

**ECONOMIC COMPETITIVENESS AND SOCIAL INCLUSIVE LABOUR MARKET  
POLICIES: LESSONS FROM THE UK AND DENMARK**

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## **INTRODUCTION: ECONOMIC COMPETITIVENESS VERSUS SOCIAL INCLUSION?**

### **Defining Economic Competitiveness**

Economic competitiveness often refers to performance in relation to indicators such as output, productivity, business growth and new starts, levels of employment, profits, rates of inward investment and technologies. Competitive cities, city regions etc involves mobilising resources and endowments to seek competitive advantage in relation to other cities. The notion of competition is a relational one because it implies (in some cases) that jobs and investment are attracted to one place as opposed to another.

Competitive city growth politics has been associated with the emergence of urban entrepreneurialism which contrasts with former regions where economic regeneration was underpinned by Keynesian type investment policies (mass social housing, transport infrastructures, regional development grants, social welfare support). The new 'regime' emerging since the late 1970s has tended to be orientated to the market. Government and the state still plays a pivotal role but in a different way.

Competitive growth politics involves a number of features

- Public private partnerships where closer relationships are formed between local government and the private sector. Public investments are closely targeted at business growth.
- Competitive bidding for resources. Many policies and programmes are established on the basis of local governments and partnerships making bids.
- The market features more prominently. In the case of welfare to work and active labour market policies they have the effect of bringing more people into the labour market – making the labour market more competitive and increasing the supply of labour for local employers.
- Contracting and outsourcing are important features of the new local governance and this involves competitive bidding for contracts.

### **Defining Social Inclusion**

The most common definition relates to integration into the 'mainstream' of society which tends to mean employment and education. EU policy and discourse sees active labour market policies as contributing to social inclusion. It would be useful here to establish some criteria relating to the achievement of social inclusion as set down below (see Potts 2002).

## Figure 1

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### Social Inclusion Criteria

#### Income

- (1) Paid employment – obviously important access to income, lifestyle, and standard of living.
- (2) Combating low paid employment – increasing possibilities for sustainable and secure employment and movement out of/eradication of low paid work.
- (3) Right to benefits which guarantee above poverty level standard of living.
- (4) Recognition of importance and relevance of unpaid work and contributions of carer roles and voluntary work.

#### Participation

- (1) Rights to representation such as trade union.
- (2) Policies which promote representation in non unionised sectors
- (3) Rights of access for individuals and interest groups to influence local/regional/national labour market policies.
- (4) Guaranteeing a voice for the unemployed in labour market policies and programmes.
- (5) Guarantee equal opportunities and combating discrimination in employment, participation and use of public services.

#### Welfare

- (1) Rights of access to relevant services which will facilitate employment participation such as child care, housing, transport, health and training.
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### Competitiveness and Inclusion

The relationship between these goals will be explored below in the paper. However, here it would be useful to consider two key tensions:

- (1) Growth and equity are not always compatible objectives.
- (2) Labour market inclusion does not necessarily guarantee social inclusion and a route out of poverty.

In the UK, in the more de-industrialised cities such as Sheffield employment growth has taken place alongside increasing numbers of ‘worklessness’ and inactivity (Etherington 2005). Even in growth and prosperous conurbations such as M4 corridor west of London labour market and spatial inequalities have increased. There may be an assumption that growth may ‘trickle down’ to the hardest to reach in the labour market. Clearly this is not occurring (Boddy 2002).

**Table 1 Labour Market Inclusion Indicators for Denmark and the UK**

	DK	UK
Employment rate for Lone Parent	90.5	44.8
Lone Mothers in Full Time Employment (Source Pedersen et al 2000:179,180)	70.8	18.4
Childcare		
Proportion of children in Public funded childcare		
0- 2 years	48.0	2.0
2- School Age (Source: Gallie and Pauguan 2000:15)	85.0	38.0
Trade union densities	74	36
Total spending on labour market Policy as % of GDP (Source OECD 2002)	4.5	0.9
% of pre income transfers poor lifted out of poverty (Source: Nolan et al 2000:95)	82.0	6.7
Benefit Rates before Tax as % of previous pre tax earnings (Source:Gray 2004:84)	70.3	18.1
Child Poverty Rates (Source: TUC 2004:10)	5.9	21.3

Table 1 and figure 1 should be read together. What is striking about the data is that it suggests that employment rates and low levels of poverty are related to *combinations* and *interactions* of policies.

## **WELFARE TO WORK IN THE UK – THE NEW DEAL FOR THE UNEMPLOYED**

### **Brief Description of the Schemes**

The New Deal for Unemployed (NDU) established in 1997 is the Labour Government's flagship strategy against unemployment. The NDU is a compulsory scheme for those claiming Job Seekers Allowance (an insurance based benefit) involves primarily three age groups – young people (NDYP), for those over 25 years (ND25+) and also the over 50s. In addition the programme is targeted at specific social groups such as lone parents (NDLP) and disabled as well as certain occupations /sectors of the labour market, for example unemployed musicians. Claimants are assigned a personal advisor and during the initial stage – the Gateway – intensive counselling and advice is provided. This can involve getting people into unsubsidised jobs as well as preparation for the next stage which is known as the Option stage involving a menu of options open to the unemployed including

subsidised employment, full time education and training, environmental task force and voluntary sector option.

All the options contain a training element. A similar process applies to the ND25+ except that there is a stage which involves an intensive activity period where there is both education and training as well as a £75 weekly subsidy for employers. As will be explored in more detail below, the New Deal Programme from the outset was a national programme but with a spatial focus and targeting. Employment Zones were aimed at the long term unemployed originally established in 2000 – 2002 (and extended to 2003) in 15 areas where there are particularly high rates of unemployment. This has been followed by the establishment of Action Teams in deprived wards where there are concentrations of minority ethnic groups who are unemployed or outside the labour market. The purpose of the Teams is to operate on a multi agency basis with the aim of targeting those who are outside the New Deal system. Together these various strands of labour market policy “will transform a passive benefits system into an active welfare state, helping people into jobs, and meet the needs of potential employers “ (Department of Work and Pensions 2003: 29).

**Table 2 Distribution of new deal participants by option (000s)**

Numbers	Employment (%)	Education Training (%)	Voluntary Sector (%)	Environmental Task Force (%)
June 1999 149,900	25.8	40.4	17.7	16.1
June 2000 126,300	17.0	42.2	21.6	19.1
June 2001 102,700	17.1	39.5	23.5	19.6
June 2002 89,500	19.0	36.8	23.7	20.5

Source: Blundell et al (2003) p 52

The extensive nature of the programme can be illustrated by the numbers participating on the NDYP which is the largest of all the different types of activation programmes under the umbrella of the New Deal (Table 1).

## **The New Deal and Social Inclusion**

### Targeting disadvantaged Groups/Areas

There is little doubt that the NDU has placed considerable emphasis upon reaching ‘the hardest to reach’ groups in society and in this respect there have evolved a number of specific initiatives designed to remove barriers to work. These include:

*Intermediate Labour Market Programmes (ILMs)* – these are designed to provide a pathway between unemployment and the labour market by using the voluntary and community sectors as employment

training providers. In this respect the ILMs become a mechanism for capacity building of the voluntary sector. Step up is a similar scheme although involving private employers rather than the voluntary sector (see below).

*New Deal for Disabled* -This is a voluntary programme and is open to people who are entitled to Incapacity Benefit or Income Support (means tested benefits). Job brokers have an important role in working with employers to assist disabled people into the work place. In addition these brokers offer help when people have obtained employment.

*New Deal for Lone Parents* – This is seen as a key element of the NDU with the aim to increase employment rates. Lone parents are encouraged to attend a work focus interview where PAs will provide benefit advice in terms of making work pay – assessing the income effects of entering employment. The scheme also involves child care subsidies for job interviews, approved training and taking part in work trials.

*Employment Zones* – this is essentially an area based initiative operating in areas of high unemployment with help provided to people aged over 25, lone parents, and young people returning to the New Deal having been through it once. Participants once in employment are still eligible for assistance from the Personal Advisors (PA) after 13 weeks to ensure job retention. There is also extra subsidy arrangements in the form of a personal job account which is equal to the participant's net benefit entitlement.

*Action Teams* – are another initiative aimed at the most deprived areas of cities and where there are concentrations of BME Groups. There is a flexible approach involving relevant stakeholders including the voluntary and community sector in terms of assisting BME groups back into the labour market.

*Working Neighbourhood Pilots* – Established in 2004, this initiative is targeting deprived areas where there are large concentrations of worklessness with many people on incapacity/sickness benefit and who have been out of work for a long time. These pilots are tackling some of the social aspects of unemployment such as health, crime and drugs, problems with access to transport and childcare.

#### Case Study: Sheffield's Intermediate Labour Market Programmes (ILM)

The programme places people into jobs in the voluntary sector for up to 12 months and is managed by the Sheffield Centre for Full Employment (SCFFE) a Trade Union Council sponsored Centre . A number of benefits have been obtained as a result of the programme – a wage, personal development, training and improved morale for those recruited. The ILM has assisted in the development and capacity building of the voluntary and community sector (Johnson 2003). The other initiative developed by SCFFE is StepUP which offers full employment rights, access to negotiated wage rates and continuing support from a personal adviser, vocational training and continuing job search assistance. The programme runs for 12 month and is geared towards people on incapacity benefit or Income Support (social assistance).

#### Case Study: Sheffield's Working Neighbourhood Pilot

This involves an area based pilot initiative (established in late 2003) in the Manor, a deprived area of Sheffield with large concentrations of poverty and social exclusion. The area has a long and rich history of voluntary and community development and one of the key aims is to bring together

different agencies within the area which can tackle both social and employment problems. The Working Neighbourhood pilot is offering more intensive support and with an increasing focus upon the Action Plan with the unemployed as a way of identifying and overcoming barriers to work. There is also additional assistance for people who have found work so that they can remain in work. This could involve helping in overcoming journey to work barriers (for example helping pay for car repairs) and emergency child care costs.

### **Decentralisation, Partnerships and Local Delivery of Welfare to Work in City Regions**

Figure 2 illustrates the different levels of governance involved in labour market policy. The evolution of complex and varied institutions involves the creation of multi-level governance of labour market policies. First, the creation of the Regional Development Agencies for the management of budgets for urban regeneration (formerly the Single Regeneration Budgets) and the production of regional employment and skills plans. This regionalisation has necessitated the creation of an intermediate tier of governance at the sub regional level, which tends to involve joint local authority representatives in policy planning. In terms of labour market policy, this is the level where the Learning and Skills Councils operate. At the urban level, the Labour government has created Local Strategic Partnerships for the management of economic, social and environmental programmes. These partnerships tend to embrace the delivery of the New Deal and act as coordinators for smaller scale area based ‘bottom up’ programmes funded by the Single Regeneration Budgets and European Regional Development Funds (in the major urban conurbations). Furthermore, the creation of forms of neighbourhood governance through the National Strategy for Neighbourhood Renewal (New Deal for Communities) involve another but significant layer of governance of employment and social programmes at a level below traditional local government (Diamond 2001).

#### **Figure 2 New Deals and City Partnerships**

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##### *Region Level*

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Regional Development Agencies – funds urban regeneration and skills projects

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##### *City Region Level*

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Sub Regional Partnerships managing Regional and European Programmes - funds for labour market programmes. Learning and Skills Councils - vocational and skills development

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##### *Urban level*

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Local Strategic Partnerships(LSP) (involves different sub partnerships including labour market policy. Also neighbourhood renewal partnerships)

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# DENMARK'S LABOUR MARKET REFORMS AND ACTIVATING THE WELFARE STATE

## Brief Description of the Danish Labour Market Reforms

Since 1994 the Danish Social Democratic Government's 'welfare-through-work' model focused on three key areas. First, social partnerships have been strengthened in policy formulation and implementation at all levels of governance. The public sector, trade unions and employers are allocated major functions in both the delivery of programmes and in the strategic policy making process. Second, financial planning and decision-making has been decentralised to regional and local based institutions, which involve representation from local government. Third, the unemployed have been given rights to counselling, an individual action plan, and more importantly access to a comprehensive package of job training, job-rotation, education and childcare leave schemes.

To understand the main thrust of the reforms it is important to explain the workings of the benefit system. There is an insurance based and means tested based benefit system. People who have worked for a specific period can join the insurance system and after a period of time as a member can then qualify for unemployment insurance benefits. Although these have been capped and subject to cuts, they are relatively generous. People who have not been working and new entrants to the labour market, or long term unemployed and no longer qualify for insurance benefits will claim social assistance which is managed by local authorities (government). The insurance system is managed through trusts by the trade unions.

Under the 1994 Labour Market Reforms, policies were introduced to ensure that social security benefits were conditional on accepting various offers of educational leave and employment training. A training and job placement package was also introduced with paid leave schemes comprising of educational, sabbatical and childcare initiatives. The educational leave scheme provide opportunities for unemployed aged 25 years and over that are members of the Unemployment Insurance system to participate in educational and training programmes for a maximum of 12 months. They receive an income that is equivalent to the maximum unemployment benefit. This is available for those in employment and is often used to implement job-rotation, whereby those undertaking leave will be replaced by unemployed individuals, with the employed being provided with employment training and vocational education to increase their skills. Local government provides employment training for those claiming social assistance from the local authority. The government's Employment Service organises job placement and training for those claiming unemployment insurance. Many people in the insurance system, however, find work placements in local government (Goul Andersen 2002).

The reforms were accompanied by substantial resources, and by 1999, 7.3 billion Dkr (around 700 million pounds) allocated to the 14 Regional Labour Market Councils. The priority of educational leave for the employed and unemployed is indicated by the steady increase in numbers participating in vocational training.

**Table 3 Average Number of Full-time Participants in Labour Market measures\_(000's)**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Subsidised Employment	60	51	49	49	46	42
Education	24	17	23	24	27	39
Other Leave	51	82	63	47	43	34
Early retirement	119	138	167	171	177	180
Total in Labour Market Measures	256	293	305	294	298	303

Source: Bredgaard (2001:37)

### **Denmark's Social Inclusive Labour Market Strategy (SILM)**

Local government was giving more responsibility for activating the most vulnerable groups in the labour market claiming social assistance such as young people, immigrants and older people. Individual job training schemes are offered to those who cannot be placed in ordinary job placements and require special training and supervision. In addition to job training, 'flex jobs' have been created for people who have a 'reduced capacity' for employment. These are special employment schemes geared to people with health and social problems. Both the public and private sectors can employ people in the so-called 'flex' jobs but in cases where people are experiencing severe social problems, local government acts as the employer. In addition, local councils are required to produce Individual Action Plans for those on social assistance and the unemployed have a choice from a menu of job training and other vocational orientated training (Etherington 2004).

#### Case Study Aalborg City Council's SILM Strategy

It is possible to argue that Aalborg City Council has been at the 'cutting edge' of the SILM primarily due to its history of having a proactive involvement in labour market policy. A labour market department was established soon after the 1994 reforms, which oversees the co-ordination and management of activation measures. The local authority established organisational processes which facilitated close working between the social and labour market departments primarily because many of those claiming social assistance and have either dropped out or never been in the Unemployment Insurance system are more vulnerable to labour market marginalisation and exclusion.

The context and impetus for the strategy can be located in an experimental project in relation to trying to steer those on long term sickness benefit in the direction of the labour market. The project

attempted to analyse why people were on long term sickness and what sort of strategies could be deployed in order that they could resume a normal working life. There is a growing number claiming sickness benefit on a long-term basis which is both a social and financial problem.

The strategy involves a number of elements. One includes the promotion of corporate social responsibility encouraging the private sector to establish job-training programmes and provide work opportunities for those claiming social assistance. There is an emphasis upon the involvement of the private sector in the future employment of those people on social assistance. The local authority is involved with creating increasing awareness about the variety of schemes that the authority administers which could be adopted by the private sector. The aim is to build some experience for people on the margins of the labour market where they become familiar with the world of work and the working environment. In conjunction with the social partners the local authority promotes the adoption of a health policy in the workplace as part of a preventative campaign in order to deal with health problems which act as barriers to employment. The Co-ordinating Committee has established a special project to investigate particular issues. Research undertaken by the local authority revealed that businesses were not aware of health related problems in the workplace and in many cases lacked the processes and procedures for dealing with people on long term sickness.

### Case Study Job Rotation in Aalborg

The vulnerability of the local economy to fluctuations, the prominence of unskilled employment and the experience of high rates of unemployment has led the trade unions to be particularly pro active in utilising labour market policies to create new employment opportunities. Following a period of high unemployment of the 1980s the trade unions made demands about the distribution of work and work sharing as a solutions to the unemployment crisis. The Job Rotation model which was piloted in a medium size textile factory (Fibertex) in Aalborg in 1990-1991. The pilot scheme was co-ordinated by the Danish Workers Educational Association and trade unions with co-operation from the firm's management and labour market authorities (Etherington 1997).

The social partners planned training and the release of employees to gain work specific skills using the leave schemes enabling the employment of unemployed substitutes who were provided employment experience at collective agreement rates as well as vocational training. This model has been widely used as part of the labour market reforms because the release of employees for upskilling and their replacement by unemployed means that production/service delivery disruptions are avoided. There has also been a high employment retention rate for the unemployed substitutes (Etherington and Jones 2004). The involvement of the workforce and unemployed in the planning and content of the courses was a crucial element in developing continual vocational training which met the needs of both the employer and the employee. The success of the Danish schemes has led to the development of an EU wide network on Job Rotation including extensive use in other countries (particularly by the Lander in Germany).

### **City Partnerships and Representation of Interests in Danish Labour Market Policy**

The administration of labour market programmes is undertaken by the 14 regional Labour Market Councils (LMC) (whose boundaries are coterminous with the County Council system). The LMCs are corporatist-style institutions with planning and implementation undertaken by the 'social partners' -- local government, trade unions and the employers -- who have equal representation within the 14 regions. This mirrors the composition of the Central Labour Market Council, where

### Figure 3 City Labour Market Partnerships in Denmark

#### *Region Level*

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Regional Labour Market Council	- Plans regional labour market policy and budget allocations Management Boards comprise social partners
Regional Vocational Training Councils	- Delivers regional vocational training programmes in accordance with regional planning priorities. Managed by social partners
Regional Public Employment Service	- Government Agency deals with unemployed job seekers in Insurance system and manages labour market programmes

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#### *City Level*

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Local authority -	Manages unemployment programmes for those on social assistance system and responsible for running Local Coordinating Committees for planning the labour market at the local level involving social partners and health/social services.
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LMC boards have executive status, are supervised by the central government Labour Market Authority, and their policies and plans are subject to approval by central government. The LMCs are allocated responsibilities to produce labour market plans and submit these to the national council. These set targets and identify labour market priorities for the respective region (or county council). The LMCs are accordingly allocated substantial budgets for priority labour market measures (see Keane 2001).

The second area of significant development in relation labour market governance is the establishment of local social co-ordination committees (koordineringudvalg) for each local authority area in relation to implementing the SILM. As described above. Although these are legally required by the Active Social Policy Act and its emphasis on the 'socially inclusive labour market', such committees had previously been established informally as a result of the 1994 reforms by some local authorities (see Keane 2001). Post-1999 legislation, however, places a legal responsibility on local authorities to establish committees with relevant representation from the social partners (trade unions, employers and local authorities, as well as from the health and social sectors). These social committees are allocated budgets in order to establish projects and initiatives, which seek to facilitate labour market integration by creating more socially inclusive forms of governance (Danish Government 2000).

Aalborg's response for example was to establish a special social inclusion labour market co-ordinating committee, which was allocated responsibilities to establish partnership arrangements with employers' organisations and the trade unions. The role of the committee is to allocate places in public and private sectors, guaranteeing employment protection for those on employment and training programmes and formulate policies relevant to local labour market conditions (Aalborg Kommune 2001). The local authority produced a strategy for the SILM in February 2002 which marks a significant and decisive break in its policies towards unemployed claiming social assistance. The strategy is formulated under the legal framework of the Social Policy Act, which requires local authorities (the municipalities) to establish local coordinating committees (Aalborg Kommune 2002).

## **BARRIERS TO SOCIAL INCLUSION IN THE UK AND DENMARK**

### **UK**

Many people on the New Deals tend to move into and remain in low paid employment where there is no trade union representation. In addition, between fifth and a quarter of people who get jobs from the New Deal for Young People have not kept them for more than three months.

The numbers of Black and Minority Ethnic Groups on subsidised employment option for the New Deal for Unemployed are significantly lower than white people.

A major barrier for welfare to work programmes is the nature of local labour markets in cities experiencing low labour demand. In Sheffield for example figures show that to reach the current UK employment rate of 74.9%, 17,000 unemployed residents need to be assisted into jobs. If the current trend in employment rate in Sheffield were to continue, this jobs gap would increase. Sheffield would need to assist an additional 3,300 people into employment per annum over the next five years in order to meet this target (CESI 2004).

Local partnerships tend to be complex with many stakeholders and actors. There is little trade union involvement with local partnerships and the public sector is less prominent than in Denmark in the actual delivery of labour market programmes. This weakness has also been identified in Sheffield's employment strategy (CESI 2005).

There is a lack of affordable childcare. According to the Daycare Trust a pressure group organisation on child care issues, parents would on average pay 30 per cent of child care costs compared with the average 75 per cent of costs they currently pay (Etherington 2005).

### **Denmark**

Evaluation research has revealed that the programmes are more effective in a period of economic expansion when labour market programmes can reduce skill shortages and bottlenecks in the labour market. In a period of recession the programmes are vulnerable to public expenditure cuts and also reductions in labour demand.

The second main weakness is in the quality of the schemes. Trade unions have criticised their use by employers as a way of employing cheap labour and possibly undermining collective agreements.

## **CONCLUSION: LESSONS FROM A COMPARATIVE APPROACH FOR THE EU SOCIAL AGENDA**

### **Summarising the Key Differences between the Danish and UK SILM**

The main differences between the two approaches in Denmark and the UK (see Table 1) are as follows:

- The Danish approach involves integrating skills and unemployment programmes whilst the New Deal is mainly directed at the unemployed and skills and training tends to be operated separately.
- Whilst benefit cuts and capping has been implemented in Denmark, the relatively generous allowances have been retained. In the UK benefit levels have fallen further behind. The

Danish model shows that active labour market policies and a strong social and welfare infrastructure is critically important for social inclusion.

- Partnership models and structures are more simplified and potentially inclusive in Denmark as employee representation through the trade unions and local government as stakeholders is a strong feature of the reforms. In the UK there is a strong representation or involvement from the voluntary and community sector but little involvement from the trade unions.

### **Lessons for an EU Employment Agenda**

There are three issues important for European Programmes:

- The importance of demand side approaches and creating sustainable jobs.
- The need to reduce poverty through social protection and welfare redistribution measures.
- Giving priority to tackling discriminations within the labour market and promoting equal opportunity policies.

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