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# **The Governance of Poverty: Welfare Reform, Activation Policies, and Social Assistance Benefits and Caseloads in Nordic Countries\***

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**The Governance of Poverty:  
Welfare Reform, Activation Policies, and Social Assistance  
Benefits and Caseloads in Nordic Countries\***

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### Abstract

Social assistance benefits are the last resort in national social protection systems, and decentralizing reforms leading to increasing local discretion over implementation of national legislation was an international trend frequently referred to as devolution. More recent reforms have instead often implied recentralization and/or involved mandatory institutional cooperation between welfare agencies located at different hierarchical levels. In contrast to North America, there is little European evidence on the extent to which shifting responsibilities influence benefit levels and benefit receipt. Using individual level register data from Denmark, Finland, Norway and Sweden and applying a difference-in-difference approach we link changes in legislation to changes in municipal benefits as well as caseloads during the period 1990 to 2010. We only find indications of reform effects linked to distinct benefit centralization, concluding that other reforms were too insubstantial to have an impact. Combined with earlier evidence, this suggests that welfare reform requires marked changes in authority to have an impact.

**Keywords:** Social assistance, welfare, devolution, activation, benefits, caseloads

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## 1. Introduction

Countries' social protection systems can be visualized as multi-tiered safety nets, with nations differing in inter alia the number of layers that exist and how they are governed. In case of loss of earnings due to say illness and unemployment, citizens are in the first instance often expected to turn to national and centrally governed social insurance programs. These are generally dedicated to specific social problems, e.g. ill-health or job loss. In contrast, the last safety net is almost always social assistance programs, catchall programs that often are locally administered and provide means-tested benefits to poor citizens.

This depiction of social protection systems is highly schematic, yet it illustrates the important point that responsibilities for different income protection programs are located and governed at different administrative levels. A related point is that governance is by no means static, responsibilities for different components of income protection, or for specific groups covered by different programs, shift over time. One area which has seen a large number of governance reforms is activation policies, viz. policies targeted at social assistance recipients that aim to increase their possibilities for labor market integration. Activation policies targeted at non-working individuals traditionally considered inactive can be seen as an extension of active labor market policies for unemployed job seekers, an extension that has questioned the internal division of social security systems and resulted in reforms changing the division of responsibility between social assistance schemes and labor market policy.

Increased local responsibilities were the aim of many reforms in the 1990s, reforms often summarized under the headings decentralization or devolution. To combat rising unemployment and poverty, many countries introduced or remodeled activation measures giving local governments' greater freedom to adapt programs to local conditions. This often involved conditioning social assistance on participation in employment or training programs of various kinds. However, subsequent reforms have instead frequently involved recentralization of program monitoring, or cooperation between welfare agencies at different administrative levels.

Such trends are also evident in the Nordic countries. Although nationally legislated single, general, and means-tested social assistance schemes exist in all countries there are nonetheless differences in the degree and form of local discretion, and the countries have also seen a variety of reforms in the area of standardization and institutional integration. Yet, little is known regarding the impact of these changes in vertical divisions of power on poverty in the Nordic countries, or for that matter in Europe.

Governance reforms could influence poverty through changes in the number of recipients or in the level of the benefit. Getting people off benefits was for instance often the motivation for the reforms, the idea being that decentralization would improve programs by allowing for an adaptation to local conditions. Furthermore, devolution gave local governments an opportunity to remodel benefits, both their regulation and their level. Caseloads could thus also be lowered by tightening eligibility criteria or lowering benefits, thereby changing incentives of current recipients and preventing welfare tourism. As elaborated further below, other mechanisms have however also been proposed, some suggesting converse outcomes.

Against this background, the aim of this paper is to examine the relationship between shifting divisions of responsibility and social assistance benefit levels and caseloads in Denmark, Finland, Norway, and Sweden. Specifically, the reforms we examine relate to changes in local autonomy such as e.g. limiting or extending local responsibility regarding activation policies, processes of standardization, and institutional integration of social assistance systems with labor market policy.

We use large-scale individual level national register data sets that roughly span the period 1990 to 2010. To examine the impact of the reforms we employ OLS regression controlling for municipal characteristics and analyze benefits and caseloads using a difference-in-difference framework in which we compare trends among groups targeted by the reforms with trends among non-targeted groups. In the subsequent Section 2 we review the literature on power shifts and inequality, before we in Section 3 briefly present the Nordic reforms. Section 4 contains a discussion of the data and the method used in the analysis. The results are presented in Section 5, which is followed by conclusions in Section 6.

## **2. The distribution of responsibility and its impact on poverty**

Recent reforms have addressed the institutional structure of income protection and activation in developed welfare states. Throughout Europe, sub-national levels of government have become responsible for delivery, regulation and financing of activation services (Pollitt 2005; van Berkel et al. 2011; Minas and Øverby 2010; Minas et al. 2012). Such institutional reforms were also central components of welfare reforms in both Canada and the USA. This transfer of power from central to sub-national government has been labelled decentralization or devolution (Prud'homme 1994). However, there were also reforms in the opposite direction, limiting local autonomy and transferring power back to the national level (Minas et

al. 2012). To this may be added reforms addressing responsibilities at a particular level, e.g. through integration of separate benefit systems.

The autonomy at sub-national levels with regard to social assistance has been part of a general debate around the advantages and disadvantages of locating different types of activities and responsibilities at different levels of government. The increase in local autonomy has been justified by beliefs that local governments are more adept at designing programs appropriate to local circumstances (De Vrijes 2000; Mosley 2003, 2009) and that central governments are better at setting directions for policy than they are at actually delivering the policies ('steering not rowing', Osborne and Gaebler 1992). Decentralization may take different forms, for instance giving municipalities the opportunity to design activation programs or allowing them to activate or sanction benefit recipients. Applied to social assistance and activation, benefit recipients could for instance be offered measures tailored to the needs of the local labor market thereby improving their job prospects. This was often the explicit argument for devolving program responsibility, and one could conjecture that caseloads would decrease if the programs assisted benefit recipients in their transition to the labor market.

Furthermore, in the most optimistic scenarios effective local programs would initiate innovation in less successful municipalities, either through mutual learning processes or through pressure on politicians and administrators to improve governance and outcomes. Decentralization would then trigger a positive spiral, generating increasingly positive outcomes over time (De Vrijes 2000).

This is of course predicated on local governments actually heeding the intentions of central policy makers when making use of the leeway provided to them, and it is well-known that local politicians and bureaucrats may be intransigent. Caseworkers may thus disregard national policies, and local governments flout central regulations.

Even if they do conform, policy outcomes may differ from those envisaged. One aspect of decentralization is for instance the possibility of negative spirals of local competition. In contrast what was argued above, a recurrent concern in welfare policy has been that migration of benefit recipients to municipalities providing relatively generous benefits (making them so-called "welfare magnets") may prompt local governments to reduce benefit levels, starting a race-to-the-bottom as municipalities respond by lowering benefits (Oates 1972).

Finally, differences in institutional capacities and socio-economic conditions within a country may counteract the potential benefits associated with the improved matching of

policies to local needs and the greater territorial competition associated with decentralization (Prud'homme 1994, Rodrigues-Pose and Gill 2005). In countries with high levels of income inequality and/or large regional economic and political disparities, increased decentralization may in other words exacerbate rather than mitigate inequities. Devolution may produce poorly performing programs if for instance local governments lack the resources required to design measures of sufficient quality, inhibiting the desired reduction in caseloads.

This brief review suggests widely diverging hypotheses regarding the relationship between welfare governance and poverty outcomes, ranging from positive, to none, to negative. Evidence on the relationship between local discretion and welfare benefits and caseloads comes from both comparative and national studies. Hölsch and Kraus (2004) thus conducted a cross-sectional comparative analysis of the relationship between centralization and poverty reduction through social assistance in five European countries, finding highly decentralized social assistance schemes to be the least effective in alleviating poverty. A similar approach was used by van Mechelen and de Maesschalck (2009) when investigating the relationship between decentralization and social assistance benefit generosity in 21 OECD countries. Generosity was measured in terms of net disposable income of general social assistance claimants as a percentage of the poverty line, and the results indicated benefits tend to be less generous when central responsibility has been extensively devolved.

These analyses of poverty reduction are complemented by analyses of the impact of decentralization on benefits receipt and levels in North America. Analyses of caseloads from both the USA and Canada indicate that reforms increasing state autonomy with regard to policies vis-a-vis social assistance recipients contributed to a reduction in the number of benefit recipients (see Blank, 2002, for a review of US studies, and Kneebone and White, 2009, for a Canadian analysis).

The precise reason for this seems unclear, yet one potential explanation may be the reduced benefit generosity also found to be associated with devolution (Mayers et al. 2002, Mayers and Gornick 2005, Weaver et al. 2010). While most of the studies above examined devolution, Brandtzæg et al. (2006) focused on a recentralizing reform. Analyzing the introduction of governmental guidelines for social assistance benefits in Norway in 2001, they examined the development of individual benefit payments as well as municipalities' guideline rates. Their results showed a fall in the average municipal rates after the introduction of guidelines, yet an increase in average benefit payments. This difference between the impact of recentralization on set amounts and actual payments was seen as

related to the discretion retained by caseworkers and administrators in the assessment of benefit needs.<sup>1</sup>

Taken together, these analyses suggest that decentralization generates lower social assistance levels and lower caseloads. The studies do however differ and there may for instance be variation in e.g. legislation that is not captured in the analyses. Another crucial issue regards other factors of importance, many of the cited studies do for instance not control for structural differences at the local level that may explain differences in the outcomes. Finally, the different national studies have generally examined benefit levels, forgetting that constant benefits and rising living standards will undermine the adequacy of the benefits. There is in other words a need for analyses of the effect of changes in social assistance legislation on benefits and caseloads controlling for other potential influences.

### **3. De- and recentralization of social assistance policies in Nordic countries**

Classifying changes in the distribution of authority between levels of government requires clear criteria regarding the character of reforms. We apply a schema developed by Minas and Øverby (2010) whereby centralization involves an introduction or strengthening of central administrative guidelines, standards or requirements regarding social assistance benefits and activation programs, and decentralization the relaxation or removal of such benchmarks and obligations.<sup>2</sup>

When analyzing reform effects it is also essential to take the starting point for the reforms into consideration, decentralized systems seeing further decentralization may for instance be less likely to see a change in benefits and caseloads than centralized systems undergoing the same change. All Nordic countries here have similar legislative structures with means-tested social assistance schemes where the right to support is stated in national legislation outlining the legislators' general intentions while at the same time giving local government varying degrees of autonomy regarding implementation.<sup>3</sup> Comparing social

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<sup>1</sup> While benefit cuts of course may come about for many reasons, studies have found evidence of “welfare competition”. US evidence a race-to-the-bottom was reviewed by Brueckner (2000), and evidence is also available for Norway (Five and Rattsø 2006), Sweden (Dahlberg and Edmark 2004), and the UK (Revelli 2004).

<sup>2</sup> The schema enables the classification of reforms according to the changes in vertical control, yet it should be noted that some reforms contain elements of ambiguity. One such case is when central government imposes requirements on local government – without specifying exactly what is required. The requirements imply centralization, but the lack of specifications may lead to greater local variation normally associated with decentralization.

<sup>3</sup> This stands in stark contrast to the countries' unemployment compensation schemes, a closely related program that in all countries primarily is decided at the national level and implemented by a national agency or organization acting on behalf of parliament.

assistance programs in the early 1990s, Gough et al. (1997) placed Finland, Denmark and Sweden in one category and Norway in another, more decentralized, group.<sup>4</sup>

Our strategy for empirically examining reform effects (described further below) relies on comparing activated with non-activated groups when possible. In the review of the countries' policy developments interest will therefore primarily focus on when a particular group was targeted for activation and whether a reform involves a de- or recentralization of responsibility, and less attention will be given to reforms involving e.g. modifications of the content of existing activation measures.

### **3.1. Denmark**

In Denmark, the 1990s saw a series of (mainly) centralizing activation reforms. The first mandatory activation program, the Youth Allowance Scheme for 18- to 19-year-old recipients, was introduced in 1990. In 1991 the program was extended to include 20-year-olds, and municipalities also received the right to act as an employment service for especially vulnerable individuals in all age groups. Activation efforts were then gradually expanded, in 1992 including unemployed under the age of 25 on social assistance benefits. The Act on Municipal Activation (1994) extended the target group for activation to also include almost all social assistance recipients (albeit with delayed enforcement for those over 25) as well as persons considered to have other problems in addition to unemployment (van Aerschoot 2011). Simultaneous centralizing reforms included turning benefits into taxable income and largely abolishing discretionary supplements (Heikkilä et al. 2001). However, minor decentralization also occurred as municipalities could sanction recipients in case of non-compliance with requirements (van Aerschoot 2011). The centralizing aspects of these reforms was partly reversed in 1996 when the municipal obligation to activate changed to municipal discretion as local authorities now could decide to formulate action plans if deemed necessary in the individual case (Bredgaard 2001).

This was nonetheless only an hiatus, the Act on Active Social Policy (1998) extended early enforcement to those below 30 and municipalities' rights to sanction with discretionary benefits reduction within narrow bands was limited (Kvist and Meier Jæger 2004). This centralizing process continued with the Act on Immigration (2002) that limited immigrants' access to social assistance, introducing a seven-year qualifying period for full benefits during

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<sup>4</sup> The assessments of the extent of local discretion in different countries differ across studies (cf. Hölsch and Kraus, 2004, Minas and Øverbye, 2010, and Van Mechelen and De Maesschalck, 2009), something that in part appears to depend on the criteria used to classify countries. Still, another reason for the differences in the classifications may be that they refer to different time periods, and as we shall see the level of decentralization in social assistance schemes is a moving target.

which immigrants could only receive a lower integration allowance (Goul Andersen 2007). Further centralization then came with the reform “More People to Work” (2004) that introduced a social assistance ceiling and tougher requirements to force people into employment or education.<sup>5</sup> For youth not in education, employment or training, social assistance allowances were reduced with approximately 50 % (van Aerschot 2011). Standardization also increased as central rules and manuals were introduced to control local actors and measures encouraged/obliged municipalities to contribute more actively to the inclusion of unemployed (UWT 2007).

### **3.2. Finland**

The latter part of the 1990s was a period of increasing local discretion in Finland, Thus, in 1996 social workers were given the power to reduce social assistance in case of refusal of work or training, although the sanctions were regulated nationally. Moreover, the Social Assistance Act introduced in 1998 expanded the range of sanctions, increasing local discretion further (Duell 2009).

In contrast, the subsequent decade saw recentralization. The Act on Rehabilitating Work Experience (2001) increased the responsibility of local authorities for activation by requiring municipalities to organize active labor market programs or purchase programs from non-profit actors. The act also promoted closer integration of activation measures carried out by local employment and social welfare offices. Central to the reform was the activation plan which officers from the Public Employment Service (PES) and from the local authorities were obliged to prepare together with the unemployed social assistance recipients.

Institutional integration of activation services was further enhanced in 2002 when services provided by employment offices, municipalities, and the social insurance institution were brought together in so-called Joint Service Centres (JOIS) on experimental basis at local level. In 2004 these were divided into joint municipal-state Labor Force Service Centres (LAFOS) for unemployed with multiple problems and Job Search Centres for job-ready unemployed. LAFOS were established after voluntary agreements at the local level and thus do not exist everywhere. They include public employment services, social and health care services, services of the national social insurance agency as well as other experts if needed (Minas 2014). A final reform that may be interpreted as centralization occurred in 2006 when

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<sup>5</sup> The reform also aimed at integrating the national PES and the municipal employment services, initiating a reform process culminating in the introduction of municipal job-centers in 2007 (Minas 2014). This will therefore not be covered by our analyses, nor will the reforms related to the program “A new chance for all” introduced during 2006.

the financing responsibilities of central and local government were changed so that municipalities only had to co-finance 50 % of the lion's share of social assistance (Duell 2009).

### **3.3. Norway**

The decentralized nature of the Norwegian system was reinforced in 1993, when municipalities obtained the right to condition social assistance benefits on work or retraining activities, without specifications regarding e.g. target group, type of work, or duration. However, surveys from the mid-1990s indicated that local activation for all practical purposes was non-existent as almost no municipalities made any extensive use of this right (Lødemel 1997).

A step towards centralization was nonetheless taken in 2001 with the introduction of governmental guidelines on social assistance, yet these were not legally binding so municipalities largely maintained their prerogatives regarding benefit rates. Another step in the same direction was the Action Plan to Combat Poverty, after debate around welfare-to-work policies. The plan stressed closer cooperation between the PES and social welfare system and specified the creation of local rehabilitation and activation measures targeted at a selection of social assistance recipients who were either young (20-24), single parents, long-term recipients, as well as immigrants and people who receive drug substitution treatment. Still, the centralizing nature of the program was limited in that the content of the measures and the selection of the participants was in the hands of the local agencies. The plan was introduced in 2003 and implemented over the following years in an expanding sample of municipalities (Schafft and Spjelkavik 2006).

Further centralization came with the amendment to the Act on Social Services in 2004. This aimed at intensified cooperation, and social assistance recipients were granted the right to an individual plan to be worked out between the social worker, the client and other relevant actors. Again, however, this must be seen as a minor step as the content of the plan was locally determined. A more clear-cut move in this direction was instead the program for newly arrived immigrants lacking basic qualifications, entitling and obliging them to partake in individually planned training programs. This so-called introduction program was introduced in 2003 as a voluntary program for the municipalities that became compulsory in

2004. The strongest centralizing feature was that participants were entitled to an introductory benefit financed directly by the state, not by local councils.<sup>6</sup>

### **3.4. Sweden**

Sweden did not see as many reforms as the other countries. Swedish municipalities have long required social assistance recipients to participate in activation programs, search for jobs and accept employment assigned to them, and already in the late 1980s certain municipalities had begun to make increasing use of these provisions. This was part of a general development where local authorities made explicit efforts to keep costs down and the trend, in most respects, was towards less generosity and tougher requirements.

These elements of activation were somewhat centralized in the mid-1990s when government declared that every unemployed under age 25 unable to find work within three months should be offered placement in labor market programs. Municipalities were given the possibility of assuming responsibility for labor market measures for unemployed youths under age 20 (in force in 1995), a possibility that later was expanded to young people between 20 and 24 (1998) and included in the revised Social Service Act (also from 1998).

The revision in addition introduced a national monetary standard aimed at reducing local variation in social assistance payments, implying a simultaneously reduction of local autonomy. The impact of this recentralizing reform is nevertheless unclear as the standard only stipulated minimum amounts for certain core items, leaving it to municipalities to decide on additional items and greater amounts.

## **4. Data and method**

The effects of these changes in the vertical distribution of responsibility on the level of the municipal social assistance benefit as well as caseload numbers have been examined for specific groups of recipients. These have primarily consisted of youth and immigrants as they have been the primary target of the reforms. To identify the reform effects we need to eliminate the effects of other sources of variation, for instance changes in municipal demographics, business cycle fluctuations or changes in the composition of recipient groups. This has been achieved by taking changes in these factors in each individual municipality into account. In addition, whenever possible developments among the target groups are compared

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<sup>6</sup> At this time the Norwegian parliament also started considering combining the social service, the labor market and the social insurance agencies which in 2006 resulted in the merger of the employment and national insurance services (Minas 2014). As in the Danish case this will not be covered by these analyses.

to the development in a group not affected by the reforms, a group that in Denmark, Norway and Sweden was 25- to 64-year-old benefit recipients.

Comparisons between a treatment and a control group are of course applications of the classical experimental design. Designs in which pre- and post-reform outcomes for treatment and control groups are examined taking the difference between the groups in their changes over time as the treatment effect are sometimes labelled difference-in-difference (DiD) designs. It should be noted that the approach relies on the untestable assumption that over-time trends absent reform would have been equal. Similarities in pretest trends are occasionally used to support the assumption, yet this not an option here as the first reforms in most cases come early in the observation period. In addition, in the case of Finland we lack a comparison group as all the Finnish reforms encompassed all recipients, something that also applies to Denmark after 1994 when the reforms were extended to include all recipients.<sup>7</sup>

Analyses of the earlier, smaller, trial programs predating the North American welfare reforms often made use of randomized experiments, yet these have difficulties dealing with changes in national legislation allowing for a plethora of local programs with different characteristics. For these, as well as other, reasons, analysts came to favor aggregated data on caseloads and benefits using changes over time to capture reform effects, with studies differing in how they account of other, confounding, factors (Blank 2002).

We here use a slightly modified version of the standard design in later analyses of welfare reform (Blank 2002). The models we estimate thus take the general form

$$Y_t = \alpha + \beta X + \gamma Z_t + \varepsilon \tag{1}$$

where  $Y$  is a dependent variable,  $\alpha$  are municipal fixed effects,  $X$  is a vector of year dummies,  $Z$  is a vector of control variables,  $\beta$  and  $\gamma$  the corresponding vectors of parameters to be estimated,  $\varepsilon$  is an error term, and the subscript  $t$  indicates time. These analyses have been conducted separately for the different treatment and control groups in each country. The parameters of interest are the  $\beta$ -coefficients, indicating how the dependent variable changes over time after taking into account of changes in the control variables as well as time invariant municipal differences. For two years  $t$  and  $t+1$ ,  $\Delta\beta_g = \beta_{gt+1} - \beta_{gt} > 0$  for instance indicates that there for group  $g$  was an increase in  $Y$  that was not related to changes in  $Z$ .

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<sup>7</sup> It may also be noted that there are indications that some Danish municipalities prior to 1994 included non-targeted groups in their activation efforts (Van Aerschoot 2011, 84). Likewise, a Swedish implementation study in 2005 indicated that on occasion all recipients regardless of age were included in activation programs (Van Aerschoot 2011, 70). Although this obviously poses a problem for our DiD approach, it is nonetheless unclear how common such practices were and that it for identification purposes is sufficient that the aggregate degree of activation between treatment and control groups differ.

In contrast to most previous work, we make use of the DiD design whenever possible. With this design, and with A and B denoting treatment and control groups respectively, a reform effect would be evident if we following a reform find  $\Delta\beta_A \neq \Delta\beta_B$ . The results will be reported in figures plotting the development of the  $\beta$ -coefficients for the different groups, allowing for direct comparisons.

In our analyses we make use of national administrative register data containing information on labor earnings and other market income, various social transfers as well as a host of demographic data. In Denmark, the data encompasses 10 % of the native born population and all immigrants, while in Finland, Norway and Sweden we have data for the whole population. The Danish data spans the period 1986 to 2006, the Finnish 1993 to 2010, the Norwegian 1993 to 2007 and the Swedish 1990 to 2007.

All four databases contain information on individuals' total annual social assistance receipts. In Denmark social assistance refers to *kontanthjælp*, in Norway *sosialstøtte*, in Finland *toimeentulotuki* and in Sweden *ekonomiskt bistånd/socialbidrag*. Social assistance has been measured in local currencies and at nominal values. Rather than measuring standard rates or actual benefits, the idea here is to estimate the standard of living among social assistance recipients relative to average workers in the different municipalities. The municipal social assistance (SA) ratio has therefore been calculated as average annual benefit receipt among those in a municipality receiving benefits relative to a municipal poverty level set to half the average annual labor earnings in the municipality. This measure thus takes account of the fact that increasing benefits may nonetheless imply decreasing generosity if earnings rise even faster, while falling earnings will raise the SA ratio. The annual nature of the data also implies that changes in the duration of benefit receipt will affect the ratio, yet this will not be a problem for the DiD analyses as long as changes in duration are similar across groups. The SA ratio has been calculated separately for the different groups, although the same municipal poverty level has been used for all groups.

The SA ratio has then been regressed on the municipal independent variables population size, proportion of adult population (ages 18 to 64) between ages 18 and 19, 20 and 24, and 25 and 64 respectively, proportion of immigrants, proportion with sick pay, proportion unemployed without unemployment compensation, and finally the average annual earnings in the municipality. These variables all capture well-known risk factors for poverty and should account for differences in social assistance payments between municipalities that change over time yet are not related to the reforms.

Worth mentioning is here that the measure of unemployed without unemployment compensation has been introduced to capture both changes in the business cycle as well as changes in unemployment compensation regulations influencing eligibility. Both are of particular interest as analyses of the US welfare reforms found changes in the business cycle to be an important factor for caseload change, and that changes to other, closely related, social transfer programs were crucial as well (Blank 2002).

The analysis of caseloads has been conducted using the same basic approach, with the dependent variable here being the number of social assistance recipients in the municipality in relation to the municipal population. This is in other words akin to the well-known headcount ratio. The share of recipients has again been calculated separately for the different groups, although here the total municipal population has been used as the denominator for all groups. This has then been regressed on the same independent variables as the ones used in the analysis of benefit levels.

## **5. Municipal activation and social assistance benefits**

We start off by analyzing the link between the changes in responsibility and the generosity of municipal social assistance benefits. Figure 1a shows the development of the SA ratio in Denmark for the different groups that we have examined: 25- to 64-year-olds, 20- to 24-year-olds, 18- to 19-year-olds, and immigrants. The oldest group, adults between 25 and 64 years, was initially not affected by the reforms and therefore make up the comparison group. 1990 is the starting point for the Danish study, and the figure shows the point estimates for the year dummies included in the regression. The figure does in other words not contain information on the development of the actual level of the benefit, but on how the SA ratio evolves in relation to the starting year. As the dependent variable ranges between 0 and 1, a coefficient of for instance 0.1 indicates an increase in the SA ratio with 10 percentage points relative to the starting year. The vertical bars in the figure indicate the years for the different reforms discussed in Section 3.1 above.

These results show rather dramatic changes in the SA ratio over time. The maximum variation is roughly 100 percentage points, the SA ratio in other words doubled. While this is remarkable increase, of greater interest here is the development among the different groups. Note first that among 25- to 64-year-olds, the level of social assistance rose almost throughout the whole period. The rate of increase was fairly constant, although rising more slowly in the beginning and levelling off towards the end. Assistance to immigrants basically develops according to the same pattern, albeit starting somewhat slower and dropping off

more markedly at the end. This should be compared with developments among teenagers and young adults. In the former group, the level of social assistance remained basically unchanged, and consequently lagged behind benefits to adults. Among young adults benefits initially also stayed unchanged, and even if they rose after 1993 the pace was clearly slower than among adults and immigrants.

- Figure 1 about here -

Interesting is here the relationship between the changes and the reforms. The early 1990s was a period when municipalities obtained greater responsibility for the activation of teenagers and young adults, but not for immigrants and other adults. The later were only included following the reforms in 1994. It is therefore striking that benefit levels among adults and immigrants basically evolved in tandem whereas benefits among teenagers and young adults deviated from this trend very early on. This could indicate that the obligations gave municipalities reason to examine benefits among the young, yet rather than leading to lower benefits it led to stagnation compared to benefit development among other groups. Nonetheless, it should be noted that the curves deviate mainly after 1994 when activation was required of everyone, and that changes among immigrants and the young were initially very similar, questioning the importance of the responsibility reforms. The notable drop in immigrant benefits in contrast more clearly related to changes in responsibility, but in this case of a completely different kind. In contrast to the reforms during the 1990s, the 2002 reform involved strict centralization when a benefit ceiling was introduced for all and the municipal benefit was replaced by a national - and significantly lower - benefit for immigrants. Likewise, although formally applying to all recipients, the 2004 ceiling in practice primarily affected immigrants. There are in other words some indications that the distribution of authority may impact on benefit levels, all the changes over time discussed above are statistically significant.

In the same manner, Figure 1b shows the evolution of social assistance in Finland. As the Finnish reforms pertained to all benefit recipients we here only show the development of the SA ratio among all those receiving benefits. It should first be noted that the overall change is less than in Denmark (note the different scales of the y-axes), yet still involves a 10 percentage point increase. The variation that did occur took the form of an initial increase petering out in 1997 where after benefit levels remained unchanged during a ten-year period up until 2006 when benefit again started to increase somewhat.

The latter half of the 1990s was in Finland a period with somewhat increasing municipal responsibilities. The 2000s was instead a period with increasing centralization, even if this mostly took the form of increasing coordination among different agencies. That the 1990s mainly involved an increase in the SA ratio runs counter to the expected impact of decentralization, and the subsequent centralizing reforms appear to have had little impact. The possible exception is the reform in 2006 the decreased financial responsibility for the municipalities, something that coincided with rising the SA ratio. These changes over time are once again statistically significant.

The Norwegian results are displayed in Figure 1c, and again we see that the variation is less than in Denmark. Among young adults the changes are not even statistically significant, which they are among all other Norwegian groups and in all cases in the other countries. The variation that did occur primarily pertained to immigrants, for which the SA ratio fluctuated in a wave-like pattern.

Most of the Norwegian reforms affected all recipients, only the reforms in 2003 and 2004 were directed at specific client groups. The only indication that the reforms had any impact is the drop in the SA ratio among immigrants after the centralizing reform in 2004, presumably related to the removal of individuals in need of extensive assistance from local benefit rolls.

Results for Sweden can be found in Figure 1d, and as was the case in Finland and Norway the variation over time is smaller than in Denmark. It is really only among young adults that we see any form of change, a one-time rise in the SA ratio in 1992. A similar but smaller rise among teenagers dissipates over time.

Neither change appears related to changes in the distribution of responsibility. There was in other words an increase in the SA ratio in the two groups in 1992, but the decentralization of responsibility did not take place until 1995 and 1998 respectively. Nor did the 1998 centralization involving benefit standards seem to have had an impact as the SA ratio among teenagers declined while it rose among adults.

The conjecture that newfound freedom would lead municipalities to decrease generosity receives relatively little support in these analyses of the four Nordic countries. Instead the only traces of reform effects are related to centralization, viz. the restructuring of benefits for immigrants in Denmark and Norway and the re-financing reform in Finland. These changes in the responsibility, all examples of rather strong centralization, co-vary with changes in the SA ratio in a way that may indicate a reform effect.

## 6. Local activation policies and caseloads

The development of benefit reciprocity in Denmark is shown in Figure 2a, and the figure again shows the development of the point estimates for the year dummies in the regression. As was the case above, an estimate of 0.1 is indicative of a 10 percentage point increase in caseloads. The fluctuation in caseloads that took place in Denmark mainly occurred among 25- to 64-year-olds where the proportion first increased only to return to the initial level in 1995. There is then some years with rising reciprocity, stabilizing around 2001. In the final years of our observation period there is then a decrease in the proportion on benefits. Developments among immigrants and young adults were roughly similar, albeit with less fluctuation over time. The only group deviating from this pattern was the teenagers among which reciprocity initially remained stable, then declined slightly around 1995 and subsequently stayed at a somewhat lower level.

1990 was the year in which Danish municipalities obtained greater responsibilities for the activation of the 18- to 19-year-olds, yet the development among teenagers and immigrants (for which municipalities prior to 1994 had no activation requirement) does not seem different enough to be regarded as a reform effect. That there are no reform effects is underscored by the fact that despite the increase in municipal responsibility for young adults a couple of years later we see roughly the same development among immigrants which were not encompassed by the changes in regulation until 1994. We also see change in immigrant reciprocity around the changes in immigrant benefits in 2002 and 2004, yet here we also have very similar developments among the adult population suggesting that the changes are unrelated to the reforms.

The Finnish development is shown in Figure 2b. We here see an initial and quite noticeable increase in reciprocity between 1993 and 1997, where after the proportion stabilized at the new higher level during the rest of the period.

The increase in municipal discretion in the second half of the 1990s other words coincided with a halt in the rise in caseloads, however the centralizing reforms in the following decade appears to have had no impact on the number of recipients.

- Figure 2 about here -

Figure 2c shows the Norwegian results and the perhaps most striking aspect of the figure is that there is hardly any variation over time. For all groups, the curves move in a

narrow band that basically implies a constant share. It is consequently clear that the changes in responsibility have had no effect on benefit reciprocity.

Finally, looking at Sweden we in Figure 2d see the greatest variation over time among the four countries, note the differences in the scale of the vertical axis. The increase among 25- to 64-year-olds between 1991 and 1992 was approximately twice as large as the greatest changes in the other countries. After 1996 a long period with slowly sinking benefit reciprocity was initiated. Among teenagers and young adults we see a similar but less dramatic development. The initial rise was smaller, and the stepwise decline after 1996 also proceeded at a more measured pace. It does however not appear as if the reforms had any impact on the share of social assistance recipients. Reciprocity rates among teenagers and remained basically unchanged after the reform in 1995, and the slight decline among young adults may mirror the sharper decline among adults.

Taken together there seems to be very limited indications that increased municipal responsibilities led to fewer social assistance recipients. Of the different groups in the four countries for which the municipalities had received greater responsibilities we either see no change, a change in the opposite direction to the expected, or a change corresponding to the development in the comparison group. The same applies to cases where municipalities lost responsibilities. Nothing does in other words suggest that municipal measures are better adapted to local conditions and that they lead to reduced caseloads.

## **7. Conclusions**

Changes in the responsibility for social assistance programs have been a recurrent theme in reforms to welfare legislation over the last decades. The survey of Nordic welfare reform showed examples of both de- and recentralization, with the dominant trend in Denmark, Norway and Sweden being centralization and Finland initially de- and then recentralization.

Our results indicate that these developments seem to have had little impact on benefit generosity and social assistance caseloads in the Nordic countries. It is really only for decidedly centralizing reforms to social assistance benefits that we find any indication of reform effects; the introduction of targeted benefits for immigrants in Denmark and Norway and the reform of benefit financing in Finland.

The results contrast with some of earlier evidence on the effects of welfare governance. In particular, results from Canada and the USA had shown indications of devolution generating both benefit reductions and reduced caseloads. The absence of reform effects in the Nordic countries could potentially be explained by methodological differences in the

analyses. These include the possibility to control for both individual and municipal level differences in these analyses, an option not available in the analyses from North America. There could also be differences in the measurement of for instance benefit levels (e.g. guideline rates versus actual rates versus relative benefit rates) that underlie the varying results.

Another reason for the lack of a governance effect in the Nordic countries could be that the reforms, or the preexisting programs, simply were not implemented as intended. There is for instance evidence that in the case of the Norwegian decentralization of sanctioning rights and centralization of benefit guidelines local caseworkers did not change their assessment procedures as intended. Likewise, the centralization connected with Swedish guidelines left substantial discretion at the local level. There will be no traces of legal and other changes if practices remain unaffected.

However, there are also substantive differences in the reforms that could explain the varying results. In Canada and the USA substantial operative responsibilities as well financial resources were devolved from federal to state level, while the Nordic countries moved limited aspects of authority (e.g. sanctioning) to municipalities already in charge of administering and financing the program. Likewise, the Nordic centralizing reforms in some cases left substantial discretion in the hands of local authorities. The Nordic reforms may therefore have been too insignificant to impact on either benefits or caseloads, despite the claims made by policymakers. Moreover, the North American reforms may have transferred responsibility to units large enough to handle the increased responsibilities. This indicates that future research should pay increased attention to the institutional context of welfare reform. It is not only a question of centralization or decentralization, but rather of what type of reform in which context.

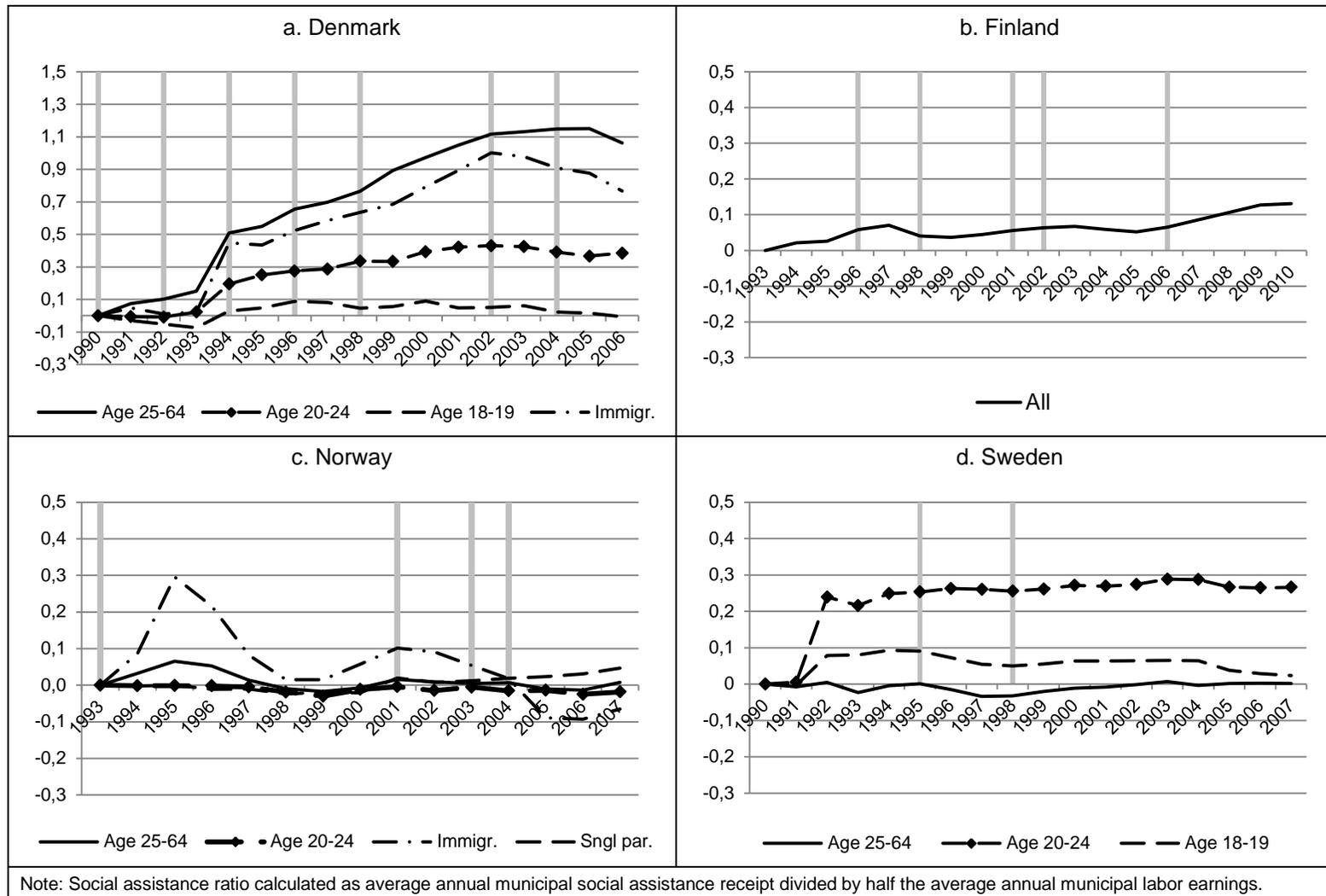
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## Figures

**Figure 1. Development of the social assistance ratio in Nordic countries (point estimates for year dummies). Ordinary least squares regression**



**Figure 2. Development of social assistance caseloads in Nordic countries (point estimates for year dummies). Ordinary least squares regression**

