

**British, German and Irish Political Parties' Labor Market Strategies in  
Comparative Perspective: Three Countries, Three "Third Ways"?**

by

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Paper prepared for the conference "Governing Work and Welfare in an Enlarged Europe"  
Madison, Wisconsin, May 19-20, 2006

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welcome.**

## **I. Introduction**

In the early 1990s, leaders of many European nations publicly acknowledged that high and persistent unemployment rates threatened Europe's economic potential, social peace, and prospects for deeper integration. Particularly after the conclusion of the Maastricht negotiations (1990-91), European chiefs of government (CoGs) sought to consolidate high domestic unemployment rates (and low employment rates) in order to make their nations "fit" for Economic and Monetary Union (EMU). Concurrently, most of the Western European world experienced a policy momentum to adopt active labor market measures, which was spearheaded by the Organization for Economic Cooperation and Development's (OECD) Jobs Strategy in 1994 (Auer 2005). The European Commission followed suit in 1997 with its European Employment Strategy (EES), aimed at facilitating the exchange of best practices through collective coordination and benchmarking. The years following these developments resulted in a variation of innovative public policies targeted at improving and/or stabilizing employment performances in many western economies.

The immediate goal of this paper is to compare and contrast national strategies devised at activating the labor force in two "most different" countries, including Germany and the United Kingdom and one "hybrid" case, Ireland (Przeworski/Teune 1970; Zeitlin 2003, respectively). Are Blair's New Deal and Schröder's Agenda 2010 the feathers of the same "Third Way" bird? Does "hybrid" Ireland follow a liberal or a corporatist trajectory? How and why do political parties' "activation efforts" in these three countries (not) differ? Has there been convergence over a "best practice" of labor market governance?

This paper is structured as follows. First, a brief literature review will situate the paper in current academic debates, reveal open questions and derive competing hypotheses. Second, I will capture the political dynamics that characterized British, Irish, and German reform efforts and then compare institutional designs introduced by the respective governments. Third, I succinctly summarize the findings.

## **II. Varieties of Capitalism, Welfare Regime Types, and Third Ways**

Germany and the UK represent two “most different” cases, both in regards to the welfare regime type (Esping-Anderson 1990; 1999) and their production regime type (Hall/Soskice 2001). As outlined in the now seminal study, Esping-Anderson argued that liberal welfare regimes are characterized by residual social guarantees, i.e. they are biased towards targeted social assistance and adhere to a narrow conception of what risks should be considered “social”. Liberal regimes, including the UK, are driven by an ideology that encourages regulation through market forces over the state. In turn, conservative welfare regimes, such as Germany, blend status segmentation and familialism, and display strong corporatist traits. Conservative types prioritize strong job protection for already employed male householders. The state plays a moderate role as conservative types are not obsessed with market efficiency and the granting of social rights is hardly ever a contested issue (see Esping-Anderson 1990; 1999).

Similarly, the UK and Germany represent opposing poles in regards to their production regime type, which is closely associated with the varieties of capitalism (VoC) literature (Hall/Soskice 2001). This approach draws a clear distinction between two modes of coordination.

In one, firms coordinate with other actors primarily through competitive markets, characterized by arms-length relations and formal contracting. Here, equilibrium outcomes are dictated by relative prices, market signals, and familiar marginalist considerations. In the other modality, firms coordinate with other actors through processes of strategic interaction of the kind typically modeled by game theory. Here, equilibrium outcomes depend on the institutional support available for the formation of credible commitments, including support for effective information-sharing, monitoring, sanctioning, and deliberation. [...] At the one end of the spectrum stand liberal market economies (LMEs) where relations between firms and other actors are coordinated primarily by competitive markets. At the other end are coordinated market economies (CMEs) where firms typically engage in more strategic interaction with trade unions, suppliers of finance, and other actors” (Hall/Gingerich 2004, 7f).

The way in which welfare regimes connect to production regimes in regards to labor market policy is through their particular kinds of corporate strategies.

By forcing people into the workforce, the low benefit levels and strict eligibility criteria of a liberal welfare state, for instance, help sustain the highly fluid labour markets on which firms in liberal market economy [sic.] tend to depend. They complement the low-wage, cost-conscious strategies characteristic of many firms in such economies by depressing the reservation wage. In contrast, by assuring workers of generous benefits should they become unemployed, the high benefit levels and prolonged benefit periods available to skilled workers in conservative welfare states encourage individuals to develop the industry-specific skills central to the production strategies of many firms in coordinated market economies; and they encourage firms to make use of such skills by assuring them that skilled labour will remain available through a recession (Hall 2003, 41).

Ireland is an interesting case in regards to its classification. On the one hand, Ireland is typically classified as both a LME (Hall/Gingrich 2004) and as an example of a liberal

welfare regime type (Esping-Anderson 2002, 15). Accordingly, the Irish labor market is based on an inferior (and passive) welfare state and a highly flexible labor market, in which high employment protection schemes could not be seen as the “culprit” for high unemployment rates. Irish labor market policy had been mainly confined to the organization of, mainly low skill, apprenticeship training and a “manpower policy” directed at matching the demand and supply for labor (DETE 1998).

On the other hand, since 1987 Ireland has been governed through national level, roughly tri-annual partnership agreements, in which the social partners, the voluntary and community sector and the government negotiate not only wage settings, but also a wide array of other economic and social policy issues. The post-1987 governance approach is therefore often characterized as one of “mutual understanding between the government and the social partners on the fundamental economic and social priorities” (Schweiger/Wickham, 2005, 16). Put differently, the Irish case resembles a “hybrid” LME that is, at least on the macro-level, governed through “open” coordination (O’Donnell/Moss, 2005).

Based on these institutionalist theoretical insights, one should expect to see systematic differences between LMEs and CMEs, or liberal and conservative welfare regime types, in their respective institutional design of labor market policies in general and ALMP in particular. Similarly, Kathleen Thelen predicts divergence of labor market policies in LMEs and CMEs due to their contrary roles in social concertation (Thelen, 2001). She argues that the pressures of internationalization and globalization led to the weakening of unions in liberal market economies. Accordingly, in the British (and Irish?) LME context, the social partners have few institutionalized access points vis-à-vis the

government, which consequently enjoys considerable room for maneuver (see also Wood 1997). In turn, coordinated market economies such as Germany (and Ireland?) do not show the same trends. To the contrary, Thelen argues that the gap between LMEs and CMEs has even widened. Despite the fact that there is great variation among the CMEs, she argues that industrial relations in CMEs are still characterized by deliberation among business, labor, and the government. Collective bargaining, rather than confrontation, creates an environment in which the frequently perceived “zero-sum game” between business and labor is turned into a win-win situation. Confrontation is dire for all participants, especially when production depends on a timely fashion, high quality, and lockout is costly. Therefore, in Germany, where power is concentrated in relatively few peak associations that also play a significant role in administering social policies, the government’s room for maneuver is more constraint and a negotiated reform the only promising path to success (Hall, 2003).

In this context, partisan politics are expected to have little impact as national institutions and electorates severely limit policy options at hand once a certain path is taken.<sup>1</sup> Accordingly, both the welfare and the production regime literature assume that the effect of the “left” has become less and less distinguishable from that of the “right” (for a similar assessment, see e.g. Stephens et al., 1999). These literatures predict continued differences, irrespective of particular partisan politics, between LMEs/liberal welfare states and CMEs/conservative welfare states, as “the national political economy is not a tabula rasa on which anything can be written” (Hall forthcoming, 5). National institutions and political legacies severely limit what social democrats are able to

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<sup>1</sup> While partisan politics are given little attention in the VoC literature, also Esping-Anderson contributes little explanatory power to partisan politics in the contemporary era. Rather, partisan politics were crucial in initial formations of welfare states in the post WWII period.

accomplish. Consequently, “the paths taken by social democratic parties in Europe should *diverge*,” given their national settings (Hall, 2003, 39, *my italics*).

Alternatively, however, other authors challenge this notion of path-dependency and institutional stickiness. On the one hand, the partisan literature on globalization often finds that the left does produce a different set of (welfare) policies, often through a recalibration of their spending priorities rather than tax increases (e.g. Garrett, 1998; Boix, 1998). But also the more specific literature on labor market policy argues that the left uses a “fairly coherent set of supply-side policy intentions [...], the core of which is found in job creation, active labor market policies, [and] the promotion of high rates of labor participation” (Green-Pederson et al., 2002, 307). While the far left and traditional unionists might perceive ALMP as “workfare” and “liberal policies in disguise,” the moderate left tends to agree with Kitschelt’s assertion that “traditional social democratic policies ought no longer be pursued, because they cannot be successfully implemented in the socio-economic and cultural environment of advanced capitalism” (1994, 7). In this context, the moderate left uses ALMP as an instrument to promote employment and equality in an era that is increasingly associated with tight budgets and the loss of macroeconomic sovereignty (e.g. Rhodes, 2003).

According to this view, the national political economy might not be a *tabula rasa*, yet it still leaves enough room to social democratic governments to produce similar policy outcomes, despite of significant differences in both national institutions and the degree of social concertation. In other words, the literature on partisan politics predicts trends toward policy *convergence*, despite of different national settings, when parties with similar ideologies are in power.

### III. Blair's Britain: The New Deal

“The New Deal, which the Conservative party has pledged to scrap, has helped more than one million people - young people, unemployed people, lone parents and disabled people - into jobs, and it is extremely important that we keep it going.”

- Tony Blair, Prime Minister's Questions, 6 April 2005, <http://www.publications.parliament.uk/pa/cm200405/cmhansrd/cm050406/debtext/50406-04.htm>, last accessed on December 3, 2005.

In the mid-1990s, Gordon Brown, at the time in the opposition as shadow Chancellor, started to busily work on “A New Deal for a Lost Generation” which was launched on May 15, 1996. Although the Conservatives had provided a foundation for activation through the introduction of the Jobseekers Allowance, which required the unemployed to actively seek work, the Labour Party's proposed approach welfare-to-work strategy significantly differed in regards to its scope, instruments, and ambition to that of the Tories. Gordon Brown, inspired by the Danish and Dutch models of ALMP, envisioned a new labor market policy that would offer the unemployed efficient jobcentres, training of core skills, such as literacy, numeracy and self-presentation, and more personalized, individual action plans for the jobseekers and their case workers (interview with Stephen Nickell, May 3, 2006). For this purpose, the Labour Party envisioned to offer training or a job to 250,000 young people, spending more than £3 million a year, with the following goal: “Our education and training system must ensure 100 per cent of young people are on the road to a qualification” (Brown 1996).

The New Deal plans were then again found in the Labour Party's Manifesto of 1997. The Manifesto included the promise of an effective welfare-to-work program that would specifically target the youth, the long-term

unemployed, lone parents and the disabled, while providing customized and personalized services.<sup>2</sup> The New Deal was intentionally designed with a compulsory element in an attempt to prevent long-term unemployment. It was informed by the positive experiences of active labor market policies in the Scandinavian countries and the lessons learned from US “workfare” (Interview, Stephen Nickell, May 3). Improving employment was to be accompanied by a commitment to a significant increase the national spending on education, a tax reform that “makes work pay,” and a new more employment friendly family policy.

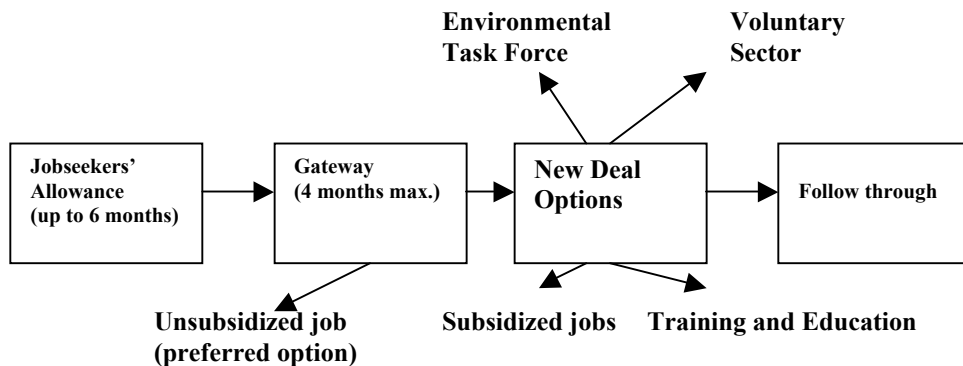
Once elected, the Labour government commenced a policy package commonly dubbed as the “New Deal for Young People” in 1998. At the heart of this effort has been a large-scale “activation scheme” that would require recipients of welfare benefits to take subsidized work or training positions after six months of receiving a Job-seeker Allowance and four months participation in the Gateway assistance program. The Gateway program provides a “mix of counseling, job search training and careers advice” (Lindsay/Mailand, 2004, 198). Gateway assistance is aimed at locating employment and prepares those clients who need further assistance or training for a choice of four options. In 1998 the main focus was on young adults aged in between 18 and 24. The New Deal includes four options to the unemployed, including subsidized employment in the private sector, subsidized and temporary work in the voluntary or environmental

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<sup>2</sup> For a link to the Labor Party Manifesto, please use: <http://www.psr.keele.ac.uk/area/uk/man/lab97.htm>, last accessed December 3, 2005.

sector, full-time education or training.<sup>3</sup> There is no “fifth option” to continued (passive) life on benefits. Failure to comply with the New Deal rules can lead to a loss of temporary benefits and eventual suspension. The New Deal would later be extended to the “New Deal for the long-term unemployed”, in which also older adults, who have been unemployed for two years and are of 25 years plus of age, are activated through mandatory choices. Two additional target groups include lone parents with very young children and chronically disabled persons, who receive greater flexibility (International Reform Monitor 1999, 33; Financial Times, March 23, 1999).

**Figure 1: A simplified flow chart, illustrating the New Deal:**  
 (Source: Blundell et al., 2004)



The social partners generally welcomed the New Deal. The Trade Union Congress (TUC), originally skeptical about the compulsory elements of the New Deal and afraid that the subsidized job element would undermine regular jobs, eventually supported the New Deals. The TUC thought that the compulsory element was justified due to “real, quality options for the unemployment” (Interview, Richard Exell, May 3, 2006). Although the TUC was not successful in

<sup>3</sup> Start-up subsidies for unemployed who start their own business were added in <find DATE>.

pushing through its goal to pay “wages at the going rate”, it convinced the Labour government to include a measure that would prevent employers to abuse the subsidized job option by firing the employee after the subsidized period had ended (ibid.). Also, many employers supported the government’s efforts and provided job opportunities at the local level, while the main employers association, CBI, believed that the New Deal “will play an important part in helping unemployed people back into work” (Gilman, 1997).<sup>4</sup>

Coupled with these New Deal policies, the government introduced a series of other policies that supplemented the New Deals in an attempt to prevent particular hardship through this new welfare-to-work strategy and to keep the unions’ support aligned with the government. On the one hand, a national minimum wage was introduced in April 1999, which was “set by the Secretary of State, on the advise of the Low Pay Commission (LPC), which comprises academics, trade unionists and employers” (International Reform Monitor 1999, 43). In addition, Labour also launched the Employment Relations Act, which introduced a statutory procedure for trade union recognition and the right of representation at disciplinary hearings. These two pieces of legislation were seen as an attempt to appease the unions and to mobilize the support of the traditional left voters.<sup>5</sup> The CBI accepted the minimum wage levels, while insisting that the wage levels were at “the top of the acceptable range” (International Reform Monitor 1999, 43). The CBI was particularly pleased, as the minimum wage

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<sup>4</sup> The employers became increasingly skeptical about the mandatory, one day a week training element of the New Deal, which was subsequently made voluntary (Interview, McHugh, May 12, 2006).

<sup>5</sup> Although trade union membership slightly increased afterwards for the first time in decades, and the unions appreciate some of the New Deal policies, the relations between Labour and trade unions is still characterized by “tense relations” particularly in regards to family policies.

legislation does not require additional payments for overtime, shift-work, or unsocial hours (International Reform Monitor 1999, 43).

On the other hand, in October 1999, the government addressed welfare dependencies with the replacement of the Family Credit with a more generous Working Families Tax Credit (WFTC), “guaranteeing any family with a full-time worker £214 per week” (Glyn/Wood 2001, 205). The reform widened income differentials between those in work and those on welfare, promoting a return to work and “making work pay”. It also offered additional subsidies for child-care expenses to the low paid and made the reduction of child poverty one of its primary goals.

In addition to “making work pay,” the Labour Party emphasized “lifelong learning,” which can be seen in its launch of University for Industry (Ufi) scheme in 1998. The Ufi offers a wide-range of information about education and training courses in various regions and is complemented by the free-phone national careers service Learning Direct. Moreover, in 1999, the Labour government introduced Individual Learning Accounts (ILA), which are tax-exempt, governmentally subsidized accounts, workers of any age can use for continued education and training.

In short, the New Deal and associated policies introduced a radical new mix of social responsibilities and social rights through the launch of new, more generous activation and social policies, while ruling out the option to continued reception of unemployment benefits. While “restricted” in a liberal market economy context, Labour’s social democratic orientation is recognized through

the deliberate choice to “increase public spending rather than to reduce taxes, and [its] huge emphasis on increasing investment in human capital, particularly education and skills” (Gamble 2004, 10). From the British experience, we can tacitly conclude that the success of labor market policies reform depends on a comprehensive mix of ALMP with other public policies, such as family, education, and tax policies, and “sound” macroeconomic conditions.

The government proclaims its success as follows: “The number of people in work is now at record levels, up by two million since 1997. At 4.7 per cent, the unemployment rate is the lowest since 1975. Over one million people have been helped into work through the New Deal. Both long-term unemployment and long-term youth unemployment have been cut by over 75 per cent since 1997”

(<http://www.labour.org.uk/home>, last accessed on December 5, 2005). While the government most likely exaggerates the impact of the New Deal on employment statistics, independent economists have confirmed that the New Deal has had a large, positive impact on employment, especially on young persons (see e.g. Blundell et al. 2004; Van Reenen 2003). These authors also conclude that the social benefits of the New Deal outweigh its costs. Similarly, it is often argued that the introduction of a National Minimum Wage, and new provisions to “make work pay” such the WFTC and the Child Tax Credit have benefitted especially the “worst-off 20 per cent of households gaining by around 8.5 per cent on average” (Glyn/Wood 2001, 211).

In sum, the Labour government introduced substantial policies that benefited the (working) poor, lone parents, children, and unemployed, moving Blair’s Britain a small,

but significant step closer to a social democratic welfare regime type. The influence of left ideology is therefore undeniable, even in a LME context.

#### **IV. Schröder's Germany: Hartz Reforms and The Agenda 2010**

“If we don't manage to reduce the unemployment rate significantly, then we neither deserve to be re-elected nor would we be re-elected.”

- Gerhard Schröder, 1998.

Gerhard Schröder was elected Chancellor in 1998, after a Blairite election campaign, based on “massive economic innovation and modernization [...] maintaining and re-balancing social security and social justice, [...], supporting small- and medium-sized enterprises as the motors of economic growth and job creation; and lastly, major tax cuts together with a more just tax formula” (Meyer 2001, 80). One of the first activation attempts by the new Red-Green government was the rather successful launch of JUMP (*Jugend mit Perspektive*). This initiative was aimed at finding/creating jobs for 100,000 young people with only weak sanctions imposed to those who did not take up the program. The program included individual action plans through which the employment administration approached registered, young people directly “with an offer to participate in the programme and to agree on an appointment for consultation” (Heidemann/Rademacker 2004, 362). JUMP quickly exceeded its 100,000 young people target, when “the offer of involvement was taken up in the very first year by 200 000” (Heidemann/Rademacker 2004, 363). In an evaluative study, Albrechtsen (2004, 211) concludes that “in Germany the introduction of the

JUMP programme for young people in 1998 does seem to have had an effect, youth unemployment falling by 2.3 percentage points over the relevant period.”

Moreover, the Social Democrats almost immediately tried to get both social partners at one table thought the so-called Alliance for Jobs, Training and Competitiveness to discuss high and persistent unemployment rates. The alliance issued a number of expert groups on various economic issues, including the Benchmarking Group whose goal it was to “identify problems and to establish a uniform set of data and economic indicators” (International Reform Monitor 1999, 44). The future of the alliance was compromised from the start, however, as the German government lacks the right to control wage determination, which makes roundtable negotiations’ success dependent on the goodwill of the social partners (International Reform Monitor 1999, 45). In addition to the difficult task of generating the necessary support from the social partners, which have been spoiled by the state’s policies of “dual externalization” (i.e. generous unemployment benefits and generous early retirement schemes), parts of the Chancellor’s own party, tried to boycott the meetings from the start, including Finance Minister and SPD chair Oskar Lafontaine. Lafontaine, a stark supporter of Keynesianism, and the secretary of state <find NAME> publicly “encouraged high union wage claims which, they argued, were needed to increase demand and thereby improve employment” (Streeck/Hassel 2003, 115).

Despite this “rough” start, the alliance initiated a number of policies proposals and reports. In the summer of 1999, the Alliance for Jobs reached a “training consensus” which “comprised both quantitative and qualitative

elements: a mutual responsibility to increase the number of training places in the dual system, the arranging of regional training conferences, and agreements concerning the modernization of apprenticeships and the training system” (Heidemann/Rademacker 2004, 362). Moreover, the alliance suggested a reform proposal of the organizational design in the Public Employment Service (PES). The new PES (*Arbeitsamt 2000*) was to become more decentralized and more service-oriented, with different teams assigned to specific tasks. The alliance also concluded that “excessively high social security contributions” might contribute to some of the labor market problems of low wage and low-income families (International Reform Monitor 2000, 39). Accordingly, the so-called Mainzer Modell, was tested in two target regions, aimed at subsidizing the employees’ social security contribution and additional subsidies for families with children.<sup>6</sup> Additionally, a temporary piece of legislation was introduced, intended to improve the situation of temporary employed workers. However, the employer associations heavily opposed this legislation, arguing that it “is a step in the wrong direction, as it results in an increase in inflexibility, bureaucracy, and labour costs” (International Reform Monitor 2000, 42). The unions, in turn, favored the legislation. Overall, the reform efforts were rather slow, as they suffered from intensive negotiations and resulted in proposals without far-reaching appeal.

After three years of “trial and error”, the government introduced the Job-Aktiv legislation in 2001 (A=activate, Q=qualify, T=train, I=invest, V=mediate).

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<sup>6</sup> The *Hartz* Reforms, particularly the midi and mini jobs, discussed below, caused the *Mainzer Modell* to be almost redundant and it was abolished shortly after the introduction of *Hartz IV*.

Job-Aktiv was intended to accelerate job placement, through individual action plans for the long-term unemployed, raise their qualifications, and increase the possibilities for combining work and family. Although the intentions resembled Blair's New Deal, i.e. more social obligations for the unemployed, while offering subsidized wages and training opportunities, the legislation was criticized as a "hodgepodge collection of measures with no overall concept" by both the opposition parties and the employer associations (International Reform Monitor 2001, 45). Nevertheless, the Job-Aktiv Law passed the German Parliament in January 2002. Later this year, it was also decided to extend the Mainzer Modell to the federal level. Despite the promise of these laws to improve placement services for the unemployed, to introduce of a "job rotation model" similar to the Danish experience, to improve control and evaluation of active labor market measures, and to increase public funding, "none of the measures produced any effect before they were overtaken by the so-called 'Hartz reforms' after the 2002 election" (Streeck/Trampusch 2005, 14).

As the roundtable negotiations had become essentially deadlocked and the SPD faced a CDU/CSU-FDP majority in the Bundesrat, Germany's upper chamber, Chancellor Gerhard Schröder eventually decided to go a different, unilateral route in early 2002. He was able to do so as he strategically ceased a moment of political turmoil when in January 2002 five employment offices were blamed for having misreported job placements in 70 percent of 5100 cases (Collier 2004, 12). On February 22, Schröder announced an independent commission for "Modern Services on the Labor Market" under the headship of Dr. Peter Hartz, Labor Director on the Board of Management of

Volkswagen to address the lingering problems of the German labor market. On August 17, 2002, only weeks before the upcoming federal elections, the Hartz Commission presented its final report to the Chancellor. Within days, the SPD, the Greens, and the Cabinet approved Hartz I and II. On September 12, 2002, also a majority of representative in the Bundestag voted in favor of the bills. By appointing the Hartz Commission (and later the Rürup Commission), Schröder de facto disempowered the unions and the left wing within his party (Streeck/Hassel 2003). Schröder's strategy of "government by commission" became an effective way to reduce the number of veto players in the system and induce change in an environment ridden by unsustainable continuity (Leibfried/Obinger, 2003). In short, Schröder put the Social Democratic Left and the unions in a position in which they had to "play along", if they did not want the CDU/CSU to win the upcoming federal elections.

The first set of the Hartz reforms resembled many of the changes implemented in Britain. Hartz I and II transformed the traditional public employment services into local "JobCenters" intended to focus on counseling and job matching activities. The JobCenters also set up personnel service agencies (PSA), designed as independent units, encouraging temp jobs. The reforms also included policies designed to promote self-employment through start-up subsidies ("Ich-AG"), programs such as the "mini-jobs" and "midi-jobs" intended to create incentives to work particularly in the low-wage sector, tax-free employment for up to €400, and support in qualification measures.

In March 2003, the Schröder government announced its Agenda 2010, which comprised an ambitious policy package aimed at "achieving full-employment in Germany by the end of the first decade of the 21<sup>st</sup> century, reviving economic growth and

reestablishing financial sustainability for German social insurance institutions” (Collier 2004, 22). In addition to measures that included a tax cut of 15 billion euro and a change in employment protection rules for companies with up to ten employees, the Agenda 2010 was aimed at overhauling the unemployment insurance system. Consequentially, Hartz III and IV were passed in parliament. While Hartz III entirely overhauled the Federal Labor Office (Arbeitsamt), Hartz IV was the most controversial of the reform policies as it introduced the so-called “unemployment compensation II” (Arbeitslosengeld II).<sup>7</sup> This policy included the consolidation of unemployment assistance and social assistance, “bringing the former down to the level of the latter.”<sup>8</sup> The bill states that after twelve months the unemployed receive only the newly designated “unemployment compensation II” rather than the previously generous employment benefits. From then on, “the long-term unemployed will receive a flat-rate benefit, means-tested and paid only to those who seek work seriously. On average, benefits for single people living in western Germany will be €345 (\$422) a month; for those in the east, the level will be €331 plus rent and heating allowances.”<sup>9</sup> In short, the unemployed have to actively seek employment and have to take jobs even when the new pay is lower than their previous one. If the unemployed person fails to do so, the assistance is further cut. Moreover, savings and other financial reserves are being taken

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<sup>7</sup> Previous to the *Hartz* reform, German assistance to the unemployed was structured as follows: (1) Unemployment benefits (*Arbeitslosengeld*), i.e. contributions-financed assistance up to three years, based on previous earnings; (2) unemployment assistance (*Arbeitslosenhilfe*), i.e. tax-financed entitlements to assistants after previous benefits had expired, yet still related to previous earnings; and (3) social assistance (*Sozialhilfe*), means-tested and locally funded assistance for those who had never paid into the unemployment fund.

<sup>8</sup> “Peter Hartz: the Father of Germany’s Labor Reform,”

<http://www.deutsche-welle.de/dw/article/0,1564,1306450,00.html>, last retrieved November 20, 2004.

<sup>9</sup> “It’s all those people, all over again”

[http://www.economist.com/world/europe/displayStory.cfm?story\\_id=3092887](http://www.economist.com/world/europe/displayStory.cfm?story_id=3092887), last retrieved on November 12, 2004.

into account when it is decided who receives assistance. Exceptions are made for private pension funds and other forms of retirement securities.

The Hartz reforms, embedded in the Agenda 2010, therefore streamlined and simplified the assistance system, dramatically decreased the length of benefits, cut the level of assistance, and demanded more commitment to seeking work. As such, the Hartz reforms moved “Germany a significant distance towards an Anglo-American model” (Hassel/Williamson 2004, 13).

Despite of the enormous effort of the red-green government, particularly in regards to tax and labor market policy, the scope of the reforms did not reach the level achieved in Britain. There was very little movement in education policy, family policy, or macroeconomic policy.<sup>10</sup> Moreover, the reform process was characterized by too many “piecemeal compromises” (Hassel/Williamson 2004, 15) and remained to be popularly very unattractive (Streeck/Trampusch 2005). The recent political downfall of the Schröder government can largely be attributed to the generation of false hopes and ill communication skills. Despite warnings by expert cycles, the Federal Minister of Economics and Labor, Wolfgang Clement, predicted that unemployment would drop by twenty per cent once the reforms were reality, which led to great fears in the electorate about the future of Germany’s welfare state and generated unrealistic expectations about the capacity of the Hartz reforms and the Agenda 2010.

As such, the national political economy and political legacies certainly inhibited the government’s attempts for a comprehensive reform, as “forcing people into the

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<sup>10</sup> However, one might point to the raise of the child subsidies (*Kindergeld*), some tax incentives for families with children (*Kinderfreibetrag*), and especially the *Tagesbetreuungsbausbaugesetz*, which obliges local communities to gradually expand child care facilities from currently 60, 000 to 230,000 by the year 2010.

workforce” is politically less palatable in a CME context than in a LME. Further, the obstructive role of the social partners further undermined more comprehensive reform efforts. However, the scope and direction of the Hartz reforms was not to be expected from the readings of the VoC literature that predicts “high benefit levels and prolonged benefit periods” (Hall 2003, 41). The struggle for a Third Way in German politics was certainly more difficult than in Britain, but nevertheless, both countries’ labor markets most certainly look more similar today than a decade ago.

## **V. The Celtic Tiger: (Over?)-Reliance on Community Employment**

Ireland is an exceptional case in many regards. First, as outlined above, the Irish economy is typically classified as a liberal market economy, and yet it has developed a cooperative governance style, based on open coordination. Second, both two main parties, including Fianna Fáil (FF) and Fine Gael (FG) are centrist, catch-all parties, and reliant on a coalitions with either the social democratic Labour Party or the right of center Progressive Democrats (PD). Third, the Irish electoral system (single transferable vote), often leads to intra-party competitions and populist electoral platforms. In such a system, party candidates are often elected not through the voter’s first preference but when ranked second or third. Consequentially, most candidates see the need to advocate centrist, locally attractive policies.

Based on these three particularities, it is hardly surprising that ideologically extreme strategies, including socialist or neoliberal agendas, are not particularly palatable for any Irish government in times of crisis. More moderate strategies had to be devised when unemployment started to rise during the 1970s and then exploded in the 1980s, with its peak in 1986 at 16.8 (OECD 2005, Annex Table 14). Some of these strategies

were supply-side measures, intended to improve the employability of the Irish, often low-skilled, workforce. In 1975, the Fine Gael-Labour government (1973-1977) initiated the creation of the Industrial Training Authority (AnCO), a state training body that provided basic training with work experience for young, unskilled workers (O'Connell/McGinnity 1997, 25). Other skill creating and employment promoting measures followed, including the Community Youth Training Programme, which offered basic skill training and work experience to young unskilled unemployed; the Premium Employment Programme, which included wage subsidies to employers in an attempt to encourage recruitment; a Temporary Grant Scheme for Youth Employment (later called Teamwork); an Employment Incentives Scheme; the introduction of the Youth Employment Agency (YEA), which was intended to promote job creation for the young unemployed and offer them (general) training and education; and the Vocational Training Opportunities Scheme (VTOS), offering long-term unemployed over the age of 21 to take up courses with a view to improving their employability. The Department for Trade, Enterprise and Employment (DETE) reviews these developments as follows. "By the 1980's, active labour market policies had taken centre stage in the State's response to mass unemployment. A large and diverse range of programmes was established during this period and the number of organisations with responsibility for implementing active labour market policies increased" (DETE 1998).

The potentially most significant, path-setting program, however, was the Social Employment Scheme (SES), introduced by Labour Minister Ruairi Quinn (Labour Party). Originally intended for 6,000 participants, the SES was designed in ways that would offer long-term unemployed a pathway back into the labor market through work experience

and a (re-) building of their confidence. Gerard Walker, a policy analyst of the National Economic and Social Forum (NESF), summarizes the design of the SES in the following way:

SES was aimed at persons over 25 years of age in receipt of an unemployment payment. An average of 20 hours work per week was provided on local projects for up to [a] one year period. There was flexibility in the work periods to suit the needs of the project. Participants also had the opportunity to undertake other part time work and were encouraged to utilise spare time to look for regular full time employment. Projects could be sponsored by community /voluntary organisations or Public Sector Bodies and involved “not for profit” activities which met identified community needs. Trade Union approval at the local level was required for a project to go ahead and all projects had to go to a National Monitoring Committee (which included trade union representatives) for final approval. This process which was to ensure that persons in regular employment were not displaced by SES work activity and was later brought forward into the Community Employment Programme (Walker 2004, 3).

The plethora of activation measures, however, did not stop the steady incline of unemployment. Consequently, in 1985, the National Economic and Social Council (NESC) published a report that strongly advocated a more active approach to the governance of the labor market, not only to reduce the high rates of unemployment, but also to create necessary skills in the Irish workforce. A follow-up White Paper on Manpower Policy issued by the government in 1986 incorporated much of the NESC recommendations and provided the foundation for the Labour Services Act of 1987. The Labour Services Act, which was to create a new organization for the unemployed and training, had been a reaction of the Irish government to the “lack of willingness of the employers to provide adequate vocational training” (Schweiger/Wickham 2005, 44). Consequentially, the newly elected minority FF government introduced the Foras Áiseanna Saothair (FÁS) on January 1, 1988. FÁS, Ireland’s National Training and Employment Authority, took over the functions of AnCO, the National Manpower Service, and the Youth Employment Agency, which all ceased to exist. Labour Minister Ahern set out a clear mission for FÁS.

Firstly, [...] wider calls for special intervention through training. [...] Secondly the scale of the unemployment problem and particularly the high levels of long term and youth unemployment and emigration must be the immediate focus. [...] There are two priority categories who require assistance: the early disadvantaged school leavers and the long term unemployed. Thirdly, [...] a commitment to a regional structure [that] will entail greater devolution of decision making to the regions (cited in Boyle 2003, 16f).

The new FF government, that had replaced the FG-Labour government, would also initiate the first national partnership arrangement between the government and the social partners, including the trade unions and employer associations. While the first partnership agreement, *The Programme for National Recovery*, was mainly concerned with wage moderation in an attempt to attract foreign investment, the second round of social partnership negotiations, concluded in January 1991 with the *Programme for Economic and Social Progress* (PESP), would lead to a new, “advanced” SES, a pilot program, entitled Community Employment Development Programme (CEDP). The main goal was to brake the perpetual cycle of long-term unemployment through local area partnership, including employers, ICTU and the voluntary and community sector (VCS), and a plethora of instruments targeted to improve skill levels (PESP 1991, 75ff). While the SES was maintained as a program, the CEDP would react to its criticisms.

Training modules for participants of up to 24 days duration per year were introduced. These comprised both training for project work and also training which participants themselves were interested in. The introduction of training was in response to criticism that the lack of participant development was limiting subsequent job placement. To overcome potential operational difficulties training modules were locally delivered

Funding was provided to Sponsors to enable them to employ a supervisor with responsibility for the running of the project and for identifying participants training needs. A one year development programme for Supervisors comprising residential and distance learning was introduced. It was designed to enable supervisors to plan and manage the training of participants in their projects.

Participants were also allowed to retain any secondary benefits they were in receipt of whilst unemployed i.e. Christmas bonus, fuel vouchers, medical cards etc. The loss of these secondary benefits had been cited by participants as being a major financial disincentive to participation (Walker 2004, 4).

The next general elections held in November 1992, were fought primarily on the issue of unemployment, which would make long-term unemployment the key political issue to be

tackled by the new government. In early 1993, when the new government finally met, Albert Reynolds (FF) became, once more, Taoiseach in a coalition with a confident Labour Party. During the electoral campaigns all main parties promised an increase in spending on employment schemes, but it was the Labour Party, which pledged to create a 50,000 place “community jobs programme” (Irish Times, November 13, 1992).

Ruairi Quinn would then be, once again, the Minister for Enterprise and Employment from January 21, 1993 through November 17, 1994. (From 1994 through 1997, Ruairi Quinn was the Minister for Finance in the Rainbow Coalition, between FG, Labour and the Democratic Left.) The Department of Finance’s National Development Plan of October 1993 included a proposal to expand some version of the SES to 30,000 (Irish Times, October 12, 1993). During the new social partnership agreement of January/February 1994, the Programme for Competitiveness and Work, the government committed itself “to introducing a new Community Employment (CE) venture that would enable the unemployed to undertake work of public or social value while it provided work experience and development training. In order to reduce any ‘disincentive’ to take up such opportunities the government agreed that secondary welfare benefits would be retained. The government was thus committed to providing 40,000 places on a voluntary basis by 1994” (Taylor 2004, 41). A pilot program with 1,000 participants was put forward by the Conference of Major Religious Superiors to test the proposals (Irish Times, January 27, 1994; Interview with Father Sean Healy, April 18).

The CE became possible, as the Taoiseach had perceived the pilot initiative CEDP as a success. Also Labour Minister Ruairi Quinn, founder of the SES, was very supportive of the CE and even suggested that this new labor market scheme might

eventually even exceed the number of 40,000 places (*Irish Times*, January 28, 1994). In addition to the training element, the CE significantly differs from the often criticized SES in the following aspects:<sup>11</sup>

- retention of secondary benefits by participants
- wider eligibility criteria for participants
- re-engagement of certain participants for a second year
- projects can have a longer duration
- higher levels of material grants
- provision of Supervisory and Sponsor training
- higher supervision grant payments
- linkage with Local Development Programmes
- support for special projects in Local Development Programmes (DETE 1998).

Put differently, the CE scheme's focus was on better quality, which was to be achieved through "the insertion of 'real' training modules in all placements [and] the need for a fairly intensive system of supervisors to oversee training and personal development" (Boyle 2004, 53).

In September 1994, a Task Force on Long Term Unemployment was announced, which was given the assignment to assess two NESF reports forthcoming in December 1994 and 1995. The group was headed by Julie O'Neill from the Tanaiste's office and included six representatives "from local groups, who [were] involved in community-based job placement services" (*Irish Times*, September 22, 1994). The NESF reports mainly called for improvements along three lines, including more and better training within the CE scheme, special programs for the most disadvantaged long term unemployed, and decentralization through Local Employment Services (LES). By 1996, the distribution of places within the CE scheme was changed on the basis of these reports and their assessment (Walker 2004, 5). "30,000 or 75 per cent of CE places would be

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<sup>11</sup> One of the main criticisms of the SES remained with the low progression rates. An average of only 18 percent of SES participants moved into regular employment after they had completed the program (<http://ireland.iol.ie/EMPLOYMENT/integra/3ce.html>, last accessed on March 31, 2006).

allocated to those over 21 and unemployed for at least 12 months [i.e. the Integration Option]. A further 10,000 CE places (25 per cent) would be reserved for those over 35 and unemployed for three years or more [i.e. the Job Option], and places would be provided on a pilot basis for those over 35 who had been unemployed for more than five years [i.e. Jobs Initiative]. Finally, a new scheme would be introduced and aimed at those who had been unemployed for six months and were likely to become long-term unemployed” (Taylor 2005, 41).

As a result of the introduction of the CE scheme, the number of participants in ALMP programs dramatically increased from 17,600 to 55,000 between 1992 and 1995 (O’Connell/McGinnity 1997, 27). In addition to the CE, the government also introduced employment subsidies, including the Back to Work Allowance Scheme (BTWA) scheme for the long-term unemployed over the age of 23 and the Pay Related Social Insurance (PRSI) Exemption Scheme. The PRSI Exemption Scheme offered subsidies to employers in an attempt to encourage recruitment. The BTWA, in turn, “allowed those returning to work to retain 75 per cent of their existing benefits for the first year, 50 per cent for the second and 25 per cent for the third and final year” (Taylor 2005, 65). Participation in BTWA made virtually any low-paid employment more attractive than remaining on unemployment benefits (Tansey 1998).<sup>12</sup> In October 1996, the Youth Progression Programme was introduced targeted at 18 and 19 year old unemployed. The program offers individual, intensive support plans to prevent young persons on life register from drifting into long term unemployment.

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<sup>12</sup> The BTWA peaked in 2000 with 39,000 participants, but subsequently the numbers reduced to below 25,000 (Walsh 2004, 17).

With a booming economy and a radical decline in (long-term) unemployment, the new center-right Fianna Fáil-Progressive Democrats government, elected in 1997, substantially and successively reduced the scale of the CE scheme (Walsh 2004, 9). However, the CE had become very popular in local communities, which increasingly rely on the provision of the CE's services, and with local TDs being lobbied to maintain the program, the most interesting development is the continued reliance on CE. After hefty battles within FF and stark resistance to significantly downgrade the program from the opposition parties and the social partners, the participation rate remained as high as 20,000.<sup>13</sup> However, the CE now focuses a new clientele, including single mothers, older people, and the disabled (Interview, Eric Conroy, April 24).

In September 1998, and influenced by the European Employment Strategy, the government introduced a Preventative Strategy with more stringent tests in regards to active job searching. As a result, "all those under 25 who have been unemployed for six months are called for interview to assess their suitability for an existing job vacancy or training. This approach was subsequently extended to other age groups" (Walsh 2004, 15).

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<sup>13</sup> Father Sean Healy explained that the 20,000 participants is a "realistic" number as more places would be hard to fill in times of almost full employment. However, he and also INOU are very concerned about the gradual phasing out of the Jobs Initiative, which targets older, very long-term unemployed who are particularly vulnerable and need special assistance (Interviews with Sean Healy and Eric Conroy).

**Table 1: Schedule of “Activation Measures”**

Age Group	Live Register threshold for activation	Date
18-19 year olds (pilot)	Six months	Oct 1996
Under 25 years	Six months	Sept 1998
25-34 years	Twelve months	May 1999
	Nine months	July 2000
35-54 years	Twelve months	Feb 2000
	Nine months	July 2000

Source: Walsh 2004, 28

This “activation effort” has proven to be very successful, even without a compulsory element. Other structural changes were introduced in order to “make work pay”, both for low wage workers and women. By 2002, the marginal income tax rate, including social security contributions, had fallen to 46 percent, from 68.5 in 1984 (Walsh 2004, 17).

“Many low-paid workers were completely removed from the income net by progressively raising the tax threshold [...]. At the same time, the introduction of ‘individualization’ in income tax code increased the returns to a second income earner in the household.

Certain benefits such as rent supplements are no longer withdrawn on taking up employment and child benefits have been increased and uncoupled from unemployment benefits” (Walsh 2004, 17).

Against the resistance of the employers, the Irish government introduced a minimum wage level at about 55 percent of average industrial earnings in 2000 (Walsh 2004, 18). However, despite the fears of many economists, the negative effects on employment levels seem to have been small (Nolan et al. 2002). In addition to the Child

Benefit, the government introduced the Early Childcare Supplement (ECS) in 2006. The ECS is not, however, an activation policy, as the benefit is paid universally, “regardless of parents’ labour force status and regardless of whether they are purchasing childcare services or not” (OECD 2006, 15). However, the budget’s inclusion of the creation of 50,000 extra childcare places by 2010 can be seen as an explicit attempt to improve the reconciliation of work and family and thus as an opportunity for women to take up employment.

## **VI. Conclusions:**

What have we learned from these case studies? From comparing Germany and the UK, we should take away at least two findings, one theoretical and one practical. First, national political economies do matter. However, rather than producing divergence, as suggested by the institutionally informed literature, this paper has demonstrated that political parties in these two “most different” cases have attempted similar strategies. The Third Way ideology of Premier Blair and Chancellor Schröder embraced a “modern” interpretation of left policies, based on close and pragmatic relations with business, active labor market policies intended to create or find a job for those that want one, an overhaul of the welfare state, and embracing global markets. As such, political parties have turned out to be main conduits for “path-breaking” institutional changes. Yet, institutional legacies and political realities significantly shaped the way in which these parties’ ideas were translated into action. As such, this study has highlighted the interaction effects between institutions, which create bargaining contexts and designate authority, and political actors, who generate policy outputs.

Germany's failure to produce a comprehensive reform package can be attributed to the government's "restricted capacity for active economic steering" (Manow/Seils 2000, 265). In stark contrast to Britain, Germany's steering capacity is limited as the government shares power with (hostile) social partners, powerful Länder interests (in the hands of the main opposition party), and local authorities, all of whom resisting change. Moreover, German voters are more hesitant than their British counterparts to embrace a policy mix that emphasis social obligations and compulsory activation as they are used to "status-securing social insurance entitlements" (Streeck/Trampusch 2005, 24).

Second, these two cases illustrate that activation policy needs to be embedded in policies and public dialogues that stress their impact on societal goods such as "making work pay", "lifelong learning" and the reconciliation of work and family. While Tony Blair became the first Labor Premier to be reelected for a third consecutive term, Schröder's Third Way was too much oriented toward the market and too little toward welfare recalibration for his own good. A more comprehensive and more socially oriented mix might have convinced the "traditionalists" within the Social Democratic Party and unions to support a more individualist approach toward the labor market. Certainly, costs needed to be contained in Germany. But stressing social obligations without paying attention to how social rights will be reassured became a self-defeating strategy for the German "modernizers" in the SPD.

In regards to the Irish case, one can certainly conclude that the Irish did not follow entirely a LME path. Although Ireland remained very concerned about

retaining its flexible labor market, and factually decreased the political clout of the trade unions through the introduction of the Industrial Relations Act in 1990, Ireland did not embrace punitive labor market measures to “force” the unemployed into work. The reasons for this could be twofold. On the one hand side, the economic environment in the 1980s with huge unemployment rates did not leave much room for a responsibilities-based approach due to the lack of available jobs. In the late-1990s then, a decade of rapid job growth turned this story on its head, even leaving Ireland with labor supply shortages in many areas. On the other hand, while there might have been a “window of opportunity” during the mid-1990s to introduce more punitive measures (Interview, O’Brien, April 25), the left of center government, especially the Labour Party, was against such an approach. Yet again, with the center-right FF-PD government coming into power in 1997, the ideological basis for a redefinition of responsibilities would have been welcomed by the PD. However, the implemented *Preventative Strategy* proved to be very successful and deemed harsher instruments unnecessary.

In sum, the Irish developments partially resemble those in the UK in regards to attempts to “make work pay”, the introduction of more personalized activation plans, and attempts to increase (female) participation rates through more family oriented policies. Yet, Ireland significantly differed from both the UK and Germany through the introduction, expansion, and retention of the Community Employment scheme. While the political left-right spectrum in Ireland is very narrow, the rhetoric and value placed on the CE (which is often deemed ineffective as it does not increase the chances of the participants to

progress in the private labor market, O’Connell, Interview, April 27), certainly shows “partisan flavors” (O’Donnell, Interview, April 18), and the influence of the Labour Party at crucial, historical junctures.

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### **VIII. Appendix:**

The following interviews were conducted in the spring of 2006: Please note that the interviews reflect the interviewees’ personal opinion and do not necessarily represent the official line of the respective institutions.

1. April 12: Paula Carey, ICTU
2. April 12: John Maher, DETE
3. April 13: Professor Niamh Hardiman, UCD School of Politics & International Relations
4. April 18: Dr. Rory O’Donnell, NESC
5. April 19: Dr. Father Sean Healy, CORI Justice Commission
6. April 24: Eric Conroy, INOU
7. April 25: Fergal O’Brien, IBEC, Senior Economist
8. April 26: Dr. Christian Schweiger, Trinity College, Employment Research Centre

9. April 27: Professor Niamh Hardiman, UCD School of Politics & International Relations
10. April 27: Dr. Philip O'Connell, ESRI
11. April 28: Gerard Walker, NESF
12. May 2: Professor Bob Hancké, LSE
13. May 3: Professor Stephen Nickell, Bank of England
14. May 3: Richard Exell, TUC
15. May 12: Kate McHugh, DWP
16. May 15: Ruairi Quinn, (Irish) Labour Party