

## Chapter 1

# Between Unity and Flexibility

## An Introduction to the Institutional Reconfiguration of Active Welfare States in Europe and the United States

In the last four decades, decentralization reforms have swept across the world, deeply transforming states that were once strongly centralized. In spite of these trends, which seek to transfer powers to lower levels of government, central levels of government were exclusively responsible for the regulation of labor market policies (LMPs) and redistribution in most countries until the mid-1990s.<sup>1</sup> Consequently, these welfare policies tended to be placed at the center of the nation-state among national, public institutions. After the mid-1990s, a significant trend began to take place as central levels of government in many regions around the world embarked on decentralization of many social policy competencies. For example, after decades of national domination, Italy changed its Constitution in 2001 to formalize the decentralization of various welfare competencies to its regions. This Southern European country was not alone, as many countries, including Belgium, Canada, Denmark, Finland, the Netherlands, Spain, Sweden, the United States, and the United Kingdom have also jumped in the reform bandwagon, which has been actively promoted by the Organization for Economic Co-operation and Development (OECD) and the European Union (OECD 1999; CEC 2000, 2001; OECD 2003; Mosley 2011).<sup>2</sup>

These cross-national intergovernmental and governance reforms made evident a key paradox—how to have sufficient subnational flexibility to bring social policies closer to local and individual circumstances, while also centrally regulating subnational systems to avoid fragmentation, disparities and promote coherent, nationwide policy approaches. The tensions between unity and flexibility have been especially marked for government programs seeking to integrate the unemployed into jobs, better known as active labor

market policies (ALMPs). As welfare states have changed from being *passive* providers of economic security to *active* developers of human capital and/or work promoters (Bonoli 2013, vii), discussions regarding appropriate state configurations and instruments to enhance flexibility, while also supporting equity and unity across the territory, have been common across OECD countries. On the one hand, activation<sup>3</sup> is grounded in decentralized models of policy and service delivery in which subnational and non-governmental actors offer a repertoire of locally tailored and personalized policies and services. As an interviewee in Italy put it,

Decentralization has made employment services much closer to people actually, much closer to local population, to local businesses, to local politics, to local institutions that are working with poor people or working on disadvantaged people, on foreigners, foreign workers. [ . . . ] It places the employment services within the local texture, interwoven with the local texture of these services, training services, etc. (interview with national policy-maker, Rome, Italy, 2009)

In this way, these local “people changing” measures (van Berkel 2010, 29) seek to support labor market inclusion and participation.

On the other hand, the enhancement of subnational discretion might threaten national cohesion and challenge the solidarity and equity goals of the welfare state.<sup>4</sup> Given that location could determine recipients’ rights and obligations, clients across the territory might get exposed to different welfare levels, benefits, and/or duties. Consequently, to avoid moral hazards, national levels of government might have to limit within some band of acceptance the policies that subnational levels deliver (Whitford 2010, 34) (see also, Peters 2003). As another interviewee in Italy put it when talking about central intervention, “It is a task that should be assumed by the State to carry out activities, and implement measures, that are called *azioni di sistema*, meaning to allow the national system to be homogeneous, to operate in an analogous manner, so that citizens who are born in the South or in the North have equal opportunities” (interview with national policy-maker, Rome, Italy, 2009).

How do countries solve the dilemmas between unity and flexibility in the era of active welfare states? This book explores how changes in the nature of LMP have been accompanied by transformations in state and governance structures in both sides of the Atlantic. More specifically, it shows that since the mid-1990s a variety of OECD countries, namely the

United States (US), Italy, Germany, Spain, and the United Kingdom (UK), have changed their traditional allocations of LMP competencies to implement activation, or welfare-to-work approaches; yet these trends have not been uniform across countries. Some countries have favored institutional solutions to increase subnational flexibility, while others have combined flexibility with national standardization. We explore these cross-national differences through a series of systematic case studies that allow us to answer two important set of questions:

1. How has the postwar allocation of LMP competencies changed? What new roles have national and subnational levels of government, and non-governmental actors, taken on with these reconfiguration processes? How do different states combine flexibility and standardization in activation policies?
2. Are there major similarities and differences in the nature and extent of these cross-national changes? What factors explain similar and divergent cross-national trends?

By adopting a multilevel and territorial approach to the study of welfare states, this study, therefore: (1) specifies the extent and nature of cross-national and intergovernmental changes, and (2) explains cross-national similarities and variations.<sup>5</sup> The following section lays out the central objectives of this book, while later parts of this chapter expand on each of these objectives.

### Central Objectives

To argue that welfare states have been decentralized, or they remain centralized, is a simplistic statement when exploring the nature of recent transformations in the area of LMP. This false dichotomy does not capture the nuances of state structures and governance reconfigurations, including the ways in which states combine flexibility and differentiated policy approaches with centralization and standardization. Accordingly, the first objective of this study is to specify the nature and extent of intergovernmental and governance reforms in each country. For the purpose of this study, *intergovernmental* refers to the relation between levels of government, while *governance* captures the emerging coordinating mechanisms in which government does

not play a dominant role but relies on a range of actors and logics, including non-governmental actors and markets (Kjær 2004).

Drawing on the literature on comparative decentralization (e.g., Treisman 2007; Falleti 2010), we disaggregate the dependent variable into various, analytically distinct, dimensions, namely: *administrative*, *decision-making*, and *fiscal* transfers of LMP competencies to central and/or subnational levels of government.<sup>6</sup> In addition, powers can be delegated from the central level to autonomous subnational public agencies, non-governmental actors, and vice versa.<sup>7</sup> Differentiating among different types of upward, downward, and sideway reforms allows us to analyze our case studies in a systematic manner, thus providing a full picture of the new architectures of active welfare states. Furthermore, we can better understand how different countries manage to combine standardization and flexibility, as well as decentralized and centralized state structures, in this policy area. These are important contributions to the literature on the governance of activation, given that there is still ambiguity regarding the character and extent of intergovernmental and governance reforms (in individual countries and across countries), as most scholars have not created concrete frameworks to operationalize the nature of these changes—that is, our dependent variable. In addition, until very recently, the territorial and multilevel dimensions of welfare states have been understudied by comparative welfare states scholars.

How have the five countries under consideration changed the organization of their welfare states? By disaggregating the dependent variable, the books shows that the US and Italy transferred administrative and decision-making welfare powers (and fiscal in the case of the US) to subnational levels and non-governmental actors.<sup>8</sup> In Spain, movements toward the activation of welfare policies gave the *Comunidades Autónomas* (the regions) formal administrative powers over LMPs, including the creation of their own autonomous public employment services (PESs).<sup>9</sup> The UK also introduced flexibility in the LMP area but by delegating delivery powers to non-governmental actors, which were matched by centralized controls. Finally, the German federal level gained additional administrative and fiscal powers over activation for the long-term unemployed, for which municipalities had played an important role for several decades. Through constitutional change, in the late 2000s, a new type of intergovernmental configuration of LMP was created in which the German federal and local levels closely collaborate in this policy area.

Table 1.1 shows that the five countries have changed their welfare architectures since the 1990s. These countries have introduced reforms to increase flexibility; however, what is puzzling is that the institutional models

Table 1.1. The Nature of Intergovernmental and Governance Changes in the Labor Market Policy Area (1990s–2000s)

<b>United States</b>	Federal; liberal welfare regime	—Decentralization of administrative, decision-making, and fiscal powers to states and local levels —Delegation to non-governmental actors
<b>Italy</b>	Regionalized; Southern European welfare regime	—Decentralization of administrative and decision-making powers to the regions —Delegation to non-governmental actors
<b>Spain</b>	Regionalized; Southern European welfare regime	—Decentralization of administrative powers to the regions —Delegation to non-governmental actors
<b>United Kingdom</b>	Unitary, but devolving powers to the three countries; liberal welfare regime	—Stronger administrative controls by the central level —Delegation to non-governmental actors
<b>Germany</b>	Federal; continental welfare regime	—Centralization of administrative and fiscal powers matched with new types of subnational flexibility —Delegation to non-governmental actors

of active welfare states have not converged—some countries have transferred significant powers downwards, while others have matched flexibility with a strong role of the central level. Why do some countries favor centralized approaches in this policy area, while others engage in extensive decentralization? In other words, why do some countries favor national standardization over subnational flexibility, or vice versa, in the welfare state?

In light of this puzzle, the second objective of this study is to explain cross-national patterns in the reconfiguration of LMP competencies. This is a key contribution, given that most scholars of the governance of activation have limited their discussions of cross-national patterns of LMP reconfiguration to pointing out that national contexts “matter.” We show that the

nature and extent of reconfigurations trends is independent from state structure and welfare regimes, given that countries with similar state structures and under the same welfare regimes followed very dissimilar reconfiguration paths (see table 1.1). By contrast, countries with dissimilar institutions and welfare regimes followed similar reconfigurations patterns.

To explain cross-national similarities and divergences, this book identifies two factors. First, this study draws attention to the overlooked principle of “interterritorial equivalency.” This notion captures domestic legal frameworks that seek to guarantee nationwide access to welfare benefits, as well as equivalent welfare rights and obligations across the territory. As explained below, the principle is embedded in the institutional, political, and legal setups of a country. Where it is institutionalized and protected, the central level of government has acquired, or maintained, significant LMP powers as it seeks to promote cohesive institutional and LMP approaches across the territory. By contrast, where such principle is not institutionalized and protected, the activation of LMP has been accompanied by notable processes of decentralization.

Second, the study shows that existing institutions “matter,” in order to understand the direction of these shifts. Yet, as explained below, the cross-national story of which institutions “matter” is not very parsimonious. What is clear is that all countries experience some continuity within change. Therefore, by focusing on these two factors, this book specifies which domestic conditions and factors “matter” to understand the direction and nature of intergovernmental and governance changes, and how they “matter.”

In short, this book directly contributes to the literature on comparative welfare changes, the bodies of work on the distribution of authorities across levels of governments (e.g., the literatures on comparative federalism, devolution, decentralization, and delegation), as well as studies on governance and new public management. By highlighting the territorial dimension of welfare states, we shed light on the relationships between contemporary welfare policy changes and transformations of state structures. More specifically, we show that changes in the nature of LMP have been accompanied by reforms in the organization and governance of these social policies. In regard to comparative studies on the distribution of authority and on institutional change, this book demonstrates how competencies in the welfare area are reallocated and redistributed in various ways and directions, often simultaneously (Rodden 2004, 489). Therefore, to tackle the tensions between unity and fragmentation, states can simultaneously experiment with various types of institutional and governance solutions (Peters 2003; Champion and Bonoli 2011). For example, states may manage to

decentralize certain policy competencies while simultaneously increasing, or retaining, their centralizing and unifying functions.<sup>10</sup>

Having outlined the general objectives of the book, the rest of this chapter places the project within specific scholarly debates, and further develops the main arguments and contributions. Prior to moving on, it is important to clarify various terms. First, to discuss the highest level of government, we use the concepts *national* and *central* interchangeably. In this way, the notion of *national* does not make reference to debates regarding nationhood and identity, as it could be the case in Spain and the UK. Second, the notion of *subnational* refers to levels of government below the central level; thus, it includes both meso (e.g., regions, states, Länder) and local levels. When necessary, we will differentiate between regional and local levels of government.

### The Welfare State and Reallocations of Power

While comparative work on welfare states in the post–Golden Age era has tended to focus on changes in the levels of generosity and the nature of social policies, analyses on the reallocation of social policy responsibilities are also significant, as they tell us much about the nature of welfare states in the current period. Throughout time, central, regional and local governments, as well as non-governmental actors, have played different types of roles in the regulation and provision of social benefits. For instance, in many European countries and the US, social protection emerged from a localized sphere of activities where parishes, voluntary groups, charities, and local governments provided care for those in need (see, e.g., Skocpol 1992). In the late nineteenth century and early twentieth century, central levels of government across both sides of the Atlantic entered this scenario through the launch and extension of public insurance schemes, including unemployment insurance and pension benefits. In many countries, these expansionary trends were consolidated after the Second World War, when internal standardization and the national concentration of authoritative and administrative powers, as well as fiscal resources, became key characteristics of the Golden Age of welfare states (Ferrera 2005).

Despite waves of decentralization and regionalization in the 1970s and 1980s, up until the mid-1990s, central levels of government in most advanced democracies were exclusively responsible for the regulation of LMPs and redistribution (Kazepov 2010).<sup>11</sup> Consequently, these policies tended to be placed at the center of the nation-state among national, public

institutions dominated by hierarchical and bureaucratic models of public management. As Jenson (2012, 76) comments, “Smoothing out regional inequities and spatial inequalities was a goal of many post-1945 welfare regimes, and this was done via a penetration of state services into all corners [ . . . ] A bureaucrat representing the central government was often a symbol of this spatial inclusion.” But as Oates (1999, 1122) reminds us, the allocation of policy responsibilities is not fixed, as “the specific pattern of goods and services provided by different levels of government will thus differ to some extent in time and place.”

### *Activation and Spatial Reconfigurations*

As explained in chapter 2, the 1990s marked the beginning of a period of welfare recalibration (Pierson 2001) across OECD countries, better known as the activation turn.<sup>12</sup> While a range of different activation approaches exists (see, e.g., Bonoli 2012; Brodtkin and Marston 2013), including the workfare version often linked to the US, these changes in the nature of LMP share common policy features. First, in contrast to traditional passive models of social protection, monetary benefits provided by the state (e.g., unemployment insurance) are often combined with a range of integration measures. These social investment measures, including assistance in job search, training and work experience programs in the public and private sectors, frequently serve as preconditions for benefit receipt. Hence, under activation, social protection rights are often accompanied by obligations.

Second, social policies emphasize recommodification (Dingeldey 2007, 823) in that “work” is at the center of the activation paradigm. As Brodtkin (2013, 7) notes, “Despite significant differences in emphasis, workfare-style policies around the globe share a familiar programmatic tool kit, channeling participants through processes of ‘assessment,’ ‘job search,’ ‘work preparation,’ and ‘work experience.’” Such an LMP approach seeks to empower welfare recipients by combating inactivity, as well as dependency on benefits provided by the state (Lødemel and Trickey 2000; Barbier and Ludwig-Mayerhofer 2004; Serrano Pascual and Magnusson 2007). This means that under activation, “[s]ocial policies should give a high priority to employment. They must deal with social problems chiefly by promoting labour market participation of disadvantage people” (Bonoli 2013, 1).

In sum, activation encourages inclusion into the labor market by emphasizing individual responsibility, and increasing incentives and conditions to engage in work activities. As Handler (1993, 230) puts it, “[u]nder the new regime, benefits have become conditional, rights attach

only if obligations are fulfilled.” This is often accompanied by a range of social investment measures which invest on the development of human capital (see, e.g., Morel, Palier, and Palme 2012; Bonoli and Natali 2012).

The shift from a Keynesian welfare state to a Schumpeterian workfare state (Jessop 1993) not only redefined the nature of the public good (i.e., LMP), but also changed its traditional, optimal allocation and governance (e.g., Champion and Bonoli 2011). Scholars of state structure and welfare governance have often supported the notion of income redistribution in the form of assistance for the poor being a responsibility of central levels of government (see, e.g., Brown and Oates 1987; Oates 1999; Swank 2002). For instance, based on the idea that the division of responsibilities must respect the comparative advantage of each level of government, Peterson (1995) contends that national levels of government should be responsible for redistribution, or policies that seek to reallocate in a uniform manner societal resources from one group to another (e.g., welfare, social security). Alternatively, subnational levels should be primarily responsible for developmental programs, which provide the physical and social infrastructure to facilitate economic growth to suit particular conditions (e.g., education, training, counseling). The activation of social schemes challenges the aforementioned intergovernmental division of responsibilities given that welfare (redistributive) benefits become increasingly attached to developmental programs, including training and work obligations. Consequently, to tackle the new policy context, the roles of national and subnational levels of government in the regulation, management, and delivery of these policies have been redefined (in different ways). For instance, to effectively enforce conditionality, passive labor market policy (i.e., unemployment insurance) and ALMP ought to be coordinated at different governmental and governance levels.

In light of these changes, the five countries under consideration have strengthened flexibility over the management and delivery of activation measures.<sup>13</sup> However, these shifts should not be characterized as positive-sum games in which subnational levels and/or non-governmental actors gain all LMP competencies because central levels have often, simultaneously, strengthened their powers in this policy area. For example, in the UK, in spite of an overall process of devolution, the central government strengthened its powers in the activation of LMPs. In Germany, the federal level acquired new administrative and fiscal powers over the activation of the long-term unemployed. These examples show that these countries have reformed their allocation of LMP competencies through simultaneous upward, downward, and sideway dispersions of authority (Hooghe and

Marks 2003). But, how have such transfers of LMP powers been justified? The following section tackles this question.

*Understanding Transfers of Power in the Activation Era*

The question of “why states reconfigure their allocation of policy powers” has been answered in many ways by the vast literatures on comparative decentralization, devolution, and federalism.<sup>14</sup> This section reviews these bodies of work and applies the main arguments regarding the benefits and drawbacks of decentralization and centralization to the case of active welfare states.

A strand of the aforementioned literatures has emphasized the political and social drivers of vertical transfers of powers. For instance, many have argued that decentralization can strengthen democracy through more direct links between the government and citizens, greater transparency and accountability, and more possibilities for participation (see, e.g., Cohen and Sabel 1997; De Vries 2000; Held 2004). These arguments are especially pertinent when ethnic/national cleavages are present, as in the case of Spain and the UK, given that downward transfers of power might help stabilize the system by accommodating the aspirations and needs of regional subcultures within a given territory. The literature on the territorial dimension of the welfare state draws attention to the close relationship between territorial borders, political identities and feelings of belongingness, on the one hand, and the prospects for solidaristic and redistributive social policy, on the other hand (e.g., Noël 2004; Ferrera 2005; Keating and McEwen 2005; McEwen and Moreno 2005; Obinger, Liebfried, and Castles 2005). As Keating (2003, 431) argues, “[s]tateless nations and regions may be equally or better suited in generating solidarity and the rationale for redistributive policies.” According to this perspective, the redesign of institutions and the reallocation of social policy competencies have the potential to serve as vehicles for nation-building at various levels.

Other scholars have emphasized the notion of *efficiency* to understand the distribution of powers and competencies across levels of government (e.g., Tiebout 1956; Peterson 1995; Hooghe and Marks 2009). According to this view, decentralization can provide for more efficient policy-making and effective provision of goods and services. By bringing policy decisions closely in line with citizens’ and local preferences, lower levels of government can become policy laboratories and provide informed and pragmatic solutions to local and individual problems (Amendola, Caroleo, and Garofalo 1997; Oates 1999; Kollman, Page, and Miller 2000). In the same vein, the public management literature has pointed out that decentralization can

provide more choices to consumers, generate a more efficient handling of resources, and better results through flexibility and variations (e.g., Trigilia 1991; Peters 2003) These benefits are especially noteworthy in contexts with a high degree of diversity (Seabright 1996).<sup>15</sup> Nonetheless, the benefits of decentralization have been questioned by various scholars (see, e.g., Rose-Ackerman 1980; Pierson 1995; Bednar 2011, 273).<sup>16</sup>

The case of activation policies makes these propositions relevant, as highlighted by the literature on the governance of activation (e.g., Borghi and van Berkel 2007; Genova 2008; Eichhorst and Konle-Seidl 2008; Eichhorst, Kaufmann, and Konle-Seidl 2008; van Berkel and Borghi 2008; Finn 2009; Kazepov 2010). Downward transfers of powers fit scenarios in which there is a need for a personalized and local approach to integrate welfare clients into the labor market and for experimenting with policy solutions—an underlying idea behind the activation and modernization of public employment services (Künzel 2012). This applies, for instance, to training and work opportunities given that they need to be tailored to local labor market circumstances to be effective (see Finn 2000, 47; OECD 2003; Borghi and van Berkel 2007, 95; van Berkel 2010, 27). From this perspective, decentralization can provide more effective and efficient solutions than “one-size-fits-all,” centrally defined policies. Another widely used argument is that activation policies are not only delivering benefits, but also providing services to transform individuals’ attitudes, aspirations, and routines (Lindsay and McQuaid 2009, 445).

Based on those arguments, activation measures can only change individuals if these services are tailored to their situation, and if they can address a complex set of obstacles to labor market participation and inclusion (e.g., family and financial situation, state of health). These claims are often combined with calls to involve local stakeholders, as this is thought to not only make those measures more effective, but also provide for a more participatory and locally accountable way of designing and implementing policies (Kazepov 2010, 66).

However, the marvels of decentralization are often disputed, therefore establishing the foundations for central intervention (e.g., Miller 1992).<sup>17</sup> Using the principal-agent framework, Giguère (2003, 14) notes that, “[t]he main cost of decentralization is the loss of control over agent’s actions. In a decentralized framework, the agent uses the greater flexibility granted to pursue his own interests, which may differ from that of the principal.” Transparency and the accountability of governments can be weakened as the division of responsibilities among participants of government might become blurred, and as locally powerful vested interests may unduly influence local

policy-making (Stoker 1996, 3; Kazepov 2010, 67). Some manifestations of these issues are fiscal indiscipline, policy duplications, and the unequal application of law across the territory (Giddens 1998, 78; Rodden 2006).

Decentralization can also trigger migration and interjurisdictional externalities (e.g., race to the bottom, clients “voting with their feet”). These issues become especially relevant when we consider that labor markets are nested spaces: they are national (even supranational, if we account for the notion of “free movement” in Europe), not only local and regional arenas. In this context, decentralization could weaken social protection and hinder territorial equity, redistribution, and social citizenship across regional boundaries (e.g., Brown and Oates 1987; Rodríguez-Pose and Gill 2004; McEwen and Moreno 2005; and Andreotti, Caroleo, and Garofalo 2012). In addition, it could increase fragmentation and inequality (Tselios et al. 2012; Popelier and Cantillon 2013). However, scholars have recently qualified these arguments as it has been shown that the relationship between downward diffusions of power and inequality operate differently across contexts (Rodríguez-Pose and Ezcurra 2010, 624; Beramendi 2012).<sup>18</sup>

Furthermore, decentralization entails that the nature of policy will be directly shaped by the characteristics and preferences of subnational actors, including their organizational and financial capabilities, political ideology, norms, and biases. For instance, Lieberman (2005, 59) argues: “Centralized welfare systems are more likely to rely on universal rules and procedures and to exercise strict administrative control that reduces opportunity for discrimination on the part of front-line workers [. . .] Decentralized systems, in which operational control of welfare policies is devolved to lower-level officials, are more likely to use their discretionary power to exclude minorities.” An uneven geography of welfare might become challenging when subnational inconsistencies start to violate the principles of equal access to benefits and services, and when citizens are exposed to different benefits and burdens duties across the territory (e.g., unequal access, benefits, conditions). These issues are especially relevant in the era of activation given that unemployment benefits tend to be attached to a set of conditions and sanctions (De Vries 2000; Powell and Boyne 2001; Obinger, Liebfried, and Castles 2005; Bifulco, Bricocoli, and Monteleone 2008, 146; van Berkel and Borghi 2008, 396). Nonetheless, these developments might not be detrimental if central standards are in place and enforced (e.g., universality of benefits across the territory, principles regarding conditionality), and/or regional or local governments have equivalent resources and capabilities.<sup>19</sup> The overseer and enforcer roles of the central level are particularly necessary in countries where the institutional capabilities of regional levels are

limited given that central intervention also allows for capacity building (e.g., Mosley 2008).

In view of these challenges, central levels of government might claim their powers through formal and informal means. For instance, as shown in later chapters, a central government might choose to transfer administrative powers to subnational levels, but retain in its hands key decision-making and fiscal powers. This, in turn, would allow the central level to define, establish, coordinate, and enforce the national policy line, while also enhancing flexibility to increase the chances of innovation and labor market inclusion. Other scholars have pointed at the benefits of new public management techniques, such as target setting, reporting, and funding mechanisms. These instruments allow the central level to check public employment services and ensure that policy objectives are met at lower levels of government (Rhodes 2007; Lindsay and McQuaid 2008; van Berkel and Borghi 2008, 396; van Berkel 2010; Weishaupt 2010; Ehrler 2012).

All in all, the arguments presented in this section explain why states would choose to redefine and reallocate ALMP powers. Overall, decentralization and centralization entail trade-offs. While downward transfers of powers can improve implementation and policy effectiveness, it can also produce negative effects. This, in turn, justifies the intervention of the central level (see, e.g., Whitford 2010). For example, in the social policy area, decentralization enhances subnational discretion or autonomy, but it can also create a moral hazard by hindering territorial justice (Kay 2005). Pure solutions in which activation is either completely decentralized or completely centralized are unlikely to fit the needs of this policy area. Therefore, capturing the ways in which states combine decentralization and centralization in the welfare area is a crucial task given that different intergovernmental and governance models are likely to be linked to specific developments (e.g., Falletti 2005; Greer 2009).

### The Active Welfare State: Capturing Decentralization and Centralization Trends

Academic interest in the relationship between social policy and the territorial organization of welfare has risen as scholars have increasingly acknowledged that social policy reforms and organizational change are usually closely related (see, e.g., Pierson 1994, 16; Carmel and Papadopoulos 2003, 94; Noël 2004; Ferrara 2005; McEwen and Moreno 2005; Obinger, Liebfried, and Castles 2005; Kazepov 2010; Rodríguez-Pose and Ezcurra 2010; Beramendi

2012). More specifically, the literature on the governance of activation, which has been dominated by studies of European cases, has explored the relations between the implementation of activation and a variety of governance changes, including single gateways, contractualism, marketization, and other new public management reforms.<sup>20</sup> This line of research has also drawn attention to decentralization and centralization trends, and it has shown that countries have followed different reconfiguration trajectories (see, e.g., Lindsay and McQuaid 2009; van Berkel 2010; Weishaupt 2010). In spite of these findings, there is still ambiguity regarding the character, extent, and implications of these intergovernmental and governance changes. In addition, scholars have not explained why countries follow different trajectories.<sup>21</sup> Multiple questions, therefore, remain on the table, including: What types of powers (e.g., policy making, administrative, financial) are central levels more likely to transfer? What type of powers do central levels of government retain? How have decentralization and centralization in activation policies been combined? What is the role of non-governmental actors in these scenarios? What explains similar and divergent cross-national patterns? The following sections expand on how this study answers these questions.

*Objective 1: Capturing the Architectures of Active Welfare States*

As explained in chapter 2, the first step in this study is to operationalize the dependent variable. Given that reallocations of LMP powers have taken different forms, we disaggregate this variable into three types of reforms, namely *administrative*, *political*, and *fiscal* reforms. This, in turn, allows us to determine what exactly is being decentralized and centralized, and to better comprehend how states combine subnational flexibility with national regulations in the welfare state.

First, transfers of powers can occur across levels of government through both upward and downward *intergovernmental* reforms. Accordingly, this dimension refers to formal vertical shifts in the allocation of LMP responsibilities within a state. As aforementioned, the intergovernmental dimension is further disaggregated into three analytically distinct types of reforms—fiscal, political, and administrative. The fiscal dimension accounts for changes in the responsibility to finance activation policies; political refers to reforms in the right to legislate on activation policies; and administrative relates to formal redistributions of responsibilities in the implementation of activation policies.

As explained above, administrative reforms can occur through formal vertical shifts (i.e., intergovernmental), in which subnational levels gain

autonomy over the organization and management of their autonomous public employment services (e.g., refer to the Spanish and Italian cases). Yet, administrative reforms can also be less formal in nature; accordingly, the second dimension, the more informal *intragovernmental* changes, captures instances in which local public organizations gain internal flexibility in the provision of LMPs. In contrast to intergovernmental transfers, these changes occur in local branches of central organizations, as in the case of local welfare offices within nationally ruled PESs. In the same way, powers can be centralized by limiting the autonomy of local welfare offices. Therefore, this type of shifts fits within public administrations reforms.

Third, the administration of activation policies could also become more flexible through the *delegation* of powers to non-governmental actors (Theodore and Peck 1999; Finn 2000; Peters 2003; Rhodes et al. 2003; van Berkel and van der Aa 2005; Finn 2009; Lindsay and McQuaid 2009; Carson and Kerr 2010). Under this type of reform, non-governmental actors (e.g., for profit and non-for-profit employment agencies) gain flexibility in the management and/or delivery of activation policies through, for example, the out-contraction of services. This dimension therefore captures sideway transfers of administrative tasks away from government bodies toward private or third-sector organizations.

To recapitulate, the book covers different types of analytically distinct reforms, namely: (1) administrative downward and upward shifts—intergovernmental, intragovernmental, and delegation; (2) political downward and upward shifts—intergovernmental; (3) fiscal downward and upward shifts—intergovernmental. The combination of these different types of reforms results in specific architectures of active welfare states in which the nature and depth of autonomy and interdependence in these new settings vary along multiple dimensions, therefore providing national and subnational levels of government, local governmental agencies, and non-governmental actors with different types of powers and competencies. Figure 1.1 presents a simplified illustration of these dimensions, which are further elaborated on in chapter 2. The reader should note that the figure depicts the differences among intergovernmental, intragovernmental, and delegation reforms of the three types (administrative, political, and fiscal).

*Administrative, Political, and Fiscal Reforms in the Active Welfare State:  
A Brief Summary*

Through detailed case studies, chapters 3, 4, and 5 show how since the mid-1990s, Italy, the US, Spain, the UK, and Germany have implemented

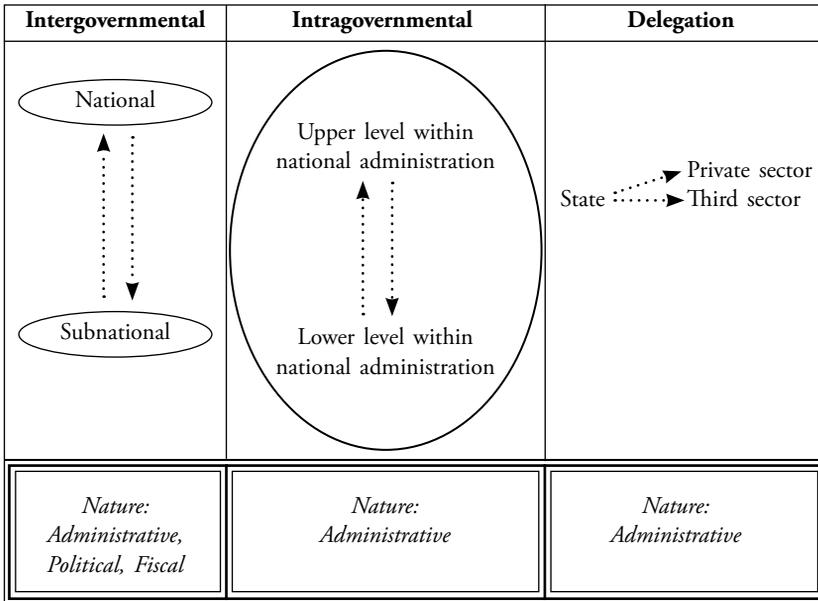


Figure 1.1. The Nature of Intergovernmental and Governance Reforms

at least one out of the five types of reforms illustrated in fig. 1.1. As hinted above, when we argue that “institutions matter” in order to understand cross-national patterns, in most countries under consideration these processes are path-dependent in that intergovernmental arrangements are very persistent across time, and current reforms are layered on top of existing institutions (Mahoney and Thelen 2010). In other countries, by contrast, these reforms have restructured the territorial organization of their welfare states. Overall, the five countries have reworked the organization of their welfare states to, at least, redefine the role of subnational actors and/or non-governmental actors in the management and provision of activation policies. These downward trends do not entail the exit from central levels of government, as they intervene in various manners to balance out flexibility and national standardization. How have these countries reworked the organization of their welfare states?

First, in line with European Union’s (EU) prescriptions regarding market liberalization, the four European countries have opened the market to non-governmental actors in the provision of ALMPs. Therefore, public monopolies over LMP provision were dismantled. Similarly, many US states

have also delegated welfare provision to non-governmental actors. Second, all countries with the exception of the UK, have introduced administrative flexibility through the creation of autonomous PESs at subnational levels (what we call intergovernmental reforms), or by providing local welfare offices with more flexibility in the provision of active measures (what we call intragovernmental reforms). Third, central levels of government in European countries remained responsible for fiscal competencies as a way to steer subnational organizations and policies, and to facilitate interterritorial equalization. For example, Beramendi (2012, 236) argues that “a homogenous geography of income implies that the nature of redistributive conflicts is similar across regions.” In the US, the states have significant fiscal capacities over welfare policies; yet, federal transfers are used as “stick and carrots,” that is, to reward and punish states that follow, or do not follow, federal policy prescriptions. Fourth, a review of cross-national developments beyond the five cases show that the decentralization of decision-making powers (i.e., political) remains a rare development in this policy area. With the exceptions of Italy and the US, central levels of government are responsible for legislating (i.e., decision making) on this policy area.

The organization of the empirical chapters reflects common reconfiguration patterns in that countries that have followed similar trends regarding flexibility and standardization are covered in the same chapter. Chapter 3 focuses on two cases that have favored subnational flexibility over standardization. More specifically, it covers the Italian and US cases, which have engaged in extensive decentralization of LMP powers. Their central levels of government play minimal roles in this policy area. Through constitutional change, Italy devolved administrative and political powers over ALMPs to the regions, while the central level retained fiscal powers. In the same vein, the federal level in the US devolved administrative, decision-making, and fiscal welfare powers to the states.

Chapter 4 covers cases that have only adopted administrative reforms to increase subnational flexibility in the management and provision of ALMP. These downward transformations are matched by standardization as their central levels retain political and fiscal powers over this policy area. In Spain, the central level engaged in vertical transfers of administrative competencies over ALMPs, while it retained decision-making and fiscal powers in its hands. In the UK, despite an overall process of devolution, the central level did not engage in LMP intergovernmental shifts to Scotland and Wales. Rather, Westminster increased flexibility through delegation to non-governmental actors; yet, these actors, as well as local offices, must operate within the boundaries of central regulations.

Chapter 5 captures a case in which administrative and fiscal powers have traveled upward from the subnational to the central level. Yet, to allow for the effective and efficient provision of ALMP and activation, new types of administrative subnational flexibility have been built into the system. More specifically, Germany has experienced centralization of ALMP competencies as the federal level has acquired formal administrative and fiscal powers over activation, while most municipalities lost responsibility for benefit payments and activation schemes for previous social assistance recipients. Through a constitutional change, which transformed postwar state structures, these low levels of government have redefined their role in this policy area.

The three empirical chapters, in addition, explain why each of these countries passed different types of reforms—the second objective of this study.

*Objective 2: Understanding Variances in Reconfiguration Trends*

As mentioned above, most scholars of the governance of activation have limited their discussions of cross-national patterns of LMP reconfiguration to pointing out that national contexts “matter.” For instance, to highlight how domestic institutions shape common reform (cross-national) trends, Borghi and van Berkel (2007) characterize the process as “path-dependent convergence” (see also, Lindsay and McQuaid 2009). Others have also added actors’ preferences to the equation by mentioning that they might play a role through the crystallization of political conflicts and disputes (see, e.g., Weishaupt 2010, 479). However, these authors have not attempted to identify key variables to explain, in a systematic manner, why some countries favor centralized approaches while others engage in extensive LMP decentralization. This gap in the literature leads us to ask a fundamental question: Why would countries adopt such divergent institutional solutions?

Many scholars and practitioners can identify themselves with the struggles of theory development, which are especially salient when analyzing cross-national, qualitative data. Our experiences with this study have not been much different as putting together a comprehensive theory of welfare institutional reconfigurations has been an uphill, nonlinear battle full of deceptions and surprises. To answer the aforementioned question, initial attention was paid to formal state structures and welfare regimes. However, these variables proved to be unhelpful to explain common and divergent cross-national patterns as countries with similar formal state arrangements reformed their LMP structures very differently. For example, both region-

alized countries in our sample followed dissimilar paths—Italy engaged in extensive decentralization, while Spain adopted a model of decentralization within centralization (see López-Santana and Moyer 2012). In the UK, in spite of a general process of devolution, the activation regime became more centralized.<sup>22</sup> By contrast, countries with very different types of state configurations reformed the organization of their welfare institutions similarly. For example, regionalized Italy and federal US introduced extensive decentralization of LMP powers.

In addition, hypothesizing that “party politics matter” did not help us to explain cross-national changes. For example, LMP decentralization reforms took place under both Conservative and Social Democratic governments in Italy, Spain, and the UK. In the same manner, welfare devolution in the US was initially pursued by Republicans and finally implemented by Democrats. In Germany, the Christian Democratic-led Länder governments preferred a more decentralized ALMP system for the long-term unemployed, while the Social Democratic-Green federal government favored ALMP centralization to provide a more coherent welfare system when ALMP were reformed in the mid-2000s. In light of these negatives findings, what factors allow us to explain cross-national similarities and differences? The section below expands on this question.

### *Interterritorial Equivalency*

To explain cross-national trends, this project identifies an overlooked variable—the principle of interterritorial equivalency. Where the principle of interterritorial equivalency is formalized and protected, the role of the national level is more salient in the LMP area than where that is not the case. Empirically, this principle encompasses two elements: (1) the equal access condition and (2) the equivalency of rights and obligations condition. When referring to the first element, the principle starts to be undermined when states have legal arrangements in place by which subnational levels are allowed to have different rules regarding *access* to welfare. This means that access could be denied based on location, because each jurisdiction decides on, and enforces, access rules. When the second element is not protected, then welfare clients could be exposed to nonequivalent rights and obligations, *once they access* the welfare system. It is important to note that equivalency does not mean that recipients must have the *same* benefits across the territory; rather, that the quantity and quality of these measures are comparable across the territory. As Carpentier and Neels (2013, 20) put it, formal equality requires “alike outcomes for alike persons in alike contexts.”

These elements are not vague, normative principles. Rather, they are embedded in the legal and/or political setups of country; therefore, they are institutionalized and contested through constitutional amendments, court rulings, laws, as well as official political discussions. In the case of the UK (which lacks a written constitution), we have analyzed laws, formal political discussions, and documents. While a detailed account of the origins of this principle is outside the scope of this book, as illustrated in the empirical chapters, the justifications for emphasizing this principle is context dependent.

Chapters 4 and 5 show that Spain, the UK, and Germany have institutionalized and protected both elements of interterritorial equivalency, which in turn helps us explain the active involvement of the central level in this policy area. For example, responding to the issue of fragmentation of the German LMP regime, the 2003 Hartz IV draft law noted that LMP system for the long-term unemployed ought to be reformed to make it a responsibility of the federal level because, based on the constitution, this level of government is responsible for guaranteeing equality of living conditions across the territory (Deutscher Bundestag 2003, 49). In the case of the UK, interterritorial equivalency has been historically grounded in the existence of regional cleavages, which allows the welfare state to play a nation-building function across different time periods.<sup>23</sup> Official political debates on territorial justice established that LMP competencies would not be devolved to Scotland and Wales, because their citizens should not be exposed to different rights and obligations than the rest of England. For example, when asked whether Scotland would get additional powers in the welfare area, a Scottish respondent answered: “The opportunities to get those are very limited. The central government wants to keep them all the same. And so getting them to agree to local flexibilities is quite difficult” (interview with policy maker, Scotland, UK, 2007).

In contrast, in countries where the notion of interterritorial equivalency is not guaranteed and protected, subnational actors have gained significant levels of autonomy in this policy area and the central level is virtually absent. For example, in reference to the Equal Protection Clause (“No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws”), on multiple occasions the US Supreme Court has ruled that states cannot deny welfare access to a client who has moved from another state because this action would violate the constitutional right to travel; therefore, mobility (*vis-à-vis* interterritorial solidarity) would be hindered. However, when it