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# **Economic Growth and Social Justice: Testing a Third Way Assumption on the German Case**

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Die DFG-KollegforscherInnengruppe „Landnahme, Beschleunigung, Aktivierung. Dynamik und (De-) Stabilisierung moderner Wachstumsgesellschaften“ – kurz: „Kolleg Postwachstumsgesellschaften“ – setzt an der soziologischen Diagnose multipler gesellschaftlicher Umbruchs- und Krisenphänomene an, die in ihrer Gesamtheit das überkommene Wachstumsregime moderner Gesellschaften in Frage stellen. Die strukturellen Dynamisierungsimperative der kapitalistischen Moderne stehen heute selbst zur Disposition: Die Steigerungslogik fortwährender Landnahmen, Beschleunigungen und Aktivierungen bringt weltweit historisch neuartige Gefährdungen der ökonomischen, ökologischen und sozialen Reproduktion hervor. Einen Gegenstand in Veränderung – die moderne Wachstumsgesellschaft – vor Augen, zielt das Kolleg auf die Entwicklung von wissenschaftlichen Arbeitsweisen und auf eine Praxis des kritischen Dialogs, mittels derer der übliche Rahmen hochgradig individualisierter oder aber projektförmig beschränkter Forschung überschritten werden kann. Fellows aus dem In- und Ausland suchen gemeinsam mit der Jenaer Kollegsgruppe nach einem Verständnis gegenwärtiger Transformationsprozesse, um soziologische Expertise in jene gesellschaftliche Frage einzubringen, die nicht nur die europäische Öffentlichkeit in den nächsten Jahren bewegen wird: Lassen sich moderne Gesellschaften auch anders stabilisieren als über wirtschaftliches Wachstum?

Douglas Voigt

## **Economic Growth and Social Justice: Testing a Third Way Assumption on the German Case**

### *Zusammenfassung*

Das Papier überprüft, ob ökonomisches Wachstum tatsächlich soziale Gerechtigkeit ermöglicht, wie Verfechter der Ansätze des ‚Dritten Wegs‘ im Bereich der Arbeitsmarktpolitik annehmen. Ausgehend von drei Definitionen von sozialer Gerechtigkeit – rawlsianisch, Dritter Weg und gleichberechtigte Teilhabe – operationalisiert es diese in fünf Hypothesen, die sich alle auf die weitverbreitete Annahme beziehen, dass wirtschaftliches Wachstum soziale Gerechtigkeit unterstützt. Das Papier vergleicht dann vier Regionen der Deutschen Arbeitsagentur, die einen paradigmatischen Fall der Dritter-Weg-Ansätze in der Arbeitsmarktpolitik repräsentiert. Durch den regionalen Vergleich dieser Regionen, die unterschiedliche Wachstumsraten aufweisen und die qualitative Nutzung von Vignetten wird festgestellt, dass ökonomisches Wachstum soziale Gerechtigkeit in keinem der Ansätze verstärkt und es stattdessen eher behindern könnte. Dies wird besonders deutlich, wenn die Art und Weise, wie ein Individuum an gesellschaftlicher Arbeit teilhat, zentraler Punkt der Definition von sozialer Gerechtigkeit wird. Das Papier schließt mit der Idee, dass Umverteilung und die Akzeptanz von Vielfalt wichtiger für soziale Gerechtigkeit sind als ökonomisches Wachstum.

### *Abstract*

This paper aims to test whether economic growth actually facilitates social justice as assumed particularly by advocates of Third Way approaches to labour market policy. Taking three definitions of social justice: Rawlsian, Third Way, and Parity of Participation, it operationalises these into 5 hypotheses which all relate to the widespread assumption that economic growth facilitates social justice. It then compares four regions of the German Federal Employment Agency which represents a paradigmatic case of Third Way approaches to labour market policy. Through inter-regional comparison of these regions with divergent growth rates, and the qualitative use of vignettes, it finds that economic growth does not enhance social justice under any of the approaches – but may indeed hinder it. This is particularly evident when choice of how an individual participates in social labour becomes central to the definition of social justice. It concludes with the notion that redistribution and tolerance is more important for social justice than economic growth.

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## Introduction

The transformation of many European welfare states since the 1990s, from protecting against labour market instability to capability enhancement and activation, has been remarkable both in the pervasiveness of its implementation and the acceleration of inequality which has accompanied it. It is evident that the latter, manifested particularly through labour market dualisation in continental welfare regimes (Pontusson, 2005), has accelerated in recent times – particularly countries like Germany which have been leaders in this transformation (Emmenegger et al. 2012; Thelen 2014). Despite these emerging outcomes suggesting neoliberal political origins, the erstwhile ideological impetus for welfare state transformation since the 1990s has been Third Way social democracy (Giddens 1998; Blair and Schroeder 1998). Often transitioning between academic and policy circles, Third Way advocates have consistently followed an intellectual operation exemplified by Anton Hemerijck's (2013) advocacy for 'social investment': 1) the repeated assertion that post-war welfare state models are unsustainable due to a number of political, economic, and fiscal *facts*; 2) the Third Way represents the *only realistic* solution for a social democracy when confronting the *realities* global capitalism; 3) *modernisation* equals "an emphasis on the productive function of social policy ... combining income support and active preventative and integration measures – which not only encourage citizens' financial self-reliance but also their autonomy in terms of 'human flourishing', which critically relies on what Amartya Sen and Martha Nussbaum have called the 'capabilities' given to individuals and social relations to enhance welfare" (Hemerijck 2013: 37); and 4) the assertion of a complementary relationship between this supply side labour market policy and economic growth resulting in greater social justice.

Prior to, during, and following implementation of this model, exemplified in Germany by the 'Hartz Reforms' of 2003-2005, several critiques have emerged addressing the first point (Ryner 2002; Bruff 2008; Streeck 2009), the second (Ryner 2010; Streeck 2014) as well as the third (Lessenich 2011; Dörre et al. 2012; Eversberg 2014). Considering the Hartz Reforms have been in effect for several years by 2015, their effects should be sufficiently manifested for empirical testing in terms of social justice. Nevertheless, whilst many of these critiques examine the false premises, hegemonic influences, and negative individual consequences of such policies, only a few (Azmanova, 2010; 2012; Streeck, 2014) have highlighted the importance of *critically* addressing social justice in the comparative political economy of welfare states.

From a critical perspective, a central assumption underlying Hemerijck's (2013) social investment approach, as well as most other variants of what could be termed the 'Third Way approach to social justice', is that growth expands individual choice and therefore enhances social justice. Whilst critiques and various conjectures on the relationship between capability enhancement and equality of opportunity are widespread (Nussbaum 2000; Sen 2008; Dean 2009), the causal link between economic growth and individual freedom are almost universally assumed by Third Way advocates. Therefore, to point instead to those working in the de-growth tradition (Bonaituti 2012; Muraca 2012), perhaps a more fundamental question should be examined:

*Does the assumption that high-growth economic environments enhance social justice more than low growth economic environments, posited by Third Way advocates and institutionalised in policies such as the German Hartz Reform, have empirical merit?*

In this paper, I will argue that if we accept the three simplified operationalisations of social justice presented here, Rawlsian, Third Way, and participatory parity, as well as accepting current German labour market policy as a paradigmatic case of Third Way social justice in Europe, empirical results suggest that the economic growth rate *does not* enhance social justice. Instead, there is a contradictory relationship between these concepts, illustrated

through an inter-regional comparison of the German labour market. Predictably, labour market activation and freedom of choice are contradictory – with freedom a central component of most theories of social justice. However, when analysed in broad categories, activation as effective coercion in the form of negative sanctions is actually more prevalent in high growth environments. On the other hand, those pursuing alternative conceptions of social participation *can be* facilitated by low-growth environments because the impetus for activation is lessened. However, this is not to say that low-growth situations enhance individual freedom for all – only under circumstances when traditional social norms such as equating income with happiness or personal identity with occupation are abandoned. That said, an important caveat exists. Namely, high-growth environments effectively subsidise low-growth environments (at least inside Germany), leading to migration among those who seek upward social mobility or those young and rootless enough to be ‘activated’ into a higher growth region.

The paper proceeds in four parts. It first examines the relationship between labour market policy and social justice, with selective stylisations of Rawls (1999), Third Way approaches exemplified by Giddens et al. (2006) and Hemerjick (2013), and Fraser’s (1990, 2003, 2009) parity of participation approach. Operationalising these into hypotheses focussed on the relationship between labour market conditions or welfare state policies and growth rates, it secondly offers a method for testing such hypotheses focused on interregional comparison. It then examines the results of this method in the four regional districts of Germany’s Federal Employment Agency (*Bundesagentur für Arbeit* – BA) with differing growth rates: Ingolstadt, Freiburg/Hochschwarzwald, Gelsenkirchen, and Greifswald-Vorpommern. It concludes with a section critiquing supply side approach to welfare policies advocated by Third Way adherents, highlighting how growth fails to ‘trickle down’ into neither freedom nor justice, but more often disciplinary activation, for those on the lower end of the socio-economic spectrum.

### **Social Justice and the Labour Market**

Rawls’s approach to social justice is distributive in nature which is based on two principles: 1) equal rights to basic liberties ensured to all; and 2) “Social and economic inequalities are to be arranged so that they are both (a) to the greatest expected benefit of the least advantaged and (b) attached to offices and positions open to all under conditions of fair equality of opportunity” (Rawls 1999: 72). It is the second principle – usually called ‘the difference principle’ – which is most important for the focus of this paper.

#### *Rawlsian Social Justice*

Although we may be born with innate talents, family situations, or class positions, the differing outcomes deriving from these positions, situations, and even the exercise of one’s individual talents (Callinicos 2000) is subjected to redistribution to ensure that the least advantaged can also derive benefit – regardless of some ‘natural right’ to reap the rewards of one’s labour (Locke 1980). Who then, are the least advantaged?

“To fix ideas, let us single out the least advantaged as those who are least favoured by each of the three main kinds of contingencies. Thus this group includes persons whose family and class origins are more disadvantaged than others, whose natural endowments (as realized) permit them to fare less well, and whose fortune and luck in the course of life turn out to be less happy” (Rawls 1999: 83)

In other words, those from lower classes or broken families tend to have more difficulties later in life and therefore any institutional order must assist in their chances more than others. If the outcome of social activity

*must always benefit the least advantaged the most*, then Rawls appears to argue for an institutional order which develops ever more towards increasing equality. However, as is usually illustrated through comparing the material deprivation of the relatively egalitarian economic organisation of Communist dictatorships and the material abundance of unequal capitalism, Rawls instead argues, “an inequality of opportunity must enhance the opportunities of those with lesser opportunity” (Rawls, 1999: 266). This suggests that increasing inequality is acceptable if greater *economic growth* enhances the opportunities of the least advantaged more than egalitarianism.

In labour market terms, Rawls has an *outcome-based* conception of justice which immediately confronts the observation of increasing inequality across the OECD (Pontusson, 2005) and dualisation in continental labour markets (Palier and Thelen, 2010). Dualisation specifically has been defined as “a process that is characterized by the differential treatment of insiders and outsiders” (Emmenegger et al. 2012: 10) which is considered a “policy output” (ibid.). As a policy output, dualisation is a useful concept for examining social justice in Rawlsian terms as it directly addresses both elements of the difference principle: the advantages of most disadvantaged, and whether or not positions are open to all.

In order to clarify, let us examine the German case in particular. For scholars working on Germany, a considerable focus is on the outcome of the Hartz Reforms of 2003-2005, which effectively institutionalised labour market dualisation. As (Thelen 2014: 14) notes, “recent developments in labor market policy have thus helped to institutionalize and anchor a divide between well-protected standard employment relationships endowed with significant benefits on the one hand, and more precarious jobs with virtually no benefits on the other.” Eichhorst and Marx (2012) have further shown that dualisation is driven by an attempt decrease the costs associated with Germany’s Bismarckian welfare state. Finally, almost all work on dualisation has shown that the characteristics of ‘outsiders’ are generally women, immigrants, and low skilled service workers with atypical contracts (Häusermann and Schwander 2012; Eichhorst and Tobsch 2015).

If we take atypical contracts as an indicator for dualisation, then a Rawlsian conception of social justice would suggest that this may be acceptable if dualisation ultimately declines in higher growth environments – as the demand side of the labour market would be forced to offer better terms *in general*. If dualisation is maintained or exacerbated by high-growth situations, then we can be confident that the growth itself is effectively built on the backs of the least advantaged – an unjust outcome. Because inter-regional comparison offers a tool of examining different economic environments under the same institutional conditions, the following hypothesis should bear out in empirical research *within* Germany:

- (1) **Strong Rawlsian Hypothesis:** *Dualisation should decline in high growth rather than low growth environments.*
- (2) **Weak Rawlsian Hypothesis:** *Considering dualisation is a general tendency in continental Europe, dualisation should at least increase at a slower rate in high growth rather than low growth environments.*

### *Third Way/Social Investment*

Given the basic hypothesis above fails to account for the *freedom* in choosing labour market positions, Hemerijck’s ‘social investment paradigm’ offers an approach more explicitly choice-oriented. The social investment paradigm is thoroughly within the Third Way tradition and thus will be used interchangeably with the

term ‘Third Way social justice’ primarily represented by the work of Anthony Giddens (1998). In a fascinating collection, particularly as a historical document, the reader *Global Europe, Social Europe* (Giddens et al. 2006) offers a series of justifications and policy prescriptions for precisely the type of welfare state reform implemented through the Hartz Reforms in Germany. With contributions by eminent thinkers like Giddens and Hemerijck himself, the assumption that reform should lead to economic growth which will in turn lead to social justice is prevalent.

Following the typical four step argument characteristic of Third Way literature alluded to earlier, Giddens argues that “achieving higher average levels of economic growth and of job creation must be placed at the forefront, since the current combination of lower growth and higher public expenditure cannot continue” (Giddens 2006: 17). In effect, without economic growth there is no social model. This leads to the conclusion that “We must be prepared to face the paradox that defence of the existing social models may in crucial respects not serve the cause of social justice, while reforms that superficially challenge traditional conceptions of social justice may actually fulfil the long-term interests of social justice more effectively” (Giddens et al. 2006: 2). What is this new conception of social justice and the reforms which lead to more of it via economic growth?

Critiquing distributive outcomes as a valid form of social justice, Diamond claims to merge Rawls and Amartya Sen’s capability approach to argue:

“Perversely, some continental welfare states have maintained entitlements that encourage an insidious conception of negative freedom: remaining outside work in the most agreeable income conditions possible. This undermines active participation – the precondition for dignity and self-fulfilment – and the effective freedom to act and to choose. The opportunity to participate actively in society should be the right of everyone... This reinterpretation inspires an ideal of social justice focused on freedom” (Diamond 2006: 178).

In other words, wage labour equals participation in society and the welfare state must cease to support the insidious notion that freedom equals a right to unearned income. The activation component of Third Way social justice thus focuses on making “it clear that the able-bodied unemployed have an obligation to look for work if they receive state support, and there are sanctions to help ensure their compliance” (Giddens 2006: 29). This placement of responsibility for social justice on unemployed individuals suggests a considerable departure from Rawls, as well as contradicting evidence that the much-championed Nordic welfare states are more equal due to higher rates of unionisation (Pontusson 2013), higher taxes, and more left governments (Huber and Stephens 2014) – in effect enforcing egalitarianism through power resources (Korpi and Palme 2003). Nevertheless, Hemerijck argues “the logic of social investment is focused on maximizing the chances of earning an income on the labour market, which tends to generate inequalities and risks. But to the extent that the social investment strategy remains coupled with minimum wages, education, training, and skills upgrading, one could envision an increase in the equality of opportunity and a decrease in income inequality” (Hemerijck 2013: 148). In short, by simply making workers more attractive to hire, the demand side of the labour market will offer them better jobs, leading to decreasing inequality, dualisation, and more social justice once the effects of the Third Way agenda are finally felt.

The Hartz Reforms were completed by 2005, with a massive expansion of hiring of so-called *persönliche Ansprechpartner* (pAps) to actively engage with unemployed individuals precisely the target of Third Way reforms. Considering its ‘support and demand’ title (*Forderung und Förderung*) embodies the twin elements of capability enhancement and activation demands, we should examine both the use of negative sanctioning in

activation, as well as the effectiveness of educational positions which 'support' individuals in labour market integration. If sanctioning must be relied upon, then the choice facing a given beneficiary is evidently not desired by the beneficiary themselves. Although there are many reasons for sanctioning, enhancing freedom of choice is not one of them. At the same time, because Germany has a highly developed middle-skill education system based on apprenticeships (*Ausbildung*), in which individuals work for firms at low and often subsidised wages in order to eventually integrate into full-time specialised work, opportunities for such education should be more prevalent in low growth environments, whilst certifiably educated workers should be more prevalent in higher growth areas – an effective outcome of earlier capability enhancement. This twin account leads to two hypotheses:

- (3) **Negative Third Way Hypothesis:** *Sanctioning should be negatively correlated with economic growth.*
- (4) **Positive Third Way Hypothesis:** *Considering the capability approach suggests that social investment comes before growth and freedom of choice, educational opportunities to integrate into work should be negatively correlated with economic growth whilst education levels in the workforce should be positive correlated.*

#### *Parity of Participation*

For an alternative to individualistic theories, the tradition of Critical Theory offers considerable theorising on the nature of social justice by Honneth and Fraser (2003) – albeit lacking an operationalisation for empirical research in political economy. Fraser argues for *parity of participation* – the approach adopted here. But what does this mean?

The debate between Fraser and Honneth hinges on identifying precisely what cultural recognition entails, with Honneth (2003) arguing for a universal state in which any given identity formation can be intersubjectively validated by the other. On the other hand, Fraser is sceptical of such a possibility, arguing instead that pluralism is essential in defining what constitutes a bounded public which may or may not overlap with socio-economic hierarchies. Therefore, critical theory must be “a critical political sociology of a form of public life in which multiple but unequal publics participate. This means theorizing the constestory interaction of different publics and identifying the mechanisms that render some of them subordinate to others.” (Fraser 1990: 70). In addition, because social justice has a distributive component, we must critically interrogate “the constitution, by property regimes and labour markets, of economically defined categories of actors, or classes, distinguished by their differential endowments of resources” (Fraser 2003: 50). Although the latter appears in line with the capability approach, the former suggests, at least in terms of labour markets, that we cannot assume that “the precondition for dignity and self-fulfilment” (Diamond 2006: 176) is integrating into the labour market in the same manner as everyone else. But how do we reconcile the possibility that some would like to participate in social labour in a different manner than others?

Fraser's later work offers the building blocks for a workable solution. In *Scales of Justice* (2009) she suggests that parity of participation is important in the economic, cultural, and political spheres. This threefold distinction separates these spheres from each other with justice claims assessed separately and according to their own criteria of redistribution, recognition, and representation. However, in her re-reading of Karl Polanyi, Fraser (2011) subsequently argues for an understanding of capitalist social development as a 'triple movement' of



marketization, social protection, and emancipation – with each having an attendant means/ends logic. To re-interpret this scheme and appropriate it for labour market policy: Marketisation is accomplished through commodification of land, money, and particularly labour – throwing individuals into the “satanic mill” (Polanyi 1944) of labour markets – to which redistribution assists in reaching parity. Social protection is accomplished through “embedding” relations between individuals into reciprocal social norms – which can be interpreted as enforcing the normative obligations *both* the supply and demand sides of the labour market have towards each other. Emancipation is accomplished through political mobilisation to contest the subordinate status many are ascribed – effectively the outsiders of the labour market. In each case, a form of participation is occurring – exchange, reciprocity, political communication – which suggests that a socially just order must grant parity to each.

For German labour market outsiders – which includes *all* women according to Häusermann and Schwander (2012) – this suggests that when attempting to participate, the *choice between forms* should be accepted as integral to social justice. This in turn suggests that parity of participation can be operationalised as a series of three means/ends logics in which the least advantaged themselves choose as a form of participation. Marketisers attempt to find the highest paying job as soon as possible and would never work if the job itself pays the same or less than welfare. Taking such a job would suggest normative considerations towards work itself, a normative consideration that stands outside the logic of the rational utility maximiser of a pure market orientation. If participation in the labour market is a moral imperative however, then injustice emerges from the lack of obligation to reciprocate from the demand side. Therefore, those oriented towards social protection seek to receive deserts for fulfilling their own obligations – a particularly relevant aspect for unemployed older workers that spent much of their lives working. Finally, those seeking emancipation should be allowed to participate in voluntary and politically-motivated forms – leading to paid employment as an eventual consequence of this form of participation. To illustrate, as shown by Huber and Stephens (2014), single motherhood is the single greatest predictor of poverty and social exclusion in Europe, which in turn suggests the socio-economic system is unjustly subordinating this category of individuals – precisely the category for which political participation with an emancipatory orientation is not only legitimate, but rational.

Instead of identifying a specific job or branch as the restricted space of freedom in which an individual has a choice, the form of participation provides a more realistic assessment of class asymmetries which effectively allow those with state-sanctioned entitlements to property income to actually choose form of participation. Moreover, it: a) analytically integrates economic, cultural, and political *agency* into what is only assumed by the Third Way approach; and b) it avoids monistic assumptions about what freedom and social integration means for the least advantaged in society. If growth increases choice as assumed by the Third Way approach, then the following hypothesis should also be tested:

**(5) Parity of Participation Hypothesis:** *High growth environments should better facilitate parity between the forms of participation in marketization, social protection, and emancipation.*

## Method and Case Selection

Because the latter hypothesis requires qualitative work in very specific contexts, all hypotheses are tested in an exploratory manner based on inter-regional comparison. Therefore, the first four hypothesis will be examined through descriptive statistics of four divergent regions, whilst the latter will be examined through a micro-level

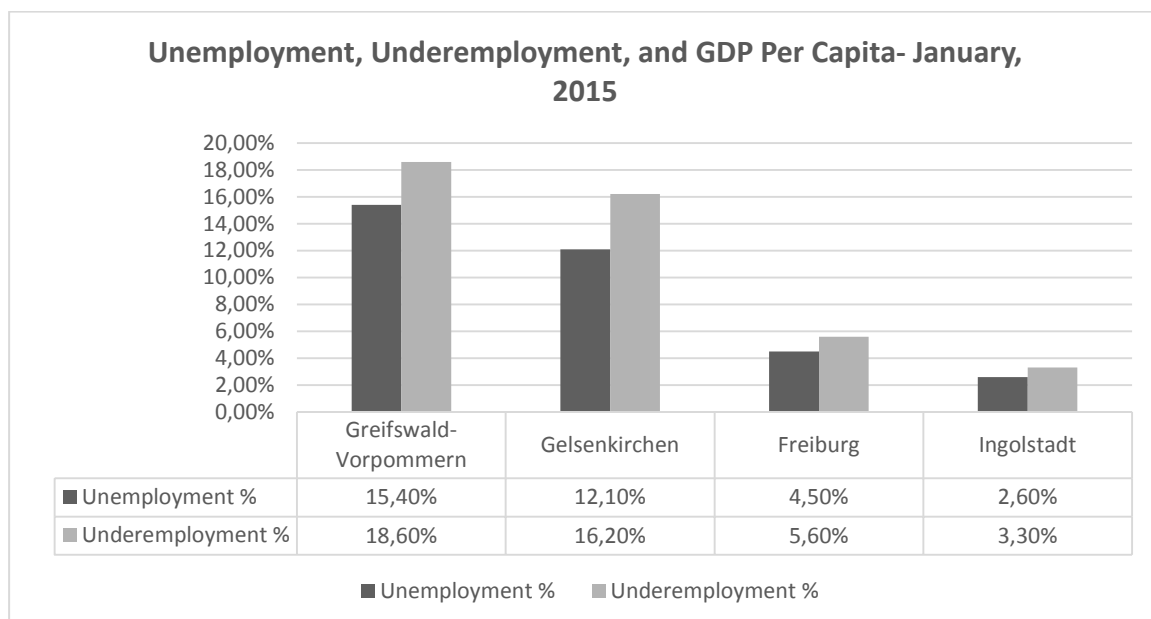
qualitative study of what actually occurs when welfare recipients receive 'support and demands' through capability enhancement and activation.

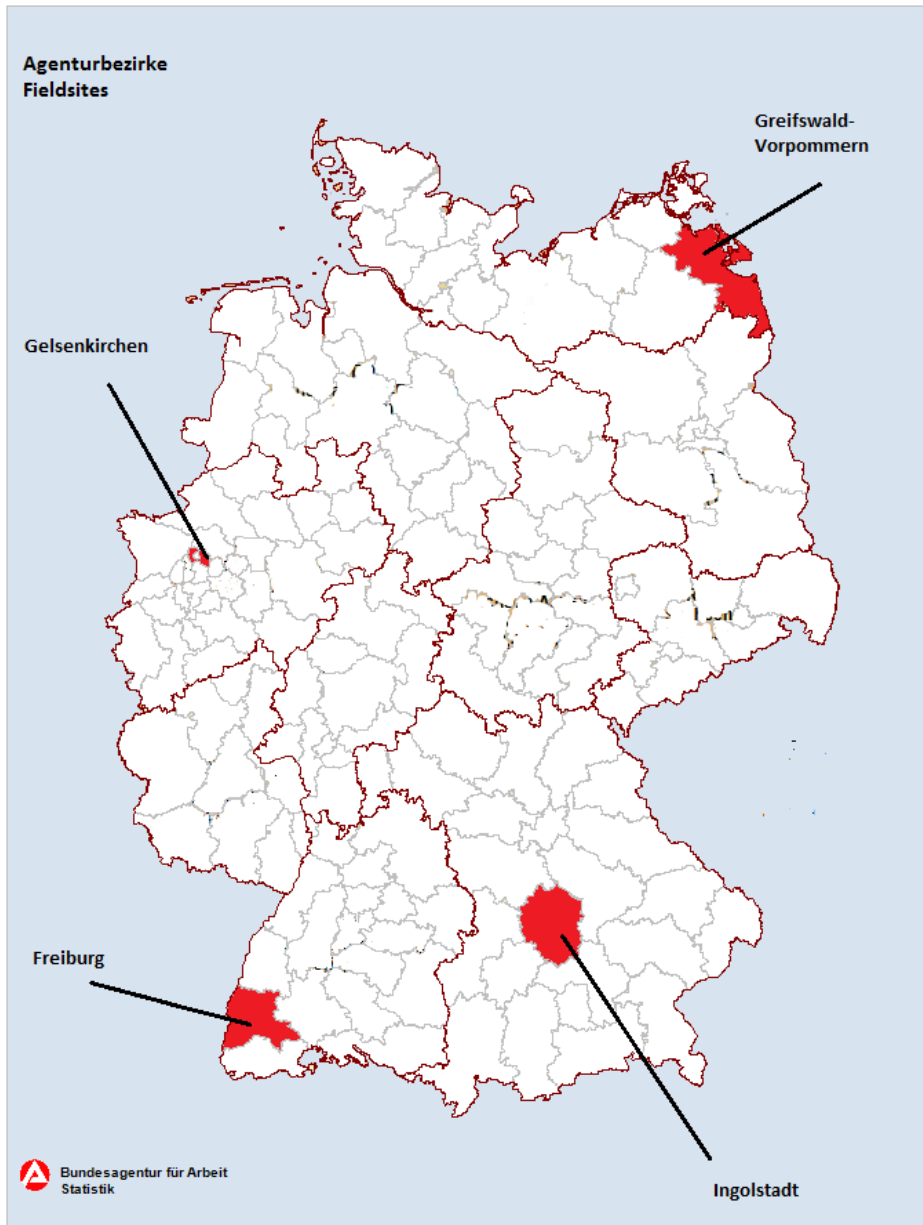
### *Inter-regional Comparison*

Because the Hartz Reforms consolidated management of the unemployment and welfare payments under the purview of the BA, it offers the ideal institution to study social justice in Germany. Likewise, the BA offers considerable micro-level statistics at the Agency (*Agentur*) level, which roughly correspond to other institutions of local governance. Together these provide substantial data on local economic conditions. Because the amount of individual and welfare benefits distributed by the BA is equivalent across regions, as well as the content of the procedures for dealing with 'clients' by pAps, studying the BA via inter-regional comparison at the Agency level also offers a glimpse how universally implemented policies of Third Way social justice interact with highly divergent local conditions.

Although adapted for the inter-regional level, the comparative method is a common approach in social inquiry and political science (Skocpol and Somers 1980; Collier 1993). Inter-regional comparison enhances the comparative method by allowing for Mill's Method of Difference (Lijphart 1971) whilst maintaining comparability – particularly considering that the micro-level procedures which determine capability enhancement or activation are identical in each region. Considering this, I have selected four regions with highly divergent characteristics based on geographic location, unemployment levels, and political orientation – not growth rates per se. Although compromising several local Job Centers, the smallest governing unit of welfare provision in Germany, the Agency Districts selected were (see Map 1 for location): Greifswald-Vorpommern, Ingolstadt, Freiburg, and Gelsenkirchen. Their comparative labour market conditions at the time of the qualitative study elaborated further below (early 2015) are represented in Graph 1.

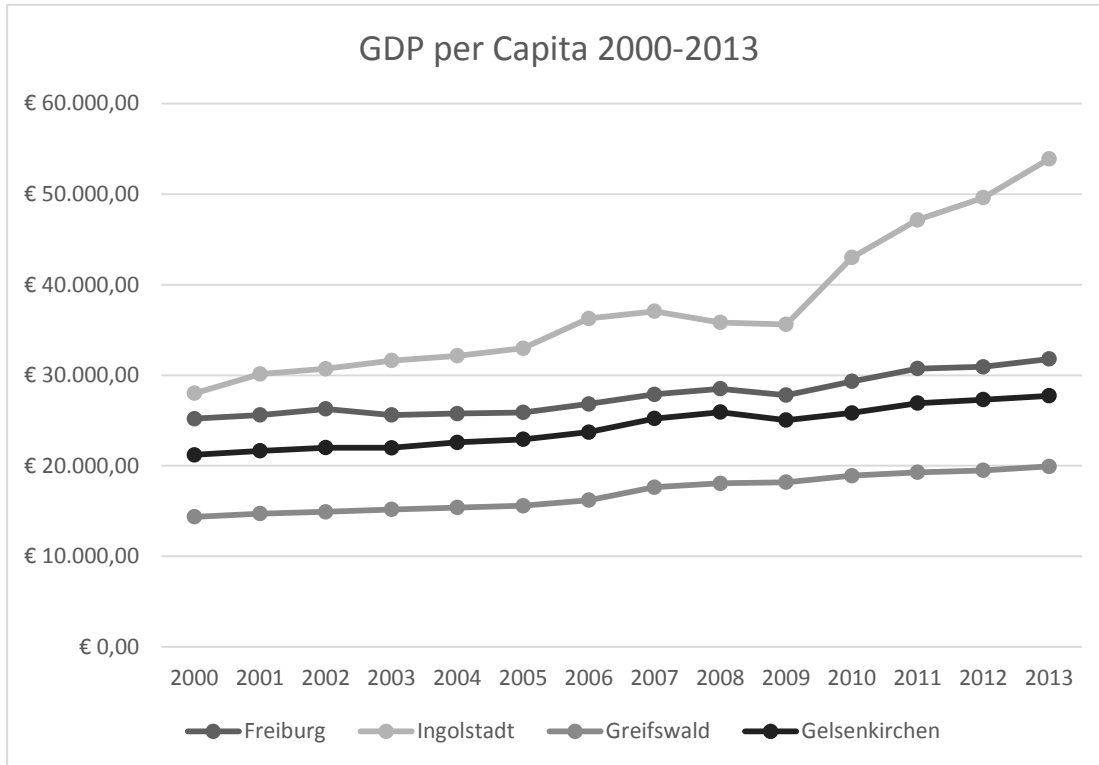
**Graph 1. Comparative Labour Market Conditions<sup>1</sup>**



Map 1. Selected Regions within Germany<sup>2</sup>

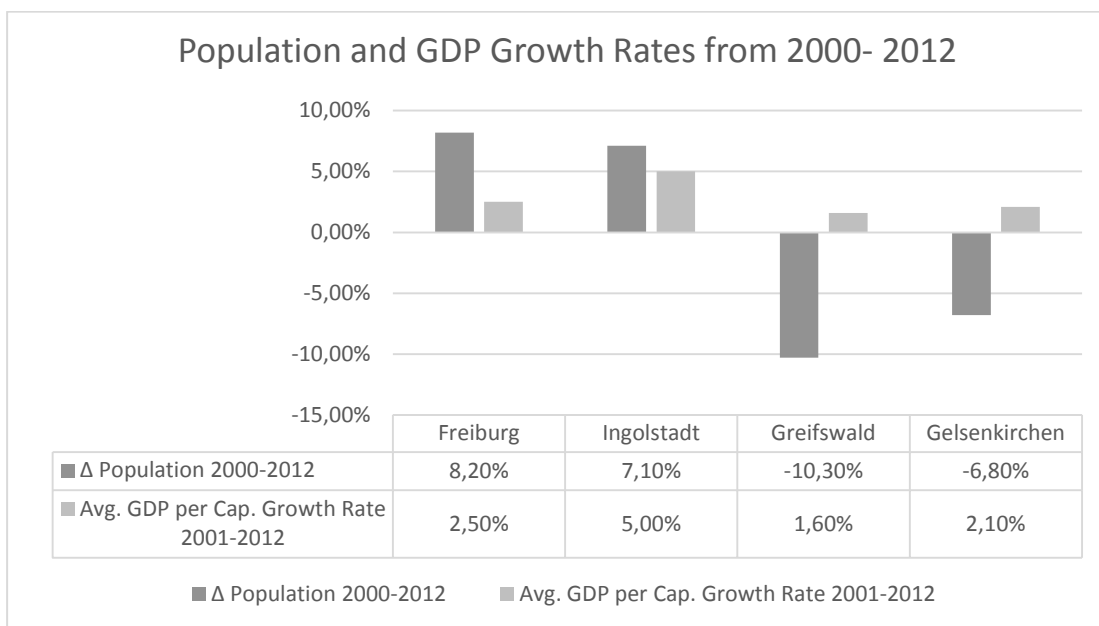
In terms of unemployment rates, these fieldsites can be roughly categorised into two groups: Greifswald and Gelsenkirchen, as well as Freiburg and Ingolstadt. However, these fieldsites also have differing growth rates. The GDP per Capita of each region between 2000 and 2012 is represented in Graph 2. Although starting from a somewhat higher level, the Ingolstadt Region in particular experienced a considerable acceleration of growth starting in 2009 – approximately 4 years after the Third Way approach to social justice was implemented through the Hartz Reforms.

Graph 2. Growth Rates over Time<sup>3</sup>



However, considering the per capita basis of this growth, it is important to identify population flows which can affect statistical measures of GDP per capita. As is demonstrated in Graph 3, Ingolstadt did not experience the highest rate of growth during the same period, but Freiburg. On the other hand, Gelsenkirchen, and especially Greifswald-Vorpommern, lost considerable population during this period.

Graph 3. Population and Economic Growth<sup>4</sup>



On balance, the per capita growth rate is not considerably lower in Gelsenkirchen than Freiburg. Although having different labour market conditions, a difference between 2.1% and 2.5% scarcely reflects the difference between our extremes: Ingolstadt (5.0%) and Greifswald (1.6%). In other words, the key comparison based on the Method of Difference is Ingolstadt and Greifswald – with our first 4 hypotheses suggesting that Greifswald should have greater dualisation, more sanctioning of welfare beneficiaries, higher current capability enhancement, and poorer levels of education in the population.

### *Vignettes and Structured Interviews<sup>5</sup>*

In order to test the fifth hypothesis based on parity of participation, a qualitative and exploratory approach to organisational research was conducted through structured interviews with those at the front line of welfare provision in Germany: the pAps. Each interview was structured by the use of three vignettes. “Vignettes have long been used to study attitudes, perceptions, beliefs and norms within social science” (Wilks 2004: 80) and are especially for organizational research (Aguinis and Bradley 2014). Although vignettes can allow for experimental approaches to social research through subtly changing aspects of the vignette for a control and experimental groups of participants, as this study was based on inter-regional comparison, they were kept exactly the same for every interview participant.

The three vignettes were written based on the input and advice of sociologists working at the Institute for Labor Market Research in Nuremberg (Nürnberg) – housed within the headquarters of the BA.<sup>6</sup> A total of 22 pAps were interviewed in a semi-structured manner, with 5-6 participating at various Jobcenters within each region. Each vignette formed a short life history which incorporated education, home situation, work history, and motivational aspects. All were women and their important characteristics are detailed in Table 1 below.

**Table 1: Vignette Characteristics**

	Age	Education	Living Situation	Work History	Motivation
<b>Frau M</b>	24	Abitur (Advanced High School Degree); Exmatriculated from University without Degree	Single, Shared Flat	Two brief jobs in Helferbereich, Bakery and Clothing Shop	Calculated according to maximum income for minimum work - also interested in being an entrepreneur
<b>Frau S</b>	63	Masters Degree in Materials Science	Divorced, Living Alone	25 Year employment in Industrial Firm with management experience, call center after several years of unemployment	Resigned and bitter
<b>Frau E</b>	35	Realschule + Apprenticeship in Clerical Field	Single Mother with 11-year-old Child	Extensive employment in insurance firm, volunteer experience	Morally motivated to work for political change, averse to authority

Although many questions were geared towards the larger research project on social justice, there were three questions of particular importance for the argument of this paper. In terms of content, each vignette represented one of the three forms of labour market participation a given individual may take as interpreted from Fraser’s theory. In the case of each vignette, a question was asked what the pAps would actually advise and implement when confronted with each client.

Frau ‘M’ represents a marketization approach to labour market integration, in which she desires the highest possible income for the least amount of input – as any firm would likewise aim for – is averse to taking a job

which brings home the same income as welfare payment, and ultimately desires to found and operate a firm herself. The pAp in this case was effectively given the option of immediate activation, further education, or subsidies for founding her own firm in the local area.

Frau 'S' represents 'social protection' which elucidates a rather common life history in Germany. She worked at an industrial firm for decades until it was closed in the late 90s, subsequently finding her identity and social position collapsing. She is therefore averse to low-paid or unskilled work far below the skill-level and payment she achieved previously. More importantly, she finds both the liquidated firm and the German social system has generally betrayed her by not reciprocating the social norms of service and reward she spent decades adhering to. At age 63, the pAp has the effective possibility of direct activation into low paid work, largely leaving Frau S to bide time until 65 – when she receives a full pensions – forcing an early retirement, or placing her into a *Maßnahme* (Measure) which is essentially a low stress volunteer opportunity originally designed to rehabilitate individuals through providing daily structure – thus forming the closest representation of the capability approach.

Finally, Frau E represents an emancipatory orientation, is semi-skilled with extensive work experience, is a single mother who is mostly recovered from a health problem, volunteers for a political organisation twice per week, and would like to work for political change generally, either in a voluntary or paid capacity, but *not* for another overbearing manager in the private sector. The pAp can immediately activate, delay through overestimating the health problem, negotiate with Frau E about the good aspects of the private sector – potentially even placing her into a *Maßnahme*, or simply allow her to continue volunteering until she actually receives a paid job from an aligned organisation. In the case of each vignette, sanctions can be applied.

Each of the responses were scored on a 1-4 scale with sanctioning always forming the lowest score. Because the vignettes were part of a qualitative research design, they also offer insights into the findings of the descriptive statistics testing the first four hypotheses.

## Empirical Findings

As mentioned in the introduction, the findings suggest that the Hartz Reforms as a case of Third Way social justice fail to actually enhance social justice – particularly for the least advantaged of society. Although the 'least advantaged' criteria is essential for a Rawlsian conception of justice, and strongly present in most capability approaches and Third Way advocacy, but as we shall see, the duties and obligations combined with de-regulation characteristic of active social policy emerge as the policies of key importance.

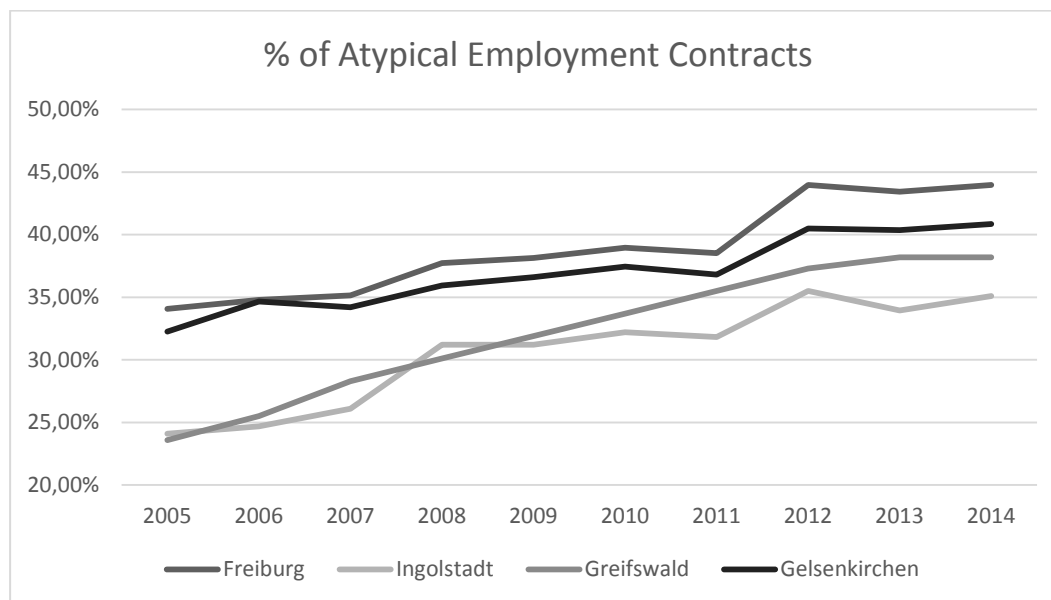
### Rawls

Taking a direct measure of atypical contracts offered by the *Hans Boeckler Stiftung*,<sup>7</sup> it is obvious that neither the weak nor the strong Rawlsian hypothesis is borne out by the data – if we consider the rise of atypical employment contracts equivalent to a rise in dualisation. As shown in Graph 4, atypical contracts rose in all regions and at a roughly equal rate – thus suggesting growth has very little to do with dualisation.

Although starting from a lower level, we find that in fact fast-growing Ingolstadt had the second largest increase of atypical contracts from 2005-2014 from 24.10% of the total to 35.10% – an 11% increase compared to 8.6% for slow-growing Greifswald,<sup>8</sup> 9.9% for Freiburg and 14.6% for Gelsenkirchen. Consistent with the literature (Emmenegger et al. 2012), this suggests some other variable is actually intervening to cause growth in

dualisation on a regional basis – but we can definitively say that economic growth does not *decrease* levels of dualisation. Considering this corresponds to the argument that “Germany is the case with the most severe departure from an egalitarian employment model because the fragmentation of its labor market is accompanied by an enormous growth of wage inequality” (Eichhorst and Marx 2012: 95), one can confidently falsify the notion that growth increases a Rawlsian social justice in a Third Way institutional environment.

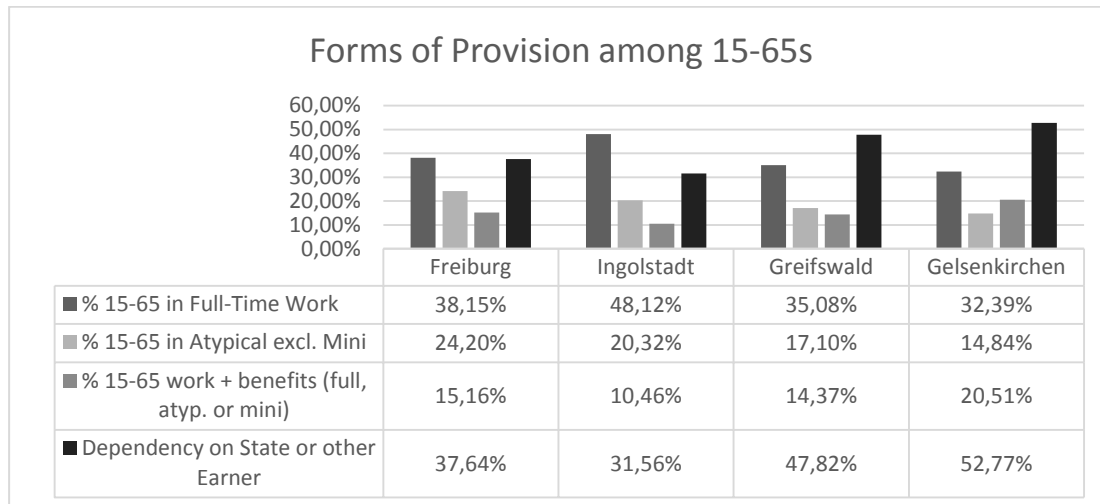
**Graph 4: Rising Dualisation<sup>9</sup>**



### *Third Way*

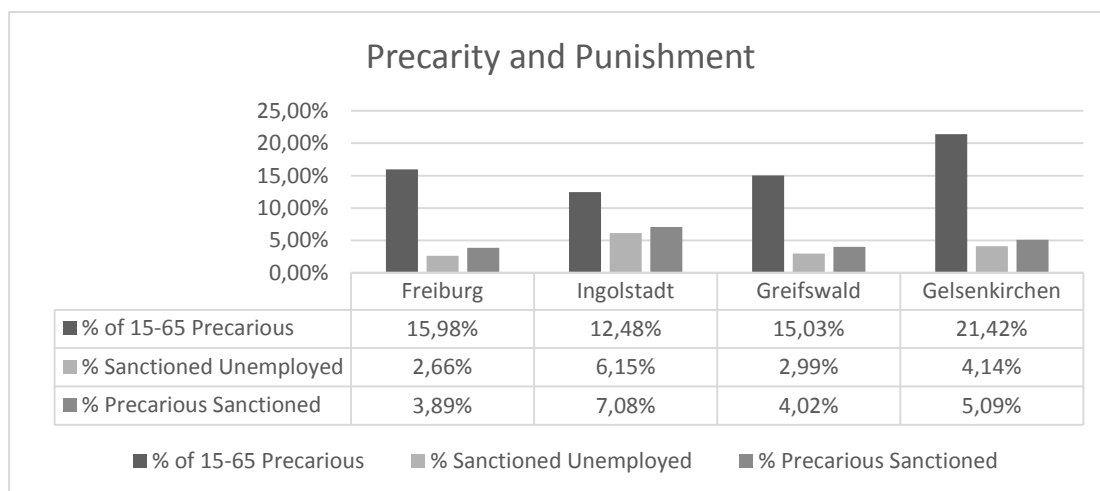
If we take the situation at the end of 2014 and beginning of 2015, we find a number of indications that at least some Third Way ideals have been achieved through economic growth. Although the German ‘Minijob’ is much criticised as a form of “Government-sponsored labor cheapening” (Eichhorst and Marx 2012: 94), it is evident that the Ingolstadt region has the lowest level of indirectly subsidised low-wage workers.<sup>10</sup> Likewise, Ingolstadt supports the highest level of full time employment among those aged 15-65.<sup>11</sup> On the other hand, Freiburg shows the highest level of atypical workers making above 400 euros per month of all regions, despite having the second highest growth rate, whilst Gelsenkirchen shows the lowest percentage of 15 to 65-year-olds in atypical employment which earn more than 400 euros per month.<sup>12</sup> If we take the total number of 15 to 65-year-olds which are making less than 400 euros per month, either through Minijobs, unemployment, or dependency on another wage earner, we see that indeed the low growth areas have higher dependency ratios.

Graph 5: Distribution of Forms of Provision<sup>13</sup>



This suggests that if ending dependency on *either the state or some other wage earner* is the goal of Third Way social policy, it is effective and facilitated by economic growth – as is clear in Graph 5. However, this can hardly be called a programme of social justice unless it actually increases choice. Instead, when examining actual sanctioning practices, it is clear that economic growth is actually contradictory to enhanced choices – as Ingolstadt significantly out-sanctions any other region (see Graph 6). If we make the assumption that sanctions indicate coercion, as well as the assumption that precarious jobs are not desired by anyone, then hypothesis 3 is likewise falsified. In effect, activation and de-regulation serve to pressure individuals into jobs they don't want. In high growth areas, unemployed individuals have somewhat greater pressure from Job Centres to work regardless of skill which is intuitive. Therefore, economic growth leads to a shift in emphasis from capability enhancement to activation and enforcement. In effect, high growth again *does not* lead to social justice as Third Way approaches suggest. When compared with dependency ratios, it appears that low unemployment is a better indicator for reducing the dependency quotient and thus 'liberating' individuals – not economic growth per se.

Graph 6: Sanctioning and Precarious Work<sup>14</sup>

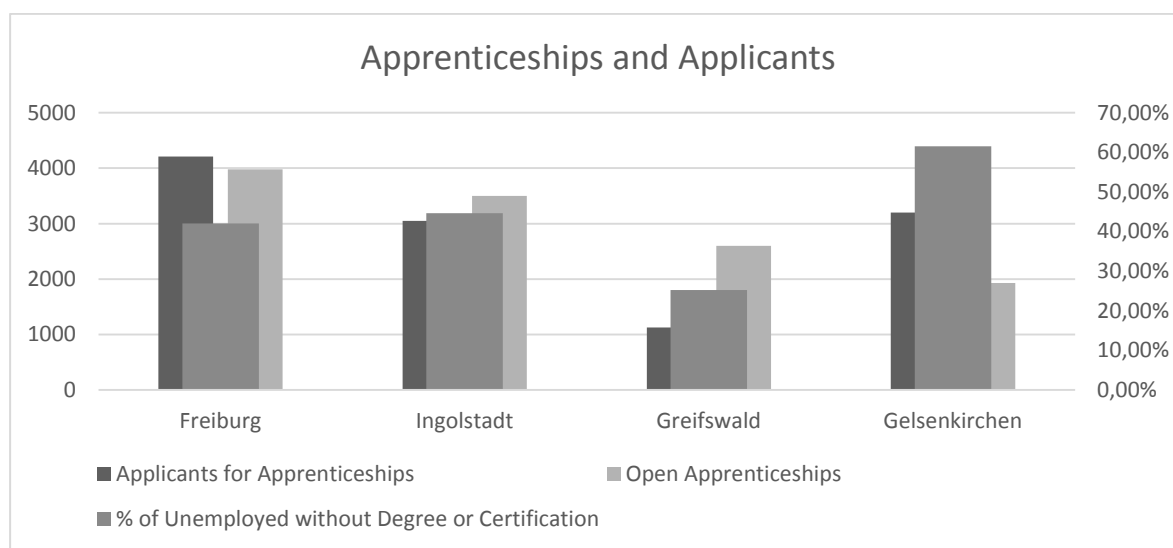


When turning to educational opportunities, we are again faced with a seemingly contradictory finding. If we take apprenticeship offerings and applications as an indicator of a capability-enhancing labour market environment,



then Greifswald has the most opportunity, followed by Ingolstadt (see Graph 7). On the other hand, the largest negative gap between applicants and available positions is in Gelsenkirchen. Therefore, the first part of hypothesis 4, that more capability-enhancing measures should be available in low growth environments is difficult to determine – instead some kind of intervening variable must be at play. On the other hand, when examining the number of unemployed in need of further education as indicated by the bars of Graph 7 oriented to the left vertical axis, we find Gelsenkirchen predictably high, but Greifswald actually the lowest – when it should be the highest according to the second part of hypothesis four. Again, some kind of intervening variable must be in play, suggesting we conduct some qualitative fact-finding on the ground and move on to parity of participation.

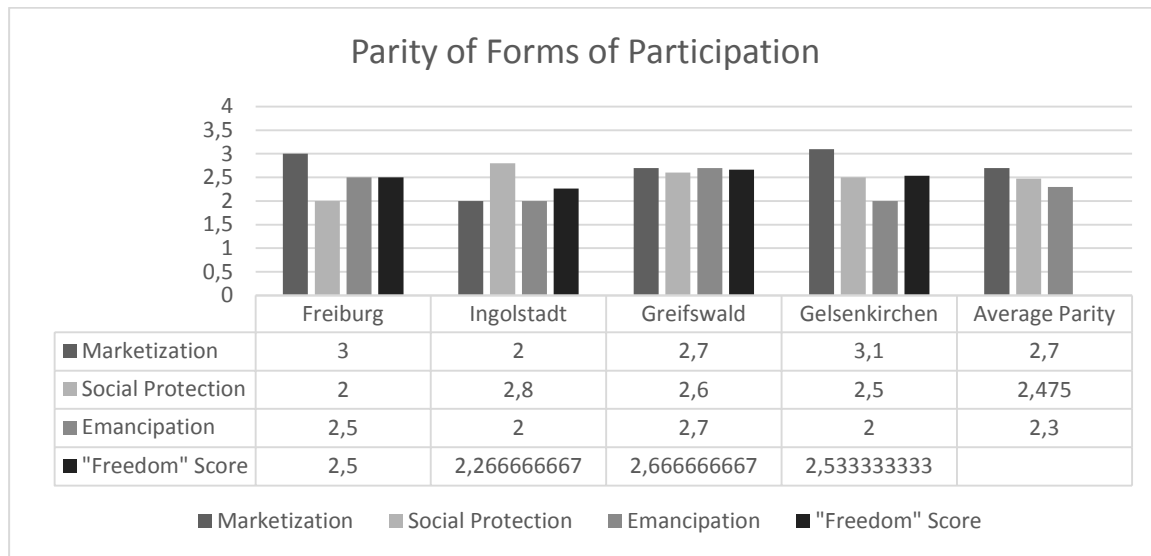
**Graph 7. Capability-Enhancing Labour Market Opportunities<sup>15</sup>**



### *Parity of Participation*

Before attempting to solve the mysterious contradictions of the capability enhancing elements of Third Way social justice discussed above, we must actually test whether growth facilitates social justice as understood by the parity of participation approach. As alluded to the methodology section above, each vignette was given to a total of 22 pAps and asked a series of questions, which were subsequently coded according to plausible measures a pAp could take when confronted with each vignette and scored on a 1 to 4 scale. Graph 8 demonstrates the results, which again indicate, as an overall “Freedom” score, Ingolstadt has the least tolerance for enabling the mode of action each Vignette is oriented towards. Indeed, Greifswald scored the highest on this account of social justice – again suggesting that not only does economic growth *not enhance* the freedom of choice, but seems to directly hinder it. Although these scores are based on 5-6 volunteer interview partners within each Agency region (which encompasses several Job Centers), the results correspond to the sanctioning results in a similar manner – suggesting again that in high growth environments, the impetus to activate supersedes the impetus for capability enhancement.

**Graph 8: Freedom of Choice by Region<sup>16</sup>**



*Qualitative Insights*

Up to this point, I have repeatedly mentioned that there could be some intervening variable which are affecting these results – particularly why Greifswald had such capable individuals without generating employment and growth. Admittedly, this was somewhat facetious. The obvious intervening variable is the power of capital. The unemployed in the Greifswald area are on average too old for capital to want to hire. Indeed as of January 2015, it was the only location in which over 40% of unemployed individuals were over 50 years old. At the same time, youthful Gelsenkirchen has many poorly educated youth of foreign extractions, thus presenting an opportunity for flexibility, but not genuine investment – despite having a long history of labour immigration and high-paid employment up to the recent past. During interviews with pAps, what becomes manifestly obvious when discussing Frau S. – the vignette which had worked for 25 years in a single firm – is that responsibility for outcomes in labour market participation are unloaded onto the individual whilst decisions of the capital side are considered the force of “destiny” or “fate” (*Schicksal*). Considering Frau S.’s life history suggested loyalty to a firm with a snubbed expectation of reciprocity later in life, Streeck’s observation that “capitalists as social characters may be modeled as lacking any normative-expressive attachment to social institutions enforcing collective solidarity, in the sense of restraint on the pursuit of individual interests” (Streeck 2009: 241) appears quite fitting in this context. Nevertheless, the very same type of behaviour exhibited by the Frau M. – who rationally refused to work if it didn’t pay more than welfare – was most often condemned as immoral. Although many pAps considered Frau M’s logic understandable, they frequently referred to the logic of the Hartz Reform laws themselves: work as the only form of social integration for what are effectively German society’s least advantaged. Indeed, at age 24 Frau M. was mostly encouraged to do precisely what Frau S. did earlier in life: specialised education and firm loyalty with expectations of future reward. In effect, work is morally valorised regardless of its content or pay for the supply side, whilst the demand side is exempted from all obligations to actually validate this moral framework through creating jobs within Germany – let alone jobs that are sufficiently paid to avoid recurrent trips to the Job Center.

This one-sidedness is perhaps most obvious to those working at the BA. The Hartz System is not designed to enhance social justice through capability and choice expansion, nor is it even to support the “productive function

of social policy” (Hemerijck 2013: 37) understood as a social investment leading to greater growth. Instead, the purpose is to reduce dependency on the state in any manner possible whilst effectively placing downward pressure on wages through activating individuals into more atypical forms of labour. By deregulating and expanding low-wage contracts in the ‘second labour market’, combined with personalised contact with pAps who must enact centralised activation guidelines to keep working themselves, the Hartz System has been a remarkable success in activating people into jobs they often don’t want. In short, despite the lofty rhetoric of advocates, if the Hartz System is any exemplar of Third Way approaches to labour market policy, then it can be described as a disciplining and diminishing the expectations of the supply side of the labour market, particularly the least advantaged, decreasing overall state dependency, and, crucially, increasing the expectations of flexibility and profit on the demand side of the labour market. Asymmetric rights and obligations placed on different categories of people participating in the same relationship is the cornerstone of injustice in any society.

## Conclusion

Without concrete redistribution as a principle of organising the political economy as a whole, as well as tolerance towards how individuals participate in social labour, economic growth is meaningless for the least advantaged of society. Without reciprocal expectations about hiring and firing also applied to the demand side of the labour market, supply-side labour market policy cannot lead to social justice. As implemented in Germany, Third Way social justice has achieved precisely the opposite of what Rawls considers a justifiable institutional order: most advantageous to the most advantaged, least advantageous to the least advantaged.

We must therefore question the assumed relationship between economic growth and social justice. Indeed, when actually interviewing individuals who were themselves unemployed during this research, an admittedly interpreted dichotomy emerged: those who adhered to the notion of work as integral to social integration, and those who didn’t. The former were devastated by unemployment as their individual identities collapsed with the means-tested fire sales accompanying the collapsing of their material standards. On the other hand, although the latter are effectively defined legally and in common communicative practice as immoral and sanction-worthy (*sanktionswürdig*), they certainly seemed more at ease with lower material expectations and exploring simpler alternatives in how to occupy one’s daily time. With accelerating competitive pressure driving burnout and anxiety in German society (Rosa 2013), perhaps they are on to something.

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<sup>1</sup> <http://statistik.arbeitsagentur.de> [Accessed 15/7/2015]

<sup>2</sup> Map taken from official documents of Bundesagentur für Arbeit, available at [statistik.arbeitsagentur.de](http://statistik.arbeitsagentur.de) [Accessed 15/7/2015].

<sup>3</sup> Data taken from *Bruttoinlandsprodukt, Bruttowertschöpfung in den kreisfreien Städten und Landkreisen der Bundesrepublik Deutschland 2000 bis 2013: Ergebnisse der Revision 2014* at Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL) <http://www.vgrdl.de/VGRdL/> [Accessed 16/01/2016].

<sup>4</sup> Data taken from *Bruttoinlandsprodukt, Bruttowertschöpfung in den kreisfreien Städten und Landkreisen der Bundesrepublik Deutschland 2000 bis 2013: Ergebnisse der Revision 2014* at Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL) <http://www.vgrdl.de/VGRdL/> [Accessed 16/01/2016].

<sup>5</sup> Part of this section has been used in the paper Voigt, D. (2015) “Dualization and Intra-Country Variation in Comparative Political Economy: Epistemological Lessons from Researching the German Federal Employment Agency” presented as ESPAnet Annual Conference: *The Lost and New Worlds of Welfare* Odense, Denmark: September 3-5<sup>th</sup>, 2015.

<sup>6</sup> I would particularly like to thank Dr. Markus Promberger, Dr. Andreas Hirseland, Dr Markus Gottwald, Dr. Frank Sowa, and Anna Fohrbeck, for helping discuss, construct, edit, and prepare the vignettes. I would also like to thank Dr. Dennis Eversberg for advice, editing, and fruitful discussions through the course of the field research.

<sup>7</sup> <http://www.boeckler.de/apps/atypischebeschaeftigung/index.php> [Accessed 16/01/2016]

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<sup>8</sup> 2009, 2010, and 2011 were linearly imputed for Greifswald due to missing data.

<sup>9</sup> Data taken from <http://www.boeckler.de/apps/atypischebeschaeftigung/index.php> [Accessed 16/01/2016]

<sup>10</sup> This is calculated by taking the total number of employable beneficiaries (*erwerbsfähige Leistungsbezieher*) minus the number classified by unemployed, plus the number in minijobs only (as these are working people classified as unemployed), all divided by the total population of 15-65-year-olds. Therefore, contrary to BA practice of counting them unemployed, it counts those exclusively working so-called Minijobs (any work under €400 per month) as state-subsidised workers.

<sup>11</sup> This is calculated by taking those in full-time only employment and dividing it by the population of 15-65-year-olds.

<sup>12</sup> This is calculated by taking the number of part-time, temporary, and minijobs which are second jobs, divided by the total population of 15-65-year-olds.

<sup>13</sup> Data from <http://statistik.arbeitsagentur.de/> and <http://www.boeckler.de/apps/atypischebeschaeftigung/index.php>

<sup>14</sup> ‘Precarious’ is defined as any person working and receiving benefits, including so-called minijobs which earn less than 400 euros per month – plus those working for temporary agencies. Sanctioned unemployed is anyone classified as unemployed – which can include those working in minijobs but not unemployed individuals over age 58. Precarious sanctioned can be anyone receiving benefits but is not classified as unemployed – which equals anyone over 58 that has not worked in the last 12 months, as well as those working for more than 400 euros per month but still receiving welfare benefits. Data from <http://statistik.arbeitsagentur.de/> and <http://www.boeckler.de/apps/atypischebeschaeftigung/index.php>

<sup>15</sup> Data from <http://statistik.arbeitsagentur.de/> and <http://www.boeckler.de/apps/atypischebeschaeftigung/index.php>

<sup>16</sup> Data taken from Interviews conducted for PhD Research Project Voigt, D. *Social Justice and Labour Market Institutions in Comparative Political Economy: A Critical Analysis of the German Hartz Regime*. Conducted between February and March, 2015.

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