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**LABOR MARKET POLICIES IN GERMANY – EXPLAINING THE
USAGE OF OLD SCHOOL INSTRUMENTS**

Following the economic slump of the global financial crisis German policy makers returned to an almost outdated instrument of labor market policy: short time allowance. Beneficiaries of cyclical short-time allowance grew on the prior-year comparison from December 2008 to December 2009 from 200.780 to 809.680 persons. The number of firms making use of short time rose in the same time from 6.864 to 52.939 firms. Thus, the paper asks: Why did this „outmoded“ policy instrument gained prominence again?

We would expect that labor market policies and expenditure is mainly driven by economic performance: If the economy goes down, unemployment will raise and so will expenditure. Moreover in times of an economic downturn other measures of employment promotion are needed than in times of an economic boom.

By looking at almost four decades of public spending on labor market policies we see that there is no such clear pattern. During the last economic slump, for example, short time allowance did only slightly increase. Moreover, the paradigm shift towards activation has altered the composition of instruments of labor market policy generally.

Thus, in a first step the paper analyses this development of policy instruments in relation to the economic cycle. By using the concept of output-gaps we identify seven relevant cyclical downswings since 1973: (1) second quarter 1973, (2) fourth quarter 1979, (3) fourth quarter 1985, (4) first quarter 1991, (5) second quarter 1995, (6) first quarter 2001 and (7) second quarter 2008.

But, what if it is not economic performance that drives the expenditure pattern? In a second step the paper takes into account different explanations by referring to the classical middle range theories of comparative political science. These theories were designed to explain welfare state expansion (variation between nation-states). But research showed that they still have explanatory power in the ‘silver age of the welfare state’. The paper concentrates on two strands of explanation: (1) the policies adopted are likely to be shaped by the distribution of powers resources, e.g. left par-

ties vs. liberal and secularconservative parties and (2) institutional variation is of great theoretical significance, since institutions shape actor constellations, policy options, and strategies of and interactions between actors. Moreover, constraints are imposed by the policy legacy of the past (path dependency).

Summing up, the third section of the paper explains the interesting pattern of spending on labor market policies in Germany by showing the interdependence between the economic performance as trigger and institutional variation and power resources as a filter to policy change.