Land* level, or the federal states, the Land Office Managers not only transpose national targets, but they formulate their own regional objectives; collaborate with *Land* governments, municipal authorities, or any other stakeholder; plan and distribute the budget to local PES offices of their region; direct, support and monitor the local PES offices; and select instruments and programmes that deal with specific issues relevant to the *Land*’s economy (Nachtschatt & Schelling, 2010, p. 5).

At the **district level**, the local PES offices deliver labour market services to their customers – jobseekers and businesses alike. The local offices define the principles for implementation of policy at the local level, but are expected to fulfil the targets set by the federal and the Land organisation. The local Office Managers run the daily operations, and consult – when needed – the tripartite, six-person advisory committees (*Regionalbeiräte*). While the social partners’ policy influence is much more limited at the local level, they do enjoy some “veto powers”, for instance, with the recruitment of workers from non-EU countries.

Overall, since the re-launch of the AMS, the social partnership approach to PES governance has become deeply embedded in Austria and is welcomed on all sides.<sup>7</sup> The social partners are seen as “equals” and their input is appreciated and actively solicited. All interviewed actors reiterated that it is the inclusion of the social partners on *all* levels of governance, which was the crucial factor in the AMS’s *legitimacy* and operational *success*. A fundamental element of Austria’s social partnership model – at least with respect to PES governance – is that compromises are sought that are acceptable to all participants and that all sides clearly perceive the need to share labour market responsibility. This “social partnership culture” not only internalizes conflicts, but also reduces the likelihood that particularistic or sectoral interests are pursued. Labour market policy design and implementation is therefore perceived as a “joint endeavour” and less as a “zero-sum game” in which one party’s gains are the others’ losses.

### 3.1.2. Social Partnership during Times of Crisis

The global economic crisis that began in 2008 further reinforced the value of Austria’s social partnership-based labour market governance system. The social partners deliberated on possible reactions to the impending employment crisis, resulting in the enabling of the swift expansion and flexibilisation of short-term work, or *Kurzarbeit*. The system of training leaves (*Bildungskarenz*) was also recalibrated so that workers could temporarily engage in full-time training (between two and twelve months), while receiving a wage compensation from the AMS. While the AMS was responsible for covering the costs associated with the workers’ compensations for their lost income, the federal and regional governments jointly covered the training costs. While typically larger firms engaged in *Kurzarbeit*, the *Bildungskarenz* measure was particularly welcomed by small firms.

Implemented during the crisis, the AMS has taken over the administration of all employable persons receiving social welfare payments, i.e., persons who were previously supported only by municipal authorities. This new remit for the AMS is a direct

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<sup>7</sup> Social partnership also finds a statutory clause in the ASMG (§5).

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consequence of a major reorganisation of the Austrian welfare state, concluding a process that lasted over many years. In 2010, the government introduced a needs-based minimum benefit (*Bedarfsorientierte Mindestsicherung, BMS*), replacing the previous social assistance legislation. Prior to this change, social assistance was organised by the federal states and thus was characterized by great variations in payment levels and service provision. The new system – just like the Hartz reforms in Germany (see below) – is intended to harmonise existing regulations in order to combat poverty more effectively and to roll-out a national, work-focused approach for the reintegration of the (long-term) unemployed into the primary labour market. In contrast to the development in Germany, these changes have not led to any structural changes in the AMS governance structures.<sup>8</sup>

### 3.2. Germany<sup>9</sup>

The German PES (*Bundesagentur für Arbeit, BA*) is a self-governing body (*Selbstverwaltung*) created under public law (§367 of the Social Code Book III). The structures of the German PES, which was originally created in 1927, have undergone some changes, but core aspects have remained the same, including (a) the systematic inclusion of the social partners in its governance, and (b) the mandate to deliver integrated, multifaceted services, ranging from the administration of unemployment insurance tasks to the realisation of ALMP and lifelong learning measures. The most significant restructuring occurred in the early 2000s in the context of the so-called Hartz reform acts (i.e., the Third and Fourth Act for Modern Services in the Labour Market, popularly known as “Hartz III” and “Hartz IV”), which were envisioned to turn the *BA* into a modern service provider,<sup>10</sup> while merging unemployment assistance and social assistance.

#### 3.2.1. Labour Market Policy Governance Structures

Germany is a federal country and, like Austria, the organisation of the *BA* is structured along three tiers of governance: national Headquarters (located in Nuremberg), ten Regional Directorates (note that Germany has a total of 16 *Länder*), and 176 Employment Agencies (plus some 660 additional business offices) (van der Cammen, 2010, p. 5). Since the PES reforms in 2002/2003, the *BA* is headed by a three person **Management Board** (*Vorstand*), who represents the *BA* and manages its daily operations (*operatives Geschäft*).<sup>11</sup> The Regional Directorates and the local Employment Agencies are also managed by three-member boards, appointed by the Management Board.

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<sup>8</sup> This is a function of the continuity of the Austrian benefits system, which continues to differentiate between unemployment benefits (short-term, insured jobseekers), unemployment assistance or *Notstandshilfe* (long-term unemployed, whose right to benefits expired), and social assistance (uninsured jobseekers in financial need).

<sup>9</sup> This section draws in part on interviews conducted on the phone with the BMAS, the BA, the BDA and the DGB.

<sup>10</sup> For more information, please see [http://www.bmas.de/portal/15382/drittes\\_gesetz\\_fuer\\_moderne\\_dienstleistungen\\_am\\_arbeitsmarkt.html](http://www.bmas.de/portal/15382/drittes_gesetz_fuer_moderne_dienstleistungen_am_arbeitsmarkt.html), last retrieved on 4. November 2010.

<sup>11</sup> Prior to the reform, the *BA* was headed by a salaried President and a non-salaried (*ehrenamtliche*) Board of Directors. For more information see, for instance, Klenk (2009). The Management Board is appointed by the government, based on a list of candidates submitted by the Board of Governors.

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The social partners are crucial actors at the national level as they are members in the 21 member **Board of Governors** (*Verwaltungsrat*).<sup>12</sup> According to the constitution (*Satzung*) of the BA (*Article 3*), the Board of Governors is the BA's main "monitoring, advisory, and legislative body", responsible for the BA strategic decisions (*strategisches Geschäft*). The Management Board consults the tripartite Board of Governors on all important issues, and decisions are – like in Austria – typically made unanimously. The Board of Governors includes seven representatives from the trade unions, seven representatives from employer associations,<sup>13</sup> and seven representatives from public bodies (the so-called *öffentliche Bank*). These public representatives include one person from the Federal Ministry for Employment and Social Affairs (*BMAS*), one person from the Finance Ministry, and one rotating person from either the ministry for Family Affairs (*BMFSJS*), the Ministry for Education and Research (*BMBF*) or the Ministry for Economics and Technology (*BMWi*), as well as three representatives from the *Bundesrat*, Germany's upper legislative chamber, representing the *Länder*, and one person representing the interests of the municipal and city authorities (*Spitzenvereinigungen der kommunalen Selbstverwaltungskörperschaften*). The Board of Governors not only oversees and gives advice to the Management Board, it may also suggest the dismissal of the Management Board, a decision which is, however, subject to the consent of the federal government. The Board of Governors also approves the BA's budget and enjoys a variety of information rights (see *Satzung der BA, Article 3*). The social partners are also represented in equal parts in the Board of Governors' two tripartite committees, including *Committee I*, responsible for strategic decisions, budgetary and self-governance issues, and *Committee II*, which deals with questions related to labour market policy, labour market research, and financial benefits (Jakob, 2006, p. 31).

In contrast to Austria, the social partners are not – or rather no longer – involved in the governance of the **Regional Directorates** that operate at the *Land* levels.<sup>14</sup> The Regional Directorates mainly function as "transmission belts" between the BA headquarters (providing broad targets and – at times – binding behavioural guidelines, or *Handlungsanweisungen*) and the local PES offices, responsible for delivering results. The Regional Directorates thus "translate" the national targets into regional and local ones, communicate with/give advice to local PES offices, and closely monitor local PES offices. The Regional PESs also collaborate with *Länder* governments regarding regional employment programmes – which are often co-funded through the European Social Fund (ESF) – or regional structural and economic policies.

The **local PES agencies** (*Arbeitsagenturen*), in turn, operate under a high degree of autonomy with respect to the use of their budgets and the priorities of the instruments, provided they fulfil their targets (Jakob, 2006, p. 43). Local tripartite committees (*Verwaltungsausschüsse*) – albeit with only four members from each group – advise and monitor the local management boards. In particular, local labour market information and the needs of local firms and workers are envisioned to flow more effectively to the local management through these committees. Moreover, the committees receive data from the Regional Directorates and are engaged in the evaluation of local PES through systematic benchmarking exercises in PES clusters. The committees are also involved in the development and coordination of regional programmes that involve more than one PES district.

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<sup>12</sup> Prior to the PES reforms, the Board of Governors included 51 persons.

<sup>13</sup> The organizations can put together a list with their preferred candidates and also nominate two substitutes.

<sup>14</sup> They were included, however, up until the Hartz III reforms.



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### **3.2.2. Social Partnership: Valued and an Asset in Times of Crisis**

Despite a strong Management Board and an active *BMAS*, the social partners have retained a powerful position in the governance of the *BA* (for persons receiving unemployment insurance benefits or *ALG-I*). The social partners' advice given in the Board of Governors is highly respected and the working climate among participants remains "very positive" according to representatives of both the ministry and the social partners.<sup>15</sup> Especially since the reduction of the Board of Governors' size, the social partners, the representatives from public authorities and the Management Board have gotten to know one another on a more personal level, and mutual trust is generally high. With the exception of opposition occasionally raised by the market-liberal Free Democrats (*FDP*), there is a wide, cross-party consensus that the German system of partnership-based self-governance shall be upheld.

Moreover, the global economic and financial crisis that began in 2008 clearly confirmed that the involvement of the social partners is a real asset. The Board of Governors deliberated how to best respond to the crisis and made sure that sufficient resources would be available for labour market programmes and (additional) *BA* staff so that the increased demand could be met. In particular, the German "best practice" policy of the *Kurzarbeit*,<sup>16</sup> or short-time work scheme, was successful especially because of the social partners' commitment and expertise. The *BA* was equipped to swiftly transpose the revised *Kurzarbeit* scheme only because the Board of Governors deliberated on the issue, found a common position, and endorsed the policy. The social partners then informed not only their *Land* associations, but also the local *Verwaltungsausschüsse* about the new rules and opportunities of the short-time work programme. When employers – who work very closely with the *BA*<sup>17</sup> – were informed of the instrument and its revisions, they had direct contact points at the local level and, if requested, would receive the same feedback and endorsement from their regional associations. Hence, nation-wide employers received a coherent message and had easy access to new information (interview, *BA*).

### **3.2.3. Social Partnership: Less Involvement when it comes to the Long-term Unemployed**

While the above mentioned governance reforms to the German PES, including the "strengthening" of the Management Board, the removal of the "self-governing" bodies at the regional level, and the formal weakening of the decision-making powers of the local *Verwaltungsausschüsse*, were not warmly welcomed by the labour unions (Adamy, 2006; Jakob, 2006), it was the *Hartz IV* reform and its structural consequences which constituted a real "break" with German tradition. In the past, long-term unemployed persons whose unemployment benefits (UB) expired – after up to 32 months, depending on age and contributory history – would receive a means-tested, but income-related unemployment assistance (UA) payment. This payment was paid out by the *BA* offices and the long-term

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<sup>15</sup> The unions are, however, more critical when it comes to changes to governance reforms in the area of the *SGB II*. See paragraph 3.2.3.

<sup>16</sup> For more information, please see: <http://www.oecd.org/dataoecd/14/51/45603327.pdf>, last accessed on 3 November 2010.

<sup>17</sup> The *BA* has made employer collaboration a core strategic goal. Local PES offices are required that 30 per cent of their staff is designated to address the needs of local employers, and specific employer satisfaction targets – including satisfaction with persons referred to a vacant position – make sure that employers develop a trust-based relationship with their local PES office.

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unemployed jobseeker would remain under the supervision of *BA* staff. Therefore, the vast majority of jobseekers – short and long-term unemployed – were under the remit of the self-governed PES and were thus partially the social partners' responsibility. Municipalities, in turn, were responsible for all persons who were unemployed, but without any insurance-based rights, such as youth, precariously employed persons, or immigrants without an employment history in Germany. The municipalities would issue means-tested social assistance (SA) payments and often also launched their own active labour market programmes. As there was no overall national framework, diversity was pronounced and not all jobseekers had access to the same services (Weishaupt, 2010a).<sup>18</sup>

With the introduction of the benefits reforms that came into force in 2005, popularly known as *Hartz IV*, this system fundamentally changed. Unemployment benefits would only be paid out for a maximum of 12 months (longer durations are possible for older workers), while the UA and SA payments were merged into a new “unemployment compensation II” (*Arbeitslosengeld II*, *ALG-2*). The responsibility for *ALG-2* recipients – essentially anyone “capable of working” but without access to unemployment benefits – was transferred from the *BA* (former UA recipients) or municipalities (former SA recipients) to newly established *JobCenters*. The *JobCenters* are run in one of two ways: either by so-called Collaboratives (*Arbeitsgemeinschaften*, *ARGEn*) in which the PES and municipal staff jointly supervise long-term unemployed, or Opt-Out Communes (*Optionskommunen*) in which only the municipalities are solely responsible (this option is mostly prevalent in rural areas in Western Germany).<sup>19</sup>

With respect to the operation of the jointly run *ARGEn*, the *BMAS* contracts the *BA* as a “delivery agency” and negotiates strategic targets directly with the Management Board of the *BA*. The Board of Governors – and thus the social partners – play literally no role: the Board of Governors has *no* advisory function and *no* rights to information (Adamy, 2006). The social partners play an advisory role only at the local level, where they are represented in advisory councils (*Beiräte*). These councils were first set up on a voluntary basis in *ARGEn*, but are – as of 2010 – obligatory for both *ARGEn* and Opt-Out Communes. The members of these councils include, however, not only representatives from the social partners, but also representatives from social and welfare organizations. While the social partners generally accept the presence of these organizations, they believe that they are better equipped to make decisions that directly affect the labour market such as the creation of public works programmes.<sup>20</sup>

The government justifies the reduction of the social partners' involvement by the argument that the resources provided for *ALG-2* clients are based on tax revenues (rather than employee/employer contributions). The employers association, *BDA*, welcomed this development and even prefers that local authorities should be fully responsible for all long-term unemployed persons (interview, *BDA*). The *BDA* argues that the local authorities have the experience based on their role of providers of social assistance and in-depth knowledge of local labour markets (Schroeder & Schulz, 2009, p. 234). Some members of the Christian Democratic Party (*CDU*) would also welcome a full “municipalisation” of the long-term unemployed, but the labour unions and the Social Democrats oppose these

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<sup>18</sup> To learn more about the politics of these reforms, please consult Weishaupt 2011, chapter VII.

<sup>19</sup> The new legal basis for *ALG-2* is provided in the new Social Code Book II (*SGB II*).

<sup>20</sup> The social and welfare organizations are often running these programmes (*Träger*), which potentially compromises their impartiality.

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developments.<sup>21</sup> The current institutional outcome – i.e., the coexistence of *ARGEn* and Opt-out Communes – thus represents a political compromise which was necessitated by Germany’s political system that gives a strong voice to the regional governments, represented in the *Bundesrat*, Germany’s upper legislative chamber.

### 3.3. Great Britain<sup>22</sup>

The British PES, *JobCentre Plus* (JCP), is the Executive Agency of the Department for Work and Pensions (DWP). The British state-run PES has a long tradition, being first created in 1909 on the initiative of progressive liberals (cf., Jones, 1994; Price, 2000). In 1973, the tripartite Manpower Services Commission (MSC) was established to manage employment and training policies through the Employment Service Agency (ESA), which was in charge of the jobcentres, and the Training Services Agency (TSA), which had overall policy responsibility for training matters. The MSC was headed by a chairman who was appointed by the Secretary of State, three CBI and three TUC representatives, two local authority representatives and one official representing the education sector (Wikeley, 1990, p. 356). During the 1980s, the MSC was gradually weakened and eventually abolished entirely by the Conservative government (for more details, consult Weishaupt 2011, chapter IV). Since then, the PES has been re-integrated in the structures of the ministry in charge of employment policy, albeit with some degree of autonomy (OECD, 1993). During Labour’s second term in office, the British PES was remodelled in 2002 with the creation of the Jobcentre Plus (JCP), which combined the functions of benefit payment (Benefit Agency) and the provision of job-search and counselling services (Employment Service). With the JCP, the Labour government sought to create a single, “one-stop centre” for all benefit recipients, irrespective of employment history, thus streamlining a comprehensive “activation” approach that would encourage employment for all “capable” persons (see also, Wells, 2001).

#### 3.3.1. PES Governance Structures – Strong Centralization

JCP is operated by a CEO and a Board consisting of an Operating Officer and Executive and Non-Executive Directors who work together with Work and Welfare and Equality Group representatives (Davern, 2010). There are eleven administrative regions, each managed by a Regional Director. The regional directors function as “transmitter belts” between the national headquarters and local JCP offices. While the governance of JCP is primarily a “top-down” process, characterized by a well-developed, management-by-objectives system, the Devolved Administrations of Scotland and Wales enjoy a high level of autonomy, especially with regard to the provision of skills and training.

The JCP has, in contrast to most other European PESs such as both Austria and Germany, no policy-making authority. The PES structure, its resources, and its operational budgets and targets are all set out by the Ministry. While these decisions are being made in consultation with the JCP CEO and Board, the Ministry ultimately retains the upper hand. Even though the degree to which the DWP is directly involved in JCP operations varies – at times allowing great autonomy – the DWP always has the legal authority to intervene

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<sup>21</sup> Not surprisingly, the recent reforms issued by the *CDU/CSU/FDP* coalition government expanded the possible number of Opt-out Communes – this number was limited to 69 in the original law – while preserving the *ARGEn* as an alternative delivery agency.

<sup>22</sup> This section draws in part on interviews conducted on the phone with the DWP, JCP, CBI and TUC.

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(which is set out in the Departmental Framework Agreement). The steering role of the Her Majesty's Treasury is also crucial. From 1998 onwards, every three years, the Treasury published Comprehensive Spending Reviews (CSR – the most recent one was published in October 2010) in which – until 2010 – Public Service Agreements (PSAs) were set out. The PSA entailed targets and objectives to be met by individual departments, including the DWP. On the basis of these PSAs, the DWP negotiated the (annual) budget and targets with JCP. JCP, in turn, translated these operational targets into strategic targets at both the regional and the local levels (for more details, see Davern, 2010, p. 13).

### **3.3.2. Social Partnership – No Preferential Treatment for Organized Labour or Employers**

In Britain, the social partners lost their direct representation on both the national steering board and in the regional and local branches in 1987 when the MSC was dismantled. Even though the social partners – or other societal interests and stakeholders – are no longer formally represented on the JCP governing board, under the Labour governments (1997 – 2010) both DWP and JCP regularly consult widely with national, regional and local stakeholders to develop and evaluate policy and delivery. This consultation included both the Trade Union Congress (TUC) and the Confederation of British Industry (CBI), who were asked to provide written reactions to proposed legislation and enjoyed regular personal consultations with DWP staff. DWP officials have described the engagement with the social partners and other stakeholders as a “good practice”, which was confirmed by the social partners themselves. The social partners remain, however, just “one actor among many” without any formally institutionalized privileges. Not surprisingly, the social partners’ actual impact on both policy initiation and design has been described as minimal.

### **3.3.3. Private Actors and Service Contestability – The Flexible New Deal and Beyond**

When creating the new, one-stop delivery agency JCP in April 2002, it was organized “around the principle of work-first and a performance management regime to sustain it” (Wiggan, 2007, p. 419). The government’s goal was to equip – in a top-down fashion – JCP offices with standardized, cost-effective tools that enable the placement of jobseekers as quickly as possible into employment. Personal Advisors were to play a crucial role in identifying and overcoming individuals’ barriers to employment, while legislative changes to the benefits and tax system, and the introduction of a statutory minimum wage were supposed to “make work pay”. With regard to reducing benefit claims, this primarily state-led system has produced good results: around 50 per cent of unemployment benefit claimants leave the register within three months, 75 per cent within six months, and around 90 per cent within one year (Eckersley, 2010).

As about 90 per cent of all jobseekers leave the register within a year, the role of third party and private actors remained limited, at least during the initial years after New Labour had come to power.<sup>23</sup> Community and voluntary sector actors were involved in providing “employment opportunities” which constituted an important element of Labour’s New Deal schemes – especially the New Deal for Young People – and NGOs would assist disadvantaged groups at the local level (for more information about the New Deal, see

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<sup>23</sup> The “activation” threshold for adult jobseekers was set at 24 months (until 2001) and 18 months thereafter, at which point they would enter the high-intensity Gateway Phase before, again several months later, entering the New Deal 25+. Thus, most adult jobseekers would stay with JCP well beyond the 12 months point at which they are considered being long-term unemployed.

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Finn, 2003).<sup>24</sup> While the increased use of the private and voluntary sector generally occurred following the launch of the New Deal,<sup>25</sup> a particular emphasis on “third party” actors was placed in fifteen so-called Employment Zones (EZs), which were first set up in regions of economic deprivation in 2000 (Bruttel, 2005). As the Labour government retained an effort to monitor private actors’ activities within the EZ, social scientists described the original years of the UK public/private job-placement system as one of “centralized localism” or a system in which “the PES still largely controls the design and content of programmes, with local ‘partners’ tendering to provide agreed services within a set of contracting structure” (Lindsay, 2007, p. 721).

Over time – and in the context of continuously declining unemployment numbers – the government sought to push the “activation threshold” forward and to “flexibilise” the service provision for the long-term unemployed. Accordingly, Gordon Brown, then Chancellor of the Exchequer, asked an independent commission led by David Freud to outline reform proposals.<sup>26</sup> In 2007, the Freud Report was published, which would become one of the cornerstones of the reform efforts put forward in between 2008 and the lost elections in May 2010. One of the Report’s key recommendations was to systematically involve the private and voluntary sectors to deliver tailored back-to-work programmes for long-term unemployment (Freud, 2007). These recommendations were then included with the launch of the Flexible New Deal (FND), which replaced the New Deal for Young People, the New Deal 25 Plus and the Employment Zones, and subsumed New Deal 50 plus, the New Deal for Musicians and self-employment provisions (Work and Pensions Committee, 2009). With the introduction of the FND, JCP remains responsible for jobseekers during their first twelve months of unemployment, unless a person is identified as being at risk of becoming long-term unemployed in which case the entry into the Flexible New Deal could occur earlier. However, after 12 months, a person claiming Jobseeker’s Allowance will be referred to a third sector or private contractor, which effectively “privatises” the supervision of large shares of the long-term unemployment.<sup>27</sup> Prior to the crisis, the DWP assumed that about 100,000 people in Britain would be affected, who have unique and complex needs, for whom the “relatively cheap, one-size-fits-all approach” of the JCP was inadequate (Mulheirn & Menne, 2008, pp., 8-9).

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<sup>24</sup> When Tony Blair and Gordon Brown came to office in Britain in 1997, they almost immediately launched their flagship programme, the New Deal for Young People (NDYP) for young adults aged 18 to 24. The NDYP’s core element included the *activation* of jobseekers after a period of six months, when jobseekers first enter a four-month period of intensive counselling and job-search support (the Gateway period), and subsequently the New Deal phase. The NDYP included four options, ranging from subsidised employment in the private sector, subsidised and temporary work in the voluntary or environmental sectors, to full-time education or training. Within months, the NDYP was extended to the “New Deal for Long-Term Unemployed” (ND25+) with similar options, and subsequently, other types of New Deals were offered to single parents (April 1998), their partners (April 1999), chronically disabled persons (April 1999), older workers (April 2000), partners of childless NDYP participants (2001) and partners of childless ND25+ participants (2002). With exception of the NDYP and the ND25+, participation is voluntary apart from an interview with a personal advisor.

<sup>25</sup> The involvement of private actors started with the private sector-led New Deals for Young People, which were used as a threat to drive up the performance of poorer performing JCP operations.

<sup>26</sup> Note that Lord Freud is now Minister for Welfare Reform for the DWP of the UK coalition government.

<sup>27</sup> When private providers fail to place a person within 12 months, the long-term unemployed person is referred back to JCP (where he/she re-enters the high-intensity Gateway phase).

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But not only the activation threshold was significantly pushed forward – and thus the involvement of private and third party actors intensified – also the contracting system was overhauled. With the introduction of the FND, the so-called “prime contractor” model was introduced. The idea is to award contracts to large, professional placement agencies at the regional level, which in turn, award sub-contracts to smaller, specialized, local service providers. The move toward a model based on “prime contractors” was intended to reduce the numbers of contracts that DWP directly oversees, and as a consequence was expected to reduce administrative complexity and costs for the Department (Work and Pensions Committee, 2009, p. section 37).<sup>28</sup> In order to avoid the emergence of monopolies, the contracting rules stipulated that there ought to be at least two prime contractors in operation in most regions.<sup>29</sup> In the UK, this enforcement of “competition” is seen as an important source to manage the quality of services (interview, JCP).

The final alteration that the FND envisioned was the introduction of a so-called “black box” approach, an approach which the current coalition government intends to further expand. This approach asks providers merely to deliver specific outcomes (typically jobs), but it is for them to determine how to achieve these outcomes (Work and Pensions Committee, 2009, p. section 44). The main hope is that this black box approach will motivate prime contractors to innovate and thus more effectively place jobseekers into work.

### **3.3.4. Reaction of the Social Partners to the FND and First Impressions on the Crisis**

While the British governments, i.e., both the previous Labour government and the current coalition government, strongly believe in the superiority of the private sector when it comes to the delivery of services to the long-term unemployed, a variety of non-state actors (e.g., Leonard Cheshire, Highland Employment Network or Child Poverty Action Group) and in particular both the TUC and the Public and Commercial Services Union (PCS) strongly disagree with this assessment. The TUC and PCS argue that JCP has an excellent record in delivering employment programmes, and they do not support the escalation of private and voluntary sector involvement. They argue – in reference to a study conducted by Cardiff University – that “whenever JCP has been allowed the same flexibilities and funding as private sector companies or charitable organisations it has been able to match, if not surpass, the performance of contractors” (cited in: Work and Pensions Committee, 2009, p. section 33).

Beyond a strong doubt about private providers’ improved cost effectiveness, the unions’ apprehension is also based on, quite naturally, a concern for *their workers* (i.e., civil servants working at DWP and JCP who might become redundant with an intensified privatisation of services) as well as concern for *jobseekers*. The latter includes concerns about (a) how private firms will treat customers (i.e., problems with “creaming” and “parking”)<sup>30</sup>; (b) that private firms will be less willing to compromise on individuals’

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<sup>28</sup> This model has effectively relegated NGOs, much to their disliking, to the role of sub-contractors (Butler, 2009).

<sup>29</sup> For the short period during which the FND operated under the Labour government, there were five regions with only a single provider (Work and Pensions Committee, 2009, p. section 16).

<sup>30</sup> The Work and Pensions Committee (Work and Pensions Committee, 2009, p. section 206) shared this concern in their assessment, concluding that “insufficient mechanisms have been built into Flexible New Deal to prevent significant creaming of some customers and parking of harder to help customers.”

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needs (e.g., unfulfilled care needs)<sup>31</sup>; (c) how sensitive private information will be used (i.e., how much jobseekers will trust a private company with their data); and (d) that third party actors such as faith-based charities will discriminate against staff or clients on the grounds of religion, lifestyle or sexuality (TUC, 2008, pp., 15).

The CBI, in turn, welcomes both the shift toward an outcome-focused approach in how welfare is delivered and the harnessing of “the strengths of the public, private and voluntary sectors in a mixed market of provision”.<sup>32</sup> The CBI has not only put forward its own reform proposal in November 2009 (CBI, 2009), but has also actively been engaged with the DWP in outlining future pathways to welfare reform.<sup>33</sup> While the CBI acknowledges a strong role for JCP as “gatekeepers” to the benefits system, it welcomes an earlier activation of jobseekers and an earlier involvement of specialized providers. Indeed, the CBI sees a “huge opportunity” to join up public, private and voluntary sector actors, which in turn, will allow for the delivery of “appropriate assistance” to people at risk of becoming further disadvantaged or repeat benefit claimants (CBI, 2009, pp., 7). In this context, the CBI welcomes the “prime contractor” model, which “coordinates and contracts out provision, designing a package for the client and joining-up services when appropriate” (CBI, 2009, pp., 19).<sup>34</sup>

The global financial crisis has had a rather significant impact on the British economy in general and employment numbers in particular. Quickly rising unemployment and a significant drop in employment opportunities in turn has exemplified the risks associated with a reliance on private contractors. When contractors threatened to pull out of the FND scheme, the government brought forward funding that was due in order to keep contractors afloat (Elliott, 2009). Likewise, the prime contractor model was designed during times of economic growth, which limited the number of persons who were reliant on private actors’ services. From 1997 to 2008, long-term unemployment had fallen by 400,000 and the employment rate for lone mothers increased by eleven per cent (McNeil, 2010, p. 28). Accordingly, shortly before the crisis, there were “only” about 100,000 long-term unemployed jobseekers (Mulheirn & Menne, 2008, p. 8). With unemployment hovering at about 2.5 million and predicted public sector job losses of over 600,000 due to the new coalition government’s budget consolidation plans, the number of people in contact with private service providers will be much higher in the coming years. In fact, based on most recent forecasts by the Institute for Public Policy Research, there will be around 875,000 long-term unemployed at the end of 2011 (Lenning, 2010, p. 55). If, and if so, how well private actors (are willing to) provide outcome-based services to such a large number of jobseekers remains to be seen. Challenges are to be expected, however, as the government’s budget cuts will not only affect labour market programmes, but will also reduce the number of DWP staff, who will ultimately remain responsible for the monitoring of the private actors.

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<sup>31</sup> Similarly, the authors of a report for the Social Market Foundation were concerned that the DWP will be inclined to keep “good relations” with prime contractors and thus be hesitant to reprimand inappropriate behaviour (Mulheirn & Menne, 2008, pp., 109).

<sup>32</sup> See: [http://publicservices.cbi.org.uk/policy/welfare\\_to\\_work/](http://publicservices.cbi.org.uk/policy/welfare_to_work/), last retrieved on 4. November 2010.

<sup>33</sup> See: [http://publicservices.cbi.org.uk/media/press\\_release/00258/](http://publicservices.cbi.org.uk/media/press_release/00258/), last retrieved on 4. November 2010.

<sup>34</sup> Like the TUC, the CBI is not impartial in its assessment as it also acts as a representative of its members, i.e., many private placement agencies.

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### 3.4. Denmark<sup>35</sup>

The history of the Danish PES is one of frequent reform. While the Danish system initially primarily relied on strong labour unions to provide placement services (and on insurance funds for benefit administration), a major overhaul occurred in 1969 when the placement services were “nationalised” and a Public Employment Service first set up (cf., Jørgensen, 2002). This reform was followed by a period of “decentralisation” of policy responsibility to the regional level during the 1990s (Knuth, Schweer, & Siemes, 2004); and then, since 2001, a phase of gradually establishing a single, unified “employment system” for all jobseekers, regardless of benefit status, which is “based in the municipalities with a strong national supervision” (Government of Denmark, 2009, p. 32).

#### 3.4.1. Governance Structures – Past and Present

Denmark is a small country, subdivided into four employment regions and 98 municipalities. This administrative structure is relatively young and was only realized in 2007, following a comprehensive governance reform of the regions. From 1970 until 2006, the country was subdivided into 14 counties and 271 municipalities (see below). At the national level, the Danish Parliament decides “on the total allocations for labour market measures” (Hendeliowitz & Woollhead, 2007, p. 125) and sets the overall legal framework through the passage of legislation. The **Ministry of Employment**, in turn, drafts labour market policy and legislation and sets a small number of annual performance targets – typically three or four – for the entire country with advisory assistance from the tripartite **National Employment Council**.<sup>36</sup> The **National Labour Market Authority**, an operative unit within the Ministry of Employment, functions as the main executive institution for policy making, budget allocation, and target monitoring.

Until 2009, the Public Employment Service (*Arbejdsformidlingen*, *AF*), constituted the government’s delivery arm for labour market policy. Under the system that was put in place under Social Democratic rule in the 1994, the governance of labour market was strongly decentralized, with policy responsibility located with **14 regional PES offices**. The regional PES offices were real “decision-makers” with their own budgets, embedded, however, in a context of a “management-by-objectives” system in which the government issued national targets, and with the institutionalized involvement of the social partners in policy design and implementation (Knuth, et al., 2004).

The **Ministry of Employment** monitored the activities of the *AF*, responsible for the provision of labour market services at the local level to those jobseekers who are members of an unemployment insurance fund. Membership in an unemployment fund – which is typically associated with the labour unions<sup>37</sup> – was frequent, but not mandatory. High levels of membership are a function of very high levels of unionization and because associated fees are relatively low (which is possible as the insurance funds are *subsidized* by the national government) (Kvist, Pedersen, & Köhler, 2008, p. 234). The insurance funds calculate the level of benefits and, if necessary, enforce benefit sanctions. The **Ministry of Social Affairs**, in turn, oversaw the activities of the municipalities, which

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<sup>35</sup> This section draws on interviews conducted with the National Labour Market Authority, DA, LO and the head of a local Jobcenter.

<sup>36</sup> The current targets can be found at: <http://www.ams.dk/Ams/English/The-Ministers-employment-goals.aspx>, last accessed on 2 February 2011.

<sup>37</sup> There are also, however, two insurance funds for the self-employed (ASE and Dana).



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delivered activation measures for the *uninsured*<sup>38</sup> and issued means-tested social assistance payments (Willemer, 2003, p. 172). The level of welfare benefits was determined by the Social Service departments, while the *AF* would also refer uninsured persons to open job vacancies. This is to say, until 2007, the Danish labour market governance system was two-tiered – like the German or Austrian systems – and separated into an “insurance” branch and a “social assistance” branch, with distinct rules and regulations.

When a new liberal-conservative coalition government came into office in 2001, all of these structures were altered in a step-wise fashion. *First*, embedded in comprehensive labour market reforms, the responsibility for all labour market measures for both insured and uninsured jobseekers was combined in the Ministry of Employment’s National Labour Market Authority (ECOTEC Research and Consulting, 2004, p. 16). This was the first step in the government’s attempt to establish a unified “employment system”. This step was followed by a comprehensive reform package entitled “More People in Work” in 2003, through which all of the rules and regulations for insured and uninsured jobseekers were streamlined to the effect that both groups became subjected to the same procedures and gained access to the same instruments (Dingeldey, 2005, p. 20).

*Second*, embedded in a larger reform of the regions, the 14 *AF* regions were consolidated into four “employment regions” in 2007, while the number of municipalities was drastically reduced from 270 to 98. The new remit of the employment regions was to function as a “transmission belt” between the national and local level, being primarily responsible for the supervision and control of the local jobcentres (Government of Denmark, 2009, p. 32).<sup>39</sup> While the employment regions can also give advice to the local level and produce annual reports that inform the national ministry’s actions, some observers – and the labour unions – argue that the employment regions have become “mere monitoring bodies” without any policy-making power (Jørgensen, 2009). The larger municipal districts, in turn, were created with the aim of becoming more capable of playing a “bigger role, for example, in the field of employment policy” (Damgaard & Torfing, 2010, p. 248).<sup>40</sup> In this context, 77 “joint” jobcentres were set up in which *AF* and municipal authorities operated under one roof, sharing responsibility, and 14 “pilot” municipal jobcentres with full responsibility for employment policy, operating without the assistance of the *AF*.<sup>41</sup>

The *third* step was then completed when, on 1 August 2009, the 77 “joint” jobcentres operated by both the state *AF* and municipalities were dismantled, effectively transferring all *AF* activities to municipal authorities.<sup>42</sup> From 2010 onward, the municipalities have also

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<sup>38</sup> While the Social Democrats already “encouraged” municipalities in 1993 to develop an “active social policy”, this idea’s formalisation occurred in 1998. The new act not only required social assistance claimants to accept “appropriate” job offers, but participation in municipal activation programmes or further education courses became mandatory (Green-Pedersen & Klitgaard, 2008).

<sup>39</sup> According to one PES expert, the “disempowerment” of the regional directorates was motivated by the government’s belief that they “lacked [the] adequate capacity to ensure optimal sector planning” (Hendeliowitz & Hertz, 2008, p. 11).

<sup>40</sup> Indeed, the municipal authorities welcomed the changes, hoping that a “more locally responsive set of policy initiatives could emerge” (Lindsay & McQuaid, 2008, p. 357).

<sup>41</sup> As some of the smaller municipalities were covered by municipal cooperation schemes, a total of 91 local jobcentre emerged from this reform rather than 98.

<sup>42</sup> When the *AF* was merged, the former the staff (about 1,600 persons) was re-hired by either the new municipal jobcentres (at least six case managers per municipality) or the employment regions (who recruited the majority of the technical experts).

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taken on “full economic responsibility for all unemployed (including their benefits) albeit with a refund from the state” (Per K. Madsen, 2010, p. 7).<sup>43</sup> As a consequence, the state-run PES has technically been “abolished” and the “municipalisation” of the Danish labour market governance system completed. The government hoped to attain multiple goals through these reforms, including (a) ensuring a greater, nation-wide emphasis on a work-first approach towards all unemployed people, (b) creating greater transparency in the administrative system, (c) guaranteeing a “one door” organisation for both employers and jobseekers, and (d) ending the previous fragmentation by introducing a unified, national system (European Employment Observatory, 2010, p. 23). These aims illustrate that – despite the de facto effort to decentralize responsibility to empowered municipal authorities – the government also shifted responsibility *upward*, i.e., to the Ministry for Employment. Under the new system, which is supported by modern management and planning tools, the Minister agrees on annual employment plans with the municipalities, has the ability to closely monitor the performance of local jobcentres, and ultimately provides policy choice and compliance incentives through the (selective) co-financing or labour market instruments. Indeed, with the most recent finance reform, the municipalities were in the words of one interviewee “tamed” as only a small handful of instruments remain financially attractive. Finally, the minister’s “shadow of authority” is always cast on jobcentres as failure to reach the government’s results can give the minister the authority to “contract out services to private providers” (European Employment Observatory, 2010, p. 24; Knuth & Larsen, 2009, p. 9).

### 3.4.2. Social Partners – From Co-decision Makers to Advisors?

The above described structural changes in the Danish PES have also affected the role of the social partners in labour market governance. Social partnership, like in Sweden, has a long tradition in Denmark, traceable back to the late 1800s (see, for instance, Campbell & Pedersen, 2007). The social partners “self-regulate” much of the Danish labour market – including employment protection legislation, wage setting, and workers health and safety issues – and the social partners have also traditionally played a strong role in labour market policy governance, being represented in *tripartite* councils at both the national and the regional levels of governance. Indeed, still in 2007, PES experts described that consultation and cooperation with the social partners was the “cornerstone of policy formulation and labour market negotiation” (Hendeliowitz & Woollhead, 2007, p. 128).

The governance reforms described above have, however, affected the role of Danish social partnership, especially at the regional and local levels. At the *national* level, the multipartite **National Employment Council** (NEC) continues to advise the Minister of Employment on employment related activities and policy initiatives. The NEC includes eight members from the Danish Employers’ Confederation (DA), eight members from the Federation of Danish Trade Unions (LO), and a variety of other actors, including local government. The NEC also submits an annual employment policy report on labour market developments, which informs the minister’s strategy for the upcoming year.

At the *regional* level, the social partners were part of tripartite Regional Labour Market Councils. As described above, it was at this level, where the social partners not only had an advisory function, but were also actively involved in the implementation of ALMP by the state-run *AF* offices through their own, substantial funds (Per Kongshøj Madsen, 2007, p. 50). With the creation of the **Regional Employment Council** (REC) in 2007, the social partners have no longer any “direct influence on the allocation of

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<sup>43</sup> Despite the reforms outlined below, the *administration* of benefits for the insured unemployed still lies in the hands of the unemployment insurance funds (Per K. Madsen, 2010, p. 7).

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resources to the different active programmes” (European Employment Observatory, 2010, p. 24) and their main task is to advise the regional labour market director, who monitors labour market developments at the regional level and the performance of the municipal jobcentres (Damgaard & Torfing, 2010, p. 251). According to a labour union representative, this change has shifted their role away from *pro*-active planning to *re*-active criticism when Jobcentres fail to perform. Moreover, the social partners now share their advice with more actors as also that also representatives from the municipalities and the Disabled Peoples Organisations have been admitted to the circle. In particular the labour unions see this change as a loss of their “muscle”, but also the employers association admitted that there has been a *de facto* loss of influence. Despite the social partners’ negative response to the new governance system – a view that is shared by many scholars (e.g., Jørgensen, 2009) and the Social Democratic opposition in parliament – some of the interviewees were sceptical about this interpretation. On the one hand, a Jobcentre manager argued that the social partners’ role had always been rather limited, a view confirmed by a representative of the National Labour Market Authority who argued that the overall agenda had always been determined by the ministry. On the other hand, the representative of the Danish employers’ organisation (DA) pointed out that, as result of the improved monitoring activities that are available to the public,<sup>44</sup> the social partners have also gained new, useful tools to “problematise and politicise the employment effort in the Jobcentres in public debates and thereby gaining influence”. Quite generally, he argued, the availability of data on all individual jobseekers on a weekly basis has generated great new insights and allows for evidence-based lobbying.

At the *local* level, the social partners have emerged as important actors.<sup>45</sup> Prior to 2007, there was almost no discussion of labour market policy at the local level as the (smaller but more numerous) regions and the national level dominated the debate (*interview*, National Labour Market Authority). Since 2007, the social partners are represented in the **Local Employment Councils** (LECs), advising the local jobcentres and assisting in the preparation of the annual employment report, and being present when local offices are audited. The LECs’ composition is regulated by law and includes up to three members appointed by the Employers’ Confederation, up to five members appointed by the labour unions, up to two members from the Association of Disabled People, and one member each from the Association of General Practitioners and the Local Council for Integration of Immigrants. The LEC itself can further appoint two additional members from other, relevant stakeholder organisations (Damgaard & Torfing, 2010, p. 252). Even though the LECs are at the bottom of a hierarchic structure of labour market governance, in which the basic parameters of action is defined by the central government and the overall policy direction is put forward by the Municipal Council and the directors of jobcentres, the LECs remain important actors. This is the case as they not only give advice to the directors of jobcentres – or the Regional Employment Councils – on steps to improve local performance, but they also have their own funding available for local projects, dedicated to create more inclusive labour markets (Damgaard & Torfing, 2010, p. 251). In short, the empowered role of the social partners at the local level through the institutionalisation of the LECs could be seen as a clear indication that government sought to compensate the social partners for some of the influence lost at the regional level. The social partners, however, remained somewhat sceptical about this view. The employers’ organisation representative argued that they are mostly concerned with tackling structural unemployment, which needs to be done at the national level. Likewise, the employers’ representatives in the LECs are from local business and thus have little time to engage with the Jobcentres on policy questions. The labour union’s representative, in turn, argued that

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<sup>44</sup> <http://www.ams.dk/Ams/English/The-responsibility/Jobindsats.aspx>

<sup>45</sup> From about 2004 to 2007, the social partners were part of the Local Coordination Committees (LCCs).

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the old system in which there were 14 regional PES offices, their voice was much more concentrated and thus powerful. Today, they have to “stretch their resources very thinly” as representatives have to be present in almost 100 local employment councils.

Perhaps most strikingly, the government did only marginally consult the social partners when discussing the appropriate reactions to the global financial crisis. While the employers’ largely agreed with the government – arguing that the current system of flexicurity was sufficient to address the crisis – the labour unions favoured a strong demand-stimulating response, including a much stronger effort to improve the qualifications of jobseekers. However, rather than increasing active labour market measures, the government further tightened its activation framework (especially for young jobseekers), reduced the payment of unemployment benefits from four to two years, tightened the conditions to re-qualify for benefits, and abolished special early retirement schemes.

## 4. Summary and Discussion

This paper shows great variation in the way national labour markets are governed and the extent to which the social partners remain key players. Stark differences are apparent between the “continental” systems of Austria and Germany in which the employment ministries negotiate with “self-governed” PESs but have limited direct steering capacities (when it comes to insured workers), and the agency/municipality based systems in Denmark and the UK, where the minister enjoys almost ultimate control over active labour market policy as the PESs are the government’s “delivery arm” to implement governmental policy. These clearly demarcated differences are reflections of both *institutional legacies* (i.e., the effects of Bismarckian governance systems based on payroll contributions that “necessitate” the strong involvement of the social partners) and *ideological preferences* (e.g., the market-liberal orientations predominant in Britain and among centre-right politicians in Denmark).

The Austrian trajectory is particularly striking as the social partners have emerged to become “co-decision makers” at all three levels of PES governance only during the mid-1990s. This recent social partnership model is wholeheartedly embraced by a clear majority of actors involved in labour market policy making and has “survived” labour ministries led by both Conservative and Social Democratic ministers. . In Germany, in turn, the social partnership model has been weakened in recent years (under Social Democratic reign), but continues to enjoy the support of most actors. While the social partners continue to enjoy a strong advisory and monitoring role at both the national and local levels of PES governance when it comes to insured workers, the Hartz reforms have effectively relegated the responsibility for all long-term unemployed jobseekers – many of which with a long history of unemployment insurance payments – to both the federal ministry and local authorities. In both countries, Austria and Germany, the social partners have, however, played a critical, constructive role in addressing the global financial crisis. Their cooperation and support was without a doubt a key element for the launch of sufficiently funded short-term work and qualification schemes, which minimised the impact of the crisis on employment and (long-term) unemployment levels.

In Denmark, the gradual weakening of the social partners is more pronounced and ideological rifts between the left and right are apparent. . With the “municipalisation” of the jobcentres, the centre-right government empowered the central Ministry of Employment (i.e., more rigorous monitoring), while the reform of the regions weakened the direct policy-making capacity of the social partners at the regional level. At the national and the local level, the social partners continue to play an important advisory role. However, the response to the crisis was overshadowed by a clear demarcation of positions, where the government (and employers) preferred the preservation of the “flexicurity”

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status quo, coupled with some tightening of the benefits regime and austerity measures, while the opposition (and labour unions) pleaded for an expansionary macro-economic policy coupled with more spending on training and qualifications. In stark contrast to Austria and Germany, the room for a negotiated, joint-up response was thus much more limited.

The situation in Britain was very different from its inception. Since the late 1980s, social partnership is no longer institutionalised and training services for the unemployed are marginal. Accordingly controversies were mainly over the involvement of private actors regarding placing long-term unemployed persons into jobs. The governments – both Labour in the past and the current Conservative-Liberal coalition government – *principally* believe that private actors are better equipped to assist jobseekers with “multiple hurdles” to the labour market. Accordingly, recent years have seen a gradual expansion of private actors who are contracted to work with those clients that JCP has been unable to place. The labour unions are, however, very concerned how to best prevent private, for-profit actors from engaging in the “parking” and “creaming” of less profitable clients and how to best monitor the treatment of clients so that individual needs are respected and clients are not discriminated against. With the current government’s spending cuts also and especially on labour market policy, further tensions seem unavoidable.

In sum, great differences remain in the way labour market policy is governed, how the social partners are involved and what reactions have been put forward in response to the global financial crisis. Surprisingly, even though studies about labour market and social policy abound, the body of literature evaluating PESs as important “actors” in the fight against un- and underemployment remains slim. Put differently, while this paper has offered some insights to recent reform trajectories, it also suggests conducting further research on PESs, tackling questions of both “breadth” and “depth”. Regarding *breadth*, the question arises if the crisis has triggered a “revival” of social partnership in other countries, also and especially in countries with “continental” roots such as Belgium, France, Italy or the Netherlands? How do countries cope with the crisis in the absence of strong social partners, i.e. in the newly acceded European Union member countries or even beyond the European continent? With regards to “depth”, the study sheds some doubt on trends that are “taken for granted”, e.g. decentralization, contracting-out or customer orientation. If regional PES offices are increasingly reduced to “transmitter belts” (which the Danish and German trajectories suggest), are we witnessing a process of *recentralization* rather than *decentralization*? Has the crisis triggered more reliance on private actors (as the British case suggests) or has it led to a reversal of attitudes as the lack of demand reduces (financial) incentives for private actors to engage in market activities? Last, as PES offices are increasingly engaged with “work-first strategies” that often entail harsher benefit conditionality, more monitoring, and (the threat of) sanctions, how are tensions with the customer-service goal reconciled? And finally, a most salient question presents itself when considering that during these current times of massive financial austerity in which most PES budgets have been (or will be) cut rather substantially, how are PES able to continue their high-quality services?

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