Scandinavian Activation Strategies in the 1990s: Recasting Social Citizenship and the Scandinavian Welfare Model

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Introduction

How is it possible to maintain social protection for weaker groups when the demand for services of middle – and high-income groups increases in tandem with their earnings without hampering the general economic growth? This is the main challenge Scandinavian welfare states have faced during the last three decades. Increased internationalization and technological advances, especially in information technology, have given some population groups greater income opportunities, whilst other groups find it still more difficult to keep track. Scandinavian welfare state reforms have tried to address this underlying societal pressure towards greater inequality. New activation strategies have been at the heart of these reforms in the preceding twelve years and they have changed the blueprint of the Scandinavian welfare model. Numerous changes to individual policy programmes and their interconnectedness have changed the content of social citizenship towards a greater emphasis on rights to participate and on obligations to contribute. Less emphasis is now given to the de-commodification potential of the welfare state and more to the (re)commodification of labour.

This is reflected in a growing body of literature trying to make sense of activation and current welfare state reforms, starting with Neil Gilbert and the OECD Job Study (see, respectively, Gilbert, 1992; OECD, 1994). Today, new institutional political scientists often argue that Scandinavian welfare reforms are primarily driven by cost-containment efforts resulting in incremental adjustments towards a leaner and meaner welfare state (e.g. Pierson, 2001). More discourse-oriented scholars tend to see reforms as masterminded by clever elites and leading to a withdrawal of social rights (e.g. Cox, 1998). Whereas the former may be said to overemphasize the role of structural forces and policy inertia, the latter similarly overemphasize the role of agency and the frailty of policy programmes. In fact, the transformation of the Scandinavian welfare model implies a change of social citizenship and its political economy that is embedded in the more activist and ambitious direction of recent activation strategies. In other words, the transformation

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of the Scandinavian model is not simply a question of more or less of the same, but rather changing its very objectives and content. This transformation, as will be shown, was not brought forward by an economic imperative like “permanent austerity”, nor as a result of small elites. Indeed, “change occurred without challenge” and the transformation was characterized by many “small steps leading to big change” (see, respectively, Goul Andersen, 2001; Kvist and Ploug, 2003). Economic affluence rather than (a perception of) economic crisis allowed many and, particularly, the innovative elements of reforms to materialize.

However, there are important differences in the content and timing of national Scandinavian activation strategies. So far, these have received only scant attention as most studies only investigate the development in one country (e.g. Torfing, 1999; Madsen, 1999). Even perhaps the most ambitious study of recent welfare reforms in Scandinavia only concludes that these countries remain distinct compared to non-Scandinavian countries (Kautto et al., 1999; Kautto et al., 2001). In other words, although this and other studies acknowledge that reforms do mean change, they do not offer us an understanding of exactly how the Scandinavian welfare model is changing. This is mainly due to methodological reasons. One country’s case studies cannot tell us much about the general development of all the countries’ approach to a certain welfare state ideal type. And in cross-national studies, rough proxies for activation strategies, such as expenditures for passive and active measures expenditure, are often used. Expenditure data is ill-suited to inform us about the changing character of welfare states and social citizenship; it does not provide us with insight into the welfare efforts of governments, as aggregate expenditure levels are as much a function of economic and demographic developments as of policy priorities, and it does not tell us anything about policy intentions as few strive for more spending per se (Esping-Andersen, 1990).

The lack of detailed studies on policy changes is particularly startling when taking into consideration the immense cost in human and economic terms, as well as the diverse success of different activation strategies. Sweden has historically been heralded as the exponent of the Scandinavian welfare model, mainly because of the apparent success of her labour market policies in fighting unemployment and securing a high degree of equality in the labour market whilst maintaining a healthy economy. But the 1990s put an end to that.

In economic terms, sluggish economic growth in Sweden during the 1980s meant that at the start of the 1990s Denmark had already surpassed Sweden when measuring economic development by GDP per capita, a role reversal for the situation a decade earlier. Figure 1 also shows how the Finns had a bigger economic recession than the Swedes in the first half of the 1990s, but also a faster and bigger recovery.
This story is also partly reflected in labour market performance. Sweden used to be second to none with regard to employment. Figure 1 shows the Swedish activity rate at 80 per cent in 1990 and at 71.7 per cent in 2001, slightly up from the low of 68.1 in 1997 (Eurostat, 2002). In contrast, the Danish activity rate started at 74.8 and reached its low at 72.1 in 1993, but increased to 76.2 in 2001. The Finnish activity rate started at 74.1 in 1990, but it was more adversely affected by the economic crisis than Sweden, resulting in an activity rate of 60.4 per cent in 1994, which increased to 68.1 per cent in 2001.

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**Figure 1: Activity rates and GDP per head in the Scandinavian countries and the 15 EU member states, 1990-2001**

Note: Activity rates are expressed by the employment-population rate in percentages and GDP per head in price levels and PPPs of 1995 in US dollars.

Nevertheless, the long tradition of active labour market policies has made Sweden nearly synonymous with the Scandinavian approach to activation. Originally developed in the 1940s to 1960s by Swedish trade union economists, Gösta Rehn and Rudolph Meidner, its apparent ability to keep unemployment low until the 1990s made it easier to defend nationally and a model for inspiration abroad (see also Carroll, 1999). However, Sweden’s neighbouring countries were perhaps not so impressed; at at rate, they did not adopt Swedish-style activation policies. Thus, Denmark traditionally had very generous benefits, but not a well-developed active labour market policy. Because of the country’s large oil reserves, Norwegian policies were neither distinct in their generosity nor in their labour market policies. And Finland was the Scandinavian “laggard” in that her policies were introduced later and in more rudimentary forms than in the other countries. This was largely the situation at the beginning of the 1990s (see also Furåker, Johansson and Lind, 1990). Diverse activation strategies were prevalent in otherwise similar Scandinavian countries.

This is no longer the case. Developments in the 1990s have dramatically changed the picture. This is the main conclusion of this paper that is a first attempt to start filling the gap in the literature on comparative studies on policy changes in recent Scandinavian reforms of activation strategies. As demonstrated in the analysis below, Denmark and Finland have overtaken Sweden in being the front-runners with regard to activation strategies. And this is one of the main factors that helps explain the better economic and labour market performance of Denmark and Finland than Sweden described above. By comparing Scandinavian activation strategies since 1990 it shows how the Danish have been the most innovative and successful, and therefore have inspired reform efforts in the other Scandinavian countries. The story has affinities with the fairy-tale, The Ugly Duckling, by Hans Christian Andersen, as Denmark was traditionally regarded as the laggard and Sweden as the avant-garde in Scandinavian activation strategies. Today, the tables have been turned. In 1994, Denmark started to implement the most wide-ranging policy reforms that were adopted in an almost identical form by Finland from 1996 onwards. Only in 2001, however, did Sweden follow suit.

The paper proceeds as follows. The next section sets out the method and material used. To set up a theoretical framework and identify gaps in our current knowledge of recent Scandinavian activation strategies, the following two sections review the key results of previous studies. As policy changes in unemployment insurance and active labour market policies are indicative of the recast Scandinavian activation strategies, these two areas are analysed in more detail in the subsequent two sections. Finally, we discuss the limitations of the study and conclude with its implications for theory and policy.
Method and material

As this study explores policy changes in Scandinavian activation strategies, the analysis concerns changes in unemployment insurance and active labour market policy. To identify intra-Scandinavian diversity and differences in timing of reforms, the development of different types of policy programmes is compared across the Scandinavian countries from 1990 onwards. With regard to social rights, these comparisons explore each individual scheme’s scope of application, allocation criteria and benefit formulae. To shed light on claimants’ obligations, policy comparisons include occupational, geographical and wage mobility requirements and sanctions for non-fulfilment. Major developments in active labour market policies are analysed on the basis of policy trends and the number of participants in activation offers.

The analysis of policy change is based on legal material and interviews with key actors in activation strategies, including representatives from the social partners and civil servants at the local and central level. The generosity of unemployment insurance benefits is accessed using tax/benefit calculations made at the Danish National Institute of Social Research since the early 1990s on model cases. In general, attention has been paid to using or constructing material that is comparable across time and place, but due to the heterogeneity of the active labour market policy programmes as well as of their target groups, comparability is particularly difficult in this part of the analysis. The decentralization of such policies alone makes it difficult. With steadfast generalizations, the degree of local and regional policy differences is just another measure of decentralization, as was once argued by a Secretary of State for Social Affairs in Denmark.

Political economy and social citizenship in activation strategies

The nexus between the welfare state and the labour market is a classic issue in political economy. Liberals, for example, present this as the big trade-off between equality and efficiency, whereas socialists argue that increased equality may promote efficiency. Activation strategies are at the crux of this debate as they symbolize welfare state efforts to regulate the labour market.

Theoretically, unemployment insurance and active labour market policies, two of the main elements in activation strategies, comprise elements of both de-commodification and re-commodification (Polanyi, 1944; Esping-Andersen, 1999). De-commodification denotes the degree of freedom from the cash nexus that citizens are given by social security benefits. Income
from unemployment insurance and social assistance, in particular, but also from benefits in case of age, children, sickness and disability, enable workers not to sell their labour immediately they are without a job.

Re-commodification, on the other hand, can be defined as the degree to which policies enable citizens to enter and re-enter the labour market when jobless or to retain their jobs if they are on the margins of the labour market. In particular, active labour market policies aim to boost re-commodification.

Typically ideal, the Scandinavian welfare state is characterized as high on both de-commodification and re-commodification (see Kvist, 2002). Relatively easily accessible and generous benefits make de-commodification high and comprehensive activation strategies, together with other welfare policies, work toward high re-commodification. As we shall see, however, recent Scandinavian activation reforms have meant a shifting balance between the two towards a greater emphasis on re-commodification and less de-commodification.

Another theoretical way of making sense of activation reform is by using social citizenship as an analytical construct to understand different welfare state models. Pioneered by T. H. Marshall (1950), citizenship is “a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is bestowed”. But, as pointed out by Jytte Klausen (1995), the nature of social citizenship differs from civil and political rights in that it involves redistribution. Bestowing social rights on some groups means imposing less rights on others, and greater obligations for others who have to foot the bill. What’s more, Marshall’s focus on economic compensation in social rights may seem too narrow when looking at activation strategies. As underlined most recently by Thomas Janoski (1998), the right to participation must be added as a new dimension in the concept of social citizenship. He also stresses the linkages between rights and obligations, an aspect Marshall did not elaborate on. Janoski (1998) sets out different possible linkages between rights and obligations that give a more accurate picture of social citizenship than simply understanding obligations as opposed to rights (see Standing, 1990).

These points about the redistributive nature of social citizenship, the right to participation and the bond between social rights and social obligations are the key to fully grasping the evolving nature of social citizenship. Redistributive conflicts are at the heart of the politics behind activation reforms. And, if anything, it is precisely the right to participation and the obligations associated with social rights that have been renegotiated in the remoulded activation strategies. The right to participate is thus part and parcel of the ideal of Scandinavian activation strategy.

Social obligations are another part of social citizenship that, in practical terms, are operationalized by requirements for social security claimants on such aspects as geographical, wage and occupational mobility. Obligations
are enforced by, most notably, negative sanctions when these requirements are not met. Reduction of benefits for shorter or longer periods or even withdrawal of benefits are common sanctions for claimants that do not accept work or activation offers.

In the Scandinavian welfare model, obligations are important for at least two reasons. First, imposing stricter obligations on social security claimants is widely seen by economists as a way of policing moral hazard. That is a method that reduces work disincentives by making it less feasible to opt for leisure and social security benefits instead of work. Instilling such motivational effects is a key element of activation strategies. Both national and international studies, nevertheless, show that the Scandinavian unemployed are, by and large, satisfied with participating in activation offers (e.g. Langager, 1997) and that they are generally more happy with their lives than other European unemployed people (see, for example Gallie and Paugam, 2000).

Secondly, strict obligations serve to maintain the legitimacy of relatively generous benefits for low-income groups. If privileged groups in society felt that their contribution to the financing of the welfare system was being misused by large numbers of work-shy people, they might be less inclined to support the system. However, there are no signs that this is the case. Studies show persistent large-scale support for the Scandinavian welfare model in general and also for the unemployed (e.g. Goul Andersen et al., 1999). Most Scandinavians are well aware that benefits are not paid out without strings attached. There is no “free lunch” in unemployment insurance and increasingly not for claimants of social assistance, sickness benefits and disability pensions. They are all experiencing still greater obligations to contribute to an extent that is possible for them.

### The Scandinavian activation strategy

Perhaps the most salient characteristic of the Scandinavian activation strategy is the emphasis on giving individuals command over their own capacities as far as possible. The idea is that not only do individuals increase their own human resources, but that they, in turn, will contribute to the resources of the society through employment.

Two important aspects distinguish the activation strategy of the Scandinavian countries from their European counterparts: first, by the role the state should adopt and, second, in the understanding of activation. The state is seen as having an extensive role in getting the broadest possible segments of the population into work or other activities, and an intensive role in that all policies are basically seen as contributing to this goal, often intervening in the lives and autonomy of citizens. Hence, activation in this light includes macroeconomic policies as well as education, social and labour market
policies, just to mention a few. Social services for children and the elderly are the key to understanding the activation potential of the Scandinavian countries (e.g., Esping-Andersen, 2001; Kvist, 2002). These schemes allow traditional care-givers to combine work and family life.

Activation is broadly understood to mean participation in some sort of economic activity. Obviously, participation in ordinary paid work is the most ambitious goal. But many policy measures aim to make the labour market inclusive for persons who are otherwise disadvantaged because of health, age, gender, handicap and ethnicity, or to promote employment in regional areas in decay and declining sectors of the industry. The Scandinavian activation strategy thus not only relates to economic factors like increasing ordinary employment per se, but also to broader goals such as promoting social cohesion and providing people with a meaning of life through participation in daily activities. The latter is particularly the case for disadvantaged groups in the population. Whereas activation of the insured unemployed generally aims to enhance their employment prospects, the activation of other groups, for example those on social assistance and disability pensions, is more concerned with giving them a better quality of life. This should be kept in mind when assessing the different policy measures used for the heterogeneous group of non-employed and when evaluating their effects on employment and other dimensions of well-being.

Having noted these overall features of the Scandinavian activation strategy, we shall, in this paper, apply a more traditional view on activation as comprising benefits for the unemployed and active labour market policies. Within this perspective, the Scandinavian strategy has affinities with the approach promoted in the 1980s and early 1990s by leading labour market economists like Richard Layard (see Layard et al., 1991). He and his colleagues advanced a strategy based on an active labour market policy and an unemployment insurance scheme with fixed benefit duration combined with job and training offers (as well as central wage bargaining). Together with many other scholars, Layard saw Sweden as epitomizing this approach to combat unemployment. However, as we shall demonstrate, none of the Scandinavian countries, including Sweden, had such an activation strategy at the onset of the 1990s. It only materialized step by step over the following twelve years with Denmark taking the lead, followed by Finland, and, lastly, by Sweden. Hence, the Danish labour market reform from 1994 was accompanied by a number of revisions markedly reinforcing it (see, Madsen, 1999; Kvist, 2002). The similar Finnish employment reform of 1996 was also followed by a so-called “Second Wave” in 1998, which was given new impetus in 2001. Sweden (and Norway) were thus alone in not having made any reforms in the 1990s, but merely relied on old instruments like tougher eligibility criteria and some tinkering up and down on benefit levels. Not before 2001 did the Swedes introduce fundamental changes. Therefore, it is not surprising that, at the turn of the century, it seemed as though “Denmark and Sweden were going different ways” (Björklund, 2000).
To fully comprehend the Scandinavian strategy and its transformation, the point of view of labour market economists may fruitfully be complemented by the perspective of political economy and social citizenship, as set out above. In the following, we therefore analyse changes in the national Scandinavian activation strategies from this perspective.

Reforming unemployment insurance

Unemployment insurance is commonly perceived as the passive part of policies for the unemployed in contrast to so-called active labour market policies (e.g. OECD, 1994). As convincingly argued by Adrian Sinfield (1997), this distinction between active and passive policies is a misleading dichotomy. Indeed, the Scandinavian activation reforms have involved changes in both active labour market policies and unemployment insurance as well as in the interconnections between the two.

Denmark, Finland and Sweden run a Ghent-based unemployment insurance system, which means that unemployment funds are affiliated to the trade unions. Membership of a trade union is not a prerequisite for being insured, but de facto this is typically the case. The high rate of trade unionization is partly explained by this fact. Unlike other European countries, membership of an unemployment insurance is not compulsory, but voluntary. Unemployment insurance is partly financed via membership fees and partly by state subsidies. In all three countries, the state bears the marginal risk of financing, meaning that an increase in unemployment does not translate automatically into an increase of membership fees. In the remainder of this section we analyse changes to unemployment insurance with regard to claimant’s rights, i.e. access, generosity and obligations.

Access to unemployment insurance: stopping the benefit carousel

Eligibility to unemployment insurance is determined by demands of previous work and membership of an unemployment insurance fund. All the Scandinavian countries made access to unemployment insurance more difficult in the 1990s. In Finland, the minimum contribution period for unemployment insurance was increased from six to ten months in 1997. In Denmark and Sweden the membership requirement remained at one year. Work demands were low in 1990, but became stricter. In 1994, Sweden increased its relative lax work demand from four months to five months of

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1 In contrast, Norwegian unemployment insurance is part of the National Insurance system and the administration rests with local insurance offices (for more, see Ploug and Kvist, 1994).
work within a year. From having perhaps the most relaxed work demand among European welfare states, things changed in Denmark in 1997, when 52 weeks of work instead of 26 weeks within three years became a requirement. The same year, Finland increased its work demand from 26 weeks to 49 weeks of work within two years.

Moreover, participation in activation offers earned participants rights to renewal of benefit periods at the beginning of the decade. This situation is often referred to as a benefit carousel as the unemployed shift between benefit periods and activation periods. In all three countries, this situation was criticized, in particular by economists and the employers’ organizations, as leading to work disincentives and a wrong focus of active labour market policies in re-qualifying the unemployed for new benefit periods rather than in helping them into work. Defenders of this system argued in turn that maintaining eligibility for insurance preserved the social status of the working classes, and that widespread use of activation prevented depletion of human capital among the long-term unemployed. In any case, there is no doubt that Denmark in the 1980s and Sweden during the first half of the 1990s to some extent used activation offers to “store” and “recycle” the unemployed, as is described in the following section on active labour market policies.

Finland was the first to stop the benefit carousel in 1992. Participation in active labour market programmes no longer counted towards qualifying for a new benefit period. The same became the case in Denmark in 1994, and in 2001 in Sweden. Today, only ordinary (non-subsidized) employment counts towards establishing eligibility for unemployment insurance. Combined with tougher work demands, this means that access to unemployment insurance has become much tougher in all three countries (see also Clasen et al., 2001). From a Scandinavian perspective, stopping the benefit carousel constituted a remarkable policy shift.

The unemployed who have exhausted their unemployment benefit period, or failed to become eligible in the first place, have somewhat different options in the three countries. In Finland, there is a basic unemployment allowance for persons who meet the work demand, but not the membership requirement, and a social assistance scheme applies to the unemployed not meeting the work demand. A similar arrangement exists in Sweden. The non-insured unemployed in Denmark rely on social assistance.

**Generosity: incremental cuts in benefit levels and shorter benefit periods**

Benefit generosity has decreased in all Scandinavian countries, except Norway. Sweden has reduced its generosity the most. Table 1 shows how the net replacement rate of unemployment insurance for a single person with earnings level with an average production worker fell from 88.1 per cent to
69.5 per cent in 1999, as Sweden reduced its earnings-replacement rate gradually from 90 to 75 per cent, before raising it to its current 80 per cent. Finnish cuts were less visible through the lack of indexation and by reducing the earnings base for calculating the benefit. Hence, the net replacement rate fell from 64.0 per cent in 1994 to 58.6 per cent in 1999. Although no changes have been made to the Danish unemployment benefit itself, changes made in the tax system made benefit generosity fall gradually.

Table 1: Net replacement rates during unemployment for a single person with earnings level with an average production worker, 1991-1999

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<td>64.0</td>
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<tr>
<td>Sweden</td>
<td>88.1</td>
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<td>80.1</td>
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Note: The net replacement rate expresses the ratio of unemployment insurance benefits to previous earnings at the level of an average production worker after tax for a single person. The Norwegian net replacement rate remained stable throughout the period at around 64 per cent.

As can be seen from Table 1, Sweden today offers the most generous unemployment benefits at the level of average production workers. However, differences in benefit formulae mean that Denmark is the most generous country for low-income groups, and Finland the most generous for high-income groups. In 2001, Sweden made it possible for the jobless to receive a higher allowance during the first 100 days of unemployment.

The length of benefit periods is another aspect of benefit generosity. Until the 1994 labour market reform, Denmark had a maximum benefit period of two and a half years, but as participation in activation offers re-qualified persons for a new benefit period, the benefit period was de facto infinite (see also above). With the 1994 reform, the maximum benefit period became fixed at seven years, including time spent in activation, and this period has gradually been shortened to its present four years. In 1994, the benefit period was also divided into two. The first period, called the contact period, lasted four years, during which the unemployed person was meant to search for work and, if he or she wanted, could participate in activation. However, during the second period, the activation period, the unemployed person both had the right and the obligation to participate in activation offers for the majority of the time. During the second half of the 1990s, the activation period was put forward in order to get participants into activation still earlier. Certain groups, i.e. young people and those at risk of becoming the long-term unemployed, were, however, offered activation schemes much earlier than the beginning of the activation period indicated. In 2002, the distinction between the two periods was abolished and today all the unemployed are therefore required to participate in activation at any time during their spell of unemployment.
During the 1990s, the maximum benefit period in Sweden was 300 days, but for the unemployed aged 55 and over it was 450 days. As in Denmark, it was possible to fulfil the work requirement through an activation offer. The unemployed in Sweden even had the formal right to an activation offer lasting long enough to re-qualify them for a new benefit period. Both the favourable treatment of the elderly and the practice of letting activation count as work were changed in 2001. The benefit period became 300 days for everyone, irrespective of age, and a claimant’s participation in activation no longer counts towards qualifying for a new benefit period. In certain instances, the benefit period can be extended by an additional 300 days, without the work requirement being fulfilled.

No changes have been made to the general maximum benefit period of 500 days in Finland. Special rules apply to the elderly insured unemployed who can get benefits extended until they reach 60 years of age. This possibility applied to people aged 55 and over until 1997, when the age limit was raised to 57. But during the whole period, the insured unemployed over 60 could receive the so-called unemployment pension. Finland, however, also made participation in activation count towards a new benefit period. As described above, this was suspended in 1992.

Claimants’ obligations: stronger mobility requirements and tougher sanctions

Unemployment claimants’ obligations span a wide spectrum. In all countries, the unemployed must fulfil the so-called ILO criteria to be willing, capable and searching for work. But there are cross-national differences as to how these obligations are translated into laws and administrative practice. Willingness to work is often stipulated in terms of occupational, geographical and wage mobility requirements that may vary between countries, regions and branches of industry, and over time. Authorities often test willingness to work by stipulating that unemployment claimants must accept work and activation offers. Work capability may be checked by doctors. Search obligations are sometimes tested by requiring unemployment claimants to document job-seeking activity, for example by showing that they have made job applications at interviews with case-workers. If unemployment claimants do not meet their obligations, they are typically subjected to some sort of negative sanctioning. This may be in the form of having their unemployment benefits withdrawn temporarily or permanently. Vice versa, if unemployment claimants fulfil their obligations, they may be met with positive sanctioning, e.g. benefit increase or extension of benefit period. In short, social rights are intrinsically linked to obligations that are stipulated in legal texts and enforced through positive and, more often, negative sanctions.
Although there are intra-Scandinavian differences to such obligations and sanctions, all three countries have made obligations stronger and sanctions tougher since 1990. Indeed, Danish claimants’ obligations have gone from being fairly weak in 1990 to becoming very strong today. Until 1994, claimants refusing to accept job and activation offers were subjected to a one- or three-week sanction period for first and second refusal, respectively, and possible exclusion for subsequent refusals. With the labour market reform of 1994 and its subsequent modifications, activation schemes have increasingly been offered to test claimants’ willingness to work. At the same time, refusing an activation offer in the activation period (see above) meant an exclusion from benefits. Initially, the activation period started after four years of unemployment, but has gradually been put forward to start after one year in 2000, and today, in principle, from the onset of unemployment, as the distinction between contact and activation period has been dismantled. Since 1994, claimants have also been excluded from benefits if they refuse their second job or activation offer, independent of the timing in their spell of unemployment. Finally, from 1994 onwards, there have also been gradual increases on mobility requirements, especially concerning occupational and geographical mobility.

Finland had relatively weak obligations during the 1990s, as claimants refusing job and activation offers were subject to a six-week sanction period, independent of the number of refusals. In the light of the improved economy in the second half of the 1990s, obligations became stricter in 1998. A two-month sanction period was imposed for claimants refusing job offers, and authorities had the possibility of withdrawing benefit permanently. Refusing activation offers was penalized by a sanction period varying from zero to two months. At the second refusal and subsequent refusals of both job and activation offers, a fixed two-month period was applied, with the possibility of permanent exclusion, or until the person in question had been in a job or occupational education for eight weeks. Whereas temporary sanctions were frequently applied, the use of permanent benefit withdrawal was very rare. However, since 2001, the unemployed have lost their benefits for two months if they have participated in the labour market, including activation offers, for less than six weeks during the previous six months without an acceptable reason, or if they have refused suitable employment or training. And if a person repeatedly refuses work or activation without an acceptable reason, entitlement is suspended until the person has had another three months of employment or training. Mobility requirements have steadily been increased, backed up, in part, by a variety of special mobility allowances to help cover the costs involved in travelling between home and work, resettlement and possible new education. In short, Finland today has much tougher requirements and sanctions than a dozen years ago.

Until 2001, Sweden retained the practice of letting participation in activation count as ordinary work towards qualifying for new unemployment
benefit periods. Therefore, Swedish employment authorities partly designed their activities throughout the 1990s to avoid large numbers of unemployment insurance claimants falling out of the system. The existence of fairly weak obligations to accept job and activation offers, from 1990 to 1996, should be judged against this background. Claimants lost their benefit for one to four weeks (five to twenty days of compensation), depending on the length of the job and activation offers made, with the possibility of exclusion for repeated refusals, until the person had accepted work for four weeks. Rules were made stricter in 1996 when sanction periods were tripled or more. Since then, sanction periods have lasted four weeks for offers lasting a maximum of one week, eight weeks for offers that last up to two weeks, and twelve weeks for offers lasting over two weeks, still with the possibility of exclusion until the person has had work for four weeks. Already strong requirements of occupational and geographical mobility were further strengthened in 2001 so that the unemployed may now only limit their job search in the first 100 days of unemployment. Afterwards, the employment service may offer any jobs considered suitable for the unemployed. As a result of this and the tougher sanctioning rules, Sweden today has fairly strong obligations for claimants.

Norway made no changes to the length of sanction periods during the 1990s. The first refusal of a job or activation offer results in a sanction period of eight weeks, a second refusal in one of twelve weeks, and subsequent refusals in twenty-six weeks. Norway thus has fairly strong obligations.

The general reasoning in Scandinavia behind stricter rules governing obligations and their implementation is that activation helps the unemployed get back into work, the so-called qualification effects, and deters people not wanting to work from drawing benefits (the so-called motivational effects). Whereas the qualification effects differ tremendously across policy instruments and population groups, there is no doubt that the motivational effects are of vital importance (for more, see section below on “Reforming active labour market policies”).

Seen together, the various reforms of the Scandinavian unemployment insurance schemes have meant that the social citizenship of the unemployed has been transformed. Compared to the situation thirteen years ago, it is more difficult today to access benefits, especially new benefit periods, leading to de facto shorter benefit periods. Benefit levels have been reduced somewhat, but to a lesser extent for low-income groups, and claimants’ obligations have been dramatically strengthened. This is particularly the case for young people and for those at risk of being excluded from the labour market. And, in Denmark and Finland, the elderly segments of the labour force have been subject to the least change, as they, more than any other group, have been less targeted for activation, have had better opportunities to prolong benefit periods and to enter other social security schemes.

Whether the stronger link between benefits and activation offers amounts to a transformation of rights to economic compensation into rights to economic
Reforming active labour market policies

Whereas policy changes in unemployment insurance forms one important part of the revised Scandinavian activation strategies, changing active labour market policies is another key element. Most importantly, unemployment insurance and active labour market policies are intrinsically bound together by unemployed claimants’ rights and obligations to activation offers, as described above. It goes without saying that the effects on employment and other welfare dimensions of this combination vary with the economic cycle, the target group for activation and the actual content of the different active labour market policy programmes.

Roughly speaking, active labour market policies consist of programmes of job search assistance, job training and education, and creation of (temporary) jobs. Below, we shall set out in more detail the development in each type of programme, but, before, we may note some similarities across countries. Active labour market policies are financed via general taxation (although, in Denmark, formally out of a labour market contribution). The insured unemployed receive their unemployment benefit whilst searching for jobs, and, most typically receive a benefit of the same amount when they participate in job training. In some instances, there are possibilities of topping up benefits for persons in job training, mostly to cover associated costs, such as for transport. Persons in created (temporary) jobs sometimes receive a remuneration equal to their unemployment benefit, but more commonly the remuneration is somewhat higher, for example on the same level as the minimum wage agreed by collective agreement within the specific branch.

Job search assistance: introducing individual action plans

Job search assistance consists of employment agencies’ policies that seek to match the unemployed with job vacancies and to intensify and qualify the job search. To be eligible for unemployment insurance, people are required by all the Scandinavian countries to be registered as unemployed. Traditionally, public employment agencies have been responsible for job search assistance, but during the 1990s, private agencies were allowed to provide this service to some extent in Denmark and Finland.
The most significant change in this area of active labour market policies, however, has been the introduction of individual action plans. For claimants, such plans serve to make their rights and obligations clear with regard to activation, and, for authorities, the plans set out their obligations to actually make offers available to the unemployed. Individual action plans seek to improve the quality of activation by making it individually tailored to the person in question. Unemployed persons draft the plans in collaboration with case-workers. The plan entails information about the skills and job plans of the unemployed person, as well as an agreement on which steps to be taken with regard to job search and participation in activation offers, including wage subsidies, that may help the person to (re-)enter the labour market.

Denmark was the first to introduce individual action plans in 1994, as described above. A similar scheme, the Job Seeking Plan, was introduced in Finland in 1998. The Job Seeking Plan aims to encourage and support job-seekers’ own initiatives and actions for employment. The plan is made within five months of unemployment and sets out the individual needs for employment service and activation that can promote the employment chances of the person. In 2001, two new elements were introduced in relation to the plan. Skills mapping is now used to show the actual skills of the unemployed person. Similarly, interviews are fixed to take place after 5, 11, 17 and 23 months of unemployment, with a view to revise the job-seeking plan. Finally, in 2002, a Job Seeking Plan was made compulsory and its progress has to be regularly reported to the employment office after the first five months. If not, eligibility for unemployment insurance is lost.

Sweden followed suit by introducing individual action plans in 2001, when it also introduced a complementary Activation Guarantee. To some extent, the latter guarantee resembles the former practice in Denmark during the activation period of the unemployment benefit, and by singling out persons at risk of becoming marginalized from the labour market for special treatment. Hence, the Activity Guarantee is directed towards those registered as unemployed on a long-term basis and people at risk of becoming registered as the long-term unemployed. They receive an individual job search plan including offers like entering job clubs, training, rehabilitation, practice and various types of projects and employment, with or without subsidies. Authorities are obliged to offer them a full-time labour market activity within 27 months of unemployment, and the guarantee lasts until the person has been in regular employment for six months, proceeded to further education, or decided to leave. Today, the unemployed cannot draw benefits without having drafted an individual action plan within three to five months of unemployment in, respectively, Sweden and Finland. In this way, all Scandinavian countries now make use of individual action plans and their importance has risen especially in Finland and Sweden.

The use of individual action plans has also spread beyond the insured unemployed to claimants of social assistance, and, increasingly, also to
those on sickness benefit, disability pensioners and immigrants. In this respect, Denmark spearheaded the development. Since 1997, municipalities have been obliged to draw up so-called “follow-up plans” for sickness benefit claimants that stipulate measures to be taken, if any, to help the person back to work. The year after, individual action plans were introduced for social assistance claimants with the Social Assistance Reform. Most recently, the 2003 Disability Pension Reform introduced a new and more comprehensive type of individual action plan that profiles the resources of the claimant and identifies steps to be taken, such as rehabilitation measures to help the person back into employment, including sheltered and subsidized work. Measures in the same direction have been taken for social assistance claimants in Finland and Sweden, the latter also being very concerned about those on sickness benefit. Finally, individual action plans were introduced for immigrants in the late 1990s, where non-compliance may result in benefit reductions as in Finland or even temporary benefit cut-offs as in Denmark.

By tailoring action plans to the individual these may, in principle, help reduce deadweight effects. Such effects occur when help is given to persons who would in any case find or re-enter work by themselves. For example, about one in four of the Danish labour force is unemployed during any one year, but the majority find new work relatively quickly, thus making public intervention unnecessary. Individual action plans are thus generally more attentive to young adults and groups at risk of entering long-term unemployment or on sickness benefit than to traditional labour market insiders. In this way, individual action plans have elements of greater targeting of active labour market policies and a preventive aspect in trying to prevent unemployment and sickness resulting in exclusion from the labour market. Despite their contractual façade, however, individual action plans may be said to have coercive elements in that the public authorities and the claimants are not on an equal footing; in general, claimants face greater costs of non-compliance and have few possibilities of appealing decisions.

Finally, individual action plans and their differentiated output in terms of timing and type of activation offers, in combination with tough mobility requirements and hard sanctions for non-compliance, aim to qualify and intensify job search and thereby to reduce work disincentives. Having relatively generous benefits for low-income groups results in potential work disincentives in all the countries. The alternative to this deliberate Scandinavian strategy in this respect would be to increase wage dispersal to stimulate demand for primarily low-skilled labour and, in tandem, to reduce benefit levels to avoid diminishing overly high reservation wages. Such an alternative has not been chosen as it does not resonate with the egalitarian basis of the Scandinavian welfare model.

Unfortunately, there are no Scandinavian studies examining the direct effects on employment of switching to individual action plans. Some national studies demonstrate that authorities do not yet all live up to the official
requirements of writing up individual action plans, but also that claimants with plans are generally satisfied about them. Perhaps most importantly, recent studies show that activation offers have strong motivational effects in that many of the unemployed intensify their job search and find jobs when facing an offer of activation. Twice as many Danish insured unemployed people leave benefits in a system with compulsory activation offers compared to a system without, an effect that is comparable to having an unemployment insurance system with fixed time limits (see Geerdsen, 2002). Results for the non-insured unemployed on social assistance are less positive, partly because they are less able to work and more heterogeneous than the group of insured unemployed (Graversen, 2003). Since, until recently, Sweden practised a system of recycling benefits (see above), it is no surprise that their studies have not found similar effects (see Calmfors et al., 2001).

**Job training and education: less private job training, education for storage and skills enhancement**

Job training by public and private sector employers is an important part of active labour market policies. It provides the unemployed with on-the-job training and a better contact with the labour market and potential employers, and thereby employment prospects are promoted. Job training in general has better employment effects than other active labour market programmes, and private job training has shown better employment effects than public job training (see, for example, Bach, 2002; Calmfors et al., 2001; Graversen and Weise, 2001; Langager, 1997; Martin, 2000). This applies to both insured people on unemployment insurance and the non-insured unemployed on social assistance. The main explanation for the superiority of job training is its closeness to the labour market, and the better performance of private job training is, in part, because the strongest unemployed enter job training in the private sector, and the less strong tend to receive job training in the public sector. But it is also because people in private job training tend to stay with their employer more frequently than those in public job training (e.g. Langager, 1997). For these reasons, efforts have been made to expand the role of private job training vis-à-vis public job training. However, this has become increasingly difficult in all the Scandinavian countries, primarily for two reasons. One is that employment services have bigger difficulties in finding unemployed people who are strong enough to be sent into private job training, as unemployment rates have gradually gone down, and therefore the pool of unemployed people has become increasingly “frail”. The other reason is that it has proved to be difficult to engage employers in job training on a larger scale.

Various educational courses form a large part of the Scandinavian active labour market programmes. Finland, and, to an even greater extent, Sweden, used educational courses on a major scale to absorb some of the
dramatic increase in unemployed people during the first years of the 1990s. For example, the share of the Swedish labour force in such educational courses increased from 0.1 per cent in 1990 to 1.9 per cent in 1992 (Forslund and Holmlund, 2003). During economically harsh times, educational offers thus aim to reduce the erosion of human capital and to store the unemployed until the economic crisis is over and the labour demand is again on the increase. In turn, this reduces pressure on wages and thereby enhances employment overall. Although activity rates in both Finland and Sweden still have to return to levels prior to the 1990s crisis (see Figure 1), the few existing studies do show the positive effects of active labour market programmes on activity rates (see Calmfors et al., 2001). There are no such Danish studies on the overall impact on activity rates, but it is argued, for example, by the Ministry of Social Affairs, that employment policies in the 1990s helped reduce structural unemployment and contributed to a more flexible labour market (Arbejdsmisteriet, 2000).

Whereas this maintenance of skills and an effective labour supply may be important functions of educational programmes in times of economic crisis, the main aim of educational programmes is, however, the upgrading of skills. At the core of the Scandinavian activation strategy is its attempt to maximize human potential, not least by improving human capital. The belief is that it is better to upgrade the skills of individuals so that they can become productive, at least, at the level of minimum wages in collective agreements than to lower minimum wages to stimulate demand for less skilled individuals. Creating a low wage segment of workers goes against Scandinavian egalitarian values. Hence the attempt to reduce structural unemployment and bottleneck problems by offering educational programmes. Overall, studies show the positive effects of educational programmes on employment, although these effects vary in scale depending on the type of educational programme and target group. For the 1990s, Danish studies show immediate effects whereas Swedish studies tend to show negligible, if not negative, short-term effects and more positive effects in the medium term. Unfortunately, however, the different national programmes and macroeconomics do not allow the results of evaluation studies to be compared directly.

Creation of jobs: more wage subsidies and the end of job rotation

Temporary jobs may be created in various ways. The most common way is to provide wage subsidies for employers hiring an unemployed person. Frequently, it is a precondition that the person has been in long-term unemployment or is at risk of becoming so due to skills shortages, handicap, age or ethnicity. In fact, there are too many types of wage subsidies in the Scandinavian countries to do justice to them in just a few paragraphs. Therefore, we shall only outline the situation of the biggest wage subsidy schemes here.
and make a few remarks on another type of scheme, namely job rotation, in terms of leave schemes that also intend to create more jobs.

Both Denmark and Finland have experimented with leave schemes as part of efforts to create more employment. The idea is that an employed person is given temporary leave if an unemployed person can take over the job in question. The Finnish Job Alternation Leave was introduced on an experimental basis in 1996 and ends in 2003. Premised on an agreement with the employer, it allows an employee to obtain leave for a 90 – to 359-day period, while the employer hires an unemployed person as a replacement. The employee going on leave must be employed for at least 75 per cent of what would be considered full-time employment, have worked with the same employer for at least a year, and have a guaranteed right to return to the regular job or something comparable. The Danish sabbatical leave scheme introduced in 1994 was also premised on an unemployed person being hired instead of the person going on leave. However, evaluations showed insignificant effects on employment (Pedersen, 1996). With labour demand increasing, the sabbatical leave benefit was therefore reduced from 80 per cent of the unemployment benefit in 1994, to 70 per cent in 1995 and 60 per cent in 1997, resulting in very few people making use of the scheme, which was abolished in 1999. As Finnish experiences are also unpromising, it is safe to assume that the idea of job rotation has largely been given up in the Scandinavian countries.

Wage subsidies have a longer tradition and are being used on a much grander scale. Scandinavian countries use wage subsidy programmes for different purposes. Most subsidies are used in connection with job training programmes (see above) to engage employers in providing places. They are also used to help individuals set up new businesses, although not on a big scale in any of the countries. A variety of subsidy schemes exist for certain groups of employees who are facing special problems related to entering the labour market. The latter applies particularly to handicapped people and some groups of ethnic minorities, but are not used on a large scale either (for Denmark see Socialforskningsinstituttet, 2002).

Although wage subsidies related to job training numerically represent the biggest scheme in all three countries, there has been a tendency in recent years, most notably in Denmark, to extend the use of wage subsidies to jobs created on special conditions without time limits. These so-called flex jobs form an important part of the strategy of making the labour market more inclusive for groups in the population who would otherwise be on disability pensions. Hence, the Danish Disability Pension Reform of 2003 stipulates that eligibility for such a pension is only granted when work capacity is reduced by at least 67 per cent and all rehabilitation efforts are exhausted, including placement in flex jobs. Hence, flex jobs are used to provide persons with an economic activity in a sheltered job, mostly on other wage conditions than stipulated by collective wage agreements.
This leads us to the last points to be made here about the new objectives of the recast Scandinavian activation strategies. First, activation has gradually been extended to still larger groups, starting with young adults and the insured unemployed to later target other age groups and people on social assistance, sickness benefits and disability pensions. Secondly, the objective has changed from maintaining eligibility for unemployment insurance to being more focused on getting people into work. And, thirdly, the conceptualization of work has been changed to not only imply ordinary work, but also a broader understanding of economic activity. The latter concerns the most disadvantaged groups in the labour market. For these groups, activation and labour market programmes like flex jobs are used to increase the quality of life. Future evaluations of the recast Scandinavian activation strategies should therefore not only take into account effects on employment, but also the broader effects on welfare.

**Discussion**

One may argue that the recent increased emphasis on obligations to work or accept activation offers is nothing new. Since the poor laws, people claiming public relief have been obliged to accept work (see, for example, Lindqvist & Marklund, 1995 for the Swedish development). Hence, we are witnessing a return to an old practice, and the reshaped activation strategies are thus merely old wine in new bottles. Although it is true that unemployment policies have always had an element of compulsion and duties, we would nevertheless argue that what we are witnessing is new in terms of the greater scope of activation, for example including still more groups, and the types of schemes which, in most cases, are a far cry from public relief work in the old days. And Sweden, which, historically, made most use of public relief work replaced this scheme with educational schemes in the 1990s (Forslund and Holmlund, 2003).

It can also be argued that formal rules, rights and obligations rarely provide a true picture of social citizenship. Implementation is crucial. Not least non-take up of benefits may potentially undermine formal social rights just as non-application of sanctions in a similar fashion erode social obligations. Recognizing that implementation may not always follow the letter of the law, we shall nevertheless argue that legal stipulations do send an important signal to both administrative authorities and claimants, and can be seen as a reflection of politicians’ stance on the issue of social citizenship. In this way changes to formal rules do epitomize the nature of welfare state reforms.

Rightly, the primary focus on unemployment insurance and active labour market policies in this study may be accused of not providing a full picture of the reforms of Scandinavian activation strategies. Indeed, a common
trend throughout Scandinavia, with the possible exception of Norway, is the extension of activation to also include social policies and thereby also claimants of social assistance, sickness benefits, disability pensions and immigrants. But since active social policies are now linked to such benefits in much the same manner as unemployment insurance is linked to active labour market policies, the tenor of the analysis presented here is still valid. Indeed, other reform measures have aimed to reduce sickness absenteeism and increase employment among disabled persons and immigrants, and efforts have been made to include the social partners, companies, professionals and interest groups more firmly in the planning and implementation of active labour market and social policies. In other words, providing a fuller picture of activation strategies would mostly only establish more evidence to the general trend outlined in this study: more emphasis is being placed on rights and obligations to participate in some sort of activity, ordinary work as well as different types of sheltered and/or subsidized work.

There is only one main exception to this rule, that of policies towards the elderly segments of the workforce. For this group, most notably Denmark and Finland continue to impose lax obligations and better possibilities of receiving social security benefits. In Denmark, this is done through the early retirement benefit and in Finland through an unemployment pension. This stands in sharp contrast to the policy development for all other groups of the non-employed, and it is questionable to what extent this practice of letting workable persons retire early on social security is sustainable in the near future in light of ageing populations, increased longevity and labour shortages.

### Conclusion

The policy changes in the unemployment insurance and active labour market policies amount to a recasting of the Scandinavian activation strategies that has, in turn, transformed their welfare state model. The analysis shows how this development was spearheaded by Denmark, followed closely by Finland. Only within the last two or three years has Sweden followed suit. Denmark and Finland were quicker and more innovative in implementing reforms. The only exception is in policies for the elderly in the labour force whom Denmark and Finland allow longer benefit periods, more benefit options and, generally, fewer obligations than any other group. This is not the case in Sweden. And this is indeed visible in labour market statistics where the activity rate of persons aged 55-64 years is 66.5 in Sweden, but only a dismal 45.7 in Finland and 58.0 in Denmark (Eurostat, 2002). Apart from this aspect, the Scandinavian countries seem to be going the same way and there is a convergence of their activation strategies.
Overall, the Scandinavian countries were able to change rather rudimentary activation strategies at the onset of the 1990s, where policies were mainly directed towards young adults and with a dominant view on maintaining the insurance status of the unemployed. First, efforts to combat unemployment were reflected in massive increases of activation offers resulting primarily in less open unemployment and a more equitable distribution of unemployment. In tandem with a more favourable economic development, focus was directed on preventing bottlenecks, mismatch problems and, most recently, general labour shortages by increasing the qualifications and job search of the unemployed. The emphasis on human capital development to some extent sets the Scandinavian activation apart from the workfare orientation elsewhere, especially in Anglo-Saxon countries.

In terms of social citizenship, this is equivalent to a shift in emphasis from the right to economic support through social security to an emphasis on self-support through own employment. That is a shift in social rights that is no longer only to economic compensation, but also to economic participation. In parallel, obligations to become self-supportive have increased dramatically.

In the same token, activation reforms signal a re-versioned Scandinavian welfare state model with a higher degree of re-commodification than was the situation thirteen years ago. At that time, de-commodification was the top priority as reflected by easily accessible benefits, virtually infinite benefit periods and few obligations on behalf of claimants. Stricter access, maximum benefit periods, as well as better rights to activation and tougher obligations to accept activation and job offers, has stopped this for the majority of people. To what extent re-commodification strategies have been successful in practice depends not least on countries’ labour market performance. Most evaluation studies show the positive effects of labour market programmes, with private job training programmes having the biggest effects on employment. However, they also show that labour market policies work best when least needed. And for the most disadvantaged groups, employment in ordinary jobs may not be a realistic target. For such groups, policy measures imply a broader understanding of economic activity and their effects should also include effects on general welfare. In this respect, all three countries are experimenting with new ways of integrating vulnerable groups, but evaluation studies are still scarce.

Importantly, however, de-commodification is still comparatively high for groups most at risk of becoming unemployed, namely the low-skilled characterized by low incomes. Although they have witnessed a relative decrease in benefits, these are still high by European standards, also for the non-insured on social assistance and disability pensions. In other words, the Scandinavian countries have so far been successful in maintaining good social protection for weaker groups and in curbing the underlying tendency towards greater inequalities without hampering economic growth.
This is one lesson scholars interested in contemporary welfare state reform may take onboard, i.e. that reforms are not only a question of more or less of the same, but that the very nature of welfare states may change in order to meet broadly the same objectives as the ideology intrinsic to the welfare regime may dictate. In the Scandinavian case, these include an egalitarian emphasis on protecting the vulnerable, maximizing the realization of human capacities and reducing inequalities based on not only gender and skills, but also age and ethnicity.

The recast Scandinavian activation strategies have been least successful in the reduction of inequalities based on age and ethnicity. Indeed, the biggest policy challenge in Scandinavian countries today is to increase employment among the older segments of the labour force and among certain groups of ethnic minorities in the light of labour shortages caused by ageing populations and demands for even bigger, better and more individually tailored benefits. For both population groups, a major challenge is to make the labour market more inclusive, not least by changing attitudes among employers and potential colleagues. And for the numerically growing and ever more affluent groups of elderly people, a difficult political exercise consists of taking away well-established privileges. Here Denmark and Finland can learn from Sweden. If not, Sweden may be back in the driving seat as the main exponent of the Scandinavian welfare state model in ten years from now.
Literature


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