Labour Market Policy under Conditions of Permanent Austerity: Any Sign of Social Investment?

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Introduction

The social investment (SI) paradigm is part of a strategy to modernize social policy by supporting human resource development throughout the life-course, while ensuring that welfare states remain financially sustainable. The policy ideas build on the Nordic welfare state model but aim to be relevant for all welfare states across the European Union. Central to this strategy is a reorientation of social spending from (passive) income protection to productive investments in the capabilities of the current and future labour force (e.g. Hemerijck 2011; Morel *et al.* 2012; Kvist 2015; cf. Hudson and Kühner 2009). The strategy seeks to achieve successful risk management of individuals over their life-course, including investments in high-quality childcare and education and upskilling of the labour force in the form of training and life-long learning (Streeck and Mertens 2013). Some authors have also stressed the important role of social services (Heidenreich and Aurich-Beerheide 2014). The critical idea of the strategy is that investments should be made in the short-term but designed to be productive and provide a pay-off later, which requires a medium- or long-term perspective.

The EU has adopted a 'Social Investment Package' (EC 2013) that frames the EU's approach to social protection reform as well as labour market and employment policy. This Social Investment (SI) policy builds on the activation turn that was already present in the European Employment Strategy and in the strategy to modernize social protection. The policy includes measures that prepare individuals for the needs of the labour market, including high quality skills and adaptability. The SI debate has not lacked sceptical voices; for instance, questioning the strategy's capacity to prevent poverty and social exclusion (Cantillon 2011; Vandenbroucke and Vleminckx 2011). Moreover, the SI strategy – requiring investments to achieve output in terms of upskilling for needs on the labour market – is developed in the context of fiscal consolidation in comprehensive and well-institutionalized welfare states (Pierson 1998; Streeck and Mertens 2013). The drive for fiscal consolidation has been exacerbated in the wake of the 2008 financial crisis, and the subsequent Eurozone crisis, which has strongly affected the EU. The tightening of the Economic and Monetary Union's fiscal framework in the context of the Eurozone crisis have placed some EU countries under (even) stronger pressure to implement austerity policies compared to before the crisis, which potentially crowds out SI (Author and other author 2015).

Recognizing that SI was only partially implemented prior to the financial crisis (cf. Morel *et al*. 2012; Author and Author 2012), the present article is interested in whether labour market policies during the crisis moved more towards or further away from SI. We are also interested in which types of labour market policies are concretely taking shape, thus responding to the lack of clarity in the debate on SI.

We start by defining and operationalizing key aspects of labour market policies and then use this framework to investigate shifts in SI aspects of those policies in four European welfare state regimes. We have selected two countries per regime, which enables us to draw conclusions about the trends across different types of welfare arrangements.

Research Design: Unpacking and Operationalizing Active Labour Market Policies (ALMP)

The shift towards active welfare states has been prominent since the 1990s in EU Member States, and at the EU level in order to achieve stable public finances and higher employment rates (Author and Author 2012). However, active interventions can be investment-oriented, involving comprehensive skills-matching and upskilling as expected from SI, or merely being job-incentive reinforcing, closer to workfarism than SI (Bonoli 2010; Heidenreich and Aurich-Beerheide 2014). ALMPs are an important vehicle for linking skills to labour market participation. Although the outcomes of ALMPs are contested, the varying conclusions can be explained by the fact that the studies have been conducted at different post-programme time horizons. In a meta-analysis of 207 studies, Card *et al.* (2015) showed that the outcomes of ALMPs (probability of employment, level of earnings, the exit rate from the benefit system etc.) depend on the given post-programme time horizon. On average, ALMPs have small effects in the short run but the effects are more positive two or three years after the completion of a programme. The meta-analysis also showed that outcomes vary with type of intervention, with larger gains for programmes emphasizing human capital investment, such as training, which is strongly associated with social investment.

Given that there are diverse interventions associated with ALMP, from lean workfarism to comprehensive upskilling, we identified different ALMPs for their SI content. This enabled us to analyze and assess SI in eight European countries in the context of 'permanent austerity'; that is, the on-going pressure to curb expenditure in welfare states, mainly due to demographic aging (Pierson 1998), that has been enhanced following the financial crisis. We built on Bonoli (2010) for the classification of four types of labour market policy ('incentive reinforcement', 'employment assistance', 'occupation', and 'upskilling') along two dimensions. The first dimension assesses the incentive to get (and take) a job in the regular labour market (from ‘weak’ to ‘strong’ pro-market employment orientation), while the second dimension refers to investment in human capital, that reflects SI (see figure 1).

Figure 1 here

In order to operationalize the different types of ALMPs proposed by Bonoli, with the exception of incentive reinforcement, we used the labour market policy statistics of Eurostat, which covers public interventions directed at unemployed, unemployed at risk and inactive (Eurostat 2013a). *Incentive reinforcement* refers to measures that aim to strengthen job incentives, such as increased benefit conditionality, reduced period of entitlement to unemployment insurance, less benefit generosity, hardened sanctions in cases of non-compliance, or tax incentives. While Bonoli categorizes these measures as ALMPs, they are often seen as a broader part of ‘activation policies’, intended to achieve higher employment rates.[1] To identify trends in the direction of reform on incentive reinforcement, we present reforms in the selected countries, drawing on previous research. We also include data on public spending on passive labour market programmes and services (PLMP) in order to locate low or declining spending levels as an indicator of incentive reinforcement. According to the Eurostat (2013a) classification, these ‘LMP supports’ cover ‘out-of-work income maintenance and support’ (category 8), mostly unemployment benefits but also redundancy and bankruptcy compensation. They also include support that covers full or partial ‘early retirement’ (category 9).

Employment assistance, as proposed by Bonoli, refers to a broad variety of interventions that focus on entry into the labour market. The Eurostat (2013) categories that are used to operationalize employment assistance include ‘LMP services’ and ‘LMP measures’. ‘Labour market services’ (category 1) refers to expenditures on all services undertaken by the public employment service, as well as other publicly funded services. Regarding jobseekers, the main activity of this service is job-search related. LMP measures refer to interventions that aim to activate the unemployed, where the main activity is 'other than job-search-related' (Eurostat 2013a: 7). These interventions include 'employment incentives' (category 4), which refers to subsidies that facilitate the recruitment of unemployed persons and other target groups and interventions as job rotation and job sharing; 'sheltered and supported employment and rehabilitation' (category 5), which include measures that aim to integrate persons with reduced working capacity; and 'start-up incentives' (category 7), which cover measures that encourage entrepreneurship. From a SI perspective, employment assistance interventions contain some (albeit weak) human capital investment, as they focus largely on targeting motivation to work or marketability of skills (such as CV writing), with a weaker focus on vocational skills.

Occupation refers to job creation schemes for unemployed people with weak labour market attachment, aiming to keep jobless people occupied. These measures are not oriented towards a regular job or at substantial human-capital improvement. This is operationalized as 'direct job creation' (category 6), indicating measures that create additional jobs to normal market demand in order to find employment for vulnerable target groups.

Upskilling, the SI labour market policy *par excellence*, refers to 'training' measures (category 2). These measures do not refer to training that is generally available to employed adults or to job-search related short courses for the unemployed, such as counselling in job application methods or interview techniques (which are considered part of employment assistance). Instead, training measures consist of institutional training (classroom teaching), workplace training (instruction in the workplace), and special support for apprenticeship. These forms of job-related training aim to improve the employability of target groups; that is, strong both in terms of pro-market employment orientation and in terms of investment in human capital. At the same time, however, if not matched with the demand of particular types of skills on the labour market, this supply-side type of policy can also be redundant if the macro-economic conditions for growth and employment are not in place.

Because reform challenges vary, partly depending on the institutional design of the welfare states (Esping-Andersen 1999; Aidukaite 2009), we have selected countries representing four different welfare regimes. These are: the Nordic universalist regime (Denmark and Sweden), the Continental-corporatist regime (France and Germany), the southern European regime (Italy and Spain), and the liberal-corporatist Central and Eastern European regime (Lithuania and Poland).

Our study is longitudinal, comparing the period before the financial crisis (2004–8) and after the crisis (2009–13), in order to capture trends in the direction of different ALMPs in these two periods. We include both non-standardized and standardized data. The latter is achieved by dividing the public expenditure on PLMP and ALMP with the unemployment level: it provides a more comparable measure of actual policy priorities over time (Author 2014). Where relevant, we relate our analysis of labour market policies and programmes with contextual data, such as unemployment rates, public deficit/surplus percentage of GDP and government consolidated gross debt of GDP (see appendix 1). While the results of our analysis cannot be generalized, they do indicate whether changes are mainly path-dependent or, by contrast, whether the trends in type of ALMP are comparable across different types of welfare states under conditions of tight fiscal restraint. This provides an indication of the actual weight of SI as a policy paradigm in LMPs in the context of reinforced austerity.

Findings

Denmark and Sweden: Moving away from SI

The Nordic, universalist welfare states, with an extensive SI strategy focused on training and upskilling, expectations of labour market participation among all, and coupled with generous income security, have offset polarization between workers (Esping-Andersen 1999). Nevertheless, the Nordic countries have been incrementally moving welfare arrangements in a more incentive-reinforcing, multi-tiered and less universalistic direction (Kvist and Greve 2011; Author 2014; Dølvik *et al.* 2015). Since the 1990s, but especially since the 2000s, the reforms in ALMP have been more focused on marketing skills through employment assistance-type of measures, for recipients of unemployment benefits and social assistance.

Prior the financial crisis, Denmark had liberal financial regulation and a resultant housing bubble, which burst following the financial crisis. This led to a slow-down of growth and a subsequent increase in average unemployment rate by 2.8 percentage points from 2004–8 to 2009–13 (see appendix 1). The government then launched consolidation rescue packages, which included two major reforms of the unemployment benefit system in 2010 and 2015. In 2010, benefit duration was lowered from four to two years, and the re-qualification requirement increased from six to 12 months. The 2010 reform did not have the intended incentivizing effects in terms of increasing labour market participation due to the recession. As a result, more recipients than expected fell out of the unemployment benefit system. Thus, the 2015 reform, which enters into force in 2017, renders access to the unemployment benefit system more flexible, by taking account of all hours of employment and by creating individual employment accounts. In the same vein, the use of unemployment benefits will be calculated in hours, rather than in weeks, and all hours worked will count to requalify for the unemployment benefit. Finally, a novel aspect of the reform is the introduction of qualifying days without unemployment benefit, during the period of unemployment, which is intended to incentivize job search (Regeringen 2015).

The 2010 and 2015 reforms, as well as reforms in the social assistance system, embody *incentive reinforcement*. This is reflected in the major decrease in PLMP spending between 2004–8 and 2009–13: from 0.44 to 0.23 per cent of GDP per percentage point unemployment (see table 1). At the same time, Denmark is still a big spender on PLMP in a European context.

Table 1 here

The comprehensive labour market reform following the financial crisis has involved a further enhancement of *employment assistance* for various target groups: young people, especially with low skills, disabled and older workers (Eurostat 2013b). This policy is also reflected in the expenditure on employment assistance in 2009–13, which increased in comparison with the expenditure on upskilling (see figure 2).[2] In particular, expenditures on labour market services and employment incentives increased during the period in question, which indicates the increasing predominance of low-cost programmes in Danish ALMPs. Similarly, the data on expenditure on labour market policies show that spending per percentage point unemployment dropped from 0.31 to 0.24 per cent of GDP, and the number of participants in training of all unemployed persons decreased from 41 to 32 per cent. At the same time, ALMP spending as a percentage of GDP (1.7) was in the highest in the EU27 in 2009–13, and three times higher than the EU 27 average (0.57) (see table 1).

Figure 2 here

In Sweden, like in Denmark, there has been stronger emphasis on incentive reinforcement and employment assistance in labour market policies since the late 1990s (Bonoli 2010: 449). As part of that country's centre-right government's (2006–14) 'new work line', major unemployment benefit reforms occurred in 2006–8. These reforms were specifically aimed at *incentive reinforcement*: earned income tax credits, stricter benefit conditionality and less benefit generosity.

The main incentive-strengthening reform has been the gradual expansion of an earned income tax credit. The direct budget cost of this in-work benefit amounted to 2.53 per cent of GDP in 2014. In line with this, several cost-cutting reforms in the unemployment insurance system (as well as in the health insurance and social assistance) occurred. Examples of measures to strengthen conditionality included increasing the eligibility criteria and removing the opportunity to qualify for the unemployment benefit through university studies. Among the measures to lessen benefit generosity was the introduction in 2007 of a system of gradual reduction of the replacement level. There was also an increase from five to seven waiting days and the benefit duration was lowered from 300 to 75 days for the part-time unemployed. When taking earnings ceilings into account, the net income replacement rate of an average industrial worker decreased by nearly 20 per cent between 2005 and 2014 (Kjellberg 2016). As a response, the social democratic coalition government raised the ceiling in 2015.

Parallel with less inclusive and less generous benefits, ALMP has been re-oriented from upskilling to placing stronger emphasis on job search behaviour (Author 2014). The Eurostat data show that the proportion of spending on *upskilling* was greater in 2004–6 than afterwards (see figure 3). The number of participants in training represented an average of approximately 5 per cent of unemployed people in 2004–13 (see table 1). As training has declined to historically low levels, *employment assistance* has increased its importance, and constituted close to 1.20 per cent of GDP in 2013 (see figure 3). This fact should be seen in the light of the low-cost nature of these programmes (Halleröd 2015). The number of programme participants in various types of subsidized employment (that is, ‘employment incentive’ and ‘sheltered and supported employment and rehabilitation’) nearly doubled between 2004 and 2014. In 2014, 3.3 per cent of all employees (aged 16–64) participated in subsidized employment (Public Employment Services 2016: 12–14).

Figure 3 here

To conclude, a combination of low-cost, mainly *employment assistance* type of measures and greater emphasis on *incentive reinforcement* has been built into the unemployment benefit systems in both Denmark and Sweden. Thus, labour market policy in those two countries is very strongly oriented towards employment and cost-effective activation.

In Sweden, the incremental retreat of labour market policy from a social investment agenda can be seen as a response to a longer trajectory of running a budget surplus and of fiscal consolidation policies. Denmark has also developed a more prudent fiscal stance in recent years, even after the effects of the 2008 financial crisis lessened. At the same time, it must be noted that both countries have re-adapted their benefit systems when they were deemed to be insufficient; Denmark enabled easier access to unemployment benefits, while Sweden raised the ceiling for unemployment benefits.

France and Germany: Weakening SI

The French and German cases have some common features, as they are both social insurance-based systems and their labour markets have traditionally been fragmented. Both countries have made reforms over the past decades to increase female labour market participation and increase employment rates overall. The paths of Germany and France diverged considerably in the 1990s, but this divergence accelerated in the 2000s, with the two countries responding differently to labour market and employment policy.

Following reforms to decrease the unemployment benefit duration, France reformed its unemployment benefit system during the 2000s. The term ‘unemployment benefit’ was changed to ‘job-seeking allowance’ involving job search requirements for job seekers (Hassenteufel and Palier 2015; LeCacheux and Ross 2015: 116). These reforms were implemented to tie unemployment benefits more tightly with job search requirements, in the form of employment assistance. At the same time, throughout the 2000s subsidized jobs – part of the employment assistance category – have been used extensively. However, spending on this intervention decreased in 2009–13 (data not shown), and is no longer being initiated. The conditions for accessing the unemployment benefit schemes, means tests in particular, have been tightened substantially (LeCacheux and Ross 2015: 116). Thus, incentive reinforcement and employment assistance have been core drivers of labour market policies during the 2000s. Incentive reinforcement and employment assistance link activation to facilitating labour market participation, while generosity has weakened somewhat. Training also remains present in the schemes.

Although many jobs have been developed through job creation schemes, the data show that spending on occupation has decreased over time in comparison with employment assistance and upskilling. Spending on employment assistance in France peaked in 2010, but eventually returned to its former level of approximately 0.40 per cent of GDP. Regarding upskilling, spending has increased in absolute terms, from about 0.3 to 0.35 per cent of GDP, but has been quite steady in relative terms over the period. This point illustrates that upskilling has been an integral part of French labour market policy since the mid-2000s.

A comprehensive reform to make the French labour market more flexible was proposed in 2016. The initial proposal was met with long-lasting strikes and was rejected by the Senate, after which it was altered considerably. It was then adopted by special decree, by-passing parliament, in the summer of 2016, due to its controversial stance. The reform weakened the authority of unions, especially in decisions on closing of firms. It also introduced more upward flexibility in working time (Journal Officiel de la Republique Francaise 2016).

Figure 4 here

The 15 years after Germany's reunification saw high public debt. German governments responded by resorting to supply-side strategies, in particular the vocational training system and reforms to cut social spending in the years leading up to the financial crisis. More recent and controversial policies include the Hartz Reforms of the early 2000s. Besides embodying weak employment protection for some categories of workers, these reforms strengthened *incentive reinforcement* and institutionalized various low-wage fixed-term jobs in order to provide a stepping stone for the unemployed into permanent employment, through open-ended contracts. It is notable that the latter has not materialized. Instead, low wage service sector-jobs have expanded substantially (Carlin *et al.* 2015). The 2000s saw significant changes to the previous segmented unemployment benefit systems. The contribution-financed unemployment system remained the core (although it was renamed Unemployment Benefit 1), while the tax-financed unemployment assistance and social assistance for unemployed were merged into a single scheme (Unemployment Benefit 2) which provides means-tested, flat-rate benefits that are lower than the previous unemployment assistance. Importantly, conditions for receiving the benefits were tightened, including requirements to attend training and accept individualized job-search help. Thus, the reforms were strong in terms of incentive reinforcement.

In contrast with most other EU countries, unemployment decreased in Germany by 3.3 percentage points from 2004–8 to 2009–13 (see appendix 1). This has meant overall lower spending for LMP as a percentage of GDP, but somewhat higher in relative terms (see table 1). In the break-down of types of ALMP, we see that spending on *employment assistance* has increased in relative terms (see figure 5). This is due to higher spending on labour market services, while spending on interventions as employment incentives, supported employment and rehabilitation and start-up incentives have decreased (data not shown). We also see that employment assistance has increased its proportion of spending relative to upskilling. However, spending on upskilling has, as in France, been rather steady in relative terms over the period (see figure 5; see also Hanesch *et al.* 2015: 16).

Figure 5 here

To conclude, the trajectories of France and Germany have become increasingly distinct from each other the last two decades. Germany strongly institutionalized atypical jobs, coupled with high employment incentives in unemployment benefits schemes. In France, by contrast, job-protection and job-sharing have been wide-spread, although the recent 2013 reform suggests a change of wind. In terms of SI, both countries are heavier on weak forms (employment assistance, especially investments in labour market services) than strong forms (upskilling).

Italy and Spain: Further away from SI

The southern European regime shares the same challenges – although to a higher degree – as the Continental-corporatist countries when it comes to reaching EU employment targets. From a SI perspective, part of the explanation lies in less developed institutions and policies, such as publicly funded child-care, to support higher employment rates. Measures for activation and life-long learning are less developed in southern Europe than in northern parts of Europe. Compensatory social policies, not least pensions, have long been a central component of the welfare model, although significant reforms in recent decades have decreased generosity in the pension system (Pavolini *et al*. 2015).

The present study focuses on Spain and Italy, as their trajectories are comparable to other south European countries where austerity-driven reforms have led to lowered employment protection and cuts in welfare spending. Greece, Portugal and Spain established Memorandums of Understanding (MoU) during the Eurozone crisis, including strict austerity in core areas of welfare state spending. Although Italy was not formally under an MoU, the informal conditionality and backroom diplomacy driven by the European Commission was just as powerful (Sacchi 2015). For this group of countries, the reforms required in labour market policy – due to the pressure from the EU/IMF – consisted of increasing activation for benefit receipt, as well as cost containment in the unemployment benefit systems. The reform requirements stipulated in the MoUs were mainly driven by cost considerations, such as reductions in benefit generosity, even though levels of generosity in these countries were not high to begin with. Due to the absence of economic recovery, temporary unemployment assistance programmes had to be prolonged several times in Spain and Italy (Pavolini *et al.* 2015). The reform requirements under MoU and parallel agreements did not include SI.

There have been significant changes in Italy's labour market policy during the last two decades. Income support has been reformed, with the upgrading of existing schemes and the introduction of new schemes. Consequently, the level of income protection has increased for those who lose their job, although it is from a much lower starting point compared to continental and northern European countries. Furthermore, unemployment coverage has increased substantially, although those on temporary contracts are still in a more precarious position in this regard, with only 75 per cent covered in case of loss of job, compared to 95 per cent of those on open-ended contracts (Sacchi and Vesan 2015). This situation is reflected in an increase in the proportion of spending on PLMP from 0.10 per cent of GDP in 2004–8 to 0.15 per cent in 2009–13, despite the high average public deficit and public debt (see table 1 and appendix 1).

By contrast, the endeavours to implement ALMP in Italy have only been partial, partly due to the ineffectiveness of the public employment service. According to Sacchi and Vesan (2015: 72), the ‘area of active labour-market policies is, indeed the field of labour policy where the distance between Italy and other large European countries is the greatest’. From 2004–8 to 2009–13, ALMP spending decreased (both in total and relative proportion in per cent of GDP). Thus, its proportion of total LMP spending decreased from 39 to 20 per cent. Regarding upskilling, from a low level there was a decline in spending in both absolute and relative terms (see figure 6). It can also be noted that there was a huge drop in the number of participants in training of total unemployed, from 56 to 33 per cent (see table 1). While ALMP has become more predominant since the beginning of the 2000s, it is mainly via public subsidies for open market jobs; that is, in terms of spending on employment incentives (data not shown; cf. Berton *et al.* 2009).

In the crisis context, unemployment was kept comparatively low until 2012 by short-term work schemes rather than by reforms of the unemployment compensation scheme. The 2012 labour market reform enabled easier access to the unemployment benefit, a higher replacement rate, and inclusion of workers who had previously been excluded, which is ground-breaking in an Italian context. Furthermore, a National Employment Agency now manages unemployment benefits and activation for beneficiaries. The model is becoming one of complying with conditionality rules and showing readiness to take a job in order to access unemployment benefits (Sacchi and Vesan 2015); this follows other countries in terms of incentive reinforcement. Employment assistance was reduced before the crisis; since the crisis, assistance for searching for jobs and writing CVs has been stable, although decreasing slightly when taking account of the unemployment level.

Figure 6 here

In Spain, the reform adjustments to decrease labour market segmentation and the use of fixed-term contracts began before the crisis. At the same time, Spain had actively taken on the SI discourse – and, with it, upskilling – in the years before the crisis (Pavolini *et al.* 2015). However, the burst of the real-estate bubble due to the recession led to unemployment reaching an average of 22 per cent between 2009 and 2013 (see appendix 1). From 2012, the Spanish Government introduced tough austerity measures. Dismissals were facilitated and made less costly, which affected those on open-ended contracts (Pavolini *et al.* 2015; Perez and Rhodes 2015). Spending on ALMP as a percentage of GDP, adjusted for percentage point unemployment, declined greatly, from 0.07 per cent in 2004–8 to 0.03 per cent in 2009–13. The proportion of ALMP of total LMP spending also decreased from 31 to 19 per cent between these two periods, and the already low proportion of participants in training out of the total number of unemployed continued to decrease (from 11 to 7 per cent) (see table 1). Thus, from a situation whereby Spain did adopt a SI-oriented policy in the years approaching the financial crisis, overall ALMP altogether, including SI-type measures as upskilling (see standardized data), has decreased as a consequence of austerity measures (see figure 7).

Figure 7 here

Italy's and Spain's trajectories were far apart prior to the financial crisis. Spain had been implementing SI-type labour market policies, while Italy had created poverty traps for the unemployed that were put into short-term work schemes. Following the crisis, the two countries have come closer together due to drastic austerity measures. In both countries, ALMP has decreased and there has been a shift away from training-oriented SI. The reform of open-ended contracts was sped up and implemented, while little was done to facilitate labour market participation of young people and women.

Lithuania and Poland: Few signs of SI

For the Central and Eastern European (CEE) welfare states, it is the security side of the so-called flexibility-security nexus that needs priority, given that a large share of the population lives in precarious conditions. Low fertility rates, sometimes combined with high out-migration, also place welfare states under pressure. The EU has played an important role in labour market policy reform, through co-financing the modernization of public employment services, and the access to the European Social Fund (ESF) has increased governments' interest in active measures. However, few national efforts have been made so far apart from allocating what is needed for co-funding of ESF measures: spending on ALMP as well as PLMP per percentage point unemployment remains at a very low level in the CEE countries from an EU perspective (see table 1). Despite skill mismatch being a common problem in the region, the number of people in training remains very low.

The focus of the present study is on Poland and Lithuania. The Baltic countries were severely hit by the financial crisis. In Lithuania, average unemployment rates increased from 7 per cent in 2004–8 to 14.4 per cent in 2009–13 (see appendix 1). Since 2009, fiscal consolidation has been the priority for the Lithuanian government, resulting in measures contrary to SI, including cuts in unemployment benefits and family benefits, as well as cutbacks in pensions (Aidukaite *et al.* 2016). Unemployment benefit duration in Lithuania in 2010 was the lowest in all EU member states (Esser *et al.* 2013: 11). Benefit duration in 2015 ranged from six to nine months, depending on the unemployment insurance record. The replacement rate for the unemployment benefit (consisting of one basic, government-supported part and one earnings-related part) is low. The maximum ceiling for the earnings-related part of the unemployment benefits was first cut back during the Eurozone crisis, but increased in January 2015 (from 188 Euro to 302 Euro). Nevertheless, the social expenditure level remains among the lowest of all EU member states. Aidukaite *et al.* (2016) concluded that the Lithuanian government's way of handling social security during the crisis meant a move away from the major principles of the European Social Model, such as solidarity, universalism and generosity and, we may add, social investment.

Both relative and absolute spending levels of PLMP increased between 2004–8 and 2009–13, while the opposite is true for ALMP. This means that the ALMP part of total LMP spending decreased rather dramatically (from 67 to 43 per cent). The percentage of people in training of total unemployed, thus upskilling measures, decreased from 5 to 1 per cent during the period (see table 1 and figure 8). Labour market programmes have done little to increase people's employability, and there are few signs of SI-oriented social and labour market policies overall (Lazutka *et al.* 2015). At the same time, employment assistance has increased its proportion of ALMP spending over time. Thus, we can conclude that policy reforms over the two periods have not been in the direction of SI.

Figure 8 here

Poland did not fare as badly as some of its neighbours during the Eurozone crisis, and it is one of the few countries where unemployment fell from 2004–8 to 2009–13: from 13.5 to 9.6 per cent (see appendix 1). This is one explanation for why PLMP spending was reduced by nearly half between the two periods. Contrary to the Lithuanian pattern, the proportion of ALMP of total LMP spending increased considerably (from 45 to 62 per cent). Investment in ALMP per percentage point unemployment increased during 2009–13: it peaked in 2009–10, after which it fell dramatically but began to increase again after 2011 (see table 1 and figure 9). However, the proportion in training (thus upskilling) of total unemployed shows the same pattern in

Poland as in Lithuania: a reduction from 5 to 1 per cent. As seen in figure 9, most of the spending on ALMPs in Poland was on employment assistance-type measures, while spending on training declined strongly. While government priorities reflect a SI agenda in some policy areas, such as early childhood development, family policy and education, investments in lifelong learning and ALMP remain underdeveloped (Chłoń-Domińczak *et al.* 2015).

Figure 9 here

Qualitative studies of local Public Employment Services in Poland report problems with the quality of services due to resource constraints as well as creaming effects when it comes to the selection of participants for active measures (Author *et al.* 2016). A reform of labour offices and measures was implemented in 2014 to address some of these shortcomings, introducing strengthened cooperation between public agencies and other actors and new instruments such as client profiling, client advisors and vouchers for training. In terms of income protection, it is notable that only a small minority of unemployed people (14 per cent in 2013) are eligible for the unemployment benefit (Chłoń-Domińczak *et al.* 2015), compared with 25 per cent in Lithuania the same year (Lazutka *et al.* 2015). Poland's replacement rates in the unemployment insurance (both gross and net) are among the lowest in the EU (Esser *et al.* 2013). It should also be stressed that dualisation in the labour market and precariousness in employment relationships has been increasing in Poland over recent decades and has been further accentuated in the wake of the financial crisis. For instance, in 2015 Poland had the highest proportion of temporary employed among all EU Member States (Eurostat 2016).

To conclude, the situation in both Lithuania and Poland reflects the general problem in the region, with active measures being too limited and with problems targeting the weakest groups at the labour market, such as low-skilled and long-term unemployed. Weak income protection (both regarding unemployment insurance coverage and benefit level), combined with few opportunities for improved employability through upskilling, has left much of the population facing precarious life situations and being dependent on family networks or informal economy, whilst serving to reinforce incentives to work.

Concluding discussion

This article has analysed shifts in labour market policies in order to determine whether there has been a move towards or away from SI in different welfare state configurations. Essentially, the study shows that the types of labour market policy used before the 2008 financial crisis varied considerably. Following the crisis, reforms have been similar, although grafted on existing welfare state configurations.

Overall, there is little evidence of enhanced SI orientation in labour market policies in our eight country cases. *Upskilling*, which is strongly associated with the SI approach, did not increase during the 2009–13 period (when considering standardized data). Even the forerunners in SI-type labour market policies – Denmark and Sweden – have clearly lowered their ambitions with a declining proportion of spending on upskilling. In France and Germany, upskilling has remained relatively constant. In Spain, upskilling increased in the period before the financial crisis, partly due to an active effort to invest in education and skills. Following the crisis, Spain was forced to reduce its previous investment, while Italy, Lithuania and Poland reduced their already very low investment in upskilling.

In the mid-1990s, *employment assistance*, which is more about marketing and matching existing skills than developing new ones, became central in employment policy. This trend enhanced in the austerity period under investigation. As employment assistance refers to a broad variety of interventions, it also represents the highest proportion of expenditure in all eight cases. However, the proportion of spending on employment assistance (as a percentage of GDP) also increased from 2004–8 to 2009–13 compared with spending on upskilling in Denmark, Sweden, Germany, Lithuania and Poland. However, under the category of employment assistance there are nuances. There have been changes away from subsidized jobs in Germany and France, which are relatively costly and rarely a stepping stone to the general labour market, towards marketing of skills targeted to obtaining a job. This trend should be seen in conjunction with a trend towards flexible labour markets, enhanced in countries where there have previously been high costs for job creation. Temporary – and often low-paid jobs – have been enhanced in Italy, Poland and Germany during recent decades. France stands out as the exception in this case, although recent labour market reforms may lead to changes in this direction. In the Nordic countries, temporary jobs have existed for a long time, but are not as precarious or low-paid as on the European continent as they in most cases are regulated by collective agreements.

The major labour market policy reforms that have been adopted have aimed at cost-containment rather than human capital development, resulting in *incentive reinforcement*, especially in those countries severely affected by the financial and Eurozone crises, such as the southern European and Baltic countries. However, incentive reinforcement has also significantly increased in the Nordic countries. Politicians at the national level, under pressure to implement policies in line with fiscal austerity, have appropriated a short-term rather than a long-term perspective, which is largely counter to the SI strategy. What appears to be costly in the short term, such as investments in training, may contribute to a more effective labour market from a long-term perspective.

If the trend towards incentive reinforcement and employment assistance – which is more about labour market entry and marketing of skills – continues to grow in importance across Europe at expense of upskilling, then there is a risk that SI will become lost in translation and end in a clearer neo-liberal version of workfarism. This is partly because SI is ambiguous in terms of its underlying paradigm, as it is linked to productivism under a regime of monetarism. SI could be used to address skills mismatches and ensure future productivity and competitiveness, but only if accompanied by demand-side policies. Furthermore, if a lack of human-capital increase is combined with reduced income protection, which has been the case in several of the countries studied, unemployed individuals risk becoming poorer and more precarious, without having improved their labour market chances. Thus, while poverty prevention is not the focus of SI, as such, it should figure more prominently in the strategy, as that would strengthen the focus on quality of services as well as on adequacy of benefits in periods of unemployment.

Notes

1 Activation has also been introduced and enhanced in the social assistance system in recent decades (Barbier and Knuth 2010), but that is beyond the scope of this article.

2 The reason why we do not discuss *occupation* with regards to both Denmark and Sweden is that 'direct job creation' as a policy measure was dismantled in both countries before the period under study.

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Table 1

Spending on PLMP and ALMP as a percentage of GDP and adjusted per percentage point unemployment (figures within parenthesis), ALMP of total LMP spending (%) and participants in training of total unemployed persons (%). Average figures in 2004–8 and 2009–13.

Welfare state regimes/ countries	**PLMP**		**ALMP**		**ALMP of total LMP spending**		**Participants in training of total unemployed**	
	2004–8	**2009–13**	**2004–8**	**2009–13**	**2004–8**	**2009–13**	**2004–8**	**2009–13**
EU 27	0.79 (0.12)	1.02 (0.11)	0.50 (0.08)	0.57 (0.07)	41	37	15	14
Nordic	1.48 (0.26)	1.32 (0.17)	1.04 (0.19)	1.25 (0.17)	42	49	23	21
Denmark	1.86 (0.44)	1.67 (0.23)	1.32 (0.31)	1.70 (0.24)	42	50	41	32
Sweden	0.96 (0.14)	0.71 (0.09)	0.98 (0.14)	1.13 (0.14)	51	61	6	5
Continental European	1.41 (0.21)	1.40 (0.22)	0.78 (0.12)	0.80 (0.13)	37	37	28	31
France	1.38 (0.16)	1.41 (0.15)	0.89 (0.11)	0.95 (0.10)	39	40	24	21
Germany	1.59 (0.17)	1.14 (0.18)	0.98 (0.10)	0.80 (0.13)	38	41	27	40
South European	0.76 (0.10)	1.26 (0.09)	0.35 (0.04)	0.39 (0.03)	30	26	15	13
Italy	0.72 (0.10)	1.44 (0.15)	0.46 (0.06)	0.36 (0.04)	39	20	56	33
Spain	1.51 (0.16)	2.91 (0.13)	0.67 (0.07)	0.70 (0.03)	31	19	11	7
Central and Eastern European	0.29 (0.04)	0.48 (0.05)	0.26 (0.03)	0.32 (0.03)	46	40	4	3
Lithuania	0.12 (0.02)	0.36 (0.03)	0.24 (0.03)	0.27 (0.02)	67	43	5	1

Poland	0.61 (0.04)	0.33 (0.03)	0.49 (0.04)	0.53 (0.06)	45	62	5	1

Source: Eurostat (2016), data extracted 22 February 2016.

Figure 1

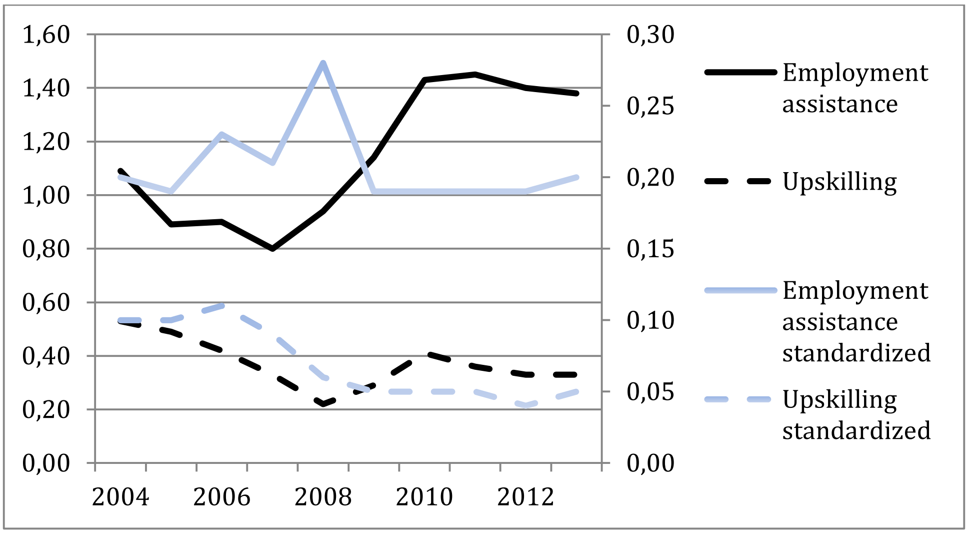
Types of active labour market policy according to pro-market employment orientation and investment in human capital.

	Investment in human capital		
Pro-market employment orientation	None	Weak	Strong
Weak		Occupation	
Strong	Incentive reinforcement	Employment assistance	Upskilling

Source: Adaptation from Bonoli (2010: 441).

Figure 2

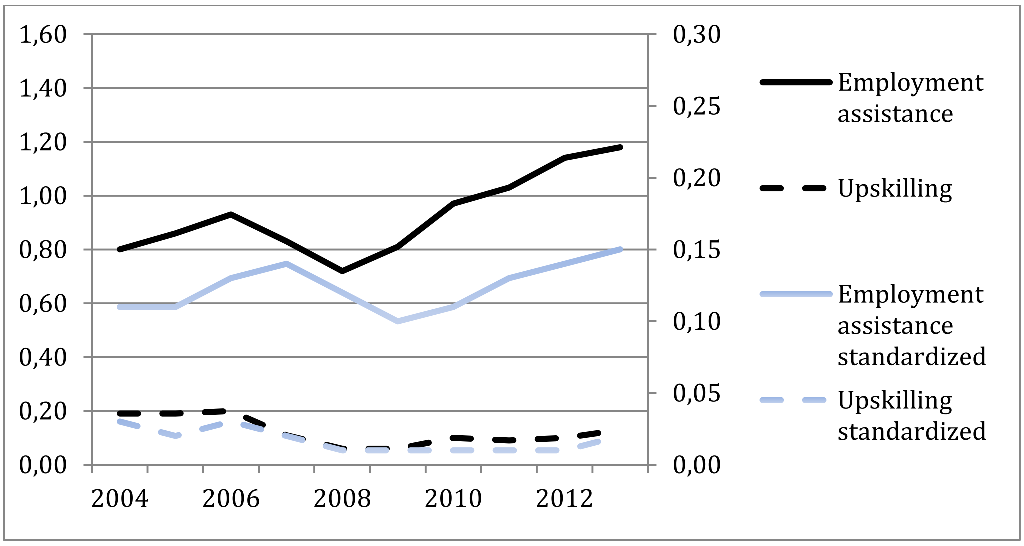
Denmark: Spending on employment assistance and upskilling as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 3

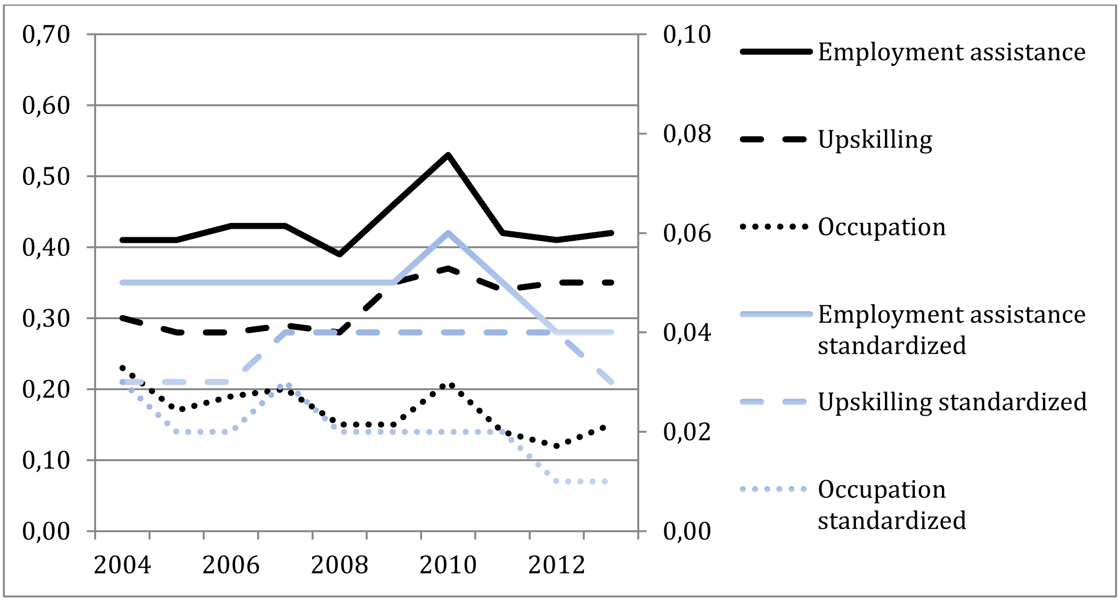
Sweden: Spending on employment assistance and upskilling as a percentage of GDP (left axis) and as a percentage of GDP as adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 4

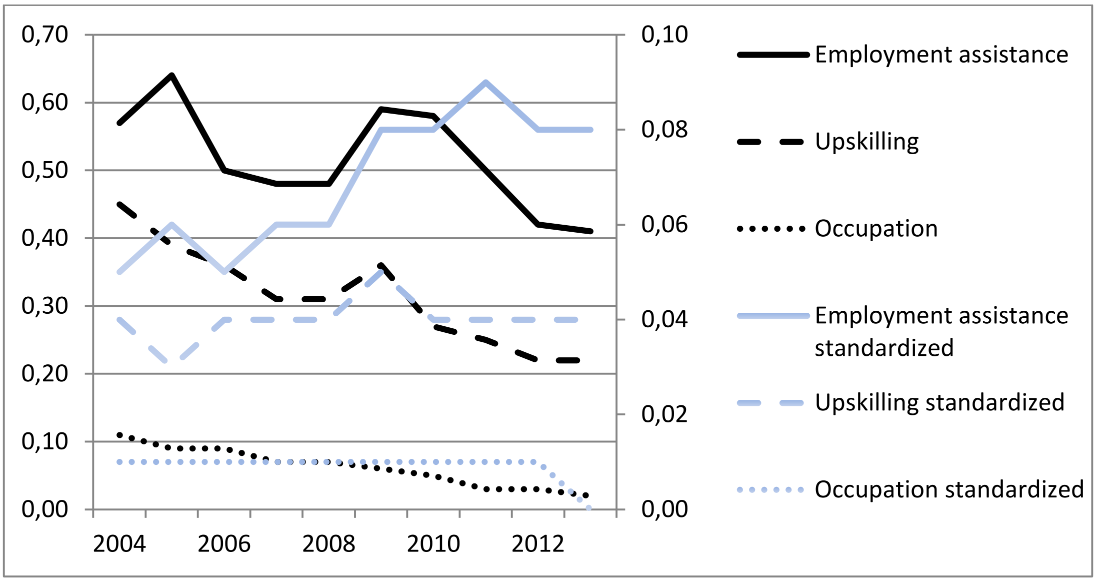
France: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 5

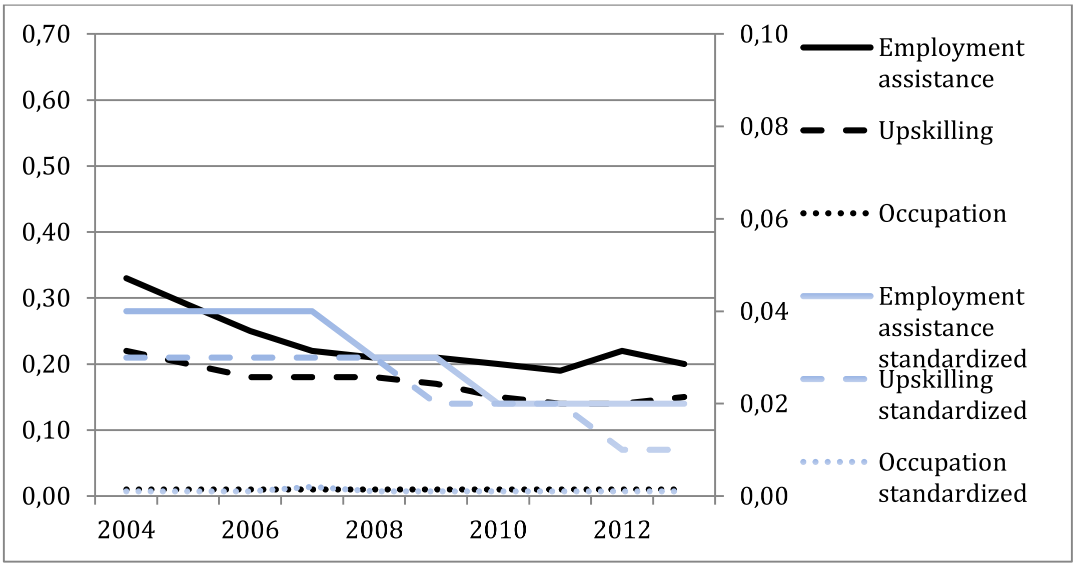
Germany: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 6

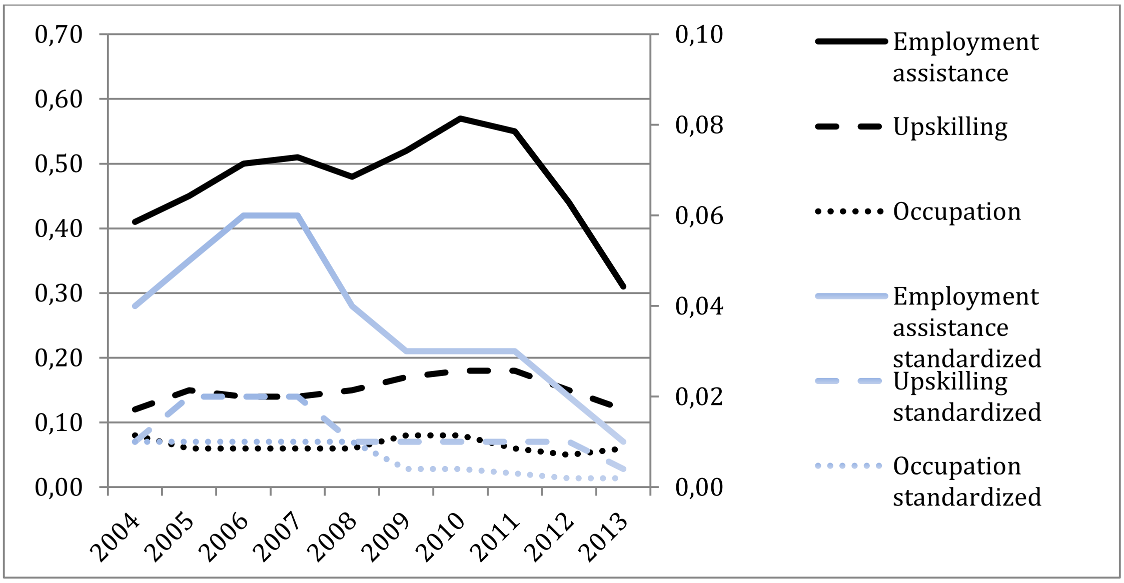
Italy: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 7

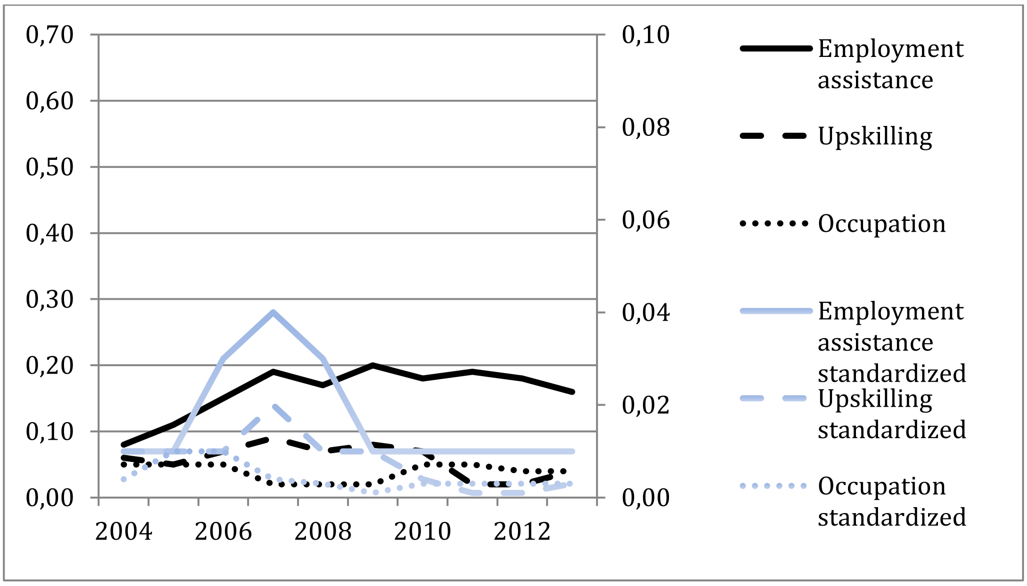
Spain: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 8

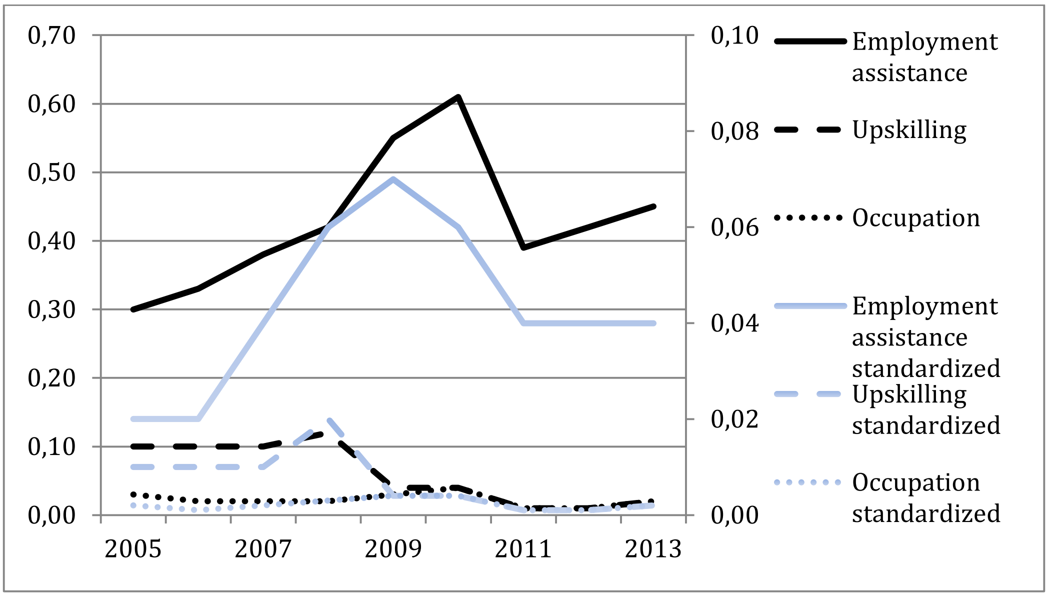
Lithuania: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2004–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Figure 9

Poland: Spending on employment assistance, upskilling and occupation as a percentage of GDP (left axis) and as a percentage of GDP adjusted per percentage point unemployment (right axis), 2005–13.



Source: Eurostat (2016), data extracted 22 February 2016.

Appendix 1

Unemployment rates, Public deficit/surplus percentage of GDP and government consolidated gross debt. Average figures for eight EU member countries, 2004–8 and 2009–13.

Welfare state regimes/ countries	**Unemployment rates**		**Government deficit/surplus**		**Government consolidated gross debt**	
	2004–8	**2009–13**	**2004–8**	**2009–13**	**2004–8**	**2009–13**
EU 27	8.1	9.9	-2.1	-5.0	60.5	80.4
Nordic	6.3	7.8	3.2	-1.7	38.4	43.9
Denmark	4.3	7.1	4.1	-2.5	34.8	44.1
Sweden	6.9	8.1	1.9	-0.6	42.9	38.4
Continental European	6.8	6.5	-1.1	-3.1	57.8	71.5
France	8.4	9.5	-2.9	-5.6	66.0	85.6
Germany	9.5	6.2	-1.8	-1.7	65.3	77.8
South European	7.6	13.3	-3.2	-6.8	73.0	99.5
Italy	7.1	9.5	-3.1	-3.8	101.3	119.2
Spain	9.6	22.0	0.2	-9.4	40.3	72.3
Central and Eastern European	8.5	10.9	-1.9	-4.4	26.7	40.1
Lithuania	7.0	14.4	-1.2	-6.1	16.8	36.2
Poland	13.5	9.6	-3.7	-5.5	46.0	53.5

Source: Eurostat (2016), data extracted 22 February 2016.