

# BIDDING FAREWELL TO WORKFARE?

ACTIVATION STRATEGIES IN THE EU BEFORE  
AND AFTER THE COVID-19 PANDEMIC

*Robin Huguenot-Noël & Anton Hemerijck  
with Daniel Fernandez Serrano, Lorenzo Mascioli, and Karol Muszyński*



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**THE FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES (FEPS)**

European Political Foundation - No 4 BE 896.230.213  
Avenue des Arts 46 1000 Brussels (Belgium)  
[www.feps-europe.eu](http://www.feps-europe.eu)  
@FEPS\_Europe



**FRIEDRICH EBERT STIFTUNG (FES)**

EU-Office Brussels- Rue du Taciturne 1000 Brussels (Belgium)  
[www.brussels.fes.de](http://www.brussels.fes.de)  
@FES\_Brussels



**INSTITUT EMILE VANDERVELDE (IEV)**

Boulevard de l'Empereur 13 1000 Brussels (Belgium)  
[www.iev.be](http://www.iev.be)

Knowledge Partner for this Policy Study:



**EUROPEAN UNIVERSITY INSTITUTE (EUI)**

Badia Fiesolana - Via dei Roccettini 9,  
I-50014 San Domenico di Fiesole (FI) – Italy  
[www.eui.eu](http://www.eui.eu)  
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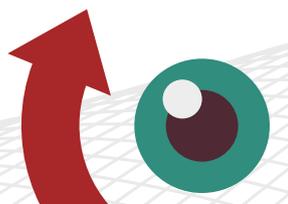
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# RECOVERY WATCH



# RECOVERY WATCH

## WHAT IS THIS PROJECT ABOUT?

The National Recovery and Resilience Plans represent the new framework in which European member states identify their development strategies and allocate European and national resources – with the objective of relaunching socio-economic conditions following the coronavirus pandemic.

This process, initiated as part of the European response to the global health crisis, follows the construction of NextGenerationEU. It combines national and European efforts to relaunch and reshape the economy, steering the digital and climate transitions.

For European progressives, it is worth assessing the potential of these national plans for curbing inequalities and delivering wellbeing for all, as well as investigating how to create a European economic governance that supports social, regional, digital and climate justice.

The Foundation for European Progressive Studies (FEPS), the Friedrich Ebert Stiftung (FES) and the Institut Emile Vandervelde (IEV), in partnership with first-rate knowledge organisations, have built a structured network of experts to monitor the implementation of National Recovery and Resilience Plans and assess their impact on key social outcomes. Fact- and data-based evidence will sharpen the implementation of national plans and instruct progressive policymaking from the local to the European level.

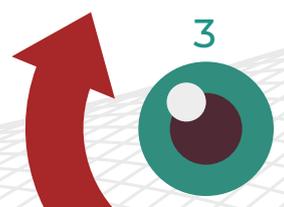
The Recovery Watch will deliver over 15 policy studies dedicated to cross-country analysis of the National Recovery and Resilience Plans and NextGenerationEU. Monitoring the distributive effects of EU spending via NextGenerationEU, and the strategies and policies composing the national plans, the project will focus on four areas: climate action, digital investment, welfare measures and EU governance.



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# EXECUTIVE SUMMARY

Activation policies have been the subject of ongoing debate regarding their purpose, effectiveness and potential unintended consequences. Traditionally, activation is understood as policies aimed at removing barriers to employment and strengthening the connection between social protection and work life. Historically, these policies were closely associated with the New Labour strategy in the United Kingdom, which aimed to make work financially rewarding and conditioned income support on job-seeking efforts. While seen by some as instrumental in reducing unemployment rates, activation strategies have also faced significant criticism. Critics argue that activation can serve as a disguise for deregulation policies, placing excessive emphasis on individual responsibility for unemployment rather than considering macroeconomic factors. Engaging in a debate solely focused on the binary notion of activation being good or bad risks overlooking crucial aspects of the intervention logic behind different forms of activation strategies and their evolution over time in a changing macroeconomic environment. The revival of activation policies today, indeed, seems to have less to do with the idea of fighting an "unemployment sclerosis" considered typical of European economies than with **the perspective to address new challenges linked to changing demographics, new social aspirations and, above all, major industrial transformations driven by the necessary adaptation to climate change and digitalisation and its resulting impact on work.**

“

Engaging in a debate solely focused whether activation is good or bad risks overlooking crucial aspects of the logic underlying different interventions.

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This study accordingly reviews the extent to which the nature of activation reforms enacted in national recovery and resilience plans (NRRPs) differ from the trajectory of reforms engaged before the pandemic and attempts to answer the following questions:

- Is there a "quality jump" in the nature of activation policies planned in national recovery plans, compared to the kind of activation policies enacted in the last two decades?
- What are the actors involved in the adoption of new plans and to what extent can they be expected to support policy design and implementation?
- Have EU institutions become more supportive of productivity-enhancing labour support?

The first contribution of this study is to distinguish between the different types of active labour market policies (ALMPs) and the different logics of intervention underlying activation policies. Building on the existing literature, we identify six types of ALMPs, namely income support, occupation schemes, labour search inventive reinforcement, subsidised job creation, employment assistance policies, and upskilling policies. We use these categories as a reference base to distinguish between three kinds of activation logic underlying reform trends, which we refer to as *commodifying*, *liberalising*, and *capacitating* interventions.

To provide an answer to these questions, **Chapter 1** first looks at macro data to capture structural gaps in France, Germany, Italy, Poland and Spain's needs before the pandemic. Comparing the composition of activation spending between 2004 and 2020 notably reveals largely diverging evolution within our sample of selected countries. Driven by high GDP growth rates and invasive Hartz reforms, public spending as a share of GDP expectedly shows a decline in both passive and ALMP interventions in Germany. The story is yet more puzzling when looking at developments in France, Italy and Spain: passive spending increased in all countries; Spain managed to increase active spending over the period – in the same vein as in Poland – where passive spending remained stable. Delving further into the composition of ALMP spending, meanwhile, reveals a clear trend towards fewer state-driven interventions (as in the case of direct job creation, especially in France and Germany) and a growing recourse to hiring incentives, which surged in Poland and Spain, raising questions about the trajectory of reforms underlying this change.

**Chapter 2** accordingly assesses which efforts countries have undertaken to overcome the challenges identified in country-specific recommendations since 2011. For this, we conduct a snapshot analysis of the main reforms undertaken in the last two decades in the five selected countries. In a nutshell, we observe a gradual transformation from a workfarist approach towards a more capacitating approach in Germany, while the opposite seems to occur in France. While Italy and Spain both followed a period of "embedded flexibility", associating a widening of social provision coverage with market liberalisation and a commodification of existing unemployment insurance schemes, both countries also gradually considered ways to reduce territorial inequalities in the delivery of ALMPs. Finally, Poland, which benefited from strong macroeconomic growth, seemed to be able to afford a relative neglect of activation policies, although risks also appeared that the gradual privatisation of training schemes would fail to help address capacitating needs.

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The RRF helped trigger major welfare recalibrations in some countries and amplify existing trends in others.

”

In **Chapter 3**, we use the same framework to look at the content of reforms and investments related to activation proposed in NRRPs. The implementation of resilience and recovery plans in response to the pandemic revealed both continuity and change in the priorities of each country. Germany's plan could be qualified as a "social consolidation", largely confirming past trends towards a move away from the Hartz reforms, while France decisively embraced capacitating measures but in combination with reforms entailing strong commodification and liberalisation logic. Italy's NRRP rather appears to be a technical exercise pushed through by the central government, in contrast to Spain, which opted for a more consultative approach to eventually propose a politically driven shift towards social investment. Finally, Poland's plan used EU support to provide a stronger involvement in capacitating services of its industries, and it now remains to be seen whether a more human-centred approach will also follow through.

By means of conclusion, we assess, in particular, the extent to which planned reforms: (i) move away from the traditional "workfarist" approach – in vogue at the turn of the century – which primarily rested upon a mix of commodifying and liberalising logic; (ii) improve the government's coordination capacity in the delivery of activation reforms; and (iii) reflect a higher level of EU support than observed in the past. Here, we observe that the Recovery and Resilience Facility (RRF) helped trigger – in some cases and amplify in others – important welfare recalibrations. While this statement may be nuanced for Germany, where the financial scope of the RRF is limited, the German recovery plan nonetheless exhibits a continuation of childcare infrastructure development, an agenda serving both child development and female employment growth. An agenda that started after the EU's first Barcelona targets and has been continuously supported by EU funds ever since. It is equally relevant to note that EU funds now further contribute to youth employment and training in France, in the similar vein to that done via the Youth Guarantee in the aftermath of the Great Recession. **The cases of Italy and Spain probably show the clearest examples of EU additionality, since the provision of new funds clearly helped improve both ALMP integration, on one hand, and addressed labour market segmentation, on the other,** where engagement at the EU level in the previous crisis had, on balance, proved largely disastrous. Finally, the strengthened coordination of vocational education and training systems in Poland may equally be seen as bearing the fruits of long-term engagement of the EU with national authorities. This good news should also come with some lessons to be learned for EU institutions. Firstly, "it takes two to tango", that is, instruments such as the RRF can act as a "selective amplifier", but, to make them work, two preconditions seem to be necessary: (i) *desirability*, or the possibility for governments to associate difficult reforms with a positive horizon, which may be provided by associated investments; and (ii) *capability*, or the existence of institutional conditions and resources to deliver on the agreed agenda. A second lesson for the EU stems from a recommendation issued by stakeholders themselves in the course of our fieldwork and may be best worded as follows: "to whom much is given, much is required". According to these actors, unfavourably comparing the EU to the IMF and OECD expertise and field-work approach, new steps in EU integration should come with a stronger drive for building up country-specific expertise, either internally or via a more decisive push in seeking national expertise.

This study identifies additional scope for policy intervention at national level. For Germany, both structural (the changing demographics, in particular) and conjunctural



trends (labour supply pressures) unusually point to a similar labour market need: better integration of migrants; a plan currently discussed in the German debate. For the EU, this point should accordingly move from the status of "nice to have" to a "must do", in a wider reconsideration of the rather complacent approach taken by EU institutions towards the (former) job-growth machine. France has clearly demonstrated much effort in increasing the employability of its youth. And while the rise of apprenticeships, combined with the wealth of hiring incentives enacted by previous governments, is likely to lead to a sudden rise in the overall employment rate, looking only at headline figures would risk neglecting major reform needs in terms of access to childcare for the most vulnerable, general education and lifelong learning (as in case of the *Territoires Zero Chômeurs* initiative), all structural elements better able to address both economic and political challenges remaining. Italy's integration of ALMP services responds to a long-term EU ask, but hypercentralised decision-making on reforms and investments in this area bypassing regional and local authorities raises questions about the effectiveness of service delivery looking ahead. As long pointed out by the rich literature on EU cohesion policy, the lack of administrative capacity in Italian regions has been a major issue for some time. As recent debates on the overall delivery of the Italian plan highlight, EU efforts to further improve administrative capacity and service quality monitoring across different levels of governance should be considered a priority for EU action. A similar recommendation can be issued to the EU with regards to its engagement with Spain: in the wealth of measures enacted in the labour market policy area, monitoring effective implementation will require more attention than normal, especially in the context of a rapidly changing political environment. In particular, the poor coordination of public employment services between the national and regional levels, in the context of striking differences in unemployment levels across regions, should be at the heart of EU attention. Finally, the future will tell whether Poland's "all-macro" approach will pay off or reveal a particularly risky strategy when less rosy times return. In the meanwhile, encouraging Poland to develop more capable public employment systems would prove a wise starting point, before further engagement on the final content of the Labour Code Reform and Employment Activity Act.

Improving activation strategies across the European continent will now also require for major changes in EU governance. The "re-nationalisation" of activation policies, coupled with the centralization of control, has shifted key decisions away from regional and local stakeholders

who are instrumental in ALMP service delivery. While national responses to the pandemic indicated a centralization trend in various countries, from France and Poland to traditionally federal systems like Spain and Italy, this approach poses a risk to the effectiveness of activation strategies. These strategies are best supported when ALMP services, largely implemented by regional and local authorities, are tailored to the specific historical, geographical, and environmental nuances of each territory. To enhance the impact of EU policies and programmes, there is a pressing need for greater involvement from local and regional authorities, ensuring domestic ownership and accountability. Furthermore, a rigorous assessment of how EU, national, and regional policies interplay would optimize the benefits of envisioned reforms and investments in NRRPs and the effectiveness of funds spent via the EU budget more widely.

In the broader context, the quest for a more employment-rich economy within the EU demands a re-evaluation of its growth model. This is particularly pertinent in the Economic and Monetary Union (EMU), where fostering employment and equity simultaneously requires an integrated approach to fiscal, monetary, and industrial policies. The EU's current fiscal frameworks, especially when compared to recent developments in the US, seem to sideline the significance of demand-side management. As discussions around the economic governance framework continue, a more defined Social Convergence Framework should emerge, granting equivalent powers to social and finance ministries. The impending European Parliament elections present an opportune moment to redefine the EU's development strategy, with an emphasis on fiscal stances that tap into the EU's maximum employment growth potential. The current momentum, where European governments and EU institutions are recognizing the value of fiscal leverage, should be harnessed to better support the myriad job transitions occurring at local, regional, and national levels.

# 1. INTRODUCTION

"Making the economy more employment rich." This goal has recently made a strong return on the political agenda. On 17 February 2021, Mario Draghi's first parliamentary address as prime minister stressed that "job creation, first and foremost among women, is an imperative goal",<sup>1</sup> emphasising the need to effectively spend funds from the NextGenerationEU programme by "learning from past experiences that have so often disappointed our hopes". When, on 17 March 2022, French President Emmanuel Macron launched his presidential campaign, he pledged to reach "full employment" in the next five years as a core objective of his political manifesto. The revival of the employment growth agenda was also visible at the EU level with the release, on 3 March 2021, of the Action Plan for the European Pillar of Social Rights, proposing three targets related to job creation: the employment rate of those aged 20-64 should increase to 78%, from 72.5% in 2020; the gender employment gap should be halved; and the share of young people not in employment, education or training (NEET) should be reduced to 9%, from 12.6% in 2019. Indeed, after initial efforts to *preserve* jobs and income at the heart of the pandemic, the EU's focus has recently shifted towards job *creation* in the recovery phase, with the issue of the "activation" of the welfare state receiving as much political attention as in the early 2000s. But do we understand activation today in the same way as we did back then?

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Activation is generally understood as policies that remove obstacles to employment and reinforce the link between social protection and work life.

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Activation is traditionally understood as policies that remove obstacles to employment and reinforce the link between social protection and work life.<sup>2</sup> Historically, these policies have been strongly associated with the strategy developed in the United Kingdom under New Labour, involving a mix of policies aimed at "making work pay" (such as working tax credits aimed at increasing women's participation) and other regulations aimed at conditioning income support on job seeking. Particularly influential in Germany as well, the concept of "activation" is generally used to

describe the series of social protection and labour market reforms adopted under the Agenda 2010 strategy, such as the Hartz reforms. Perceived by some as the driving force behind dropping unemployment rates in Germany, this strategy has also received major criticisms. Thus, while most critical voices perceive activation as a cover-up for deregulation policies in a new disguise,<sup>3</sup> others point to their inherent "commodifying nature" – putting undue attention on individuals' "failures", where unemployment should, in fact, be considered as primarily resting on macroeconomic factors. A final group of critics argue that, while possibly desirable for the "carrying capacity" of the welfare state, activation may produce other unintended effects, such as segmentation among the unemployed themselves.<sup>4</sup> At the same time, entertaining a debate primarily focusing on whether activation is good or bad would risk missing critical points linked to the logic of intervention underlying different forms of activation strategies and how these have evolved over time and the extent to which the meaning of activation has changed based on the evolving macro environment. Today, the revival of activation policies seems, indeed, to have less to do with the idea of fighting an "unemployment sclerosis" considered typical of European economies than with the perspective of addressing new challenges linked to changing demographics, new social aspirations and, above all, major industrial transformations driven by the necessary adaptation to climate change and digitalisation and its resulting impact on work. Meanwhile, as we argued elsewhere,<sup>5</sup> **in the current context marked by inflationary pressures, on one hand, and skills and labour supply shortages, on the other, a more inclusive kind of activation strategy, based on social investment policies, should be considered part and parcel of a government's toolbox to contain the rise of inflation.**

Faced with the war in Ukraine and the other major challenge that constitutes reducing its carbon footprint, Europe's capacity to recover a sustainable development pathway will partly depend on its ability to maintain unity and social cohesion among its members. To respond to the major economic and social downturn caused by the pandemic, EU members agreed in 2020 to launch the "NextGenerationEU" programme, the funding of which is supported by the Recovery and Resilience Facility (RRF). Making the economy more employment rich features as one of the key objectives of the RRF, as the latter shall aim to "contribut[e] to the upward economic and social convergence, restoring and promoting sustainable growth and the integration of the economies of the Union, fostering high-quality employment creation" (RRF Reg., Art. 4). As of today, the existing scholarship has revealed the rationale underlying the adoption and financial allocation of the RRF<sup>6</sup>



# 1. INTRODUCTION

and pointed to how its rediscovered fiscal capacity could help empower the European Semester.<sup>7</sup> From a more evaluative perspective, studies have also considered emerging challenges in the implementation of public employment service (PES) reforms and investments contained in the recovery and resilience plans (RRPs).<sup>8</sup> To the best of our knowledge, there has not yet been a comprehensive review of the extent to which the nature of activation reforms enacted in national recovery plans differ from the trajectory of reforms engaged before the pandemic. Is there a "quality jump" in the nature of activation policies planned in national recovery plans, compared to the kind of activation policies enacted in the last two decades? What are the actors involved in the adoption of new plans and to what extent can they be expected to support policy design and implementation? Have EU institutions become more supportive of productivity-enhancing labour support?

This study attempts to answer these questions by building on a refined analytical framework built after a survey

of the "activation" literature and a thorough analysis of the pre- and post-RRF policy frameworks in five major European countries: Germany; France; Italy; Spain; and Poland. Two implications notably stand out from the academic literature on activation policies. Firstly, it clearly appears that scholars understand very different things under the term "activation", as revealed by the high degree of confusion remaining between activation and active labour market policies (ALMPs), on one hand, and "workfare" policies, on the other – which also risks conflating empirical and normative dimensions.

## 1.1 THEORETICAL FRAMEWORK

This study accordingly proposes to analytically distinguish, firstly, between different *types of ALMP instruments* (Table 1). Building on a review of the existing literature (see, in particular, Bonoli<sup>9</sup> and Dinan<sup>10</sup>), we shine light on six types.

**TABLE 1. A typology of ALMP instruments**

| TYPE OF SUPPORT                       | OBJECTIVE   | TOOLS  |
|---------------------------------------|---|--|
| INCOME SUPPORT                        | Support "secure capabilities" in (quality) job searches                         | Social insurance schemes<br>Minimum income schemes<br>Other forms of social assistance unrelated to employment       |
| OCCUPATION SCHEMES                    | Keep jobless people occupied; limit human capital depletion during unemployment | Work-experience schemes in the public sector or in non-profit roles<br>Job guarantee                                 |
| LABOUR SEARCH INCENTIVE REINFORCEMENT | Strengthen negative work incentives for people on benefits                      | Benefit reductions<br>Benefit conditionality<br>Time limits on reciprocity<br>Sanctions                              |
| SUBSIDISED JOB CREATION               | Introduce positive work incentives for hiring entities and workers              | Job subsidies and reduced social contributions<br>Tax credits, in-work benefits<br>Below-minimum wages               |
| EMPLOYMENT ASSISTANCE POLICIES        | Facilitate (re-)employment capabilities through public support                  | Placement services<br>Counselling and rehabilitation programmes<br>Job search programmes<br>Entrepreneurship support |
| UPSKILLING POLICIES                   | Improve the chances of finding employment by upskilling jobless people          | Basic education<br>Vocational training<br>Second-chance schools<br>State-financed company trainings                  |

Source: Own elaboration building on Bonoli<sup>11</sup> and Dinan.<sup>12</sup>

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The second point relates to the logic underlying the use of ALMP instruments. In particular, we know little today about how these tools are convoked to complement or replace one another. In this study, our aim is to assess whether, after a first phase of "moralistic" reforms (to which the term "workfare" is often referred), activation policies are increasingly attempting to accompany jobseekers in their efforts to find a job. To assess the evolving nature of activation policies, our analytical framework accordingly distinguishes between three different logics of intervention, which we refer to as

"commodifying", "liberalising" and "capacitating". In Table 2, we accordingly provide a classification of intervention logic underlying activation support, their policy objectives and the tools used in their implementation. In the rest of this analysis, we use the term "workfarist" as a heuristics to qualify an approach setting disproportionate emphasis on commodification and liberalisation logic over capacitating logic, and "embedded flexibility" as a process relying on the same two intervention logic types but integrating a concomitant widening of social assistance provisions.

**TABLE 2. Classification of activation intervention logic**

|                  | COMMODIFICATION   | LIBERALISATION  | CAPACITATION   |
|------------------|---|---|--|
| POLICY OBJECTIVE | Increasing the employment orientation and cost containment of social security buffers                           | Easing flows for labour market mobility and incentivising the entry of outsiders                                  | Enhancing human capital stocks and workers' bargaining positions via new social rights |
| ALMP TOOLS       | Reinforcement of individual labour search incentives<br>Income support increasingly conditional on job searches | Reforms deregulating employment protection laws<br>Subsidised job creation<br>Phasing out of occupational schemes | Boosted capacity of PESs<br>Strengthened employment assistance<br>Upskilling policies  |

Source: Own elaboration.

## 1.2 CASE SELECTION

To generate conclusions of wider external validity, we base our case selection on five countries commonly considered as critical cases in this new phase of EU integration. Germany, France, Italy, Spain and Poland are the five most populous EU countries, covering almost two thirds of the EU population. This selection also provides a mix of cases considered to be following different policy legacies and operating in institutionally diverse environments, helping us to increase our analytical leverage.

We first look at macro data to capture structural gaps in a country's needs before the pandemic. To assess which efforts countries have undertaken to overcome exposed challenges, we then conduct a snapshot analysis of the main reforms undertaken in the last two decades in the five selected countries. We then use the

same framework to look at the content of reforms and investments related to activation proposed in national recovery and resilience plans (NRRPs). By means of conclusion, we assess, in particular, the extent to which planned reforms (i) move away from the traditional "workfarist" approach in vogue at the turn of the century, which primarily rested upon a mix of commodifying and liberalising logic; (ii) improve the government's coordination capacity in the delivery of activation reforms; and (iii) reflect a higher level of EU support than observed in the past. By using the two levels of this analytical framework, we aim to shed light on different phases of recalibration and the kind of governance restructuring that they involve, ultimately helping to better identify possible EU added value via the RRP.

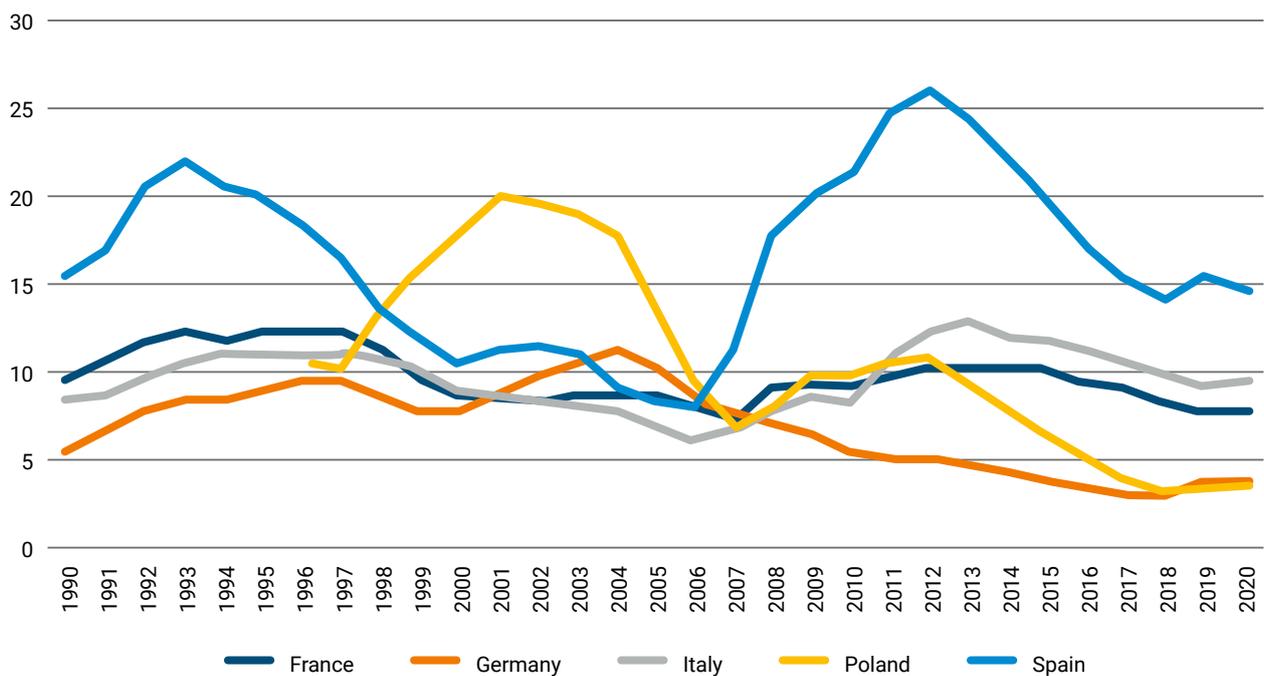
# 1. INTRODUCTION

## 1.3 ACTIVATION POLICY: A BRIEF COMPARATIVE HISTORICAL PERSPECTIVE

To assess activation reform trajectories, we first provide a brief review of a country's specific structural needs. To bring some perspective on the kind of pressures shaping our sample of countries in the last decades, we first look at the unemployment performance of these countries from the 1990s. Zooming in on the year 2004 provides an interesting historical snapshot to shed light on important macro developments. Germany displayed then the highest unemployment rate of the group. Heavily impacted

by the 2002-2003 crisis, 11.3% of the German population was then looking for a job. Meanwhile, fuelled by adoption of the euro and the resulting housing bubble, unemployment was on a declining path in Spain and Italy, as well as in France, where it stood below 9%. As we can observe from Figure 1, jumping to 2020 provides a dramatically different picture. The Great Recession, followed by the austerity crisis, led to a surge in unemployment in these three countries up until 2013, where the trend finally started to reverse. Meanwhile, Germany went through a seemingly unstoppable path towards full employment, which only Poland seemed able to later follow, in the recovery phase.

FIGURE 1. Evolution of the unemployment rate (1990-2020)

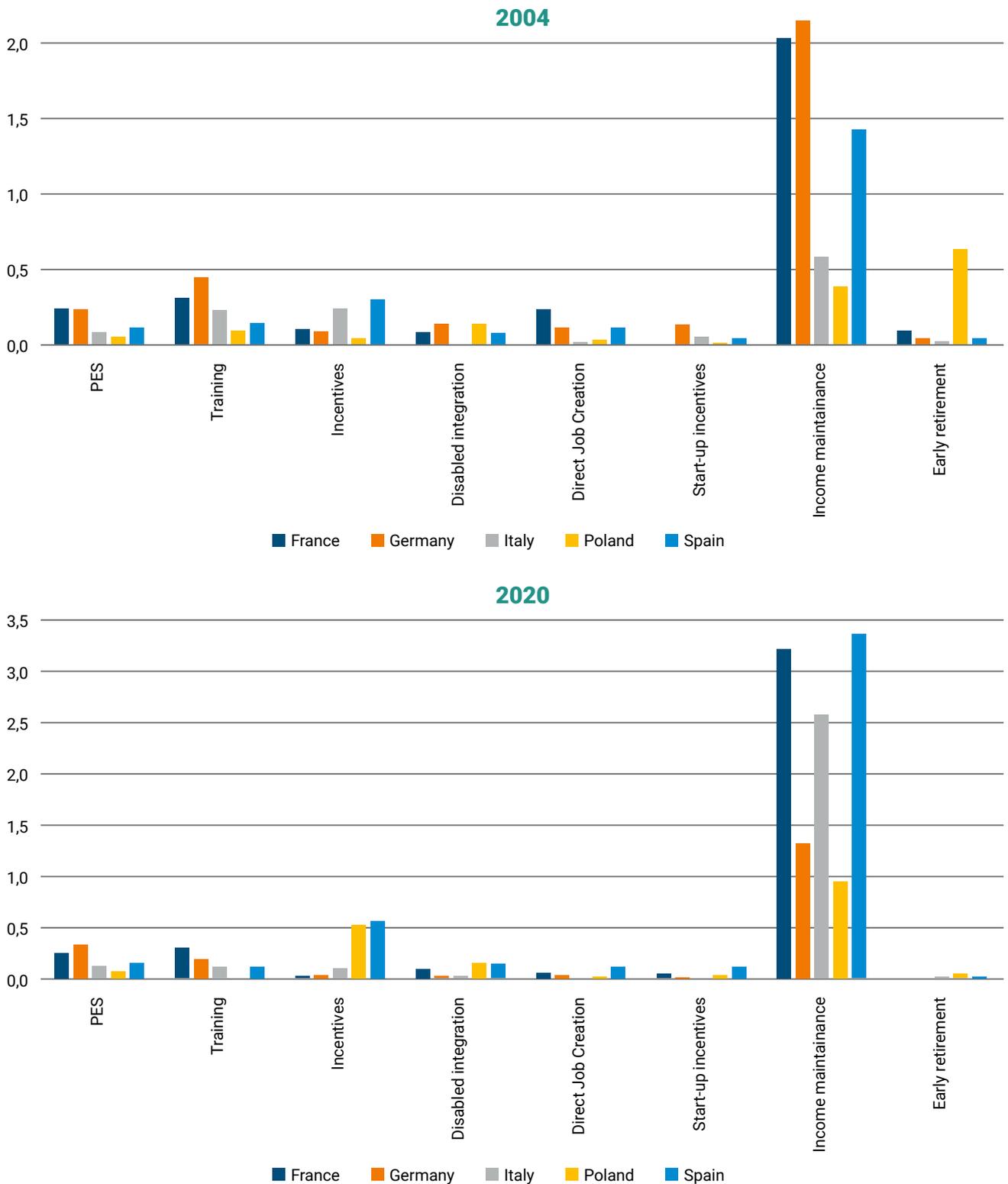


The roots of unemployment are manifold. And if macroeconomic trends undoubtedly impact on how many people are looking for a job and will be able to find one, the multiple economic and social evils associated job losses imply that policymakers cannot just contemplate their evolution. Politicians in the five largest EU countries have accordingly used different instruments to reduce the frequency and duration of unemployment spells when shocks hit, smoothen the bounce back of

the labour market in the recovery phase, but also ensure that periods of booms are also associated with matching job growth rates.

To consider how these instruments have traditionally been used by governments, we look at the evolution between 2004 and 2020 to consider the composition of labour market policy (LMP) spending per category, as provided by Eurostat data (Figure 2).

**FIGURE 2. Evolution of LMP spending per category (2004 vs. 2020)**



Source: Our elaboration based on Eurostat data<sup>13</sup>

# 1. INTRODUCTION

The 2004 snapshot reveals both similarities and differences in the policy mix of EU welfare states. Looking at the Organisation for Economic Co-operation and Development (OECD) data, we clearly observe important reminders of the corporatist legacy in income maintenance levels, which represent by far the highest share of LMP spending in Spain and Italy, as well as in France and Germany – two countries where it reached about 2% of GDP. This comparative snapshot also reveals substantial differences in other categories, with training, PESs and direct job creation proving more common in France and Germany, while Spain, Italy and Poland most heavily rely on financial incentives granted to firms. Finally, Poland proved characteristic of a LMP primarily biased on "passive spending", as it spent the highest share of its ALMP budget on early retirement, income maintenance and direct integration.

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In Germany, income maintenance assuredly received the most striking decline, sharply contrasting with the rise observed in other countries, in particular, Spain and Italy.

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Shifting the focus to 2020, examining the allocation of spending within LMPs provides a new perspective. Most striking are the evolutions observed in Poland, which seems to have been phasing out its early retirement scheme, but also Germany, where LMP spending as a share of GDP has been reduced in all categories apart from PESs. This comparative analysis should be interpreted with caution given the high GDP growth performance and lowering unemployment rates observed in Germany and Poland, in contrast to Italy, Spain and France over this period.<sup>14</sup> The evaluation of spending categories relative to one another, nevertheless, remains telling. In

Germany, income maintenance assuredly received the most striking decline, sharply contrasting with the rise observed in other countries, in particular, Spain and Italy. Meanwhile, although Italy saw a slight decrease in its spending on labour market incentives, this indicator clearly went up in Poland and Spain.

Overall, these trends are consistent with what observers tend to know about ALMP trends in the EU. Germany is now widely known for having conducted the Hartz IV reforms (which substantially reduced unemployment assistance benefits), whereas governments in Spain are known to have long made use of different types of deductions in social contributions and tax incentives to foster the labour market participation of vulnerable groups. These findings are not, however, without some lessons. The confirmation of this trend also provides a somewhat puzzling development, since both countries undergo a largely workfarist approach, in spite of different institutional capabilities. We accordingly consider this variable more attentively in the remainder of this study. Secondly, while the general trend in spending is known, we know much less about the importance of these dynamics *relative* to the needs identified at the beginning of the century. To appreciate recalibration needs, as identified by EU institutions, we use as a starting point the country-specific recommendations issued in the ALMP area since 2011 and zoom in on the main reforms adopted since then. We complement this analysis by a brief introduction of the reform trajectory engaged before the crisis. In light of the limited word count and the focus of this study on reforms issued in the national recovery plans, this chapter does not intend to be exhaustive but rather to shed light on the main reform dynamics.

## 2. COUNTRIES' CHALLENGES AND RECALIBRATION TRAJECTORIES BEFORE THE PANDEMIC

This chapter provides a brief comparative historical perspective on activation policies in the five countries we selected, exploring the evolution of the intervention logic that underlined welfare reforms. By analysing the historical context, this chapter sets the foundation for understanding the extent to which measures adopted in the RRF represent a continuation or breaking away from past trends.

### 2.1 GERMANY: EU'S (COSTLY) SUCCESS STORY



If Germany had been considered the "sick man of Europe" in the late 1990s and early 2000s, the country gradually reduced its unemployment rate from 2005 onwards, gaining the status of a "success story" for EU institutions. Of particular importance were the Hartz reforms, which reduced unemployment benefits, merged unemployment assistance and social assistance, further liberalised the labour market via the institutionalisation of mini- and midijobs,<sup>15</sup> and fundamentally reformed the PES and the vocational education and training (VET) system. As unemployment rates declined sharply, supported by an improving macroeconomic performance

and renewed attention on the long-term unemployed (2007-2011), "Model Deutschland" was used as a reference in EU circles. At the same time, the creation of a new class of "working poor" and higher incidence of poverty among the long-term unemployed heightened concerns of a further dualisation of the labour market.<sup>16</sup> While relegated to being a secondary concern for good macroeconomic performance, the Commission's country-specific recommendations (CSRs) issued since 2011 showed a reiterated focus on the need to address this segmentation. **Without ever really questioning the Hartz "turn", EU recommendations emphasised the need for German authorities to facilitate the transition to non-standard forms of employment and reduce educational inequality and skills among disadvantaged groups**, while stressing the need to "maintain activation and integration measures" when the government proposed to reduce the ALMP budget in 2013.

Looking at the evolution of Germany's ALMP policies since 2013 shows a clear contrast with the original phase of recalibration (Table 3). Formally, the "*Foerdern und Fordern*" ("Demand and Support") doctrine of the Hartz reforms rested upon a comprehensive reform programme, involving all logic types of commodification, liberalisation and capacitation. But, in practice, the intensity of benefit restrictions did conjecture a workfarist "shock therapy". After this turn, incentive reinforcement proved largely untouched until 2018 when the eligibility to the contributory programme was extended to people in training and homecare. Meanwhile, the restructuring of ALMPs largely shifted gears towards the capacitation of its putative workforce, notably via a greater individualisation of support for the long-term unemployed. Two initiatives stand out as particularly representative of this trend. With the adoption of the programme *Soziale Teilhabe am Arbeitsmarkt* (Social Participation in the Labour Market) in 2015, the government used the capacity built up by its PES over the years to target specifically those unemployed furthest away from the labour market.<sup>17</sup> The main other ALMP reform adopted before the pandemic was the "Participation Opportunities Act", which came into force in 2019. The reform established new wage subsidies for employers that hired workers who either had received benefits for at least six of the previous seven years or had been unemployed for at least two years, while combining benefits with a comprehensive coaching programme.



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This brief snapshot of ALMP reforms adopted in Germany showed that if, over the first decade of the 2000s, recalibration was akin to "shock therapy", relying primarily on the commodification of social assistance provisions and liberalisation logic, a paradigmatic shift occurred in the wake of the Great Recession. This trend is not only exemplified by the more inclusive and supportive approach taken towards the unemployed (also paralleled by massive investments in childcare since 2004). Following strong pressure by Germany's Social Democratic Party

(the SPD), since the 2013 federal election campaign, a main reform characteristic of this trend lay in the introduction of a statutory minimum wage in 2015 (originally set at €8.50 per hour) and, above all, its increase to €12 per hour under the Scholz government in 2022. On the eve of the pandemic, the German welfare state, therefore, seemed to be on a path bringing it closer to EU recommendations, although concerns remained regarding the adequacy of unemployment benefits and the remaining segmentation of the labour market.

**TABLE 3. Main ALMP reforms in Germany (2000-2020)**

|                     | COMMODIFICATION   | LIBERALISATION  | CAPACITATION   |
|---------------------|---|---|--|
| MAIN POLICY CHANGES | <p>Hartz IV unemployment benefit restrictions (2005)</p> <p>Restricted access to statutory unemployment insurance and non-contributory unemployment insurance (2006-2007)</p> | <p>Hartz II mini- and midijobs (2003)</p> <p>Work for the long-term unemployed (2005, 2010)</p> <p>Apprenticeship subsidies (2007)</p> <p>Training vouchers for the unemployed (2001, 2011)</p> <p>Wage subsidies for the long-term unemployed (2018)</p> | <p>Hartz I and III PES reform and VET (2003)</p> <p>Old-age unemployment aid (2006)</p> <p>Municipalities jobs for the long-term unemployed (2007)</p> <p>Reduction in ALMP spending (2013)</p> <p>Social participation in the labour market (2015)</p> <p><i>Statutory minimum wage introduction (2013, implemented 2015) and increase (2019)</i></p> <p>Assisted training scheme for disadvantaged people (2015)</p> <p>People in training and homecare eligible for benefits (2018)</p> <p>Participation Opportunities Act (2019)</p> |
| GOVERNANCE REFORMS  | <p>Integration of the provision of active and passive support to the unemployed (2005, 2010)</p>  | <p>PES modernisation (2001)</p> <p>Decentralisation of PES governance (2005, 2011)</p>  | <p>Creation of the autonomous Federal Labour Agency, merging local with federal-level welfare administration (2003)</p> <p>Reinforcement of local employment centres (2008)</p>  |

## 2.2 FRANCE: AN ADJUSTING WELFARE PARADISE UNDER GROWING CENTRALISATION



France's "activation" turn started in the early 2000s, with ALMP reforms focused on creating new "contracts" for the unemployed (such as the *Revenu Minimum d'Activité* (RMA, Minimum Income of Activity) or the *Revenu de Solidarité Active* (RSA, Active Solidarity Income), increasingly linking benefits to job searches, before these were progressively replaced with pay bonuses aimed at "making work pay", as in the case of the "*Prime d'Activité*" (PA, Activity Premium) adopted under President Hollande (see Table 4). Meanwhile, if reforms allowing more precarious forms of employment found their way into both left- and right-wing manifestos, most ambitious reform attempts faced large popular resistance – as in the case of the *Contrat Première Embauche* (CPE, First Employment Contract), which was finally abandoned after mass mobilisation. While France buffered the Great Recession relatively well, its recovery proved slower than most other EU countries, with dualisation remaining largely unaddressed. To explain labour market slack, EU CSRs from 2012 targeted the "usual suspects", that is, high labour costs for companies, high minimum wages and employment protection legislation (EPL). Yet, following the wider trend of "socialisation" of the Semester,<sup>18</sup> CSRs addressed to France also increasingly stressed the need to combat segmentation and

to improve life-long learning, especially among the elderly, alongside pension reforms. In addition, while EU institutions advised that unemployment benefits be increasingly linked to job-seeking requirements, they also highlighted the need for both policy and institutional reforms of the ALMP and VET systems.

To what extent did France address these challenges? ALMP reforms in the last decade in France occurred largely in line with EU recommendations. Yet, contrary to the trend observed in Germany over the last decade, reforms in France took an increasingly workfarist tone. Up until the Great Recession, unemployment benefits remained more generous in France than in the UK or Germany. In the crisis context, the Hollande government started to tighten eligibility conditions in 2013, before introducing the PA. Alongside these incentive-based instruments, there was a new strategy for the French PES aimed at providing "comprehensive support" via more individualised and multidimensional services. This capacitating ambit was confirmed with the launch of the *Plan d'Investissement dans les compétences* (PIC) in 2019 – centralising professional training for the unemployed (Thies, forthcoming publication) – and the plan "1 Youth, 1 Solution". Yet, these reforms also occurred in the general context of a high level of disintermediation, liberalisation and commodification of social insurance provisions. An important part of this strategy was to create new "contracts" providing subsidies for companies to hire the long-term unemployed, but also low-wage workers, as agreed in the *Crédits d'Impôts pour la Compétitivité et l'Emploi* (CICE, Tax Credits for Competitiveness and Employment), a 2013 flagship reform of the Hollande presidency, which granted relief for the hiring of workers earning up to 2.5 times the minimum wage for a total cost estimate of €20 billion per year. Further to this, through the Macron Act, the El Khomri Law and Macron prescriptions, working time was deregulated, (collective) firing processes were made easier and redundancy payments were capped. After his election, Macron adopted the first reform of unemployment benefits, tightening eligibility conditions of workers on temporary contracts. On the eve of the pandemic, tensions with trade unions thus not only concerned the governance of welfare systems – a long-standing feature of French welfare politics – but also the nature of envisaged "employment-oriented reforms".

Overall, if France was long considered to be a country having resisted liberalisation, this trend clearly stopped in 2015 when deregulatory reforms and tax relief by stealth – for example, via different shades of *contrats aidés ciblés* (targeted-aid contracts) – supplemented



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the historical French commitment to favour "insertion" over "activation" strategies. At the same time, the accumulation and competition of provisions not only failed to address, but also contributed to, a low take-up rate of well-designed "welfare-to-work" schemes, partly eaten up by the proliferation of tax relief. If the French government

started embracing a capacitating logic – for the youth in particular – before the pandemic, these efforts clearly received less attention than the "recentralisation for retrenchment" mix in motion under the reform of unemployment (and pension benefits) envisaged on the eve of the pandemic.

**TABLE 4. Main ALMP reforms in France (2000-2020)**

|                     | COMMODIFICATION  | LIBERALISATION  | CAPACITATION  |
|---------------------|--|---|---|
| MAIN POLICY CHANGES | Revenu Minimum d'Activité<br>Revenu de Solidarité Active<br>Activity Prime (PA)<br>Activity Prime topped up<br><i>Loi pour la liberté de choisir son avenir professionnel</i> – Tightening of eligibility conditions (2018, unemployment conditions first <i>suspended</i> ) | Exemption <i>Fillon</i> on social contributions (2002)<br>CPE, repealed in 2010<br>"Contrat Unique d'Insertion" (CUI-CAE/ CIE, "Single Inclusion Contract") (2010)<br>Contrats de Professionalisation (2011)<br>CICE (2012)<br>Macron Act (2015)<br>Rebsamen Law (2015) – Looser CUI eligibility conditions for workers above 50<br>El Khomri Law (2016)<br>Macron prescriptions (2017) | Plan for Employment and Social Cohesion (2003)<br>Contract of professional transition for the economically dismissed (2006)<br>"Emplois France" Programme (2013)<br>Youth Guarantee (2013)<br>"Comprehensive support" ( <i>Accompagnement global</i> ) PES strategy (2014)<br>Skills Investment Plan (PIC) (2019) |
| GOVERNANCE REFORMS  | Decentralisation of the RMI (1988-2004)<br>Creation of <i>Pôle Emploi</i> , bringing together placement and unemployment benefits (Assedic) (2008)<br>Temporary centralisation of the tripartite agreement regulating ALMP (2019)  |   | Decentralisation of vocational training for unemployed to the <i>départements</i> (2014)<br>Establishment of French <i>Compétences</i> (2018), recentralisation of vocational training  |

## 2.3 ITALY: EMBEDDED FLEXIBILITY



Between 2005 and 2014, the long-term unemployment rate in Italy increased from 3.8% to 7.8%, with about a quarter of people aged 15 to 25 facing unemployment. As observed above, spending on labour market programmes statistically appear to be relatively generous by EU standards. The reality is that ALMP expenditures are relatively low, with public spending being highly skewed towards "passive" measures. In particular, a large share of public money flows into in-work income support, which, while helpful in crisis times, has been massively used to keep companies afloat that would otherwise have been driven out of the market. While this issue long remained unaddressed, a **main characteristic of Italian LMPs in the last decades has been the deregulation of the labour market, occurring, for example, via the introduction of new, fixed-term contracts and a multitude of hiring incentives provided to firms** (such as the so-called "placement contracts"). Brokerage services, such as a job mediation and placement, received, in contrast, less attention. EU recommendations since 2012 accordingly stressed the need for Italy to tackle the fragmentation of its unemployment benefit system and to strengthen the link between active and passive policies. And while calls to reform EPL were made in a similar fashion as in France, a stronger focus was set in 2015 on the need to reinforce the coordination and performance of public employment offices, ensuring equal access to effective job assistance and training across all regions.

Looking at changes in Italian legislation in the last decade shows that, despite the high political instability the country has been under, major reforms were made in the area of LMPs. Reforms of unemployment schemes, firstly, widened the scope of beneficiaries to better account for atypical work forms, but also introduced stronger requirements to accept job offers or training, including in the realm of social assistance. Thus, the Fornero Law adopted under the Monti government introduced the *Assicurazione Sociale per l'Impiego* (ASpl) to cover all employees, apprentices and people working in cooperatives – and a mini-ASpl covering more atypical workers – but also strengthened sanctions for those refusing to accept an "adequate job offer" or participate in professional training. Building on reforms adopted under the short leadership of Letta,<sup>19</sup> the most comprehensive labour market reform of the last decade came under the Renzi government, which, with the Jobs Act (2014-2016), combined elements of liberalisation, commodification and capacitation. Instead of the existing ASpl regime, the Jobs Act introduced both a new unemployment insurance (*Nuova Assicurazione Sociale per l'Impiego*, NASpl) and a new social assistance vehicle (*Assegno sociale di disoccupazione*, ASdl), which would later be replaced by the Support for Inclusion Income (REI). As for previous reforms, the widening in scope of the regime was combined with provisions aiming at further "commodifying" the Italian social security system. The introduction in 2019 of the "*Reddito di cittadinanza*" or "Citizens' income", a flagship of the Five Star Movement, approved by the Conte government, represented, in that regard, an interesting mix of capacitating and activating logic. Contrary to what its name may imply, Italy's €7.1 billion plan, in fact, took the form of an activation scheme, with recipients due to enrol in job training and lose benefits if they turned down more than three job offers. Brought forward with a comprehensive reform of the PES<sup>20</sup> and praised for its "buffering" function in the pandemic, the *Reddito di cittadinanza* has been contested for its lack of effectiveness, partly attributed to the precarious nature of the jobs created for "navigators", supposed to help unemployed find a job. Meanwhile, if the Jobs Act was credited with the creation of circa 400,000 (temporary) jobs, its replacement with the "Dignity Degree" – portrayed by Luigi di Maio as an overturning of the Jobs Act – heightened, on the eve of the pandemic, pressures for the Italian welfare regime to provide well-functioning ALMP systems.<sup>21</sup>

Overall, ALMP recalibration in Italy can be qualified as a strategy of "embedded flexibilisation", combining destratification of social provisions at the core and more inclusive provisions for those at the margin (Table 5).<sup>22</sup> In



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the context of the widening and stronger commodification of unemployment benefit provisions, the quality of support granted to the unemployed appeared, on the eve of the pandemic, at the heart of the matter. Indeed, if the Renzi reforms suggest that this issue had gained prominence in the public debate, reports from international organisations, in 2019, continued to point to important shortcomings of the existing system, including in terms of spatial

differences and human and technological resources. Importantly, they also emphasised major coordination challenges across the employment services network – including the Ministry of Labour and Social Policies; several national agencies, such as the National Agency for Active Labour Market Policies; regional authorities; local employment offices; private accredited providers of employment services and local chambers of commerce.<sup>23</sup>

**TABLE 5. Main ALMP reforms in Italy (2000-2020)**

|                     | COMMODIFICATION  | LIBERALISATION  | CAPACITATION  |
|---------------------|--|---|---|
| MAIN POLICY CHANGES | <p>Fornero Law (2012) – unemployment benefits reform, introducing ASpl and mini-ASpl, covering atypical segments</p> <p><i>Sostegno per l'Inclusione Attiva</i> (SIA, Active Inclusion Support) (2015)</p> <p>Jobs Act (2015) - Smoother eligibility criteria, shorter duration, and more stringent search requirements under NASpl and ASdl</p> | <p>Prodi II Law (2007) – new funds to support self-employment among youth and women</p> <p>Maroni Law – fixed-term contracts for apprenticeships (2009)</p> <p>Gelmini Law – fixed-term contracts for specific projects (2010)</p> <p>Decree Law (2013) – economic incentives to hire ASpl beneficiaries and low-educated NEETs</p> <p>Youth guarantee (2013)</p> <p>Jobs Act – hiring and firing flexibility, administrative simplification, business-creation support (2015)</p> <p><i>Assegno di ricollocazione</i> (AdR, Re-employability allowance)</p> <p>Youth employment plan (2016)</p> <p>Hiring bonus (2020)</p> | <p>Fornero Law (2012) – limiting abuse of atypical employment</p> <p>Jobs Act (2015) – DISCOL single open-ended labour contract,</p> <p>Decree Dignity (2018), including REI</p> <p>Citizens' Income (2019)</p>   |
| GOVERNANCE REFORMS  | <p>Social assistance delegated to local and regional levels (2001)</p> <p>Creation of the ANPAL (2015)</p>   |   | <p>Instituto Nazionale della Previdenza Sociale (INPS) and regions charged to improve PES (2012)</p> <p>Creation of the provincial centres for school education for adults (CPIA) (2012)</p> <p>Reform of the ANPAL – delegation, upward regionalisation (2018)</p> |

## 2.4 SPAIN: A TAX-CUTS-BASED FLEXIBILISATION STRATEGY



The Spanish economy, much like the Italian one, has been facing important spells of unemployment, peaking in 2013. Even in relatively good times, as of January 2020, the unemployment rate remained close to 14%, a third of which concerned the long-term unemployed, according to the OECD. If unemployment benefits are also above the OECD average, public spending on ALMPs per unemployed person is considerably lower than the EU average, but also highly heterogenous across regions in charge of this policy. This situation can be partly attributed to the large spending cuts on ALMPs that occurred during the Great Recession, in particular, in the most "productive" areas of public spending.<sup>24</sup> The austerity environment was also reflected in the profile of ALMP reforms adopted by the Partido Socialista Obrero Español (PSOE), with the kind of direct (public) job creation schemes and other PES and VET institutional capacity initiatives taken in 2008 clearly taking a back seat. Over the Great Recession years, reforms of the dismissal and wage-setting rules were high on the list of the CSRs addressed to Spain in 2012, while recommendations since 2015 have consistently insisted on the need to strengthen job-seeking requirements for unemployment benefits. But EU recommendations since 2013 have also emphasised the importance of

addressing coverage gaps in national unemployment schemes and regional minimum income schemes, while pointing to possible improvements in specific areas of ALMPs, including the use of training, advisory and job-matching services, and poor coordination between the national and regional PESs.

Recalibration of the Spanish LMPs during the austerity crisis hit social rights particularly hard. Reforms of EPL enacted in 2010 and above all in 2012 under the *Partido Popular* heightened work precariousness among young workers. Two trends prove characteristic of this recalibration. Faced with financing and constitutional limits for activating action, the central government largely relied on regional authorities, private companies (supported via hiring subsidies conditioned on the provision of "training at work") and self-entrepreneurship in delivering on core ALMP functions. Conversely, the role of trade unions only seems to have diminished, as attested by the 2017 law on collective bargaining, as well as the adoption of the "Joint Action Programme for the long-term unemployed", which, for all its merits, failed to associate social partners. The second trend suggests a less unilateral liberalisation. Torn between the need to respond to the new social risks linked to this evolving structure of the labour market and to increase job creation, the Spanish activation strategy mirrored the Italian "embedded flexibility" trajectory, combining lower generosity and increasing the commodification of unemployment insurance, on one hand, with the development of social assistance schemes, on the other. This trend was perhaps best reflected in the measures succeeding the 2009 Temporary Programme for Unemployment Protection and Insertion (PRODI), such as the 2011 PREPARA<sup>1</sup> reform, the 2017 Employment Activation Programme or the 2018 Extraordinary Unemployment Subsidy, which followed a broadly similar logic of commodification. Meanwhile, a wealth of minimum income schemes have been developed at the regional level, although differences between regions remaining on the eve of the pandemic pointed to the limits of this approach.

Overall, the Spanish ALMP strategy ahead of the pandemic seemed to be characterised by an eroding institutional capacity coupled with decreasing political enthusiasm for ALMPs, resulting from years of austerity, but also lower levels of employment participation than its northern neighbours – which, in turn, further affected

<sup>1</sup> The name "PREPARA" is a play on words in Spanish, relating to "getting ready." The full name of the program was *Programa de Recualificación Profesional de las Personas que Agoten su Protección por Desempleo*, that is: "Professional Requalification Program for People Who Exhaust Their Unemployment Protection." The PREPARA plan provided a subsidy and access to training for long-term unemployed individuals who had exhausted their unemployment benefits.

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its fiscal capacity. In the framework of its 2018 spending review, the Spanish Independent Authority for Fiscal Responsibility (AIReF) assessed that ALMPs in Spain notably pointed to the need to strengthen intermediation

between PESs and employers, enhance the autonomy of public employment offices, and improve consistency in the use of profiling tools and employment pathways to prevent regional fragmentation (Table 6).

**TABLE 6. Main ALMP reforms in Spain (2000-2020)**

|                     | COMMODIFICATION   | LIBERALISATION  | CAPACITATION  |
|---------------------|---|---|---|
| MAIN POLICY CHANGES | <p>Temporary Programme for Unemployment Protection and Insertion (PRODI) (2009)</p> <p>Professional Retraining Programme for People who Exhaust their Unemployment Protection Rights (PREPARA) – reduced duration and replacement rate, stronger link to employment history (2011)</p> <p>Extraordinary Unemployment Subsidy (2018) – tightening eligibility conditions and activation requirements</p> <p>Employment Activation Programme (2015-2017)</p> <p>Social Security Reform – means-tested benefits (2019)</p> | <p>Law for the Promotion of Personal Autonomy and Care for People with Disabilities (2007)</p> <p>Law on Employment (2007)</p> <p>Law for the Promotion of Entrepreneurship and Self-Employment (2008)</p> <p>Labour market reform (2010)</p> <p>"Training at work" schemes (2010-2012)</p> <p>Labour market reform – collective bargaining and redundancy rules (2012)</p> <p>Employment Promotion Act (2013)</p> <p>Strategy for entrepreneurship and youth employment (2013)</p> <p>Youth Guarantee (2014) and extension to 30 years old (2016)</p> <p>Decentralisation of collective bargaining (2017)</p> <p>Labour market reform (2018)</p> | <p>Law of Public Employment Services (2007)</p> <p>Plan E (2008)</p> <p>Plan for Orientation, VET and Labour Insertion (2008)</p> <p>Vocational Training Act (2012)</p> <p>Joint Action Programme for the Long-Term Unemployed (2016)</p> |
| GOVERNANCE REFORMS  | <p>Central government prevented from implementing activation policies (2018)</p>  |   | <p>Public Employment Service Reform (2012)</p>  |

## 2.5 POLAND: ERODING ALMP CAPACITY UNDER LOWER STRUCTURAL PRESSURES



While departing from a very different welfare legacy than Germany, Poland has benefited, in the last two decades, from an employment growth trajectory similar to that of its direct neighbour. After unemployment rates were halved between 2004 and 2008 when they reached around 9%, these only slightly increased over the Great Recession (10.6% in 2013), before showing a gradual decrease to 3.2% in 2020. Long-term unemployment reached its peak of 5.7% in 2014 to decrease to 0.8% in 2020. A number of challenges nonetheless lay behind this overall positive picture. The OECD thus has long pointed to a labour market segmented by education level (90% with higher education participants, ca. 50% with lower education), gender and age factors – with inactivity reaching as much as 49% of the 55-64 age group. A main cause for concern lies in Poland's overreliance on its growth engine, which, as scholars pointed out, makes it a "social model only suited to the 'good times'".<sup>25</sup> The ALMP regime has accordingly been qualified as an institutional "construction site", lacking policy on learning capabilities and continuity,<sup>26</sup> with understaffing and the lack of PES resources<sup>27</sup> being associated with a low quality of services provided to the unemployed,<sup>28</sup> in particular, persons with disabilities.<sup>29</sup> These shortcomings were well-noted in EU CSRs, which, from 2011 to 2015, included abuses of non-standard forms of employment

and the poor quality of education and training systems in their recommendations to address high labour market segmentation and the fiscal sustainability risks induced by low female and elderly participation levels.

In the last decade, Poland has gone through a paradigmatic recalibration of its welfare state. The Polish ALMP strategy first took a largely similar liberalisation focus to that in other large EU member states, with the 2009 reform of the PO-PSL government introducing a flexibilisation of the working hours and monthly worktime settlements, combined with a relaxation of rules constraining the use of fixed-term contracts (Table 7). Yet, in the wake of controversial reforms of the pension system (limitation of bridging allowances in 2008 and rising retirement age in 2012), the Tusk government shifted gears in 2013 by advancing a "social turn". In the subsequent decade, the Morawiecki plan of the next government assumed a more active role of government. After several measures were taken to co-finance wages and social security contributions of those unemployed under 30 in 2015, the turn materialised with the introduction of the minimum wage in 2016 for civil law contractors and the self-employed, but also several increases in the minimum wage for standard employment contracts. This move failed to be matched by efforts in ALMP provisions, with investments dropping in both its "passive" and "active" dimensions. The generosity of unemployment benefits is reputedly very low, with punitive commodification rules lowering the unemployment benefits after three months (introduced in 2008) being accused of leading to the take-up rate fluctuating between 15 and 20% throughout the period 2008-2020. Notwithstanding this, the direction was further exacerbated with the 2014 reform of the PES, which introduced profiling (removed in 2019), stricter conditionality and introduced a number of training and reskilling programmes that subsidised jobseekers' remuneration (thus lowering employers' payroll costs). The 2014 creation of the National Training Fund finally exemplified another trend in the governance of the Polish PES, which originated in the "partnership for work" introduced in 2012, and consisted of the gradual outsourcing of PESs to private companies.

Largely supported by a buoyant labour market performance, Polish governments since 2013 have introduced several labour market reforms, which led to rising wages across the board. Although the share of permanent employment contracts has increased in recent years, the share of temporary employment remains at a high of 15%. The focus on lowering unemployment rates partly relied on a strategy of "labour shedding", similar to the

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one adopted by many continental countries in the 1990s. Important challenges accordingly remained in 2019, leading to the Commission emphasising the low participation of women and older workers, the need to reform the vocational education system and low incentives for employers to engage in work-based training in its CSRs. Reforms of

the Polish PES system towards centralisation and a stricter coordination of operations by the government have accordingly been discussed since 2016. As the outcomes of these discussions failed to materialise, the private provision of training made Poland, on the eve of the pandemic, particularly vulnerable to economic downturns.

**TABLE 7. Main ALMP reforms in Poland (2000-2020)**

|                     | COMMODIFICATION  | LIBERALISATION   | CAPACITATION  |
|---------------------|--|--|---|
| MAIN POLICY CHANGES | <p>Unemployment insurance reform (2002), stricter eligibility criteria</p> <p>Lowering unemployment benefits after three months (2008)</p> <p>ALMP surplus funds transfer to the general budget (2010)</p> <p>Reform of PESs (2014) – stricter conditionality, new activation tools, profiling (removed in 2019) and service outsourcing</p> | <p>Introduction of temporary agency work (2003)</p> <p>Reduction of social security contributions paid by employers (2007)</p> <p>Longer working time settling periods (2009/2013)</p> <p>Flexibilisation reform (2015)</p> <p>Morawiecki's plan (2016)</p> <p>Civil law contracts for temporary agency workers legalised (2017)</p> <p>Introduction of harvest help contract (2018)</p> | <p>Act on the promotion of employment and labour market institutions (2004)</p> <p>New vocational education system (2004)</p> <p>New opportunities programme (2008) – training for people lacking basic education</p> <p>Expansion of access to PESs (2008)</p> <p>New forms of education and vocational training for adults (2009)</p> <p>Civil law contracts within social security system (2014)</p> <p>Introduction of an hourly minimum wage for civil law contractors and the self-employed (2016)</p> <p>Collective bargaining rights for civil law contractors and the self-employed (2018)</p> |
| GOVERNANCE REFORMS  | <p>Bonuses for most effective PES workers (2014)</p> <p>Failed centralisation reforms of PES (2016-2021)</p>   | <p>"New labour market institutions" reform (2004) – higher autonomy for regional PES offices</p>   | <p>Increase in staff numbers in PES (2003-2011)</p> <p>Improvements and new standards to PES (2007)</p>   |

## 2.6 SUMMARY COMPARISON

Before the pandemic, our five countries under consideration encompassed a mix of labour market segmentation issues, ranging from benefit adequacy, the lack of coordination of ALMPs and regional heterogeneity to the lack of institutional capacity (Table 8). With some notable exceptions (such as Hartz IV in Germany), EU recommendations shed light on the need to address these challenges through comprehensive and coordinated ALMPs that would be better able to target the unemployed and disadvantaged groups.

In Germany, despite the success story of reducing unemployment rates, the commodifying and liberalising intervention logic employed raised concerns about labour market dualisation and the adequacy of unemployment benefits. Although there was a shift towards a more capacitating approach, with inclusive measures and the introduction of a statutory minimum wage, the remaining segmentation of the labour market and benefit adequacy remained critical challenges. In a quasi-reversed trajectory, France experienced a growing centralisation of welfare policies and an adjusting welfare paradigm, characterised by commodifying and liberalising interventions. The focus on job contracts and "making work pay" policies also fell

short in addressing labour market dualisation. Critically, strengthening the link between active and passive policies and improving coordination within ALMPs and VET systems remained pressing issues ahead of the pandemic.

Other Mediterranean economies, such as Italy and Spain, faced similar issues. While reforms expanded the scope of beneficiaries and introduced stronger requirements in both countries, these did not adequately address the quality of support and coordination across the employment services network. As a result, spatial differences, resource allocation and coordination remained critical challenges. Meanwhile, the growing use of hiring incentives for specific groups in Spain raised legitimate concerns about whether this use of public money was most effective at improving employment concerns of these risk groups.

Finally, while the Polish activation strategy initially primarily rested upon commodifying and liberalising intervention logic, a social assistance leg was gradually added over time. Notwithstanding this, restrictive eligibility criteria and low take-up rates of unemployment benefits, on one hand, and the privatisation of ALMP provision, on the other, pointed to a still largely underdeveloped capacitating approach.

**TABLE 8. Summary of activation reform trajectories and remaining challenges before the pandemic (2000-2019)**

| COUNTRY | ACTIVATION REFORM TRAJECTORY | MAIN PRE-PANDEMIC CHALLENGES   |
|---------|------------------------------|--|
| GERMANY | Workfare → capacitation      | Unemployment benefit inadequacy, in-work poverty                               |
| FRANCE  | Capacitation → workfare      | Labour market segmentation, fragmentation of capacitating services (ALMP, VET) |
| ITALY   | Embedded flexibility         | PES coordination, spatial differences  |
| SPAIN   | Embedded flexibility         | Eroding public capacity, regional fragmentation of ALMP services               |
| POLAND  | Capacitation outsourcing     | Neglect of PES system, lack of training uptake in private sector               |

# 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

This chapter, by examining the NRRPs implemented in response to the pandemic, provides an assessment of the reforms and institutional changes made by the five EU member states observed. Through a detailed analysis of the priorities outlined in the plans undertaken in Germany, France, Italy, Spain and Poland, and of the politics surrounding changes in the mode of governance, this chapter aims to shed light on the transformative impact of the RRF.

## 3.1 SOCIAL CONSOLIDATION IN GERMANY

Slow moving but on the right track: although on a more inclusive path, Germany entered the pandemic with segmentation challenges still to be addressed. Celebrated for their impact on lowering unemployment rates, the Hartz reforms have also been associated with increasing inequalities and a rising number of "working poor". The same charge was aimed at mini- and midjobs for disincentivising low-wage workers and (married) women from entering a more stable working relationship than the kind of part-time, social-security-free contracts they offer. Segmentation was finally associated with educational inequalities and lower skills levels among disadvantaged groups, such as migrants. Looking at the measures adopted in the recovery, Germany's response is best qualified as a "social consolidation" exercise, aiming to address some of these issues, in a fiscally sustainable manner.<sup>30</sup> A fitting example of such a trend is the adoption of the social guarantee, a direct investment made by the government to support social security funds without requiring additional contributions from German companies. In contrast to this initiative – presented as a *reform* implicating no additional EU funding – Germany claimed €652 million of the RRF to fund the provision of the "securing apprenticeship" law and another programme of €725 million aimed at incentivising SMEs to hire young people. These measures participated in a wider (largely progressive) liberalisation, which were marked by far-reaching income tax reductions – from the solidarity surcharge to the Second Family Relief Act – for an amount of circa €20 billion per year in 2021 and 2022, reducing the participation tax rate of low and second earners. Another NRRP measure representative of this "social consolidation" is the commitment to

use €500 million of the RRF to expand childcare services provisions by another 90,000 places – an objective followed since the mid-2000s. Although partly relying on incentives to private actors, the "MitArbeit", "Work of tomorrow" and "Lifelong learning partnership" programmes follow similar capacitating logic in financing the (re-)training of long-term workers most exposed to changes in the labour market (Table 9).

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Germany's recovery is best qualified as a "social consolidation" exercise, perpetuating existing recalibration, in a fiscally sustainable manner.

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The main recalibration of the German ALMP in the wake of the pandemic lay elsewhere, namely, in the reversal of the now infamous Hartz IV reform. The immediate consequence of the COVID-19 crisis was the relaxation of the conditionality for non-contributory unemployment insurance enacted via the *Grundssicherung fuer Arbeit-suchende*, which built on Germany's long-term experience in the setting of *Kurzarbeit* schemes.<sup>31</sup> The new programme relaxed requirements linked to property and wealth, simplified procedures and – after initial stutters – was extended to the self-employed.<sup>32</sup> The budget of the Federal Employment Agency was accordingly increased, in the wider context of the government's "bazooka"-like response to the crisis. Last, but not least, the rules on minimum income and additional income, which have been considerably eased and now have a relatively long transitional period, considerably slow down the fall into the subsistence minimum – one of the most brutal aspects of

the previous system. While many argued, at the time, that this temporary solution should not be viewed as a paradigmatic evolution, this moment incontestably set the ground to rediscover the fiscal powerhouse of the state but also the benefits of an activation strategy relying more on *foerdern* than *fordern*. Shortly after its formation, the Ampel coalition thus proposed to replace Hartz IV with a new "Citizens Income", allowing recipients to be under

no obligation to accept job offers in the first six months. Opposed by the CDU – which has a majority in the senate – with the help of the FPD, compromises were made to the original proposal. But an important change occurred with the new regime, which now proposes, beyond the increase in the standard monthly income, a new logic setting the priority on qualifications and further education over placement in any job.

**TABLE 9. German RRP and related measures**

|                     | COMMODIFICATION | LIBERALISATION  | CAPACITATION   |
|---------------------|-----------------|---|--|
| MAIN POLICY CHANGES |                 | <p><i>Ausbildungsplätze sichern</i> (securing apprenticeships) – incentives for SMEs hiring youth (with disabilities) (NRP, 652/725 million)</p> <p>Tax relief incentivising labour market entry of low and second earners (2021)</p> | <p>Child daycare expansion (90,000 places) via subnational authorities' support (NRP, 500 million)</p> <p><i>Arbeit von Morgen</i> ("Work of tomorrow" law (2020)) – incentives for traineeships in companies</p> <p><i>MitArbeit</i> Programme (2021, 4 billion) – comprehensive strategy for long-term unemployed, including firms' subsidies</p> <p><i>Grundsicherung für Arbeitssuchende</i> (2021)</p> <p><i>Bürgergeld</i> (Citizen's Income) (2022)</p> |
| GOVERNANCE REFORMS  |                 | Social guarantee (NRP)  | <p>Life-long learning partnerships (2021)</p> <p>German Employment Agency Funding (2021)</p>   |

### 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

#### 3.2 FRANCE EMBRACING VOICES OF THE PAST

Unlike Germany, where the reversal of Hartz IV reforms was heatedly debated, the French ALMP strategy before the crisis primarily relied on measures aimed at "making work pay" by increasing the marginal income of people entering the labour market and granting tax incentives to hire labour market outsiders. The French response to the pandemic provides an interesting mix, combining, firstly, the consolidation of a liberalisation agenda primarily enacted via tax subsidies for firms; secondly, a streamlining of training-based provisions under state control; and, thirdly – and singularly – the revival of a workfarist agenda, which could risk derailing this capacitating approach (Table 10).

Overall, the social pillar of the French recovery plan is marked by its quasi-exclusive focus on youth employment, with €13 billion of the €100 billion recovery plan dedicated to employment, education and vocational training. In line with this controversial announcement to use €10 billion of the plan to cut taxes on production, the new focus on youth involved an important liberalising dimension, primarily relying on lowering the cost of labour. The key initiative in France's youth employment strategy rests upon the plan "1 Youth, 1 Solution" launched in summer 2020, which aimed to provide individualised pathways towards "sectors and professions of the future". Endowed with an overall budget of €9 billion, €3 billion will be spent within the RRF to grant subsidies to employers hiring apprentices and other people doing a diploma (€858 million), young adults in moderately qualified positions (€956 million) or young people entering the labour market under the so-called "*Parcours Emploi Competences*" (PEC) and "*Contrat d'Initiative Emploi*" (CIE) contracts (€685 million). Although an important part of the 1 Youth, 1 Solution plan aims to reduce labour costs, it also rests upon major capacitating initiatives, including training and skills acquisition programmes contained in "personalised integration pathways", as in the case of the "personalised guidance towards employment and autonomy" (PACEA) and other grants aimed at helping 16-18 year olds to finish their studies. Singularly, the French NRP also uses EU funds to add to its furlough scheme ("*activité partielle*"), a training dimension via the so-called "FNE training".

Combined with the additional €1 billion granted to France *Competences* and *Pôle Emploi*, France's recently centralised skills and PES agencies, it is tempting to see the consolidation of a "capacitating turn" also occurring in France. Yet, as was already the case prior to the pandemic,

the overall picture of reforms adopted provides a more contrasting picture. After taking over the setting of rules on unemployment benefits from social partners, the Philippe government proposed, with the *law for the liberty to choose one own's professional future*, in 2018, a major reform of the system – which was then suspended during the pandemic. Yet, unlike the introduction of the envisaged universal activity income (finally dropped), the reform of unemployment insurance reappeared in *France Relance*, the French recovery plan.<sup>33</sup> Thus, while the unemployed on higher incomes will see their benefits lowered by the introduction of a "sliding scale", cuts will also negatively impact people in more precarious situations, such as temporary workers, who will be affected by both new allowance calculation rules and longer periods of work being required to access benefits. To that extent, France seems to have moved back to addressing earlier CSRs (2013-2017), which then emphasised the need that "unemployment benefits be increasingly linked to job-search requirements", but years after the EU agenda seemed to have moved towards a more supportive approach to the unemployed (for the evolution of the EU CSRs, see notably Vesan et al.<sup>34</sup>).

Choices made by the French government did not remain uncontested. In fact, the government's response to the pandemic led to EU partners raising issues on the design of this scheme. Our interviews suggest that two main factors proved particularly contentious: firstly, while the introduction of a bonus-malus scheme contained in the unemployment benefit reform was saluted by the Commission, despite important shortcomings, the CSRs on inequalities in the education system and labour market integration of the most vulnerable adopted between 2019 and 2022 showed that efforts to address segmentation were considered insufficient. At the same time, **youth employment measures, which represented the majority of the envisaged programme, were presented as helping to contribute to the implementation of the pre-existing 1 Youth, 1 Solution strategy, thereby showing little additional ambition.**

As far as implementation is concerned, the French Court of Auditors proved one of the most vocal actors. The institution notably claimed that fragmentation of the plan in multiple programs and the speed of implementation might lead to an incoherence between already established programs and the focus of the plan.<sup>35</sup> This issue was confirmed by labour market experts, who shed light on the unrestricted scope of new hiring schemes undermining previous efforts made to target those most in need.<sup>36</sup> In addition, concerns were raised about the effectiveness of the government's decision to further lower taxes on production,

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France consolidated a liberalising trend, focusing on youth,  
while singularly reviving a workfarist agenda.  
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with parties arguing that social objectives would have been achieved via more targeted measures.<sup>37</sup> The French government's response, above all, revived longer-term tensions surrounding the governance of social policy in France. Macron's decision to bypass social partners – in charge of the management of unemployment benefits – in the government's reform of unemployment insurance has been perceived as questioning the historical commitment to tripartism. Meanwhile, *France Competences* has substituted many autonomous and corporatist organisations, leading to both employers' associations and unions

being sceptical about the new institution. Criticised by social partners for bypassing their role in the governance of existing schemes,<sup>38</sup> the 2018 reform has also been seen as explaining part of the recent boom in apprenticeship uptake. Bruno Coquet, a long-term VET expert, who saluted the 2018 reform, nonetheless also pointed to its tremendous costs for the government (estimated to be between €15 and €21 billion), pointing to risks that the new tax credits, layered on a set of existing measures, would generate major windfall effects and drive out most disadvantaged youth, originally considered as the main target.<sup>39</sup>

**TABLE 10. French RRP and related measures**

|                     | COMMODIFICATION   | LIBERALISATION  | CAPACITATION   |
|---------------------|---|---|--|
| MAIN POLICY CHANGES | <p>Unemployment insurance reform (2021) – "sliding scale" benefits for higher income, tighter eligibility criteria (from six to four months)</p> <p>Unemployment insurance reform (2023) – benefit suspension for refusal to accept a long-term contract, lower period of unemployment insurance when headline rate is below 9%</p> | <p><i>1 Youth, 1 Solution programme (€9 billion)</i></p> <p>Hiring subsidies for apprenticeships (€512 million)</p> <p>Hiring subsidy for youth under 26 (€956 million)</p> <p>Hiring subsidies for professionalisation contracts (€685 million)</p> <p>Support to employers for hiring persons with disabilities (AMEETH, €85 million)</p> <p>Relief on production taxes (€10 billion)</p> | <p><i>1 Youth, 1 Solution programme (€9 billion)</i></p> <p>FNE training (€800 million)</p> <p>PACEA and youth guarantee (€333 million)</p> <p>Personalised pathways for NEET youth aged 16-18 (€245 million)</p> <p>Distance training courses by the PES (160 million)</p> <p>Extension of the "guided employment" plan for persons with disabilities (€15 million)</p> <p>Unemployment insurance reform – bonus-malus for employers limiting use of short-term contracts</p> <p><i>Contrat Indeterminé d'Inclusion (CDI d'Inclusion, Inclusion Permanent Contracts) (2021)</i></p> |
| GOVERNANCE REFORMS  | <p>Temporary centralisation of the tripartite agreement regulating ALMP (2019)</p> <p>France <i>Travail</i> replaces <i>Pôle Emploi</i></p>   |   | <p>Increase of resources for the PES (€250 million)</p> <p>Increase of resources for France <i>Compétences</i> (€750 million)</p>  |

## 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

### 3.3 A TECHNICAL EXERCISE IN ITALY

Italy's recovery plan is a case example of a technical exercise. The Italian plan has several sections discussing strategic objectives established in line with CSRs issued in 2019 and 2020 (Table 11).<sup>40</sup> Of the measures (i.e., reforms and investments) set out in the plan, seven are explicitly concerned with labour market reform. The government's main priority, associated with five of those, is to boost employment and entrepreneurship, with a particular focus on women and young people. Besides, the plan set as complementary objectives to achieve gender parity in the labour market and to fight undeclared work, each of which are associated with one measure. To the extent that the Italian plan carefully reflects, but does not go beyond, the priorities identified in the CSRs; it largely promotes a series of changes primarily aimed at introducing more efficient regulatory and procedural regimes, and thus, may be best described as a technical exercise.

**Unlike reforms enacted in France, the Italian response to the pandemic does not put a primary focus on commodifying social provisions or liberalising the labour market.** In fact, the only measure that may be considered as entailing liberalisation elements is the establishment of the new fund to support female entrepreneurship (*Fondo Impresa Donna*), which is accompanied by ancillary measures, such as mentoring, technical and managerial support; communication campaigns; monitoring and evaluation. Yet, beyond this example, other human capital initiatives – to the extent that they involve the setup of new state infrastructure, rather than mere encouragement to create oneself a job – convey a clear capacitating intervention logic. In particular, an important focus has been set on reforming ALMPs and the PES system to level up standards of delivery across the country, largely building on the Jobs Act and on pre-existing initiatives, such as the Youth Guarantee. In this context, the Guarantee of Employability of Workers (GOL) stands out as a carefully targeted flagship initiative, introducing a personalised approach to active policies by providing basic levels of service across the territory, strengthening the presence of PESs through digitalisation and integrating them with vocational training and regional employment programs. Giving priority to the most fragile and vulnerable individuals, the programme notably defines specific paths required from each worker as essential levels of performance for labour

market integration. The implementation of this GOL will notably be supported by the launch of the "New Skills Plan" (NSP), primarily concentrated on reforming the vocational training system to create standards for the country as a whole. Here again, the NSP aims to use the €100 million set out in the New Skills Fund, as well as the wider reforms of the PES delivery system, to guarantee more individualised support in so-called "refresher, qualification and retraining paths".

Looking at Italy's annual budget laws for the fiscal years 2020, 2021 and 2022 shows not only that the money was put where the mouth is, but also that it proved additional to pre-pandemic government plans. While no budgetary provisions were made for ALMPs in 2020, the 2021 budget law allocated €10 million to ANPAL's subsidiary, *ANPAL Servizi Spa*, and established a €500 million fund for ALMPs under the REACT-EU framework. In 2022, €90 million were earmarked for public employment offices, of which €20 million were specifically allocated to policies targeting NEET individuals. The additionality of the plan is also characterised by structural changes proposed for the governance of the ALMP. The plan indeed includes one measure that pertains specifically to ALMP governance: the investment to strengthen public employment offices (investment 1.1 in M5C1, *Potenziamento dei centri per l'impiego*). This investment notably consists of €400 million to enable regions to hire new personnel under the existing plan to strengthen local employment offices (*Piano Nazionale di Potenziamento dei Centri per l'Impiego*), combined with €200 million to finance projects to improve service proximity and better integrate employment services with other local services, especially social and education and training services.<sup>2</sup> Finally, decree 77/2021, known as the simplifications decree (*decreto semplificazioni*), established six new bodies that were tasked with carrying forward the plan's implementation, even in the face of a stalemate due to, for example, political contest or coordination failures between levels of governance. Taken together, these measures make no substantial changes to the setup of public institutions responsible for ALMPs in Italy, nor to the regulation of the overall ALMP budget. But it is likely that they will increase central government control over the regulation of the budget for specific ALMP programmes, with a view to increasing the capacity of ALMPs and PES. In doing so, these reforms also go in the direction of previous attempts, unsuccessful under the Renzi government, to centralise ALMP governance.

<sup>2</sup> Il governo ha cambiato il Pnrr e nasconde gli allegati di dettaglio, Openpolis, 7 May 2021.

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The Italian plan stands out as a primarily technical exercise, carefully targeted by the central government to also reinforce its procedural prerogatives in relation to (highly distrusted) regions.

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Overall, the Italian plan stands out as a primarily technical exercise, carefully targeted by the central government to also reinforce its procedural prerogatives in relation to (highly distrusted) regions. The mere "translation" of EU input into national legislation is somewhat unsurprising given the peculiar nature of the Draghi government and the political uncertainty existing about who would succeed it. This attribute should not, however, question the wider relevance of a plan demonstrating clear added value of EU funding in terms of both financial input and

expected output with the levelling up of the administrative capacity supporting ALMPs emerging as a priority of enacted programmes and reforms.

Looking ahead, two points require specific attention. On one hand, first evaluations of the plan suggest that the streamlining of the government's intervention may raise associated challenges in the implementation phase, due to the late involvement of local authorities and social partners in the design of plans.<sup>41</sup> On the other hand, it is clear that the arrival to power of Giorgia Meloni coincided with a higher politicisation of ALMP issues, in the context of high demographic pressures and labour supply shortages. A decree adopted in May 2023 thus scaled back on the *Reddito di cittadinanza*, Italy's basic income scheme, while making it easier to hire workers on a short-term basis, including via a new series of cuts in payroll taxes for low-income earners and tax cuts on fringe benefits for workers with children. While it remains to be seen how this new series of reforms will be integrated into Italy's wider recovery strategy, debates in parliament continue to show a high level of commitment in ensuring a smooth implementation of the plan and point to concerns over the administrative capacity to absorb it.<sup>42</sup>

**TABLE 11. Italian RRP – ALMP dimension**

|                     | COMMODIFICATION                              | LIBERALISATION  | CAPACITATION   |
|---------------------|--|---|--|
| MAIN POLICY CHANGES | Reform of the <i>Reddito di cittadinanza</i> | Subsidised employment for female entrepreneurship (€400 million)<br><br>Labour market flexibility decree (2023) | Reform to strengthen ALMP and professional training (€4.4 billion), including the GOL, and the NSP, including the <i>New Skills Fund</i> (€100 million, REACT-EU)<br><br>Investment to strengthen the universal civil service (€650 million)<br><br>Investment to support the dual system (€600 million) |
| GOVERNANCE REFORMS  |  |   | <i>ANPAL new fund</i> (500 m, REACT-EU)<br><br>Reform of the PES delivery support  |

### 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

#### 3.4 SPAIN'S POLITICAL TURN TOWARDS SOCIAL INVESTMENT

In contrast to the Italian case, the Spanish recovery plan is a case example of a response driven by a strong political impetus. Spain is not only the country that allocates the largest share of the RRF envelope to social spending (30%, a total of €21 billion), including for ALMPs and other areas such as educational policies and social housing. It is also the country with, by far, the highest number of social reforms, ahead of Italy.<sup>43</sup> On paper, the Spanish plan (Table 12), in fact, seems to address similar CSRs and follow similar objectives to its southern neighbour. In practice, however, there is an even clearer turn towards capacitating intervention, notably based on a more fundamental revision of liberalising policies of the past.

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Spain not only allocates the largest share of its RRF envelope to social spending. It is also the country with, by far, the highest number of social reforms.

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Starting with social security buffers, the Spanish plan actually confirms the pre-pandemic recalibration trend towards more comprehensive coverage and a higher commodification of insurance and assistance benefits. The reform of unemployment assistance intends, firstly, to help rationalise existing schemes, while extending it both in terms of coverage and as far as its maximum duration is concerned. The intended objective should be to facilitate transitions either towards a reintegration in the labour market or towards social assistance for those requiring further support. But the plan is conceived as part of a wider overhaul of the current system of non-contributory benefits, based on a streamlining of existing

programmes under the minimum vital income scheme, which also sets a laser focus on vulnerable individuals at risk of poverty or social exclusion. In particular, the revamped system has been designed to meet the specific needs of households with children and those with disabilities, while incentivising job seeking to promote socioeconomic integration and address poverty traps.

Besides, a clear turn was observed on labour market tools traditionally used on the labour-demand side. Most of the Spanish labour market reforms share a primary objective of tackling the persistent issues of labour market fragmentation, such as involuntary part-time work, false employment and excessive use of temporary contracts. To achieve this, the government defended a core principle: making the indefinite duration of contract the norm, rather than a state of exception. This normative commitment involved reducing the type of contracts allowed, clearly specifying the conditions under which temporary and part-time contractual relationships, as well as internship, training and seasonal work (now benefiting from a new kind of open-ended contract), might be allowed.<sup>44</sup> Complementing these initiatives, new penalties were introduced to fight against labour exploitation and fraud, and labour inspections were strengthened.

But the "Spanish ALMP turn" goes beyond its re-regulating dimension, including by doubling down on the policy evaluation of existing hiring incentives. As highlighted above, an important part of the Spanish ALMP relied on hiring incentives often provided by means of tax expenditures and, above all, relief on social contributions owed by firms. While this policy instrument assuredly erodes the carrying capacity of the welfare state, studies carried out by the independent fiscal authority, the AIReF, found that there was "plenty of room for improvement in the governance and effectiveness of these policies".<sup>45</sup> To tackle this issue, the Spanish government opted for a new spending review, with the intent to improve the employability of specific groups by other means than a cheapening of the labour force. The preference for a more "social investment" oriented type of strategy is also clearly reflected in the capacitating ambit of the programme. Along the lines of the Spanish employment activation strategy for 2021-2024, ALMP reforms aim to support the regions in the development of more personalised counselling programs, bolstering the adult learning system and the acknowledgement of competencies. Changes to the governance of ALMPs are also foreseen with the establishment of a one-stop shop for young people, enhanced coordination between employment and social services, as well as between the central level and

the regions. Putting the money where the mouth is, these reforms are accompanied by substantive investments, in digitilising PESs, in making ALMP more gender sensitive, and in promoting "territorial balance and equity". Investment to boost employment activation governance foreseen in the RPP accordingly consists of two distinct programmes – amounting collectively to €105.5 million – aimed to, firstly, establish and operate a network of specialised centres for employment orientation, entrepreneurship, shadowing and innovation, and, secondly, train PES personnel.

Some criticisms have unexpectedly also accompanied investment to reinforce the PESs and the efficiency of ALMPs. Thus, the Spanish trade union CCOO claimed that the programme would be insufficient to address the

shortage of human and financial resources to carry out the functions of the PESs. In addition, as in the Italian case, critics primarily concentrated on the fact that, even though Autonomous Communities are supposed to be in the driving seat of the implementation of these programmes, these were barely involved in the drafting of the plan.

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Spain’s spending review should help turn the page to an ALMP strategy largely focused on tax cuts for big firms

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**TABLE 12. Spanish RRP – ALMP dimension**

|                     | COMMODIFICATION   | LIBERALISATION  | CAPACITATION  |
|---------------------|---|---|---|
| MAIN POLICY CHANGES | <p>Social and professional inclusion policies to increase take up of the minimum life income (€298 million)</p> <p>Living minimum income (2022)</p> | <p>Reform of Employment Law</p> <p>Review of hiring subsidies and bonuses</p> <p>Reform to establish a mechanism of internal flexibility, employment stability and transition support</p> | <p>Investment to reskill and upskill the active population (€1.120 billion)</p> <p>Investment in gender-sensitive ALMP (€105 million)</p> <p>Investment to acquire new skills for the digital, green and productive transformation (€434.5 million)</p> <p>Investment to promote territorial balance and equity (€555 million)</p> <p>Investment to employ NEETs (€765 million)</p> |
| GOVERNANCE REFORMS  |   |   | <p>PES digitalisation</p> <p>Network of specialised centres for employment orientation</p>  |

### 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

#### 3.5 POLAND: A MACRO ACTIVATION POLICY HIDING A FRAGILE ALMP SYSTEM

Compared to that of its western European neighbours, the Polish recovery plan is peculiar in many ways. Firstly, in terms of its approach. Issues related to employment and ALMPs are indeed primarily treated from the macro level – overall productivity/competitiveness of the economy, demographic stability and challenges related to decarbonisation – across the different challenges identified by the government (with a stronger focus on the "demographical change" challenge). There is, by contrast, little to no focus on micro-level dimensions related to, for example, working life and job quality, or transitions over the course of life. This "reductionism" is more puzzling in that it was not drafted by the Finance Ministry – as was done in all of our other case studies – but by the Ministry of Funds and Regional Policy. The Polish recovery plan is, in addition, marked by its particularly close fit to EU recommendations, with the plan assessing the compliance with the six EU RRP pillars pillar by pillar, but also the wider EU framework, before analysing each CSR in depth and presenting how the Polish RRP aims to tackle them (Table 13). The particularly sensitive approach to EU-level recommendations can be interpreted as a result of the political struggle to get the Polish RRP accepted by the European Commission in the context of the so-called "rule of law crisis" and mechanisms of conditionality still (as of May 2023) preventing funds from being paid to Poland. The content of the plan also shows that the government has preserved some leeway in how to define its activation strategy, particularly concerning the (high) involvement of the private sector.

Social insurance provisions are, firstly, barely touched on in the recovery plan. However, the "anti-crisis shield", a series of policy actions deployed and adapted during the pandemic to support workers and companies, helped extend the scope of people covered by the scheme, with civil law contractors (a non-standard form of employment highly popular in Poland) being eligible to receive benefits. Overall, there were at least ten different versions of anti-crisis shield throughout the pandemic period, which differed slightly both in terms of their governance and in the kind of support they involved.<sup>46</sup> As in the pre-pandemic period, the active dimension of this support remained largely undeveloped, although the "2021-2023 strategic plan for the employability of persons with disabilities" and initiatives (including a €45 million investment) to support social economy companies in their efforts to reintegrate and adapt to the new realities of the labour market may be seen as a form of commodification

of marginalised groups. Interestingly, the Polish RRP also focuses more attention on issues related to the integration of migrants (Poland has become one of the largest destinations of migration in the world in the last few years and faced unprecedented migration influx with the war in Ukraine) than has usually been assumed in a domestic political discourse largely following an anti-migration rhetoric.<sup>47</sup> Besides the anti-crisis shield, the Polish RRP also assumes an introduction of labour market reforms aimed at "easing of the impact of the crisis on employment in particular by improving flexible forms of organisation of work and part-timing" (CSR 2020), for example, via a more tolerated use of teleworking (adopted already in 2023), but also improved access to childcare and long-term elderly care to improve access to the labour market of the working-age population (in line with CSR2 2019). Most importantly still, the government undertook an attempt to fundamentally reform the tax system (via the so-called "Polish Order") to tackle its infamous extreme regressivity by reducing the tax wedge for low earners. Due to within-coalition conflicts and relatively poor preparation of the plan, only elements of the fiscal change were finally implemented.

Poland's need to capacitate its workforce has constantly featured high on the EU's priority list. The Polish government clearly took up this recommendation, but in a somewhat peculiar way, largely focusing on labour market needs and using the means of private stakeholders' involvement in training delivery, alongside some (less ambitious) reforms of its PESs. This strategy notably rests on a "professional barometer", which was aimed at analysing the demands on the labour market and continuing changes in vocational training and considered ways to enhance the coordination between schools and companies in the development of continuous training and skill formation. Investment priorities under the RRP follow a similar logic, dedicating €500 million to support companies in the provision of training and €450 million to help enhance the ICT skills of their workforce in particular. But Poland's flagship initiative in the RRP lies elsewhere. In a clear effort to implement the EU's "Centres of Vocational Excellence" agenda, the Polish RRP requests €400 million to support the creation of such "industry centres of qualification", for an overall cost estimated at €2.7 million per centre.<sup>48</sup> With a total endowment of €52 million, efforts to improve PESs look, in contrast, marginal to say the least. The RRP does mention the need to improve PES functioning through digitalisation and training of PES staff and proposes to widen the scope of targeted beneficiaries to disabled people, low qualified, elderly, women and foreigners, but the limited funding and ambition of reforms envisaged does appear more as a form of "lip service" being paid to the EU than as a genuine commitment.

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Poland’s recovery strategy is essentially a macroeconomic plan,  
neglecting major shortcomings at the micro-level.  
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Overall, the Polish situation appears largely at odds with the heated debates observed in Western Europe around the issue of labour – even in countries, such as Germany, where unemployment levels are also reaching all-time highs. Looking at the reaction of social partners suggests that breaches exist in this apparent consensus. Thus, whereas Pracodawcy RP criticised the plan for not prioritising healthcare and investments in the green transition enough,

the other business association, Lewiatan, criticised the plan for the promotion of public sector companies instead of private ones. Meanwhile, while some trade unions deplored not having been sufficiently associated in the drafting of the plan, they also criticised the absence of provisions related to the improvement of wages and job quality<sup>49</sup> – pointing to the persistence of labour-related issues, despite the apparent neglect of the current government.

**TABLE 13. Polish RRP – ALMP dimension**

|                     | COMMODIFICATION | LIBERALISATION   | CAPACITATION   |
|---------------------|-----------------|--|--|
| MAIN POLICY CHANGES |                 | Teleworking changes (2023)<br>Migration procedure simplifications (2021 and possibly 2023)   | Investment in training for workers to support ICT skills (€450 million)<br>Support for companies, including in training (€500 million)<br>Training and adaptation to teleworking (€184 million)<br>Expansion of the beneficiaries of PESs<br>Regulatory and financial (€44 million) support for teleworking<br>Regulatory and financial (€45 million) support setting for the social economy – activation of marginalised<br>2021-2023 strategic plan for the employability of people with disabilities (€45 million)<br>2023 draft of the Act on Employment Activity (on legislation train) |
| GOVERNANCE REFORMS  |                 | Dissolution of the Ministry of Economic Development, Labour and Social Policy<br>Employment issues crowded out by family and social policy | PES digitalisation and staff training (€52 million)<br>Creation of the "Industry Centre of Qualifications", supporting modern vocational training, higher education, and continuous training – stronger voice for government and social partners (€400 million)  |

### 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

#### 3.6 COUNTRY TRENDS, ASSESSMENT AND REMAINING CHALLENGES

Tracing back the evolution of labour market reforms over the last two decades points to several waves in intervention logic surrounding activation policies. The kind of labour-shedding strategies in vogue in the 1990s and early 2000s were succeeded, firstly, by an important wave of activation and liberalisation of labour markets – which also came with major drawbacks in terms of social objectives generally pursued by unemployment policies (such as poverty alleviation or income maintenance). Our analysis also points to the emergence of a new wave in activation strategies pursued in the recovery following the COVID-19 pandemic, largely backed by EU action.

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Our analysis points to a new wave in activation strategies in the recovery, largely backed by EU action.

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The mix of continuity and change differed across the five countries under consideration. **Germany** moved from the status of "sick man of Europe" to becoming its "success model". The story of the Hartz reforms, largely focused on reducing the reserve wage, is well known. Less attention is generally granted to the country's efforts at accelerating the creation of job search supporting institutions and employment promotion programmes. Today, other issues remain – part of which were induced by this shock. The main challenge lies in the enduring segmentation of the labour market, which is characterised by a growing occurrence of in-work poverty in the services sector, but also a higher prominence of part-time work among women. Finally, training programmes are still highly fragmented in different areas, which makes unified access difficult.

Faced with a historical energy crisis and the war in Ukraine on its doorstep, social policy and labour market

reforms have not constituted a priority in the country's RRP. Rather, the plan may be best described as a "social consolidation" effort, limited to accompanying previously envisaged reforms, particularly towards the youth and the unemployed. This new mix of initiatives is unlikely to help address the need for a stronger integration of employment and training programmes, long stressed by the OECD. In short, for a proper social investment turn to work, the universalisation of social insurance provisions and reforms of the PES system should now be accompanied by a better integration of capacitating services for traditional labour market outsiders, such as people being currently unemployed or workers seeking to reorient their career in light of ongoing industrial transformations. In 2021, the states approved, in concert with the federal government, a guiding plan, to address the skill shortages and the retraining capacity of the German education system. Further attention should now be granted at the EU level to its effective implementation and coordination with the strategy conducted by the federal government.

In the early 2000s, **France** faced a largely different starting point, primarily relying on generous unemployment insurance benefits and a "social insertion" logic ambiguously standing for the very concept of activation. The recalibration of the regime involved both parametric and systemic changes, largely moving in the direction of a recentralisation of the programmes. This trend is visible in the vocational training area, where training support was both recentralised under *France Compétences* and supported by an ambitious focus on youth empowerment, as conveyed by the 1 Youth, 1 Solution programme. Further plans engaged by the French government in 2023 in the new "full employment" law project also point to a further *Etatisation* of the French ALMP regime, confirming earlier plans to bring together unemployment insurance and unemployment assistance under a common governance framework.

While the merits of such institutional reforms are debatable, state intervention in a system where social partners have been used to agree on interprofessional national agreements (*Accords nationaux interprofessionnels*, ANI) is often associated with cuts in unemployment insurance benefits. From a comparative perspective, introducing some limits to the benefits (duration) perceived by those formerly earning the most may be justifiable on the grounds of either social justice or labour market dynamism – provided that the receipts are used to "capacitate" existing support systems. But, as in the case of the increase in the retirement age, the overall policy mix (which is also tightening eligibility conditions

of precarious workers) conveyed the image of a dirigiste move primarily targeting headline (un)employment performance, albeit at the cost of a regressive retrenchment.

So far, little attention has been paid to the possible unintended effects of some of the measures envisaged in the French NRRP. The most noticeable example concerns the new tax credit granted to firms hiring apprentices, which, layered on a set of existing capacitating measures, is expected to lose the original focus, while generating important windfall effects. Risks of failure by neglect can be extended to the fiscal governance of French welfare reforms: while tax and social contribution reliefs granted by the French government have skyrocketed in recent years, these continue to lack the kind of systemic assessments and policy evaluations conducted in other, more traditional spending areas.<sup>50</sup> In this context, EU institutions would be well advised to carefully monitor this trend, which considerably affects the carrying capacity of the welfare state. Looking ahead, fieldwork evaluation conducted by national experts (as provided, e.g., by the IMF or other developing organisations) should also be considered to step up reform pressure and actively consider social opportunity costs of failed recalibration.

Italy's labour markets entered the 2020s with long-standing challenges still unresolved. Problems are particularly acute for the long-term unemployed and for young people. Besides, there is a deep gender gap. Reforms enacted during the austerity crisis, notably during the Monti and Renzi governments, have sought to make labour markets more flexible and to engender synergies within and between the systems of unemployment protection and employment activation. Yet substantial challenges remain, especially as far as the quality of ALMPs is concerned. The Italian plan places moderate emphasis on labour market reform. The relevant measures align with EU recommendations to empower the most vulnerable segments of the domestic labour markets – that is, young people, women and people with disabilities – with skills and opportunities. In this sense, in comparison with the other plans analysed here, which, in some ways, have taken more pronounced political stances, the Italian plan may be best qualified as a technical exercise.

In one important way, however, the plan makes a clear political statement: Rome's government is attempting to regain control over the highly fragmented picture of regional ALMPs. This is in line with an older attempt at recentralisation, inaugurated under the Renzi government with the concentration of responsibility for ALMPs from the provincial to the regional level.

The reasons behind recentralisation are multifaceted. One of them is that the plan had to be delivered within tight deadlines, which may have reduced the scope for concerted action across government levels (and between government and social partners). Our findings accordingly show that the government took the opportunity of the RRP to harmonise the level and quality of ALMP provision across the country, which thus far has suffered from substantial inequalities in institutional capacity between regions. Paradoxically, however, because much of the plan ultimately relies on local delivery, recentralisation may have the side effect of empowering municipalities in relation to higher levels of government, thereby exacerbating inequalities at a more granular territorial level.

Overall, EU institutions could have asked for bolder and more precise Italian contributions in identifying and prioritising policy problems. The EU recommendations to invest in the most vulnerable segments of the labour market should be understood not as the destination, but as a starting point. In translating the plan into concrete policy interventions, the Italian government should aim for much greater granularity. For example, it should identify instances of intersectionality with particular concern for labour market prospects – as the Spanish government has done already within its own plan. Similarly, because the Italian labour market suffers from territorial fragmentation, and the effect of national ALMPs is expected to differ across the country, the government should tailor ALMP intervention to specific places. As we further outline in Chapter 4, this will require much more than setting a preferential quota for the South.

Like Italy, Spain's labour markets have long proven hard to navigate, especially for the long-term unemployed and young people – though the gender gap is less pronounced than in Italy. In addition to limited spending per unemployed person, the main challenge for ALMPs resides in poor coordination between the State Public Employment Service (SEPE) and the regional authorities, resulting in marked differences in the quantity and quality of ALMP provision across the autonomous communities. Notwithstanding, Spain seems to have made good use of the opportunities provided by the RRF to reform the ALMP landscape. ALMPs lie at the core of the Spanish plan, with over 20 measures explicitly devoted to reforming labour markets. In line with EU recommendations, the plan seeks to promote employment and entrepreneurship and to simplify labour market regulation. Besides, aware of the profound territorial differences that characterise Spain's labour markets, the plan pursues the more markedly political objective of aligning social and territorial cohesion.

### 3. RRPS: NATIONAL PLANS AND INSTITUTIONAL REFORMS COUNTRY BY COUNTRY

For all these purposes, it puts together a compelling mix of capacitating measures for the most vulnerable segments of the labour market – including women, young people, elderly workers, the unemployed and those employed in occupations highly exposed to structural changes – as well as broader measures targeted at the labour force as a whole – including reforms of training standards and of ALMP governance. In short, the plan marks a political turn to social investment, and it does so in an exhaustive and creative fashion, at least as far as ALMPs are concerned.

Still, the Spanish plan fails to identify a core set of priorities at which political and administrative efforts should be targeted. In contrast, it seeks to carry forward two distinct policy agendas: the markedly political agenda identified by the Sánchez government and a more technical agenda, largely inspired by the European Commission. While both have their own merits (and limitations), pursuing both of these plans to a satisfactory extent within the temporal and sectoral boundaries of the RRF could prove a challenge. In other words, effective implementation of the plan will be critical, not least in the face of the difficulties that some national and local administrations often incur during the delivery phase. More specific attention should accordingly be granted by both the Spanish government and EU institutions about which challenges – among the many faced by Spain's labour markets – are best addressed through the RRF, and which, by contrast, may be best pursued through other policy instruments. Accordingly, the achievement of milestones and targets may require more careful consideration than in other EU countries.

Finally, Poland's recent macroeconomic performance and unprecedented low unemployment made policy-makers relatively insensitive towards its labour problem. However, the Polish labour market is still riddled with insecurity, low job quality, skills mismatches and labour shortages, which are particularly pronounced after the war in Ukraine. Poland has built a fragile labour market reliant upon constant economic growth with largely inefficient LMPs. The country's NRRP dealt with the labour dimension in a similar fashion as it did in the years before pandemic, that is, treating it as a non-issue, ignored in between two worlds: a "macroworld", aiming at boosting growth via private investments; and a "social world", conceiving social policies only in their redistributive function. Recent changes in ministerial portfolios are characteristic of that trend. Thus, after a several shuffling of the departments responsible for labour policies and labour law across ministries, the government opted for a more

visible neglect by deciding to not grant an official "labour" attribution to any ministry, for the first time in over 100 years.<sup>51</sup> The focus on the macroeconomic performance of the Polish RRP may also be interpreted as an attempt by the government to "protect its turf" and monopolise political gains of social and family programmes.

As of today, Polish implementation of the RRF is not as advanced as in other countries, due to the mechanism of conditionality that is still preventing funds from being paid to Poland. Currently, the government focuses mostly on reaching the milestones agreed with the European Commission rather than on the concretisation of plans. If milestones are met, Poland should be prepared to implement the policies rapidly. In this context, EU institutions should move to pay more attention to the Polish government's overreliance on private stakeholders in the ALMP, both in terms of their focus on tools accommodating employers' needs and on the organisation of labour market integration through outsourcing. Orientation towards the development of PES services might allow for a more balanced approach to ALMP that considers not only employers' needs and macroeconomic indicators, such as lowering unemployment, but also the micro perspective: workers' working life; job quality; and job transitions over the course of their lives. This could also contribute to increasing employment rates of problematic groups such as workers 55+, making Poland more resistant towards its worrying demographical challenges. Such a strategy should be preferably interlinked with regulatory reforms. The Polish government retired its plans to draft a new labour code after a failure in the policy process in 2016-2018. However, differences in labour market protection between different types of contractual forms on the labour market, both fixed-term contracts and infamous civil law contracts, contribute to labour market segmentation, impede access to ALMP and training opportunities from employers, and create "traps" for workers that lower upward labour mobility. Bridging these gaps through regulatory action is also necessary to improve commitment from both employers and workers to skills formation, as the "culture of temporariness" prevalent on the Polish labour market underpins many of its systemic malfunctions. If a substantial part of the Polish RRF is currently vague and imprecise, the currently processed draft of the Act on Employment Activity gives hope for a change in ALMP policies to a more capacitation-oriented approach.

# 4. CONCLUDING REMARKS AND LESSONS LEARNED FOR THE EU

In this study, we reconstructed the progressive change in intervention logic underlying activation policies since the 1990s and pointed in particular to the rise of a new, more capacitating approach in the national activation strategies pursued in the wake of the pandemic, largely turning its back to the workfarist approach favoured in the last two decades. In particular, whereas workfare largely attributed the responsibility for job seeking and uptake to individuals and the market alone, national recovery strategies point to a decisive comeback of state intervention in the provision of activation policies.

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The cases of Italy and Spain probably show the clearest examples of EU additionality, since the provision of new funds clearly helped to improve both ALMP integration and to address labour market segmentation, where engagement at the EU level during the previous crisis had, on balance, proved largely disastrous.

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## 4.1 SILVER LININGS

These findings show that using a "carrot" rather than a "stick" can help trigger institutional change in a socially more inclusive manner than via the kind of "negative conditionality" approach taken, for example, with the introduction of the macroeconomic conditionality.<sup>52</sup> The EU's fiscal expansion strategy in the recovery thus contributed to helping governments, such as Spain, but also Italy and Poland, to embrace a more capacitating approach than previously observed. While EU influence seems to have been more limited in France and Germany, our analysis still shows the stark contrast between the German government's efforts to

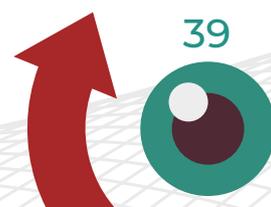
definitively turn the page on the Hartz reforms and France's renewed appetite for a work-first approach.

A key challenge for EU institutions now lies in the possibility of overcoming the risks of "unequal treatment" among member states. Interviews conducted in the context of related academic work pointed to, for example, intense discussions between the Spanish and Italian authorities, on one hand, and EU officials on the other, about the direction of change and the definition of milestones. This clearly contrasts with the process observed in Germany, but also France, where a more lenient approach seemed to be observed.<sup>53</sup>

In some cases, the RRF helped trigger and amplify important welfare recalibrations. While this statement may be nuanced for Germany, where the financial scope of the RRF is limited, the German recovery plan nonetheless exhibits a continuation of childcare infrastructure development, an agenda serving both child development and female employment growth. An agenda that started after the EU's first Barcelona targets and has been continuously supported by EU funds ever since. It is equally relevant to note that EU funds now further contribute to youth employment and training in France, in the similar vein to that done via the Youth Guarantee in the aftermath of the Great Recession. The cases of Italy and Spain probably show the clearest examples of EU additionality, since the provision of new funds clearly helped to improve both ALMP integration and to address labour market segmentation, where engagement at the EU level during the previous crisis had, on balance, proved largely disastrous. Finally, the strengthened coordination of VET systems in Poland may equally be seen as bearing the fruits of long-term engagement of the EU with national authorities.

## 4.2 LESSONS LEARNED FOR NATIONAL ENGAGEMENT

As we observed, the recovery is marked by a high degree of re-insourcing in Spain and Germany with issues traditionally delegated to the market now being brought back under governments' stewardship – with growing EU involvement. This new step in EU integration also comes with some lessons to be learned for EU institutions. Firstly, "it takes two to tango", that is, instruments such as the RRF can act as a "selective amplifier",<sup>54</sup> but, to make them work, two preconditions seem to be necessary. Firstly, *desirability*, or the possibility for governments to



## 4. CONCLUDING REMARKS AND LESSONS LEARNED FOR THE EU

associate difficult reforms with a positive horizon, which may be provided by associated investments. Secondly, *capability*, or the existence of institutional conditions and resources to deliver on the agreed agenda. A second lesson for the EU stems from a recommendation issued by stakeholders themselves in the course of our fieldwork and may be best worded as follows: "to whom much is given, much is required". According to these actors, unfavourably comparing the EU to the IMF and OECD expertise and field-work approach, new steps in EU integration should come with a stronger drive for building up country-specific expertise, either internally or via a more decisive push for seeking national expertise.

Challenges remain ahead at the national level that will indeed require further EU attention (Table 14). For Germany, both structural (the changing demographics in particular) and conjunctural trends (labour supply pressures) unusually point to a similar labour market need: that of better integrating its migrants; a plan currently discussed in the German debate. For the EU, this point should accordingly move from the status of "nice to have" to a "must do", in a wider reconsideration of the rather complacent approach taken by EU institutions towards the (former) job-growth machine. France has clearly demonstrated much effort in increasing the employability of its youth. And while the rise of apprenticeships, combined with the wealth of hiring incentives enacted by previous governments, is likely to lead to a sudden rise in the overall employment rate, looking only at headline figures would risk neglecting major reform needs in terms of access to childcare for the

most vulnerable, general education and lifelong learning (as in case of the *Territoires Zero Chomeurs* initiative), all structural elements better able to address both economic and political challenges remaining ahead. Italy's integration of ALMP services responds to a long-term EU ask, but hypercentralised decision-making on reforms and investments in this area bypassing regional and local authorities raises questions as to the effectiveness of service delivery looking ahead. As long pointed out by the rich literature on EU cohesion policy, the lack of administrative capacity in Italian regions has been a major issue for some time. As recent debates on the overall delivery of the Italian plan highlight, EU efforts to further improve administrative capacity and service quality monitoring across different levels of governance should be considered a priority for EU action. A similar recommendation can be issued to the EU with regards to its engagement with Spain: in the wealth of measures enacted in the LMP area, monitoring effective implementation will require further attention than normal, especially in the context of a rapidly changing political environment. In particular, the poor coordination of PESs between the national and regional levels, in the context of striking differences in unemployment levels across regions, should be at the heart of the EU's attention. Finally, the future will tell whether Poland's "all-macro" approach will pay off or prove to be a particularly risky strategy when less rosy times come back. Meanwhile, encouraging Poland to develop more capable public employment systems would prove a wise starting point, before further engagement proceeds on the final content of the labour code reform and employment activity act.

**TABLE 14. Activation challenges, priority areas and recommendations for EU institutions**

| COUNTRY | CHALLENGES  | PRIORITY AREAS  | RECOMMENDATIONS FOR EU INSTITUTIONS   |
|---------|---|---|---|
| GERMANY | Changing <i>demographics</i> and labour supply pressures                            | Labour market integration of <i>migrants</i>  | Try harder; beware "best student" syndrome  |
| FRANCE  | Rising employment in facts not in deeds/ <i>political aftermath of segmentation</i> | <i>Proper capacitation</i> via equal access to childcare, general education system and life-long learning | <i>Dig beyond friendly indicators</i> ; watch out for the multiplication of hiring incentives |
| ITALY   | Local <i>ownership</i> in a centralised delivery                                    | <i>Administrative capacity</i> of ALMP services   | Stronger service quality check in reform and investment <i>delivery</i>                       |
| SPAIN   | <i>Wealth of measures</i> for limited state capacity, heightened by political risks | <i>Poor multi-level governance coordination</i> between the PES and regional authorities                  | Double-down on <i>monitoring of PES reform improvements across the country</i>                |
| POLAND  | <i>Macro focus</i> hiding micro social risks  | Better equipped <i>PESs</i> balancing the all-private approach  | <i>Control private engagement</i> in labour code reform and employment activity acts          |

## 4. CONCLUDING REMARKS AND LESSONS LEARNED FOR THE EU

### 4.3 TAKEAWAYS FOR AN IMPROVED EU GOVERNANCE OF ALMP

The flipside of the "re-nationalisation" of activation policy is that it often leads to a consolidation of control and decision-making at the centre. The governance of ALMP reforms via the RRF indeed is a rather mixed bag, by helping to streamline ALMP delivery, but leading to regional and local stakeholders involved in the delivery of these services being further removed from decision-making areas. National responses to the pandemic by and large showed a growing recentralisation of ALMPs at the level of central government. This trend could have been expected in France and Poland, but it was also observed in traditional federal systems, such as Spain and Italy, as well as in Germany where the involvement of states in the development and implementation of the German NRRP was considered to be suboptimal.<sup>55</sup> If the centralisation of a country's NRRP may be considered a general issue of governance, it is of particular relevance for activation strategies, which increasingly rely on ALMP services implemented by regional and local authorities.

EU territories have different historical, geographical and environmental legacies; different policies and frameworks in place; and different delivery capacities, which can affect the impact of EU policies and programmes. **Involving local and regional authorities would boost the domestic ownership and accountability of the measures, programmes, strategies and actions associated with reforms and investments.** Equally, providing a more systematic assessment of the possible interaction and complementarities between EU, national and regional policies would help enhance the effectiveness of reforms and investments envisaged in NRRPs. Such involvement would by no means equate to delegating intervention indiscriminately to local government or outsourcing it to private and third-sector providers. But investing more resources in understanding which of the interventions envisioned in the NRRPs are both fruitful and feasible in which contexts would be helpful.

For the EU institutions, concrete steps would first involve further relying on existing and new Commission tools,

such as those assessing the resilience of EU regions to economic shocks<sup>56</sup> or the Commission's new distributional impact assessment expertise<sup>573</sup> to inform any successor of the RRF, ex ante, on the expected distributional impact of envisaged investments and reforms, both from geographical and social perspectives. Better monitoring structures are also duly needed. Implementation of ALMP measures in the Italian and French NRRP provides a telling example of a failure to territorialise reform and investment via EU funds. After different regional targets were set at EU and national levels for tailored services to jobseekers, only EU targets were met in the case of Italy, leaving EU funds to flow despite growing regional asymmetries.<sup>4</sup> Meanwhile, by introducing an all-encompassing tax relief for companies hiring apprentices, the French NRRP is expected to crowd out existing measures providing tailored initiatives primarily benefiting youth in most deprived areas. To avoid such unintended outcomes, a multilevel system of diagnostic monitoring should be put in place to assess progress on targeted outcomes for both the RRF and Cohesion Policy, ensuring that regional stakeholders can flag their concerns and identify new opportunities and allow for necessary adjustments.

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The governance of ALMP reforms via the RRF is a mixed bag, by helping to streamline ALMP delivery, but leading to regional and local stakeholders involved in the delivery of these services being further removed from decision-making areas.

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3 So far distributional impact assessments have been produced in the employment guidelines that form the legal basis for the adoption of the CSRs, but also in the Commission's impact assessment of the 2030 Climate Target Plan.

4 Corti and Ruiz also show that the absence of any territorial criteria set in the milestones conditioning the disbursement of EU funds in the Italian NRRP also lead to its implementation contradicting the objectives set out in the Italian childcare plan.

Making the economy more employment-rich will not yet go without changing EU's wider growth model. In the Economic and Monetary Union (EMU), promoting employment and equity at the same time requires a comprehensive macroeconomic policy mix including fiscal policy (beyond welfare spending), monetary and industrial policy. To be sure, EU legal and financial means to support national employment policies are limited, as highlights the limited size of the EU budget amounting to about 1% of the overall European GNI. Yet this reality should not serve as a disclaimer to downplay the important role of the nature of the EMU framework in favouring or hindering national employment growth strategies. The temporary response provided by the RRF helped convey the image of a different EU than the one wedded to moving away from any kind of demand-side management. EU institutions long looked up to the export-led growth models, independently of whether or not countries' long-term economic structures (wage coordination regimes, innovation and skill formation systems) allowed for such a macroeconomic shift. In today's context, characterised by major geopolitical disruptions and new trade tensions, Europe should also more actively support existing and new public investment programmes contributing to boosting human and social capital across the life-course. How could a review of the EU's fiscal rules more effectively support governments' efforts to boost employment growth? How could political guidance be improved to better inform the ECB's expected contribution to the secondary objectives of "full employment and social progress"? Today, the lack of a more comprehensive approach from the Union as a whole remains in stark contrast with fiscal and monetary developments recently observed in the US.

In the coming months, exchanges on the review of the economic governance framework should first allow for the creation of a fully-fledged Social Convergence Framework, granting social ministries similar powers to flag other countries' failures to achieve social targets as finance ministries can do under EU fiscal governance rules. Ahead of the next European parliament elections, discussions should further clarify national positions on the EU's development strategy, including through the introduction of new processes discussing what would be an appropriate fiscal stance for the EU as a whole – thereby considering how this could help in tapping the EU's employment growth potential where it is the highest. While studies on the positive returns of social prevention programmes are plummeting, so does the evidence about the disproportionately negative impact

of fiscal rules on productive public investments. Numerous EU actors have called for years for the Stability and Growth Pact rules to grant a differentiated treatment to social investments of the kind we identified here as 'capacitating' interventions. Further scholarship should now investigate the complementarity of ALMP measures with other welfare provisions – such as childcare or parental leave provisions. European governments and EU institutions recently rediscovered the merits of relying on additional fiscal leverage to project more desirable futures to their citizens. Rather than trying to put the genie back in the bottle, the focus should now turn to envisaging new ways for the EU to support local, regional, and national efforts to accompany the ongoing job transitions.



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# ENDNOTES

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- 14 In other work, we find that Germany remains, after France, the second largest spender per unemployed in this group (see A. Hemerijck and R. Huguenot-Noël (2022) *Resilient Welfare States in the European Union*, Appendix).
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- 20 The reform of the PES identified a basic set of ALMPs to be provided by all regions and setting minimum quality standards for delivery. Efforts were notably made to restructure the governance of ALMPs by creating a new National Agency for Active Labour Policies (ANPAL) and concentrating responsibility for design and delivery from the provincial to the regional level. OECD (2019) *Strengthening Active Labour Market Policies in Italy* (Paris: OECD Publishing), pp. 79-140.
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- 30 Unlike France, the German RRP rests upon a single document explaining reforms and investments envisaged with the support of EU funds, while only mentioning reforms adopted in parallel at the domestic level. As the plan itself only contains a few welfare reforms, we focus on the recovery strategy in a wider sense, that is, by also considering the social component of the German national plan and associated reforms.
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- 46 Versions of the anti-crisis shield from 2020 and 2021 are numbered from 1.0 to 9.0, a 2022 version is unnumbered and functions as "2022 anti-crisis shield". The governance of the measures differed across different anti-crisis shields, as the funding came from the labour fund, the guaranteed employee benefits fund and, in some cases, from the Polish governmental fund.
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- 48 120 centres coordinated at the level of the province (voivodeship), in collaboration with trade unions, should be built across the country, with VET schools affiliated to them aiming to "spread education in real conditions of work, analyse demand on professions and competences, improve competences and re-qualification of adults, conduct continuous training, intermediate between business and schools" (p. 49).
- 49 "Stanowisko Prezydium OPZZ z dnia 16 marca 2021 roku w sprawie Krajowego Planu Odbudowy i Zwiększania Odporności". OPZZ, 16 March 2021; FZZ (2021) "Stanowisko Forum Związków Zawodowych ws. Krajowego Planu Odbudowy". 30 April.
- 50 Morel, N., C. Touzet and M. Zemmour (2019) "From the hidden welfare state to the hidden part of welfare state reform: Analyzing the uses and effects of fiscal welfare in France". *Social Policy & Administration*, 1(53): 34-48. DOI: [10.1111/spol.12416](https://doi.org/10.1111/spol.12416).
- 51 When Law and Justice came to power, to highlight the relevance of family/demographic policy, it renamed the Ministry of Labour and Social Policy to Ministry of Family, Labour, and Social Policy. In October 2020, the competences related to labour and employment policy were moved to the Ministry of Economic Development, Labour and Technology as a result of tensions and bargaining within the coalition government, while the "old" Ministry of Labour and Social Policy, which became the Ministry for Family, Labour, and Social Policy, was renamed the Ministry of Family and Social Policy. The Ministry of Ministry of Economic Development, Labour and Technology was dissolved in August 2021; when one of the coalition parties was effectively kicked out of the coalition, competences related to employment/labour were moved to the Ministry of Family and Social Policy but without renaming of the ministry itself. Therefore, changes within the area of labour happened exactly when the RRP was being prepared, which might have impacted on how labour was treated in the current version of the RRP. It should also be noted that various ALMPs (and with larger budgets) are to be run not by the Ministry of Family and Social Policy responsible for labour/employment/ALMP but by other branches of the government (Ministry of Funds and Regional Policy, Ministry of State Assets, Ministry of Education and Science, Chancellery of the Prime Minister of Poland). It is yet unclear how cooperation will take place.
- 52 Corti, F., C. Moabito, T. Ruiz et al. (2022) *The Role of the Recovery and Resilience Facility in Strengthening Childcare Policies* (Brussels: Foundation for European Progressive Studies); Huguenot-Noël, R. and A. Hunter (2017) "Can the EU structural funds reconcile growth, solidarity and stability objectives?" European Policy Centre Issue Paper, 10 October.
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- 54 Visser J (2005) The OMC as Selective Amplifier for National Strategies of Reform - What the Netherlands wants and learns from Europe. In: Zeitlin J and Pochet P (eds) *The Open Method of Coordination in Action*, pp. 173–216.
- 55 Scheller, H. and A. S. Körner (2022) "Federal challenges in the implementation of the EU's Recovery and Resilience Facility in Germany". *Gestión y Análisis de Políticas Públicas* 29: 23-37. DOI: [10.24965/gapp.11056](https://doi.org/10.24965/gapp.11056)
- 56 See, e.g., European Commission (2017) "Why Regional Development matters for Europe's economic future". Working Papers, WP 07/2017. [http://ec.europa.eu/regional\\_policy/sources/docgener/work/201707\\_regional\\_development\\_matters.pdf](http://ec.europa.eu/regional_policy/sources/docgener/work/201707_regional_development_matters.pdf)
- 57 "Distributional impact assessment". European Commission; see also the September 2022 European Commission [Communication](#).

# ABOUT THE AUTHORS



**Daniel Fernandez Serrano** is a researcher and PhD candidate at the European University Institute (EUI) where his dissertation focuses on welfare governance, public administration and state-civil society relations in Europe.



**Anton Hemerijck**, Professor of Political Science and Sociology at the Department of Political and Social Sciences, joined the European Commission's newly formed High-Level Group on the Future of Social Protection and of the Welfare State in October 2021. Trained as an economist at Tilburg University in the Netherlands, he received his doctorate from University of Oxford. In his capacity as Dean of the Faculty of the Social Sciences at the Vrije Universiteit of Amsterdam, together with Jonathan Zeitlin, he founded the Amsterdam Centre for Contemporary European Studies. He also directed the Scientific Council for Government Policy (WRR), the principle think tank in the Netherlands. Between 2014 and 2017, he was Centennial Professor of Social Policy at the London School of Economics and Political Science (LSE).



**Robin Huguenot-Noël** is a researcher at the Department of Political and Social Sciences at the European University Institute in Florence where his dissertation focuses on employment growth strategies in the EU. Trained in economics and political science, he worked between 2014 and 2020 as policy advisor to the UK Treasury, the German co-operation and development agency (GIZ), and the European Policy Centre (EPC). He has published several reports for the European Commission, the Council and the Parliament on the EU budget, cohesion policy, and welfare reforms in the EU. He is the co-author of the book *Resilient Welfare States in the European Union*, written with Anton Hemerijck.



**Lorenzo Mascioli** is a doctoral researcher at the European University Institute (EUI) in Florence. His research focuses on spatial inequalities and public policy for local development, including cohesion policy. He has a background in economics, political science and political economy. Prior to joining the EUI, he served as policy advisor for HM Treasury.



**Karol Muszyński** is an assistant professor at the Faculty of Sociology, University of Warsaw, and a post-doctoral researcher at the Centre for Sociological Research, KU Leuven. His research focuses on employment relations and non-standard employment. He also has extensive experience in supporting policymakers, both at the national and European levels.



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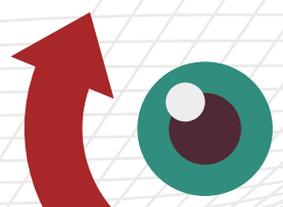
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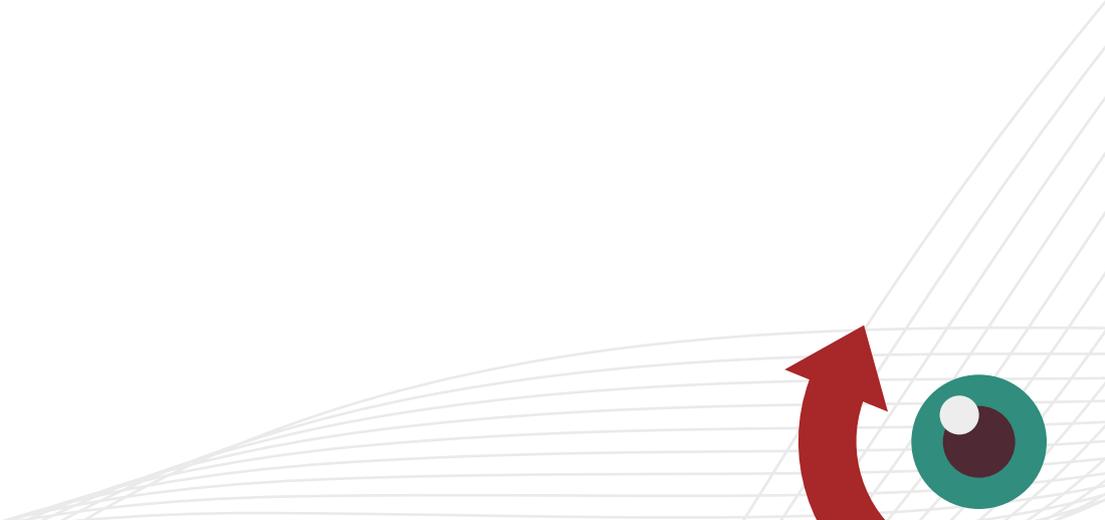
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**RECOVERY  
WATCH** 





# RECOVERY WATCH

Activation policies have been subject to an ongoing debate regarding their purpose, effectiveness, and potential unintended consequences. Traditionally, activation is understood as policies aimed at removing barriers to employment and strengthening the connection between social protection and work life. Critics argue that activation can serve as a disguise for deregulation policies, placing excessive emphasis on individual responsibility for unemployment rather than considering macroeconomic factors. Therefore, engaging in a debate focused on the binary notion of activation being good or bad risks overlooking crucial aspects of the intervention logic behind different activation strategies and their evolution over time in a changing macroeconomic environment. The revival of activation policies today seems indeed to have less to do with the idea of fighting an 'unemployment sclerosis', considered typical of European economies, than with addressing new challenges linked to changing demographics, new social aspirations, and major industrial transformations.

This study accordingly reviews the extent to which the nature of activation reforms enacted in National Recovery and Resilience Plans (NRRPs) differed from the trajectory of reforms engaged before the pandemic and attempts to answer the following questions:

- Compared to the activation policies enacted in the last two decades, is there a 'quality jump' in activation policies included in national recovery plans?
- What are the actors involved in adopting new plans, and to what extent can they support policy design and implementation?
- Have EU institutions become more supportive of productivity-enhancing labour support?

We assess the extent to which planned reforms (i) move away from the traditional 'workfarist' approach, which primarily rested upon a mix of commodifying and liberalising logic; (ii) improve the government's coordination capacity in the delivery of activation reforms; (iii) reflect a higher level of EU support than observed in the past. Here we observe that **the Recovery and Resilience Facility helped trigger, in some cases, and amplify, in others, essential welfare recalibrations.**

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